

A COMPARATIVE ANALYSIS OF THE PERCEPTIONS OF BUSINESS CHAMBERS IN RURAL AND URBAN SOUTH AFRICA ON THE DEVELOPMENTAL ROLE OF LOCAL GOVERNMENT

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Abstract: The local economic (LED) triangle consisting of coordinated partnerships between local businesses, government and communities is key for local regions to achieve acceptable levels of economic growth and development. From the literature and theory it is evident that if one of the partners does not play its part with regard to development and management, the local economy could be affected in a negative way. In light of this, the purpose of this article was to determine and compare the perceptions of local business chambers in rural and urban areas in South Africa on the developmental role of local government. A mixed method approach was used in this study. The findings from the study indicated that the main stumbling blocks, as perceived by the rural and urban business chambers were similar, including labour regulations and relatively high labour costs, service delivery issues and lack of entrepreneurial intent. The main service delivery issues differed for the two groups with unavailable and unstable management listed most problematic by the urban group and lack of finance and funding by the rural group. The research provides insight concerning the actions required if local government is to provide an enabling environment for local businesses to prosper.

Key words: business chambers, enabling environment, Local Economic Development (LED), local government, management, rural, urban

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Introduction

For local areas to achieve economic development, the three main role players: local government, local business and organisations such as business chambers and local communities in the area, must share one vision and work together (Mountford, 2009). The primary aim of this article is to present a comparative analysis of the perceptions of local business chambers situated in rural and urban areas of South Africa on the developmental role of local government. A business chamber can be defined as *“an organization of businesses seeking to further their collective interests, while advancing their community and region. Business owners in towns, cities and other territories voluntarily form these local societies/networks to advocate on behalf of the community at large, economic prosperity and business*

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interests” (Association of Chamber of Commerce Executives, 2016). Local businesses on a global scale need to form partnerships with local government while the latter should attempt to provide an enabling environment for businesses to prosper to the benefit of all local residents in this process (Travers, 2012).

The research is important in the sense that although the study is localised in South Africa, the results could be useful on a global scale. Local government agencies are struggling to provide a conducive environment for economic development. Solutions offered, arising from this research, could be implemented elsewhere.

Literature Review

Economic development at local or regional level is known as LED and is a sub-field of development economics (Meyer-Stamer, 2006). LED has, as its ultimate goal, the economic development of a demarcated local area (Blakely and Leigh, 2013). Van Zyl (1994) states that the process of economic development of a specific area includes aspects such as improvement of people’s quality of life, reduction of poverty, structural and institutional transformation of society in terms of politics, culture and the economy, which will lead to higher levels of productivity, income and choices for people and also the modernisation of the economy. Growth without development is possible, but no development could occur without growth (Herrick and Kindleberger, 1995). Soubbotina (2004) agrees, opining that while economic development might be wrongfully described as economic growth there are significant differences between the two concepts. While economic growth relates solely to an increase in GDP per capita of a country, economic development is a much broader concept, which takes into account income, freedom, equality, health, education and a safe environment, amongst others.

It has been difficult for developing countries and regions to start or “kick-off” economic development. The reason for this is poor co-ordination (Todaro and Smith, 2011). Rosenstein-Rodan (1943) first raised the basic co-ordination development problem, which is known as the “Big Push” theory. This theory explains how the presence of market failures could lead to a need for a focused nationwide economic policy intervention by government to get the long and difficult process of economic development underway (Todaro and Smith, 2011).

Trousdale (2005) defines LED as a participating process where local people, from all sectors within a specific area, work together to activate and stimulate local economic activities, with the aim of ensuring a resilient and sustainable local economy. Swinburn (2006) stated that LED is a process in which partnerships between local government, communities and business lead to improved management of existing local resources, to increase economic activities in a well-defined geographical territory. The LED process should assist with the improvement of local institutions and local partnerships through dialogue and actions. The International Labour Organization (ILO) (2006) lists five core features to define the content of LED strategies: high levels of participation by all

role players, focus on a specific territory, maximisation of local resources, focus on competitive advantages and lastly, LED strategies should be locally compiled, implemented and managed. Blakely and Leigh (2013) argue that LED is a process by which local government and community groups manage their existing resources and enter into new partnership arrangements with the private sector to create new jobs and stimulate local economic activities. This is the reason why the roles of local business chambers are so important. Pretorius and Schurink (2007) point out that LED can assist local government to improve its governance. Good governance relates to effective institutional capacity in management and administration. Good governance underpins LED, the main connection between the two concepts being to provide a local business enabling environment (Trousedale, 2005). Partnerships between local government and local businesses are critical for LED success. The objectives of such partnerships are to improve the flow and exchange of information, to enhance the local enabling environment, promote local business opportunities and facilitate joint activities between partners (Srinivas, 2015). The LED triangle of partners consists of local government, business and community organisations (Swinburn, 2006). Existing groups in a specific region, such as business chambers, play an important role in sustainable partnerships.

Municipalities in South Africa do not have adequate economic strategies in place to address the issues of poverty, unemployment and inequality. This study specifically focusses on the different perceptions of business chambers from rural and urban areas in South Africa. Rural areas can be defined as areas which lag behind in population densities, in education facilities and in the power to control its own destiny, if compared to more urbanized areas (Buxton, 1976; Meyer, 2013). According to Bester (1994), rural areas in South Africa are characterised by traditional agricultural processes, low income families, lack of finances, a lack of technical skills, and high percentages of poor people of which large percentages are black people. In contrast, urban areas can be defined as regions surrounding large cities. They are generally very developed with dense populations and infrastructure (National Geographic Society, 2016). In many instances, rural municipalities are struggling even more to create a favourable economic environment than urban areas. The Constitution and Municipal Structures Act of South Africa are rather silent on the concept of urban and rural areas. However, it was pointed out by the White Paper of Local Government, in some cases, the separation of rural areas from main town and city areas enforced synthetic administrative and political boundaries between areas that are otherwise functionally integrated. In addition, it creates imbalances for rural citizens who also contribute economically but do not benefit from all the countries resources (StatsSA, 2003).

Due to limited funding, LED is not a priority at the local government level, however it should be. For this reason the partnership with local role-players, such as business chambers, is so important. Within local government, LED strategies lack detail for interventions, are deficient in monitoring or evaluation,

while the role and functions of LED are vague and also display a lack of willingness to enter partnerships with the private sector (KHANYA-AICDD, 2006).

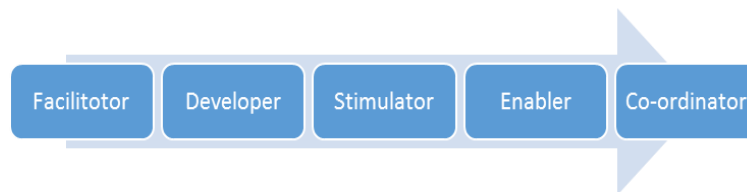


Figure 1. Economic roles and functions by local government and local business
(Blakely and Leigh, 2013; VNG International, 2007)

Figure 1 illustrates the role and functions of local government and local businesses through business chambers in the LED process:

Facilitator: Providing systems, processes and facilities through land use planning, provision of services and infrastructures, signage, safety and security, attracting investment, fewer regulations, and policy and strategy formulation.

Developer: Provision of basic infrastructure to stimulate private sector development such as electricity, water, roads, and sewers.

Stimulator: Stimulate business to grow and expand and attract new business. Tools include incentives, grants, and facilities at low rental, tourism development, and business incubators.

Enabler: Provide expert advice, assistance and support, information, training, business planning.

Co-ordinator: The LED process forms a key programme for co-ordination with local communities. Business networks through business chambers and partners need to be established.

Private sector entities, such as business chambers, in collaboration with local communities, play a major role in LED. Some of the functions of the private sector in LED in collaboration with local government include (Swinburn, 2006): bringing resources, knowledge and experience to the local economy; assisting in the de-politicising of the economic development process and projects; assisting with attaining consensus between partners; facilitating an increased understanding of the local economy and ensuring the inclusion of disadvantaged and informal groups to ensure a pro-poor focus. In a research survey conducted by the “Afrikaanse Handelsinstituut” (AHI), findings included firstly, that the working relationships between business chambers and municipalities are mostly negative. Secondly, that local government is not interested in working with the local business chambers and, thirdly, that areas of co-operation were listed as limited (Rogerson, 2009).

Methodology

The methodology incorporated both qualitative and quantitative aspects. Firstly, an intensive literature study was conducted in order to establish a sound base

and framework for the study; the research instrument was developed based on this. Semi-structured interviews were also conducted; quantitative data was collected using the pre-designed questionnaire. The data obtained was reported on in a descriptive manner.

The sample comprised management of eight business chambers situated in rural areas and six business chambers situated in urban areas of South Africa.

A self-administered questionnaire was designed, based on the literature review. From the responses the following important topics were identified: cooperation with other entities such as government, stumbling blocks, success factors, what creates an enabling environment, service delivery status quo and entrepreneurial characteristics. Some questions were open ended to allow more in-depth responses whereas some were basic polar questions, merely requiring a yes or no response. The questionnaire also included ranking questions to determine order of importance as well as Likert-scales. During September 2015, the AHI held its annual general meeting. The process and reasons for the study were explained to the various participants. All chairpersons of each chamber were supplied with a questionnaire which they were asked to complete in consultation with their management team.

Results and Discussion

Table 1 summarises the locality and number of members. In total, eight business chamber situated in rural areas of South Africa and six situated in urban areas responded by completing the questionnaire.

Table 1. Summary of business chambers located in rural and urban areas

Rural business chambers			Urban business chambers		
Town/Municipal Area	Members 2015	Membership trends	Municipal Area	Members 2015	Membership trends
Newcastle	100	Decreased	George	30	Increased
Bothaville	80	Unknown	Bellville	45	Decreased
Lydenburg	88	Increased	Haarlem	30	Increased
Cullinan	50	Stagnated	Pretoria	162	Stagnant
Paarl	248	Increased	Vanderbijlpark	183	Increased
Klein Karoo	112	Unknown	Richards Bay	137	Stagnated
Swellendam	17	Stagnated			
Clanwilliam	65	Stagnated			

Based on the membership trend, only two from the rural group reported a rise in member numbers, while three from the urban group indicated an increase in member numbers. Table 2 reflects the rating for the various municipalities by the managements of business chambers regarding the 12 factors for the creation of an enabling environment by local government for local businesses to prosper. Each factor was ranked on a Likert scale from 1 (very poor) to 5 (very good); the table reflects the average means. This specific scale was developed by Meyer (2014). The various chambers were also asked if they considered that the local

municipalities were creating the said type of environment. Ninety percent of chamber from urban areas and all from rural areas responded no to this question.

Table 2. Rating of local government by local business chambers on the 12 factors creating an enabling environment for businesses

Factor	Rural	Urban
	Mean* (Rank)	Mean* (Rank)
Partnership formation	2.5 (3)	2.4 (2)
Structure, capacity and policies	2.1 (6)	2.4 (2)
Leadership	3.0 (1)	2.0 (6)
Poverty alleviation and social development	2.5 (3)	2.0 (6)
Economic development initiatives	2.3 (5)	2.1 (5)
Environmental and spatial planning	2.3 (5)	2.6 (1)
Infrastructure development and maintenance	2.6 (2)	2.3 (3)
Human resource development	2.6 (2)	2.0 (6)
Entrepreneurship development	2.4 (4)	1.8 (7)
Improved access and transport	2.5 (3)	2.3 (3)
Agriculture and rural development	2.4 (4)	2.2 (4)
Safety and security	2.0 (7)	2.4 (2)
Total Average	2.43	2.21

*Maximum 5

Table 2 indicates that the rural group ranked leadership as one of the best performing factors although still only slightly above average. This score conflicts with the general consensus regarding South Africa and the lack of political leadership that has been a topic of discussion in recent years (Van Vuuren, 2014). Leadership was ranked sixth in the urban group and environmental and spatial planning first. Once again, the urban group scored all the factors average or below (>2.5). The rural group scored safety and security (2.0) least. This links with high crime statistics generally experienced in South Africa (Crime StatsSA, 2015; South African Police Service, 2014).

The general perception in the urban group is that local government is doing the least to develop entrepreneurship as this factor was ranked last (1.8). This is cause for concern as entrepreneurship development should be considered a key priority, as it is a factor contributing to economic development (Awashti and Sebastian, 1996; Athayde, 2012; Meyer et al., 2016; Czarniewski, 2016). In addition, all the business chambers agreed that they would be willing and interested in partnering with local municipalities and government, to assist in the development of small local businesses and entrepreneurship enterprises by means of training local unemployed people.

Table 3 reports on the main service delivery issues experienced by the various business chambers. Service delivery restrictions or limitations negatively impact on business activities.

Together, effective service delivery and good governance create the foundation for local government to provide an enabling environment for small businesses to flourish, in turn leading to LED (Grootaert, 1998; PriceWaterhouseCoopers, 2010).

Table 3. Main service delivery issues experienced

Factor	Rural	Urban
	Percentage (Rank)	Percentage (Rank)
Incorrect and above inflation municipal accounts	12.5 (4)	13.4 (3)
Lack of water/sewer/electrical capacity & maintenance	8.3 (5)	6.7 (6)
Roads provision and maintenance	8.3 (6)	-
Zoning regulations and 'red tape' processes	4.2 (7)	6.7 (7)
Unavailable and unstable management (communication and participation)	12.5 (3)	20.0 (1)
Vague and uncertain policies	4.2 (7)	-
Corruption and irregular practices	4.2 (7)	6.7 (8)
Lack of information, support and training for local business	16.7 (2)	16.7 (2)
Procurement and tender process	-	10.0 (5)
Re-aligned budgeting priorities	-	3.3 (10)
Lack of finance and funding	20.8 (1)	6.7 (9)
Lack of developmental incentives and policies	8.3 (5)	10.0 (4)
TOTAL	100	100

The rural group reported that lack of finance was the main service delivery issue whereas the urban group listed this issue as less of a problem. These results make sense as rural areas are in many cases neglected when it comes to finance availability (De Klerk et al., 2013). The urban group reported unavailable and unstable management as their biggest service delivery issue. This was also listed as the third worst issue by the rural group.

Table 4 reports on the main economic stumbling blocks experienced by the business chambers; they were asked to rank the top three factors in their specific area.

Table 4. Main stumbling blocks for economic and business development

Factor	Rural	Urban
	Percentage (Rank)	Percentage (Rank)
Lack of infrastructure capacity	25.0 (1)	3.2 (7)
Poor service delivery by municipality	16.7 (2)	19.4 (2)
High production costs	8.3 (6)	9.7 (6)
Labour regulations and high labour costs	12.5 (3)	22.6 (1)
Crime	8.3 (7)	16.1 (3)
Relative small local market and demand	8.3 (5)	12.9 (5)
Strike action	4.2 (8)	0
Lack of industrial/business serviced stands	4.2 (8)	3.2 (8)
Poor logistics and transport facilities	0	0
Lack of entrepreneurial intent	12.5 (4)	12.9 (4)
TOTAL	100	100

The four highest ranked problematic factors, as listed by the rural chambers, were: lack of infrastructure capacity, poor service delivery, high labour regulation and costs and lack of entrepreneurial intent. On the other hand, the urban group listed three of the same stumbling blocks as the rural group but just in a different sequence. In addition, they indicated that crime is the third highest stumbling block. Lack of infrastructure is a problematic area in many rural areas and thus these results link well with current conditions (African Monitor, 2012).

Although labour regulations and cost were listed under the top four for both groups, it makes sense that it ranked higher in the urban group as wages are generally more costly in cities compared to rural areas (Gale, 1998). The lack of entrepreneurial intent was also listed as a major stumbling block by both groups.

Conclusion and Recommendations

The primary aim of this article was to present a comparative analysis of the perceptions of local business chambers situated in rural and urban areas of South Africa on the developmental role of local government. Local government plays a critical role in the creation of an enabling developmental environment for local business to prosper. Interesting findings arising from the research revealed that both rural and urban business chambers were of the opinion that local government is not creating an enabling environment for local businesses to prosper.

All twelfth factors were rated below or just above average. Both groups listed similar stumbling blocks including poor service delivery by municipalities, high labour cost and regulations and lack of entrepreneurial intent. The rural group listed infrastructure development as their biggest concern and the urban group indicated that crime is in the top four of their biggest concerns. Entrepreneurship development received a low ranking in terms of the factors for the creation of an enabling environment. Linked to this, business chambers also indicated that local government does not provide enough information and training for local businesses. From this analysis it was evident that the development of entrepreneurship and small businesses should be a main priority of local government in the region. The formation of partnerships between local government and local businesses is important for sustained LED; both role players have equally important responsibilities in this task. Local government should support local business by providing: entrepreneurship development and training, information on the economy with a focus on specific growth sectors, export opportunities and data on comparative advantages of the region, a pro-developmental policy with incentives and lastly, support for the poor and youth in the region.

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ANALIZA PORÓWNAWCZA POSTRZEGANIA IZB GOSPODARCZYCH W OBSZARACH WIEJSKICH I MIEJSKICH POŁUDNIOWEJ AFRYKI DOTYCZĄCA ROZWOJOWEJ ROLI SAMORZĄDU TERYTORYALNEGO

Streszczenie: Celem niniejszego artykułu jest określenie i porównanie postrzegania lokalnych izb gospodarczych na obszarach wiejskich i miejskich w Republice Afryki Południowej w zakresie ich roli w rozwoju samorządu lokalnego. W badaniu zastosowano podejście metody mieszanej. Wnioski z badania wskazały, że główne przeszkody postrzegane przez miejskie i wiejskie izby gospodarcze były podobne, w tym przepisy prawa pracy oraz stosunkowo wysokie koszty pracy, kwestie świadczenia usług oraz brak intencji przedsiębiorczych. Główne kwestie dostarczania usług różniły się dla dwóch grup niedostępnym i niestabilnym zarządzaniem. Badanie dostarcza informacji dotyczących wymaganych działań, jeśli samorząd lokalny zapewni sprzyjające warunki dla prosperowania lokalnych firm.

Słowa kluczowe: izby gospodarcze, sprzyjające otoczenie, lokalny rozwój gospodarczy samorząd, zarządzanie, wiejski, miejski

農村和城市南非商業銀行對當地政府發展作用的認識的比較分析

摘要：由當地企業，政府和社區之間的協調夥伴關係組成的地方經濟（LED）三角形是當地地區實現可接受的經濟增長和發展水平的關鍵。從文獻和理論看來，如果合作夥伴之一在發展和管理方面不起作用，當地經濟就可能受到負面影響。有鑑於此，本文的目的是確定和比較南非農村和城市地區商業機構對地方政府發展作用的想法。在本研究中使用混合方法。研究結果表明，農村和城市商業機構認為主要的絆腳石是類似的，包括勞動法規和相對較高的勞動力成本，服務提供問題和缺乏企業意圖。兩個群體的主要服務提供問題不同，其中不可用和不穩定的管理被列入城市群體最為棘手的問題，農村群體缺乏資金和資金。如果地方政府要為當地企業的發展提供有利的環境，這項研究提供了所需行動的見解。

關鍵詞：商會，扶持環境，地方經濟發展（LED），地方政府，管理，農村，城市