

Strategies for the Development of Hospitality SMEs in Kabul, Afghanistan

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ABSTRACT

This paper aims to investigate the obstacles impeding the development of hospitality small and medium sized enterprises (HSMEs) in Kabul, Afghanistan and to propose proper strategies supporting their development. Data was collected through questionnaires distributed to 90 HSMEs (hotels, guesthouses, restaurants, coffee shops and wedding halls) which totalled up to 36% of the population. The findings indicated that HSMEs face several internal and external obstacles such as lack of basic infrastructure, security concerns, the high cost of raw materials, high tax etc. In this regard, specific development strategies and policies have been proposed for both HSMEs and the government. Some of the key strategies pertain to: setting up a strategic plan, human resources training and development and adoption of information and communication technology (ICT) etc. Meanwhile the government needs to take into its policy consideration, the development of basic infrastructure, reduction of taxes, giving more priority to the tourism and hospitality industry and the establishment of funding and advisory bodies.

Keywords: *Small and medium sized enterprises, Hospitality enterprises, development strategies, Kabul, Afghanistan.*

INTRODUCTION

The hospitality industry, together with the tourism industry, represents the world's largest and fastest growing industry. It contributed an average of 3.6% to the world's gross domestic product (GDP), more than US\$6.5 trillion in economic activities and 8.7% to total worldwide employment in 2006 (WTTC,

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2007). The number of tourist arrivals has increased from 595 million in 1996 to 900 million in 2007 and is estimated to be 1.5 billion in 2020 (WTO, 2007). However, when we look at the tourism industry in Afghanistan, during the 1960s and 1970s, before the Soviet Union invasion Afghanistan was a popular destination for tourists travelling to India. "Afghanistan was attracting thousands of tourist from around the world with its ancient cultural and historical sites and its 5000-year-old history" (WTO, 2007). The number of tourist arrivals reached 120,000 in 1974 and the receipts from the tourism industry were US\$ 34 million respectively (IWRP, 2005) and currently the arrivals are registered at about 12,000.

The services sector in Afghanistan, which includes the hospitality and tourism industry and financial services represents 29% of the country's economic structure and contributed 39.4% of total GDP in 2005 (Rubira, Tea & Carter, 2005). Anecdotal evidence suggests that 95% of the services sector in Afghanistan consists of small and medium sized enterprises. According to the author's observation, 99% of the hospitality industry (including hotels, guesthouses, restaurants, coffee shops and wedding halls) are small and medium sized enterprises.

As a result of tourists and international workers flowing to Afghanistan in 2002, a huge number of accommodation and food & beverage institutions were established to serve the new market segment which included 1,500 foreign investments (Krastev, 2005) and around 2,344 NGOs (Saeed, 2004). Most of the new ventures in the hospitality industry were inexperienced and unqualified which resulted in a failure of around 60-80% (Giustozzi, 2006). Therefore, the purpose of this study is to identify the obstacles impeding the development of HSMEs and to propose strategies for their development.

LITERATURE REVIEW

Hospitality and tourism SMEs are characterized as generating more interesting employment opportunities (Jones & Tang-Heaven, 2005) and people enjoy working for them because they offer challenges, decision making is more instant, communication is better, employees are more involved in setting business goals, there is provision of greater development opportunities, and they are not tied by regulations (Stredwick, 2002).

Moreover, tourism and hospitality SMEs are varied in their business strategies and management skills, particularly in the setting and maintenance of quality standards which are critical to business competitiveness (Jones et al., 2005). Tourism SMEs operate in a very distinct manner owing to the lack of specialist managers to oversee their various activities (Dewhurst & Burns, 1993). Financial constraints have exacerbated lack of management skills and militate against training, and future investment and knowledge management, resulting in

the managers only being trained when the venture is under particular threat or has to meet legislative requirements, e.g. food hygiene training (Jones et al., 2005). Meanwhile, tourism SMEs challenge public-sector training involvement since traditional acceptance of the need for training is low and there is no investment in human resources training.

On the other hand, there is poor market research on customers among tourism SMEs with little global know-how and global reach that might lead to knowledge about their failure to achieve their goals (Jones et al., 2005). According to the Best Practice Forum, one in eight UK hospitality businesses fails every year (Deakin, 2004; cited in Jones et al., 2005) because of little market stability, low levels of capital investment, weak management skills and resistance to change, and less likelihood of investing in long-term human resource strategies which may cause financial difficulties in the short term (Wanhill, 2000).

Mostly, tourism SMEs both in transition and developing countries face common obstacles such as lack of financing, low productivity, lack of managerial capabilities, poor access to management and technology, and heavy regulatory burdens (Wan, 2003; Stuti, 2005), lack of human resources, globalization (Saleh & Ndubisi 2006), infrastructure (electricity, voltage fluctuations, telecommunications, water supply, wastewater disposal, garbage, quality of roads, bad transportation), lack of skilled labour, lack of specific training, high taxes, poor access to foreign markets, lack of new markets, competition in new markets and administrative cost (tariffs, licences) (Prissarides, Singer, & Svejnar, 2003).

METHODOLOGY

Data was collected through questionnaire distribution and observation as the research instruments to identify the obstacles impeding the development of HSMEs in Afghanistan. For the purpose of this study, the HSMEs are defined as those enterprises which employed fewer than 100 employees. As a result of insufficient time and unrest in Kabul, 90 out of 251 HSMEs which totalled up to 36% of the total population were interviewed with questionnaires. The SPSS v. 15 was used to analyze quantitative data gathered from the study by using frequency, mean and One-Way ANOVA as the statistical tools.

RESULTS

Characteristics of Respondents

The survey results as shown in Table 1 indicated that fewer than half of the respondents were managers and 43.3% of them were owners. A smaller number

of respondents were partners and employees. Moreover, more than one-third of the respondents had diploma degrees whereas less than one-third had bachelor's and high school degrees and a few of them had secondary school and master's degrees. On the other hand, more than half of the respondents had worked in the hospitality sector before their current job. Meanwhile, 42% of the enterprises were managed by managers, 36.7% of them by the owners and a few of them by joint owners and supervisors.

Characteristics of Enterprises

The majority of the HSMEs were local enterprises while 14.4% of them were foreign enterprises and 4.4% were local-foreign enterprises. Half of the enterprises had been established for 2-5 years and one-third of them for less than one year. More than half of the HSMEs were renting the enterprise property while more than one-third of them owned the property.

Table 1: Characteristics of Respondents

Characteristics	Freq	(%)
Position Job		
Owner	39	43.3%
Joint owner	2	2.2%
Manager	43	47.8%
Family member of owner(s)	2	2.2%
Employee	4	4.4%
Previous job		
Same sector	47	52.2%
Different sector	43	47.8%
Level of Education		
Secondary school	4	4.4%
High school	25	27.8%
Diploma	34	37.8%
Bachelor's degree	25	27.8%
Master's degree	2	2.2%
Managers of the enterprise		
Owner	33	36.7%
Partner	17	18.8%
Manager	38	42.2%
Other (supervisor)	2	2.2%

Table 2: Characteristics of Enterprises

Characteristics	Freq	(%)
Nationality of enterprise		
Afghan (local)	73	81.1%
Foreign	13	14.4%
Local-foreign	4	4.4%
Age of enterprise		
Less than 2 years	29	32.2%
2-5 years	45	50.0%
6-10 years	10	11.1%
More than 10 years	6	6.7%
Property Rental and ownership		
Owned	34	37.8%
Rented	52	57.8%
Mortgaged	2	2.2%
Others (lease)	2	2.2%
Legal form of enterprises		
Sole proprietorship	34	37.8%
Partnership	55	61.1%
Corporation	1	1.1%

Strategic Management Practices

The results as presented in Table 3 indicate that 64.4% of HSMEs have mission statements and employees in fewer than half of HSMEs are conversant with their mission statement. Meanwhile, 67.8% of HSMEs were working on an annual plan and had strategies in place to achieve their business goals.

Table 3: Strategic management practices

Strategic management practices	Freq	(%)
Does your enterprise have a mission statement?	58	64.4
Are your employees conversant with the mission statement and its objectives?	44	48.9
Do you work on an annual plan?	61	67.8
Do you have strategies in place to achieve the business goals?	58	64.4
Has your business been operating profitably?	63	70.0

Human Resources Management Practices

As shown in Table 4, the majority of HSMEs carry out job analysis and job design while fewer than half of HSMEs have a recruitment plan. Meanwhile, the majority of the HSMEs were conducting orientation and appraising their employees' performances through observation. A few HSMEs had a written plan to develop their employees' capacity. The majority of HSMEs provided necessary training for their employees.

Table 4: Human resources management practices

Human resources management practices	Freq	%
Do you carry out job analysis and job design for your HR?	80	88.9
Do you have any recruitment plan?	38	42.2
Do you conduct orientation for your new employees?	84	93.3
Do you have performance appraisals for your employees?	80	88.9
Do you have a written plan for the development of employees' knowledge & skills	29	32.2
Do you provide necessary training for your employees	78	86.7

Tables 5 and 6 indicated that the majority of HSMEs preferred to recruit those employees who were less qualified but familiar and had set familiarity as the most important criterion for employment. The majority of HSMEs had also set experience, honesty, skills and qualifications as important criteria for employment.

Table 5: Type of Employee preference

Type of Employees	Freq	%
Unqualified but familiar	1	1.1
Less qualified but familiar	48	53.3
Qualified but not familiar	38	42.2
Other (Qualified and familiar)	3	3.3

Table 6: Criteria for Employees

Criteria	Freq	%
Qualifications	55	61.1
Experience	86	95.6
Skills	80	88.9
Familiarity	80	88.9
Honesty	81	90

The results as explained in Tables 7 and 8 indicate that a very low number of governmental and non-governmental organizations have provided training to the HSMEs and the employees who had been trained were mostly from the management level.

Table 7: Training providers

Training provide	Freq	%
UNDP	5	5.6
NGOs	3	3.3
Public authorities	4	4.4

Table 8: Types of trained employees

Employee type	Freq	%
Operational level	3	21.43
Supervisory level	1	7.14
Management level	10	71.43

Marketing

The results as illustrated in Tables 9 and 10 indicate that half of the HSMEs have strategies for marketing, pricing, product, and promotion and a few HSMEs have allocated a budget for advertisement and innovation. The majority of HSMEs had an informal marketing plan for less than one year. On the other hand, they assessed customers' needs, quality of service, customers' satisfaction, local competition and the number of visitors through observation only, while fewer than half of the HSMEs assessed the possibility of new products or services and the effectiveness of their marketing through observation as well.

Table 9: Marketing management

Marketing management	Freq	%
Do you have a marketing strategy?	50	55.6
Do you have any pricing strategy?	41	45.5
Do you think that your prices are reasonable for your customers?	77	85.5
Do you have any product strategy?	33	36.6
Do you have any promotion strategy?	49	54.4
Have you allocated a budget for advertisement?	26	28.8
Have you allocated a budget for innovation?	14	15.5

Table 10: Market assessment

Assessment areas	Freq	%
Customer needs	86	95.5
Quality of service	72	80
Local competition	73	81
Number of visitors	54	60
Visitor Satisfaction	83	92
Effectiveness of your marketing	42	46
Possible new products/service	38	42.2

Information and Communication Technology

The majority of the HSMEs used computers for business correspondence. Fewer than half of HSMEs used computers for accounting and book-keeping, reservations and cash flow plans and monitoring.

Finance

The majority of HSMEs had financial plans and conducted financial analysis. A few HSMEs paid interest on their loans while the majority of them did not avail themselves of loans in view of the interest. From Table 11, around half of the HSMEs faced difficulties with high interest which was between 12% and 18% per year. Meanwhile, a few HSMEs faced other difficulties such as high bank charges and lack of sufficient financial institutions. In the meantime, half of the HSMEs never tried to seek finance from outside or they did not have any awareness of financial institutions.

Table 11: Financial difficulties

Difficulties	Freq	%
Not enough institutions to loan	9	10.0
Not enough guarantee collateral	4	4.4
Cannot pay interest	4	4.4
Interest rates too high	43	47.8
Bank charges too high	12	13.3
No difficulties	46	51.1

Business Operation Obstacles

The results of the study as shown in Table 12 indicated there were five high level obstacles impeding the HSMEs business operation, including lack of basic infrastructure (mean = 3.98), the insecure conditions in Kabul (3.76), cost

of raw material (3.79), high tax payments (3.85), and future uncertainty and concerns (3.63). Notably, the mean for the “lack of skilled labour” was high and “future uncertainty” was a medium level obstacle for both restaurants and coffee shops.

Table 12: Obstacle level factors by type of hospitality businesses

Factors	Type of Business (Mean value)					Overall Mean deviation	Std.	ANOVA	
	Hot	GH	Res	CS	WH			F-Stat	P-value
Infrastructure	4.15	4.22	4.0	3.5	3.68	3.98	.848	1.57	.19
High taxes	3.62	4.00	3.8	3.5	3.92	3.85	.762	0.69	.60
Cost of raw material	3.69	3.61	3.8	4.0	3.88	3.79	0.91	0.43	.79
Security condition	4.15	3.43	4.2	4.0	3.28	3.76	1.00	5.06	.00*
Future uncertainty	3.69	3.39	3.7	3.0	3.84	3.63	.917	0.98	.42
Interest rates	2.54	1.61	1.5	1.0	2.76	2.12	1.207	4.58	.00*
Partnership	1.54	1.22	1.6	1.0	2.20	1.64	.852	5.33	.00*
Authorities inspection	1.31	1.13	2.1	1.0	1.76	1.63	.953	5.06	.00*
Poor cash flow	1.69	1.39	1.8	1.0	1.36	1.54	.889	1.36	.25
Religious interference	1.23	1.00	1.3	1.0	1.12	1.17	.658	0.89	.47

* Indicates statistically significant differences between levels at $P \leq 0.05$

Remarks: 1: F-Stat = One-Way ANOVA (compute) value, 2: P- Value = Level of statistical significance, 3: Hot = Hotels, 4: GH = Guesthouses, 5: Res = Restaurants, 6: CS = Coffee Shops, 7: WH = Wedding Halls

CONCLUSION AND RECOMMENDATIONS

Through the investigation of the current HSMES situation, it was found that mission statements, plans and strategies of the HSMES on recruitment, marketing, and finance were not properly documented. The obstacles that impede the development of HSMES in Kabul are classified as internal, external obstacles and are as follows:

Internal Obstacles

Strategic management: Lack of mission and strategic direction and lack of proper planning.

Human resource management: Lack of qualified and experienced managers, lack of a positive attitude towards training, lack of a proper employment system, and lack of a proper compensation system.

ICT: Low level of ICT adoption.

Marketing: Lack of proper marketing plans, lack of proper marketing strategies, lack of proper product and pricing strategies, lack of promotion strategies, and lack of effort towards competitiveness.

Finance management: Lack of financial plans and high interest rates

External Obstacles

The following external obstacles have been identified such as lack of basic infrastructure, lack of training by the government and NGOs, high taxes, high interest rate, lack of new markets, event and activities, the insecure condition of Kabul, the high cost of raw materials, future uncertainty and concerns, and lack of coordination among HSME registered organizations with regard to training.

Through the identified obstacle, it was realised that the success of the development of HSMEs will depend largely on establishing a close level of cooperation and collaboration with the public sector particularly in the field of training and exploiting the market opportunities etc. The government must realize that tourism has huge potential to generate foreign exchange and contribute to the overall development of the country and must therefore accord priority to and nurse this vital sector.

Necessary measures must be taken to change the image of Afghanistan as a politically unsafe country to boost the levels of direct foreign investment and build up the confidence levels of investors and other stakeholders and create an environment conducive to increasing tourist arrivals into the country.

In order to ensure the effectiveness of measures to overcome the obstacles, a number of specific development strategies are proposed for the HSMEs to adopt and a number of policies are recommended for government consideration.

Proposed Strategies for the HSMEs Development

Setting Up a Strategic Plan

Most of the HSMEs do not have long-term vision and strategic plans which has resulted in a high rate of failure and poor performance levels. Strategic planning is concerned with the setting of long-term organizational goals and the development and implementation of plans to achieve these goals. Enterprises that are engaged in strategic plans are more likely to be those that achieve higher sales growth, higher margins on profit, higher employee growth and more innovation. Therefore, the HSMEs' management with the participation of employees should set the mission, vision and goals of the enterprise in written format and then design the long-term strategic plans that lead to achieving the mission and vision of the enterprise. In order to fulfil the long-term goals, a

number of short-term plans should be drawn up and pursued and an evaluation system should be set up to revise the plans as and when needed.

Human Resources Training and Development

The employees deliver the hospitality products and services to the customers and interpret the culture of the enterprises. Since the employees always remain at the forefront and are the lead players in the hospitality industry, the employees' training and development should be highlighted for long term gains. However a training needs assessment should be carried out for the industry and prioritized over different time periods to minimize the employees' turnover and maximize their performance.

The managers should be trained in the areas of skills development such as leadership and team building, operation and marketing management, ICT, financial management, and safety and health legislation pertaining to the industry. Once the managers have been trained, they should then conduct in-house training of their employees and encourage them to pursue further studies relevant to the industry to contribute in a more meaningful manner.

Adoption of ICT

ICT can bring immense benefits in terms of business efficiency, product and service differentiation, cost reductions and speed of operational response, so the development of the HSMEs must therefore be guided and facilitated in the adoption of ICT to increase competitiveness and efficiency in their operations in a professional manner and within a changing global environment.

Efforts Toward Competitiveness

HSMEs must make efforts to gain competitive advantage by pursuing strategies of cost focus and differentiate through enhancing the quality of services, products, and employees by understanding the customers' needs. A unique work culture and mechanism should be adopted by the HSMEs regarding the provision and selections of products and services, introduction of new services and training of employees. While the spirit of competitiveness is both healthy and desirable, the HSMEs must concentrate on sharing their resources rather than competing against one another to share a larger market from their combined efforts.

Establishment of an Association for HSMEs

There is still the absence of an association for HSMEs which allows for a powerful and a unified voice to the authorities to improve and facilitate the development of the industry. Considering the significance of this sector, the

Government has to encourage the HSMEs to initiate the development of this body. The association will enable group discussions, increase the level of interaction within the industry, and facilitate the sharing of problems and exchange of experience and knowledge. Moreover, it will help in the creation of a networking relationship among HSMEs.

Development Policies Recommended to the Government

A number of development policies are recommended to the government regarding the development of HSMEs in Kabul, Afghanistan. The recommended policies are as follows:

Development of basic infrastructure

Lack of basic infrastructure is one of the main obstacles that HSMEs face in their business operation. Therefore, there is an urgent need for the development of basic infrastructure through development policies such as availability of electricity, gas, and water supply, improvement of wastewater systems, cleanliness, and restriction on the sources of pollution producers, improvement and construction of highways to link tourism destinations, standardization of airports and efficiency of the airlines, improvement of transportation and sub streets.

Giving more priority to the hospitality and tourism industry

Afghanistan's five-year national development strategy has given a low priority to the tourism sector owing to the government's priority to other sectors such as basic infrastructure, security, education etc. The security situation in the major tourist destinations is a high priority for the industry. The government should therefore intensify the security and safety of the tourist destinations and come up with a campaign for the safety and security of tourist destinations in Afghanistan through the UN and international NGOs in Afghanistan. Therefore, a specific budget should be committed and allocated to develop and safeguard tourist destinations to attract more tourists.

Coordination among HSMEs registered with different organizations

The HSMEs in Kabul are registered with different government organizations, which have no coordination among themselves. There are no specific government organizations that include all HSMEs, except the Ministry of Commerce and the municipality which is in charge of collecting taxes and issue of licences. There is a need for coordination among the organizations, particularly with regard to training and in the timely dissemination of information to the HSMEs.

Development of capacities in the hospitality industry

Skill shortages force managements to recruit people without the necessary qualifications and who need more time to train. Therefore, the public sector with the support of the UN and international NGOs should provide the required

training in the hospitality related areas. The government should train HSMEs to understand and meet legislative requirements such as health and safety legislation, food legislation, and employment legislation. In the short term, the government should provide training in management skills including leadership, team building, human resources, strategic marketing management, ICT and financial management while in the long term, the government should establish a Hotel and Tourism Training Institute which would provide all types of hospitality related training for the tourism industry.

Establishment of an SMEs funding body

As a result of high interest rates HSMEs are discouraged from obtaining loans. An SME funding body needs to be established to provide loans at a low interest rate. Moreover, the body should provide other financial incentives and support for HSMEs which are facing financial problems in the industry. A one year interest relaxation could be considered by the government for the development and advancement of the HSMEs. On the other hand, the established body should study the possibility of providing loans according to Islamic law by sharing related loan profits and loss.

Establishment of an advisory and quality management body

For better awareness by HSMEs, an advisory and quality management body should be established to provide business awareness regarding the markets, funding institutions and financing, legislation and employment. The body should also provide guidelines for quality and standards for HSMEs based on benchmarks of a progressive classification system that allows innovation, and differentiation in the development of products and services. The advisory body's website and offices could be used as a platform for dissemination of the relevant information pertaining to the HSMEs.

In conclusion, it can be rightly assessed that the HSMEs have seen a major turning point since the pre-Taliban period prior to 2002. In fact, it has been observed that the majority of the HSMEs, approximately 70%, have come into existence only after 2002 during the current government's tenure. The level of development and innovativeness of the HSMEs is noted to be low, particularly with low levels of motivation and the likelihood of unattractive returns from increasing investment levels which can be attributed primarily to the transition period of the chaos and turmoil of the old government to the setting up of a sound system of government in the changing political climate. It can also be observed that the HSMEs are becoming a major source of employment, providing livelihood opportunities to a large section of the population and have tremendous potential yet to be exploited given the right guidance and confidence building measures.

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