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Management Skills, Human and Social Capital and SMEs in the Tourism Sector in Mozambique

By

Constantino Pedro Marrengula and **Amosse Ubisse**

Faculty of Economics
Eduardo Mondlane University (UEM)
Maputo, Mozambique

EXECUTIVE SUMMARY

Tourism plays an integral role in the economy of Mozambique. Due to the country's excellent tourist attractions, the industry holds huge growth potential and has even been tipped to be one of Africa's top destinations but only if the industry is well managed and made all inclusive. The Government has said the industry could be a tool to reduce poverty in the country but this has not been the case. This is primarily due to small and medium enterprises being locked out of the industry that has potential to create a huge number of new jobs every year.

This paper examines how poor management of skills and lack of human and social capital has undermined the performance of SMEs in the tourism sector in Mozambique.

Mozambique has been one of the fastest growing economies in Africa, since the mid 1990s. One of the major contributors for this growth is the tourism sector, thanks to its natural comparative advantage; a long coastline with a huge reserve of unexploited natural assets. In fact, since the end of the civil war in the late 1970s, the sector has improved markedly in line with the general trend of the rest of the economy. From 1995 to 2007, the total investments in the sector amounted to US$1.8 billion, almost 14% of the same period authorised projects. Just in 2006 alone, close to US$200 million was invested and the physical hotel capacity is reported to have grown by more than 50% in the last eight years.

To take advantage of increased investor confidence and expected growth in Mozambique's tourism industry, the government in its current strategic plan expects to put in place measures to transform the country into a "vibrant, dynamic and exotic destination in Africa" by the year 2020. Achieving this objective, however, will require massive government and private sector investment in both hard and soft skills for structural transformation of SMEs in Mozambique. In the absence of such transformation, the SMEs involved in the hospitality subsector of the tourism sector in Mozambique will, at best, be marginal contributors and beneficiaries to the envisioned future.

Currently, SMEs in the tourism industry are poorly managed, lacking in human and social capital skills against a background of a harsh input price market. Reflecting the severity of the three reported problems, labour productivity in general is low and decreases when one moves from micro

HEADQUARTERS

TrustAfrica
Lot 87, Sacré Coeur 3
Pyrotechnie x VDN
BP 45435
Dakar–Fann, Senegal

T +221 33 869 46 86
F +221 33 824 15 67
E info@trustafrica.org
W www.trustafrica.org

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Executive Summary continued

to medium-scale firms. To change the current status in the tourism subsector and make the country reap more from the industry, certain measures need to be taken:

1. First, it is important to build more competitive markets for goods and services as it is the lack or deficiencies in the reported markets that propel firms to build an all inclusive networking mechanism.

2. Second, from the government perspective it pays to invest in creating management skills, as well as tourism sector related skills. Both skills have a potential to change the current state of the relatively large firms, which is disappointing at the moment from both perspectives.

INTRODUCTION

This paper discusses the factors behind the performance of Small and Medium Scale Enterprises (SMEs) from the tourism sector in Mozambique. It is a result of interviews and quintile analysis using a sample of 174 firms in Maputo, Sofala and Nampula.

THE PROBLEM

One of the major contributors for the highly celebrated Mozambique economic recovery is the tourism sector, thanks to its unexploited natural assets. From 1995 to 2007, the total investment in the sector amounted to US$1.8 billion, almost 14% of the same period authorised projects. By the year 2020, the government expects to have in place measures to transform Mozambique into a "vibrant, dynamic and exotic destination in Africa," with the ability to mobilise and host over four million visitors per year.

Following this stated objective, one may ask whether there are necessary prerequisites and competencies within the local private sector, and SMEs in particular, for a vibrant tourism sector. Which firms are, most likely, taking advantage of the current economic growth and stand a better chance for maximising the gains of envisioned future? Why?

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TOURISM TRENDS IN THE SURVEYED SITES: MAPUTO, SOFALA AND NAMPULA

Maputo is the capital city of Mozambique and it is the country's most developed area. The region's per capita income has been growing from 16,026 Meticais in 2000 to 26,799 Meticais in 2007. This is almost three times the country's per capita GDP and more than five times that of three provinces from the north, Nampula, Cabo Delgado and Niassa, (INE, 2007).

The tourism industry value chain is relatively well developed in Maputo. It is comprised of a number of large scale firms that range from travel agencies to five star hotels targeting foreign tourists, and small and medium-scale firms, including restaurants and fast food outlets. An outstanding feature of the Mozambican tourism sector is the informal, family operated enterprises trading diverse items from local craftwork to foodstuff along beaches.

Table 1 below summarizes the sector situation in 2004 and 2005 for Maputo city, Maputo province, Sofala, and Nampula. During the period, the number of tourists increased in both provinces, as well as for the rest of the country. Though consistent estimates were not found at the time of drafting this report, this trend persists to date.

Table 1: Origin of Visitors by Nationality

	NATIONAL		FOREIGNERS		TOTAL NO. OF VISITORS	
	2004	2005	2004	2005	2004	2005
MAPUTO PROVINCE	6,914	71,94	8,046	4,193	14,960	11,387
MAPUTO CITY	55,016	60,215	99,475	112,882	154,491	173,097
SOFALA	12,982	12,594	7,167	7,642	20,149	20,236
NAMPULA	8,138	9,741	2,207	2,793	10,345	12,534
TOTAL	83,050	89,744	116,895	127,510	199,945	217,254

Source: INE

The number of local tourists expanded in Maputo, Sofala and Nampula. For Maputo city alone the number of local individuals demanding accommodation increased from 110,568 in 2004 to 228,254 in 2005. This is a result of an increase in per capita income among Mozambique´s middle class, following over ten years of sustained economic growth.

The State of the Small and Medium Scale Tourism Firms in Mozambique

It is against the background described above that small and medium-scale tourism firms compete for success. Table 2 below presents descriptive statistics of the 174 interviewed firms in Maputo, Sofala and Nampula. The size of the firms has been defined by the number of employees.

Revenue/labour ratio is the amount of reported revenue over labour force. It measures how much each unit of labour is generated in the last six months before the interview. It is considered a measure of a company's productivity. Getting to the appropriate numbers of revenue from the firms' books was difficult because of reluctance from the firm owners/managers. Hence the reported numbers must be taken as proxy to the true values.

Table 2: Selected Firm Characteristics

Firm Size (No. of Employees)	No. of Firms	%	Core Business	Average Operating Cost/Labour (in Meticais)	Average Revenue/Labour (in Meticais)
1-5	52	29.89	Fast food (take away)	10,409.86	13,367.69
6-10	52	29.89	Restaurant & Bar	82,26.905	9,468.608
11-20	43	24.71	Restaurant & Bar	54,75.274	6,788.429
21-51	27	15.52	Restaurant & Bar	30,69.827	3,371.038
Total	174	100	Restaurant & Bar	73,95.485	8,992.125

Source: Own estimates

The majority of firms surveyed are constituted by micro firms with 10 or less workers. The small-scale firms make about 60% of the surveyed firms, while less than 20% are of medium scale (Table 2). This reflects the underlying structure of economic activities in Mozambique, where the prevailing firms are micro and family-owned small entities, (INE, 2007).

The main market focus is fast food (known as takeaway) and restaurant and bars (Table 2). Operating costs per labour force vary from minimum of 30,69.82 to 10,409.86 Meticais. Average revenue per labour force follows a similar trend with a minimum of 3,371.038 Meticais to 13,367.69 Meticais. (Exchange rate as of January 2013 – US$1 = 29.55 Meticais).

The scale of a firm appears to be associated with a high level of revenue/labour ratio (Table 2). It implies that as one moves from micro firms to medium-scale firms, labour productivity and efficiency reduces. Micro and small firms, mostly those specialised in takeaways, manage to mobilise high levels of revenue/ labour force than large firms while enjoying low costs per unit of labour.

THE REASONS FOR POOR PERFORMANCE

Lack of Human Capital

Human capital is measured as the level of education of the owner/manager and their staff. Ninety-two percent of firms on the highest quintile of labour productivity have an owner or a manager with a lower or an upper secondary school certificate. An upper secondary school certificate or a mid-level technical education, particularly, plays a major role on improving the ability of owner/managers to lead their firm competitively. The reverse is true. Firms managed by individuals with primary education tend to perform poorly.

From the study, the level of education among SMEs' staff is low, which poses an additional constraint for the sector performance. The dominant education level across the five quintiles is upper primary school and this correlates positively with labour productivity up to a certain threshold, when the reference is the waiter's average level of education.

Table 3: Distribution of Firms by Quintile of Income, According to the Owner/Manager Level of Education

Level of Ed. Of the owner/manager	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
0	0	0	0	0	4	1
Ep1	0	11	0	5	0	3
Ep2/ETE	15	0	5	33	4	12
ESG1/ETB	25	39	37	24	54	36
ESG2/ETM	40	28	32	29	38	33
Higher ed.	20	22	26	10	0	15
Total	100	100	100	100	100	100

Source: Own estimates
Note: EP1/ETE= primary eduction and vocational training, ESG1/ETB=Low secondary School and basic technical school, ESG2/ETM= Higher secondary school and mid level technical school, Higher ed. = Higher education

Management Skills

According to Table 4, high performers tend to resort to the best management practices when compared to poor performers. The reduced percentage of firms that do not to have a presence of labour representatives at the shop floor coupled with the fact that a similar percentage did not report to have institutionalised regular meetings with the labour force, reflect a culture of a command economy, where the decision making process is top-down and the labour force is conceived as a passive factor of production that should be ready to receive and understand the orders from top managers.

Table 4: Firms (%) Reporting Selected Management Practices Distributed by Quintile of Revenue/Labour

Revenue categories	Plan of activities	Quality written control mechanism	Presence of institutionalised channels of communication	Invest in training	Invest in social relations
1st quintile	50	43	46	51	44
2nd quintile	33	45	62	36	29
3rd quintile	38	30	50	24	31
4th quintile	38	35	40	26	41
5th quintile	26	21	42	2	44

Source: Own estimates

For large firms, the costs for adopting such a top-down approach for management, when procedures are not standardised and publicised, increases the costs of running business and reduces productivity. It is not surprising, therefore, that poor performers are among large firms and high performers are found within small firms (Table 2). The latter are less exposed to the challenge of running firms with a significant number of workers. It is also among small enterprises that the costs of monitoring labour productivity and information tends to zero.

Social Capital

According to the table below, building trust with main stakeholders yields positive effects when sourcing inputs, but is detrimental when it is associated with clients and labour.

The implication of the reported results is twofold.

In one case, the figures reported reveal a scenario of firms' attempting to respond to high transaction costs and the government failure to build competitive markets, impose the rule of law and protect private property, by stratifying their business around a network of social relations.

In the case of suppliers, this approach yields positive externalities, firms adopting a similar approach for clients and labour manage to fail in productivity.

Table 5: Distribution of Firms According to the Level of Reported Trust

Indicators	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
Relationship with suppliers	20	20	2	11	5
Relationship with clients	74	85	87	79	94
Relationship with labour	46	66	57	50	70

Source: Own estimates

CONCLUSIONS AND RECOMMENDATIONS

SMEs in the tourism sector are poorly managed, lacking in social and human capital skills against a background of harsh input and supply markets. Reflecting this scenario, labour productivity is, in general, low and decreases when one moves from micro to medium-scale firms. Small firms face minimum demand in terms of labour productivity monitoring than large firms, hence they manage to maximise gains more than their counterpart.

In a typical Mozambican context, this is reinforced by a dismal performance of larger firms with respect to adopting modern practices of managing human resources. Management remains top down and concentrated around the owner/manager. There is a lack of appropriate channels for team-building and nurturing a spirit of a common agenda among managers and their employees. The space for dialogue between employees and management across many companies remains, at best, semi-open.

Local firms do invest in social capital but it seems to play both a negative and positive role. It does help firms in maximising gains from networking with suppliers, but it seems to be detrimental when it comes to sourcing labour and clients.

To change the current status in the hospitality tourism subsector the following measures are required. First, it is important to build more competitive markets for goods and services as it is the lack or deficiencies in the reported markets that propel firms to build a pervasive networking mechanism. Second, there is need by the government to invest in creating management skills, as well as tourism sector related skills for employees in the industry. Both skills can potentially change the current state of the relatively large firms, which is disappointing at present.

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