



**Development Strategies for Hospitality SMEs in  
Kabul, Afghanistan**

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**A Thesis Submitted in Partial Fulfillment of the  
Requirements for the Degree of  
Master of Business Administration in Hospitality and  
Tourism Management  
(International Program)  
Prince of Songkla University  
2008  
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**Thesis Title**            Development Strategies for Hospitality  
SMEs in Kabul, Afghanistan  
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สาขาวิชา	การจัดการการบริการและการท่องเที่ยว (หลักสูตรนานาชาติ)
ปีการศึกษา	2551

### บทคัดย่อ

ปี ค.ศ. 2002 อัฟกานิสถานมีชาวต่างประเทศที่หลั่งไหลเพิ่มขึ้นมาอย่างสูงในฐานะนักท่องเที่ยว คนทำงาน หรือนักลงทุน ทำให้มีธุรกิจให้บริการที่พัก อาหารและเครื่องดื่มเกิดขึ้นเพื่อตอบสนองความต้องการของตลาดในกลุ่มนี้เป็นจำนวนมาก อย่างไรก็ตาม ปัญหาของธุรกิจบริการที่ก่อตั้งโดยคนท้องถิ่นส่วนใหญ่คือการขาดประสบการณ์ ในขณะที่ธุรกิจของชาวต่างชาติประสบปัญหาในเรื่องการขาดความรู้ความเข้าใจในเรื่องกฎหมายอิสลามและขนบธรรมเนียมของชาวอัฟกัน มีผลให้ 60-80 เปอร์เซ็นต์ของธุรกิจบริการขนาดกลางและขนาดย่อมต้องประสบความล้มเหลวและปิดกิจการไป

ดังนั้น การศึกษาครั้งนี้มีวัตถุประสงค์เพื่อนำเสนอผลการศึกษารูปแบบธุรกิจบริการขนาดกลางและขนาดย่อมในคาบูล ซึ่งครอบคลุมกิจการบริการที่พัก (โรงแรมและเรือนรับรอง) อาหารและเครื่องดื่ม (ภัตตาคาร ร้านอาหาร และหอประชุมสำหรับงานวิวาห์) และวิเคราะห์อุปสรรคในการพัฒนาธุรกิจ รวมทั้งเสนอกลยุทธ์เพื่อการพัฒนาธุรกิจไปสู่การเติบโต

การเก็บข้อมูลในการศึกษาใช้วิธีการสัมภาษณ์แบบตัวต่อตัวโดยใช้แบบสอบถามกับผู้ประกอบการธุรกิจบริการขนาดกลางและขนาดย่อม ที่มีการจ้างพนักงานไม่เกิน 100 คน จำนวน 90 กิจการ และการสัมภาษณ์เชิงลึกกับเจ้าหน้าที่อาวุโสในหน่วยงานภาครัฐและสหภาพที่เกี่ยวข้อง ข้อมูลเชิงปริมาณที่ได้จากการสำรวจนำไปวิเคราะห์ด้วยโปรแกรม SPSS Version 15 โดยใช้สถิติการแจกแจงความถี่ ค่าเฉลี่ยและการวิเคราะห์ความแปรปรวนแบบทางเดียว

ผลการศึกษาพบว่าปัจจัยภายในที่เป็นอุปสรรคสำหรับกิจการ คือ รูปแบบการวางแผนกลยุทธ์ การจัดการทรัพยากรบุคคล การตลาด และการจัดการการเงินแบบไม่เป็นทางการ รวมทั้งการใช้เทคโนโลยีสารสนเทศและการสื่อสารมาช่วยในการทำงานอยู่ในเกณฑ์ต่ำ ในขณะที่ปัจจัยภายนอก ได้แก่ การขาดแคลนสาธารณูปโภคขั้นพื้นฐาน อัตราภาษีและอัตราดอกเบี้ยสูง การขาดนวัตกรรม ความไม่ปลอดภัย ความกังวลต่ออนาคตของผู้ประกอบการ การขาดการสนับสนุนจากภาครัฐ และการขาดการประสานงานระหว่างองค์กรต่างๆ ที่ดูแลกิจการบริการขนาดกลางและขนาดย่อม

การศึกษาได้เสนอแนะกลยุทธ์เพื่อการพัฒนาธุรกิจบริการขนาดกลางและขนาดย่อมให้แก่เจ้าของกิจการ และนโยบายเพื่อการพัฒนาให้แก่หน่วยงานภาครัฐที่เกี่ยวข้องเพื่อพิจารณากลยุทธ์ดังกล่าวได้แก่ การใช้ระบบการวางแผนกลยุทธ์ การจัดการทรัพยากรบุคคล การตลาด และการจัดการการเงินอย่างเป็นทางการ รวมทั้งการใช้เทคโนโลยีสารสนเทศและการสื่อสารมาช่วยในการทำงานให้มากขึ้น ในส่วนนโยบายสำหรับองค์กรภาครัฐ ได้แก่ การพัฒนาสาธารณูปโภคขั้นพื้นฐานให้รองรับการพัฒนา การให้ความสำคัญแก่ธุรกิจขนาดกลางและขนาดย่อม และการจัดตั้งสมาคมธุรกิจบริการขนาดกลางและขนาดย่อม

**คำสำคัญ** ธุรกิจขนาดกลางและขนาดย่อม อุตสาหกรรมการบริการ กลยุทธ์เพื่อการพัฒนา  
คาบูล อัฟกานิสถาน

**Thesis Title**                      Development Strategies for Hospitality  
SMEs in Kabul, Afghanistan  
**Author**                                Mr. Shabir Ahmad Abdul Saleem  
**Major Program**                    Hospitality and Tourism Management  
(International Program)  
**Academic Year**                    2008

## **ABSTRACT**

In 2002, as a result of huge tourist arrivals, international workers and foreign investors flowing to Afghanistan, a large number of accommodations, food and beverage enterprises were established to serve this new market. Most of the new local ventures to the hospitality industry were inexperienced and the foreign ventures were less aware of Islamic law and Afghan customs, which resulted in failure and closure of 60-80 percent of the hospitality small and medium-sized enterprises (HSMEs).

Therefore, this study presents a survey of HSMEs in Kabul including Accommodation (hotels and guesthouses) and Food & Beverage (restaurants, coffee shops and wedding halls) enterprises and investigates the obstacles impede their development and proposes development strategies for their growth.

The data was collected through face-to-face interviews with 90 HSMEs that have employed less than 100 employees and through in-depth interviews with relevant senior officials at the relevant government organizations and unions. The quantitative data gathered from the survey was analyzed by using mainly frequency, mean and One-Way ANOVA of SPSS version 15 as the statistical tools.

The findings indicated that the internal obstacles were related to the informal practice of strategic plan, human resource management, marketing, and financial management

and to the low level adoption of ICTs while the external obstacles were related to the absence of basic infrastructure, high taxes and interest rates, lack of new activities, insecurity, entrepreneurs' future concerns, lack of development support from the government, and lack of coordination among related HSMEs registration organizations.

In recommendation, the study proposes a number of development strategies for HSMEs to adopt and a number of development policies the government consider. The development strategies are related to adoption formal strategic management including adoption of formal strategic plan, formal human resources management, and formal marketing and broader adoption of ICT. The proposed development policies are related to the development of basic infrastructure, prioritization of HSMEs, and establishment of HSHEs association.

**Key words:** SMEs, Hospitality industry, Development Strategies, Kabul, Afghanistan

## **ACKNOWLEDGEMENTS**

The thesis “Development Strategies for Hospitality SMEs in Kabul, Afghanistan” was completed due to special kindness and contribution from Dr. Naree Weerakit, the advisor of this thesis. Taking the opportunity, I would like to express my sincerest appreciation for her time and helpful guidance during the entire period of the study.

I am sincerely grateful to generous assistance of Assoc. Prof. Manat Chaisawat, Dr. Ilian Assenov, Dr. Aree Tirasatayapitak, and Dr. Kullada Phetvaroon who gave me the academic knowledge and valuable experiences during the thesis progress report presentation. I also would like to thank Ms. Watcharee Chamnina who always stands beside us and take care of us during the course in general and in the entire period of study in particular.

I would like to present my special thanks to all officers at the Afghan Tourist Organization and National Crafter Union who provided me with required document.

Special thanks are also owned to my beloved family for giving me valuable assistance, encouragement and very important morale support sufficiently contributing to the success of this study. I also would like to present my special thanks to my colleagues and friends, who encouraged and helped me.

I would like to present my special thanks to all officers at the ministry of Culture and Tourism, especially, Mr. S. O. Sultan, Cultural deputy minister who support me in obtaining the MBA scholarship in Hospitality and Tourism Management.

Finally, on behalf of myself and the Government of Afghanistan, I would like to thank sincerely the Thai International Cooperation Development Agency (TICA) for its valuable care and financial support for the accomplishment the Master’s Degree in Hospitality and Tourism Management.



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## LIST OF ABBREVIATIONS AND SYMBOLS

<b>AC:</b>	Ante Christum
<b>ADB:</b>	Asian Development Bank
<b>AISA:</b>	Afghanistan Investment Support Agency
<b>ANB:</b>	Afghanistan National Bank
<b>ANCU:</b>	Afghanistan National Crafters Union
<b>ANDS:</b>	Afghanistan National Development Strategy
<b>ATO:</b>	Afghan Tourist Organization
<b>CHRIE:</b>	Council on Hotel, Restaurant and Institutional Education
<b>CIA:</b>	Central Intelligence Agency
<b>CP:</b>	Cultural Profile
<b>GDP:</b>	Gross Domestic Product
<b>GTZ:</b>	German Technical Cooperation
<b>HSMEs:</b>	Hospitality Small and Medium-sized Enterprises
<b>ICAO:</b>	International Civil Aviation Organization
<b>ICC:</b>	International Coordinating Committee
<b>ICT:</b>	Information, Communication and Technology
<b>IFC:</b>	International Finance Corporation
<b>ILO:</b>	International Labor Organization
<b>ISAF:</b>	International Security Assistant Forces
<b>MFA:</b>	Ministry of Foreign Affairs
<b>MOC:</b>	Ministry of Commerce
<b>MOUD:</b>	Ministry of Urban Development
<b>MOCT:</b>	Ministry of Culture and Tourism
<b>MOEW:</b>	Ministry of Energy and Water
<b>MOF:</b>	Ministry of Finance
<b>MOI:</b>	Ministry of Interior Affairs
<b>MOITC:</b>	Ministry of Information, Technology and Communication
<b>MOPW:</b>	Ministry of Public Work
<b>MOTA:</b>	Ministry of Transport and Aviation
<b>MOW:</b>	Map of World

## **LIST OF ABBREVIATIONS AND SYMBOLS (CONTINUED)**

<b>MOWSA:</b>	Ministry of Work and Social Affairs
<b>NDS:</b>	National Department of Security
<b>NOG:</b>	Non-governmental Organization
<b>OECD:</b>	Organization for Economic Cooperation and Development
<b>PRD:</b>	Planning and Research Department
<b>SD:</b>	Standard Deviation
<b>SMEs:</b>	Small and Medium-sized Enterprises
<b>SSI:</b>	Small-scale industry
<b>UN:</b>	United Nations
<b>UNDP:</b>	United Nations Development Program
<b>UNESCO:</b>	United Nations Education, Sport, and Culture Organization
<b>UNIDO:</b>	United Nations Industrial Development Organization
<b>WB:</b>	World Bank
<b>WBES:</b>	World Business Environment Survey
<b>WTO/UNWT</b>	World Tourism Organization
<b>O:</b>	
<b>WTTC:</b>	World Travel & Tourism Council

# CHAPTER 1

## INTRODUCTION

Afghanistan is geographically a landlocked country in the heart of Asia. It is variously designated within central Asia or south Asia or Middle East. Mostly, it is considered as a South Asian country. The Central Asian Republics of Turkmenistan, Uzbekistan and Tajikistan lie along its northern border, Iran lies to the west, Pakistan to its east, and China at its easternmost Hindu Kush mountainous. The highest peak in Afghanistan is Nowshak, at 7,485 m (24,557 ft) above sea level (Peakware, 2007). Afghanistan has a total area of 249,984 m<sup>2</sup> (647,500 km<sup>2</sup>), which makes it as 41st largest country in the world (MOW, 2007).

Historically, as excavation of prehistoric site by Louis Dupree, the University of Pennsylvania, the Smithsonian Institute and others suggests that humans were living at least 50,000 years ago in region what is now Afghanistan, and that farming communities of the area were among the earliest in the world (Lycos, 2007). It was believed that during the Bronze Age (3000 BC to 2000 BC), ancient Afghanistan was crossroad between Mesopotamia and other civilizations (CP, 2007). Afghanistan is a country at a unique nexus point where numerous Indo European civilizations have interacted and often fought, and was an important site of early historical activity. Through the ages, the region has been home to various people, among them the Aryan (Indo Iranian) tribes, such as the Kambojas, Bactrians, Persians, etc (Afghanistan Expat, 2007).

Afghanistan due to its geographical location, it has been conquered by a host of people, including the Median and Persian Empires, Alexander the Great, Kushans, Hephthalites Arabs, Turks, and Mongols (MFA, 2006). In recent times, unsuccessful invasions were taken place by the British, Soviets, and most recently by the Americans and their allies. Due to the high interaction with different cultures of invaders through the



ages, Afghanistan has been characterized with the great diversity of ethnic groups, language, religion, food, art, music and traditions.

The total population of Afghanistan in 2008 was estimated around 32,738,376 including 2,300,000 Afghan refugees that are living outside in Pakistan and Iran (CIA, 2008). Afghanistan society comprises of more than 36 tribes and ethnic groups with more than 70 different languages. The main ethnics are Pashtun, Tajik, Hazara, Uzbek, Amiak, Turkmen, Baloch, Pashai, Nuristani, Brahui, Hindkowans, Hindustani, etc. There are two official languages in Afghanistan, Persian (Dari) and Pashtu; Persian is spoken by over 50%, Pashtu 35%, languages like Uzbek, Turkmen, Balochi, Nuristani, Pashai, Brahui, etc. Each of these ethnics has their own tradition of life. Moreover, Afghanistan has adopted number of religions through the period of time, Hinduism, Buddhism, and Islam. Islam is dominated by 99% of the country where 1% by other religions like Sikhs, Hindus, Jewish and probably Christian (CP, 2007). From cultural aspects, there are two World Cultural Heritages and many archaeological sites, which were left behind from past ancient time. These culture sites and heritages are the valley of Bamiyan where 1700 year old Buddhas were located and the Jam minaret, which is the second world tallest minaret, returns to 1194 AC. The ancient city of Heart is proposed to be one of World Cultural Heritage, but due to lack of government support for its preservation, the process was delayed.

During 24 years of war, started from invasion of Soviet in 1979 to 2002, most of Afghanistan culture heritages and tourism destinations were damaged and archeological sites and museums were looted (Feroozi & Tarzi, 2004). The Afghanistan government with the cooperation of world committee has committed to rehabilitate and preserve all culture heritages and archeological site and revive tourism destination in Afghanistan and return back all seized Afghan ancient items and relics from abroad (UNESCO, 2007). The efforts are

ongoing and the International Coordinating Committee (ICC) was established in 2002 for the safeguarding of Afghanistan's culture heritages, which may bring hopes for Afghanistan tourism industry.

### 1.1 Statement of the Problem

Afghanistan, after 24 years of war, wants to retake its previous position as one of the world tourism destination. Tourism was once a key supporter for the economy as a source of foreign currency in the country. Since 2001, Afghanistan through cooperation with United Nations, and the World Committee has started rebuilding the country and rehabilitating the tourism destinations (UNESCO, 2007). Until now, Afghanistan has achieved a respectable economic recovery and growth since 2002. The real value of non-opium GDP which is almost 85% has increased 29% in (2002/2003), 16% in (2003/2004), 8% in (2004/2005), 14% in (2005/2006) and it is projected that real GDP will increase 11% in (2006/2007). The GDP per capita in Afghanistan stood at US\$ 182 in (2002/3), and increased to US\$ 199 in (2003/4) and to US\$ 253 in (2004/5) and to US\$ 294 in (2005/6). The GDP per capita is currently estimated to be around US\$ 344 for (2006/7) (ANDS, 2005).

**Table 1.1** Afghanistan GDP by Sector

Sector	WDI*		UN**		ADB / CSO***			WDI
	1965	1978	1978	1990	1991	2001	2002	2005
Agriculture	60.0	47.0	57.1	51.9	49.7	53.2	52.0	36.1
Industry	10.0	6.8	29.1	33.0	29.8	35.6	24.1	24.5
Services	30.0	46.2	13.8	15.1	20.5	11.2	23.9	39.4
<b>Total</b>	100	100	100	100	100	100	100	100

**Sources:** \* World Development Indicators database, April 2007;

\*\* United Nations data from the UN National Accounts.

ADB data from ADB (2003); and \*\*\* World Bank data from GDF/WDI database

The country's economy structure during 2003 comprised of three primary sectors: Agriculture 52%, Services 29%, and Manufacturing industry 29% (ABD, 2004) and their contribution to total GDP in 2005 was as follows: Agriculture sector was 36.1% of total GDP, Services 39.4% of GDP and Industry 24.5 % of GDP (Rubira et al., 2005). The Afghan Investment Support Agency (AISA) reported that more than 3,000 new investments have been registered in 2004, of which almost half is from foreign investors (Krastev, 2005). Notably, the registered investments in 2004 were mainly in construction sector (51.3%) followed by services (37.6%) and industrial (10.7%). Among all registered investments in 2006, 99% worth less than US\$ 10 million and 85% less than US\$ 1 million (Giustozzi, 2006). The service sector (including hospitality and tourism industry, transports, and financial services) plays major role in country's economy and anecdotal evidence suggests that 95% of service sector are SMEs. Importantly, the hospitality industry of service sector which is dominated 99% by SMEs, has been noticed to be growing rapidly in the last five year due to the increase in the number of tourists, UN and NGOs' staffs, foreign investors, which are the main customers of the hospitality industry. Notably, the number of tourist arrival was stood at around 12,000 tourists (BBC Persian, 2008) while the number of registered NGOs stood at 2,355 (Saeed, 2004), and the number of foreign investments at 1,500 investments in 2004 (Krastev, 2005).

As a result of huge tourist arrivals, international workers and foreign investors' flows to Afghanistan in 2002-2003, a large number of accommodations, food and beverage enterprises were established to serve the new market. Most of the new local ventures to the hospitality industry were inexperienced whereas most of the foreign ventures were less

aware of laws and Afghan customs, which resulted in failure and closure of 60-80% (Giustozzi, 2006) of their hospitality enterprises.

To the knowledge of the researcher, no previous study has investigated the current situation of hospitality SMEs (HSMEs) and no previous researches has attempted to identify the obstacles and constrains that HSMEs are facing and the opportunities that could support their development. Therefore, there are needs to study the current situation of HSMEs in Kabul to identify the obstacle that impede the HSMEs development and the opportunities that can support their development.

## **1.2 Related Literature**

### **1.2.1 Travel and Tourism Industry**

Travel and tourism have been going on since thousands years, initially in the form of pilgrimages, exploration for new land, colonization, and trade (Kaosa-ard, 2005). Evidence suggests that the use of wheeled carts to transport people exits from 4,000 B.C. and later on travel became easier when Romans constructed a network of 90,000 km of primary roads and 200,000 km of secondary roads (Winfried, 1979) and then roads were extended from North Sea to the Sahara, and from the coast of the Atlantic Ocean to the lands along the Danube River and to Mesopotimian (Chon & Sparrowe, 2000). By 313 A.D. as the Romans adopted Christianity, pilgrims began traveling to Jerusalem and Bethlehem to see the birthplace of Christianity. Travel there has continued throughout the centuries, as the area is holy to Jews and Muslims as well. On the other hand, by the rise of Islam in 7<sup>th</sup> century, Muslims also began pilgrimage to Mecca, Saudi Arabia, the birthplace of Islam.

During the Renaissance period, educational and cultural journeys also became popular, mostly among British Scholars. Many of them took what was called the “Grand Tour” of Europe to study advanced arts and sciences close at hand. The Grand Tour included Paris, Rome, Venice, Munich, Vienna, and Especially Florence, the center of the Renaissance. The tours sometimes lasted three years, and resorts and spas were developed at the tour location to serve the travelers (Chon & Sparrowe, 2000).

The tourism industry started to develop in 18<sup>th</sup> century after the advent of mechanized transportation following the first industrial revolution. By the end of the 19<sup>th</sup> century, aristocrats and the elite who took a Grand Tour of Continental Europe had created a demand for what has emerged as the tourism industry (Mastny, 2001).

The statistics related to tourism became available only in 1950s when the number of total travelers was recorded around 25 million and total tourism receipt was over US\$ 2 billion (Held, McGrew, Goldblatt and Perraton, 2000). In 2004, total international tourist arrivals were about 700 million and total tourism receipt was estimated at around US\$ 500 billion (WTO, 2004). The World Tourism Organization proclaimed that the tourism industry is the world’s largest and fastest growing industry with an average growth rate of about 7% over the last several decades. Tourism industry creates about 200 million jobs in worldwide and forecasted to create 255 million jobs respectively in 2010. Meanwhile, it accounts for about 11.1% of global GDP and forecasted to rise 11.7 in 2010.

The below table 1.2 also indicates that the number of international tourist arrivals has been increased variously according to each region and the growth in tourist arrivals is also various according to each region from period 1995 to 2020. The highest tourist arrivals is for Europe followed by East Asia/Pacific Americas and Africa, meanwhile the highest

growth rate is for Middle East 6.7% followed by East Asia/Pacific 6.6%, South Asia 6.2%, and Africa 5.5%.

**Table 1.2** International Tourist Arrivals 1995-2020

Tourist Arrivals (million)					Average annual Growth rate (%)
Region/Year	1995	2006*	2010	2020	1995-2020
Europe	336	461	521	714	3.1
East Asia/Pacific	81	158.4	194	388	6.6
Americas	110	135.8	190	282	3.8
Africa	20	40.6	48	78	5.5
Middle East	14	40.8	36	69	6.7
South Asia	4	9	11	19	6.2
World	565	846	1000	1550	4.1

\* **Revised Source:** UN-WTO, 2003 & UN-WTO, 2007

However, when we look at the tourism industry in Afghanistan during the 60s and 70s, prior to Soviet Union invasion; Afghanistan was a popular destination for tourists traveling on their way to India: “Afghanistan attracted thousands of tourists from around the world with its ancient cultural and historical sites and its 5000-year-old history” (WTO, 2007, p. 1). The number of tourist arrivals reached 120,000 in 1974 and the receipt from tourism industry was US\$ 34 million respectively (Sharifzada, 2005). Tourists were drawn to the country’s various ethnic groups, arts, cultures, traditions, and handicrafts, untouched natural sceneries (WTO, 2007), especially to Bamiyan Buddhas, which were unfortunately destroyed by Taliban in 2001. Currently, around 12,000 tourists are visiting the country and probably increase in future (BBC Persian, 2008). In order to reactivate the tourism industry, it is outlined in the report of Afghanistan National Development Strategy (ANDS, 2005) that 20 tourism destinations, 20 domestic and 4 international airports according to International Civil Aviation Organization (ICAO) standard are planned to developed by the end of 2010 to promote tourism. The country’s five-year

strategic plan also includes a comprehensive inventory of Afghan cultural treasures to be compiled by the end of 2007, and by the end of 2010 measures will be taken to revive Afghan cultural heritages and rehabilitate historical monuments and restore damaged artifacts (ANDS, 2005). Attempts to boost tourism in the country, a project to establish a tourist centre for the promotion of Afghanistan tourism is being considered and on developing and upgrading of tourist services, hotel management and other issues relate to Afghan culture, customs, and society.

Optimism does exist in Afghanistan as a tourism destination in future as investors have injected more than US\$ 200 million in the Hospitality industry and the JW Marriott Hotels and Resorts is one of these investors who is going to invest US\$ 80 million in a new luxury Marriott Hotel in Kabul (MFA, 2006). Although Afghanistan tourism has suffered for 24 years of war, but through the current collaboration of both private and public sectors, the future of tourism industry is starting to look promising.

### **1.2.2 Hospitality Industry**

The word “hospitality” has ancient roots, dating from the earliest day of Roman civilization. It is derived from the Latin verb “hospitare”, meaning, “To receive as a guest”. Several related words come from the same Latin root, including hospital, hospice, and hostel. The meaning of each of these words focuses on a host who receives, welcomes, and caters to the needs of people temporarily away from their homes. The phrase “to receive as a guest” implies a host prepared to meet a guest’s basic requirements. Traditionally, the requirements of guest are food, beverages, and lodging or shelter (Dittmer, 2002).

The hospitality industry began as a result of travel in the conduct of trade. Sumerian traders who traveled from one region of the Mesopotmian kingdom to another 3,000 B.C. to sell their grain and they were in need of shelter, food, and drink, and the enterprising persons arranged ways to meet those needs. Historians speculate that the first overnight lodging structures were erected along Mid-Eastern trade and caravan routes around 4,000 years ago. With the rise and fall of empires in Mesopotamia, China, Egypt, and later on in other parts of the world, trade routes were expanded and hospitality establishments were flourished (Chon & Sparrowe, 2000).

In Ancient Roman, around 43 A.D, there were hotels on all main roads and in the cities, the better hotels have a restaurant, a lavatory, bedrooms with keys, yard and stabling whereas an inn had six bedrooms, round two sides of an inner court yard, with a kitchen on the third side (Balsdon, 1969). Through the eleventh century, the Roman Catholic Church kept the hospitality industry alive by encouraging religious pilgrimage between monasteries and cathedrals throughout Europe. The hostels built on Church grounds provided places to eat and sleep. Meanwhile, the Church did not charge for these accommodations, but in 1539, England's King Henry VIII declared that all lands owned by the Church were to be given away or sold. This decree inadvertently caused the growth of innkeeping because it required that churches give up their hostel. Thus, the church lost its role as host and innkeeper and the private inns multiplied (Chon & Sparrowe, 2000).

The 1920s represented an important era in hospitality and tourism history. Hotels were experiencing 80 to 90 percent occupancies, and specialty restaurants opened to serve the consumers demands. During these years, with the development of transportation service including personal automobiles and airline industry, the 2000-room Hotel Pennsylvania opened in New York, 3000-room Stevens Hotel



opened in Chicago, and other large hotels were opened throughout the United States (Brymer, 2002).

The 1990s were a period of time that offered a wide hospitality product range based on a broad spectrum of consumer needs and demands. The structure of the hospitality industry during this time was the result of many years of growth, economic change, and consumer demands. Hospitality industries had evolved from the many small regional chains to multibrand trade names and has extended from cover all hospitality services, such as lodging services, food and beverage services, and other related services. The table 1.3 illustrates the businesses which are covered by the hospitality industry.

**Table 1.3** Hospitality Industry

<b>Lodging Operations</b>	<b>Food Service Operations</b>	<b>Other Operations</b>
All-suite hotels	Commercial cafeterias	Airlines
Casino hotel	Education food service	Campgrounds
Conference centers	Employee food service	City clubs
Full-service hotels	Full-service restaurants	Country clubs
Limited-service hotels	Lodging food service	Cruise ships
Resorts	Quick-service restaurants	National parks
Retirement communities	Recreational food service	
	Social caterers	

**Source:** Cha & Che, 2004

Today, the hospitality industry together with tourism industry became the world's largest industry. The hospitality and tourism industry has contributed an average 10% to World Gross Domestic Products (GDP), more than US\$ 6 trillion in economic activity and 8.7% of total employment worldwide in 2006 (WTTC, 2006). At the turn of the century, the World Tourism Organization (WTO) reported 700 million travelers, double the number just 15 years earlier 1985 and it is estimated that by 2020, the international tourist arrivals will triple to 1.5 billion from 595 million in 1996. They will spend US\$ 5 billion

per day. Moreover, by 2030, the number of hotel rooms in the world will double to around 30 million and that the room stock of hotel chains will increase from 4.5 million to 20 million, while the number of unaffiliated hotel rooms will not grow and quasi hotels will continue to decline (Slattery, 1999). Accordingly, the hospitality and tourism industry will become the world's biggest and largest industry ever seen.

### **1.2.3 The Relation between Travel, Tourism Industry and Hospitality Industry**

By interpreting the nature of the travel & tourism industry, the hospitality industry is one part of several industries that together make up the travel and tourism industry. The National Tourism Policy of United States act of 1981 has defined the travel and tourism industry as an interrelated amalgamation of those business and agencies which totally or in part provide the means of transport, goods, service, and other facilities for travel outside home community for an purpose not related to day-to-day activity where Douglas Fretchling, professor of tourism studies at George Washington University has defined the travel and tourism industry as a collection of organizations and establishments that derive all or a significant portion of their income from providing goods and services purchased on a trip to the traveler (Cha & Che, 2004). The table 1.4 shows list of businesses that make up the travel and tourism industry and it is illustrated that hospitality industry is only part of the travel and tourism industry.

**Table 1.4** The Core of the Travel, Tourism and Hospitality Business

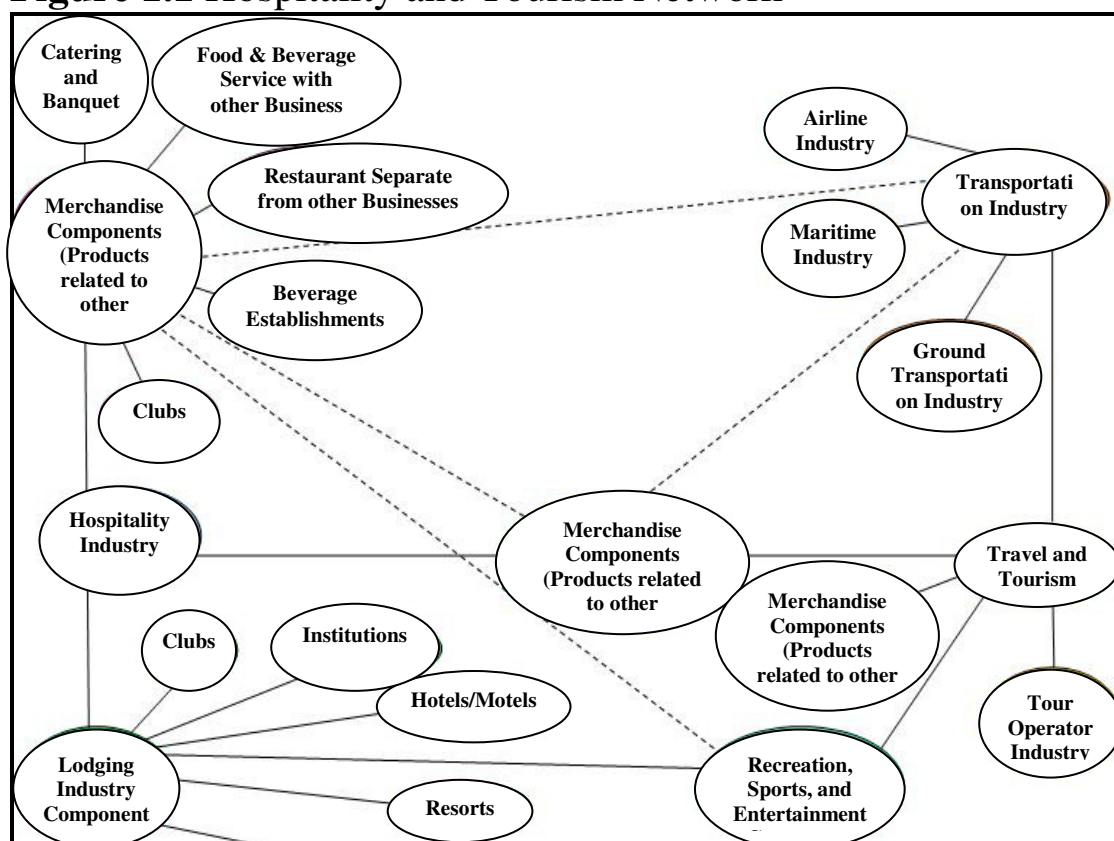
<b><u>Accommodation</u></b> Hotels/Resorts Motels Hostel Caravans Camping	<b><u>Food and Beverage</u></b> Restaurants Fast Food Wine Merchants <b><u>Travel Agencies</u></b> <b><u>Tour Companies</u></b> <b><u>Souvernirs</u></b> Luggage <b><u>Hotel /Restaurant</u></b> <b><u>Suppliers</u></b> <b><u>Taxi Services</u></b> <b><u>Cameras and Film</u></b> <b><u>Maps, Travel Books</u></b> <b><u>Shoping Mall</u></b> <b><u>Service Stations</u></b> <b><u>Sporting Events</u></b> <b><u>Reservation Systems</u></b>	<b><u>Banking Services</u></b> <b><u>Auto Clubs</u></b> <b><u>Entertainment/Arts</u></b> <b><u>Venues</u></b> <b><u>Museums/Historical</u></b> <b><u>Sites</u></b> <b><u>Construction/Real</u></b> <b><u>Estate</u></b> <b><u>Distiller/Brewers/Bot</u></b> <b><u>tles</u></b> <b><u>Auto/Aircraft</u></b> <b><u>Manufacturers</u></b> <b><u>Motor Fuel</u></b> <b><u>Producers</u></b> <b><u>Clothing</u></b> <b><u>Manufacturers</u></b> <b><u>Communication</u></b> <b><u>Networks</u></b> <b><u>Education/Training</u></b> <b><u>Institutes</u></b> <b><u>Recreation/Sport</u></b> <b><u>Equipment</u></b> <b><u>Food Producers</u></b> <b><u>Advertising Media</u></b> <b><u>Cartographers/Printe</u></b> <b><u>rs</u></b>
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**Source:** WTTC, 1998

On the other hand, some associations and industry leader, including the Council on Hotel, Restaurant and Institutional Education (CHRIE) considers hospitality industry and tourism industry as one combined industry, “The hospitality and tourism industry”. The components of this large industry include (1) food and beverage services, (2) Lodging services, (3) recreation services, (4) travel-related (tourism) services, and (5) products provided with personal services in conjunction with the first four components. The relations between these components

as they are separate are called “Hospitality and Tourism Network”. The figure 1.4 shows an overview of the hospitality and tourism network.

**Figure 1.1** Hospitality and Tourism Network



**Source:** Chon & Sparrowe, 2000, p. 7

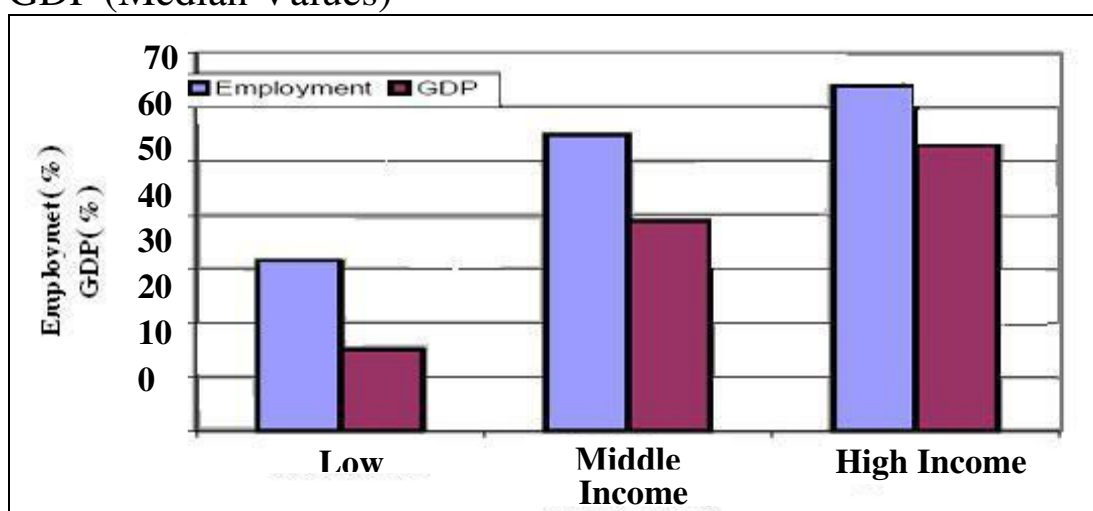
### 1.2.4 Small and Medium-sized Enterprises

Small and medium sized enterprises (SMEs) are considered the backbone of economies and the driver of economic growth (Faustino, 2005). The winds of globalization have pushed SMEs to grapple with the changing needs of their customers. In the present era of globalization, SMEs should possess the ability to produce an acceptable product and service to capture upcoming business opportunities.

It is obvious in the literature that researchers have emphasized on the contribution of SMEs to the growth of both developed and developing economies on the ability of SMEs in generating employment with minimum cost, pioneering innovation realm, and having the high flexibility that allows them to meet changes in customer needs.

SMEs typically account for more than 95% of all firms outside the primary agriculture sector, play a major source of employment, generate significant domestic and export earnings in transition and developing countries. It creates roughly 50% of total value added worldwide and generates between 60% and 90% of all new jobs (OECD, 1997; United Nations, 1993). Recent empirical studies show that SMEs contribute to over 55% of GDP and over 65% of total employment in high-income countries, as it is shown in Figure 1.2, and contribute 40% of GDP and over 55% of total employment in middle-income countries and contribute over 15% of GDP and over 30% of total employment in low-income countries (Ayyagari & Demirguc, 2003).

**Figure 1.2** SMEs Sector's Contribution to Employment and GDP (Median Values)



Source: Ayyagari & Demirguc, 2003

In the East Asia region, the SMEs generally contribute around 30-60% of GDP, with wages from SMEs typically account for over half of the GDP. In China, Japan, Taiwan, Thailand and Vietnam, they play a major role and account for over 70% of total employment (Sinha, 2003). In South Asian countries, like Bhutan, 85% of total establishments are considered mini industry and 45% of Government revenue is from SMEs. In India, small-scale industry (SSI) accounts for 95% of all industrial units, 40% of industrial outputs and 35% of national exports and it is expected that SSI sector will grow by 12% and creates 4.5 million jobs. In Nepal, evidence indicates that more than 80% of the national value addition in the manufacturing sector comes from SMEs and these SMEs employ 98% of the non-agricultural labour force and attract around 40% of all industrial investment. In Pakistan, only 20% of investment is made in SMEs, the sector has generated around 70% of total employment, contributing more than 30% to GDP and absorbing more than 80% of non-farm employment (Sinha, 2003). In Afghanistan, 85% of total new investments registered with AISA in 2006 were accounted for less than US\$ 1 million (Giustozzi, 2006).

### **1.2.5 The Concept of HSMEs**

A treasure of literature exists on issues concern SMEs definition. The term SMEs appears to have been defined variously by different parties according to their understanding of SMEs as every country, every union and associations, every author and scholar have given various definitions for SMEs.

The authors Sarkar, Freeman and Faridahwati 1990; Khairuddin, 2000; Hibbert, 2000 claimed in their researches that there has not been universally accepted definition of what SMEs are and a wide range definition is used based on operational nature and purpose of SMEs. However, the International Labor Organization (ILO) survey of 77 countries shows that 74

countries use quantitative classification criteria such as the number of employees or value of fixed assets while the remain three countries use only qualitative criteria such as the nature of ownership or relative size compared to other players in the industry (Maurice, 2003).

There are three parameters which are generally applied by most countries and unions, singly or in combination term (Hibbert, 2000; Maurice, 2003):

1. Capital investment on plant and machinery: the value of fixed assets is used as a classification criterion in many countries. However, it is not easy to use because enterprises do not generally have a precise estimate of their fixed assets and the value may vary from time to time or the owner of SMEs may not wish to provide this type of information and it also depends on the level of country and sector development (Hibbert E, 2000; Maurice, 2003).

2. Number of workers employed: the number of employees or workers is used as a classification criterion. The number of workers is often used for classification, but sometimes, it may mislead when the numbers of workers in an enterprise are 20, the value of fixed assets is not more than few hundred dollars and the annual turnover is few thousand dollars, it may be classified as “small”, and it may exhibit all characteristics of a micro enterprises (UN-ESCAP, 2005).

3. Volume of production or turnover of business: the turnover per enterprise can also be used as a classification criterion. This classification is usually applied separately for enterprises in the manufacturing sector and enterprises in the trade and services sectors (UN-ESCAP, 2005).

The countries like Albania, Azerbaijan, Bulgaria, Ukraine, Hungary, Uzbekistan, Belarus, and other countries used the number of employees as a criterion to define SMEs while countries like Malaysia, Latvia and European Union used sales turnover or balance sheet total and number of employees as criterion to define SMEs (Moazzem, 2006).

The EU commission in its recommendation of May 6, 2003 that has been applied since January 1, 2005 has defined the SMEs initially as an independent juridical form exercises an economic activity. Secondly, it has divided SMEs into three types of forms: micro enterprise which has less than 10 employees, with a turnover or balance sheet total less than 2 million, small firm which has less than 50 employees, with a turnover or balance sheet total less than 10 million and medium sized enterprise which has less than 250 employees, with a turnover or balance sheet total less than 50 million or balance sheet total below 43. On the other hand, the World Bank, Department of SMEs has defined SMEs somehow differently: micro enterprise which has less than 10 employees with total assets of up to US\$ 10,000 and total annual sales of up to US\$ 100,000, small enterprise which has 10 to 50 employees with total assets and total annual sales of up to US\$3 million and medium enterprise which has 50 to 300 employees with total assets and total annual sales of up to US\$ 15 million (Sinha, 2003). Moreover, the Office of Small and Medium Enterprises Promotion (OSMEP) of Thailand has defined small and medium enterprises by the number of employees as follow: small enterprise which has less than 50 employees with assets value of 50 million baths and medium size between which has 50 to 200 employees with assets value of 200 million baths (UNDP, 2004).

Importantly, the Bangladesh Industrial Policy 2005 has defined SMEs separately for manufacturing and non-manufacturing unites in terms of their employment and assets size (Moazzem, 2006). Manufacturing small enterprises defined as those which have fixed assets bellow Bangladesh Taka (TK) 15 million (US\$ 254,000), non-manufacturing small enterprises defined as those, which have employed less than 25 employees, manufacturing medium enterprises defined as those which have fixed assets between TK. 15 million and TK. 100 million (US\$



0.25-1.69 million) and non-manufacturing medium enterprises defined as those, which have employed 25 to 100 employees.

The SMEs in Tourism are defined by several authors, Buhalis and Main (1998) defined the medium-sized hospitality organizations (HSMEs) are the ones which offer less than 50 rooms, employ fewer than 10 people whereas Hallberg (2002) defined the SMEs according to the employment size and defined the small hospitality companies in both developed countries and developing countries as those which have 5-10 employees. He defined the medium sized hospitality companies in developed country as those, which have 50-100 employees, and in the developing countries as those, which have employed between 100-250 employees.

In continues, definitions of SMEs which are adopted by different countries, unions, and associations are inserted in the following table 1.5. Notably, the amounts of fixed assets and total turnover for SMEs have been converted in to US\$ at the exchange rate dated to July 15, 2008.

**Table 1.5 SMEs Definitions**

<b>No.</b>	<b>Unions/ Countries/Authors</b>	<b>Type of SMEs</b>	<b>No. Employees</b>	<b>Fixed Assets</b>	<b>Total Turnover/ Total Balance Sheet</b>	<b>Measurement</b>
1	EU commission <sup>1</sup>	Micro	Less than 10		< US\$ 3.19 M	Employment & Total Balance Sheet
		Small	Less than 50		< US\$ 15.94 M	
		Medium	Less than 250		< US\$ 79.74 M	
2	The World Bank <sup>2</sup>	Micro	Less than 10	US\$ 10 Th		Employment & Assets
		Small	Less than 50	US\$ 3 M		
		Medium	Less than 200	US\$ 15 M		
3	Australia <sup>3</sup>	Services	Less than 20			Employment
		Manufacturing	Less than 100			
4	Brunei <sup>3</sup>	Services or Manufacturing	Less than 100			Employment
5	Canada <sup>3</sup>	Services	Less than 50			Employment
		Manufacturing	Less than 100			
6	Chile <sup>3</sup>	Small			< US\$ 75,000- US\$ 780,000	Balance Sheet
7	China <sup>4</sup>	Small	50-100			Employment
8	United Kingdom <sup>3</sup>	Small	Less than 50	US\$ 11.14	US\$ 2.57 M	Employment

		Medium	50 - 250	M US\$ 45.35 M	US\$ 22.68 M	
9	Indonesia <sup>3</sup>	Small	Less than 100		< US\$ 100,000	Employment
10	Japan <sup>4</sup>	Services	Less than 100	< US\$ 471 Th		Employment & Assets
		Manufacturing	Less than 300	< US\$ 2.83 M		
		Wholesale	Less than 100	< US\$ 471 Th		
		Retail	Less than 50			

**Table 1.5 (Continued)**

No.	Unions/ Countries/Authors	Type of SMEs	No. Employees	Fixed Assets	Total Turnover/ Total Balance Sheet	Measurement
11	Korea <sup>4</sup>	Small and Medium				Employment, Assets and SR
		Services	Less than 20	< US\$ 8 M		
		Manufacturing Wholesales	Less than 300 Less than 100		< US\$ 10 M	
12	Malaysia <sup>4</sup>	Services	Less than 50 Less than	< US\$ 1.54 M		Shareholders' fund and Employment
		Manufacturing	150	< US\$ 7.74 M		
13	Mexico	Micro	15-Jan			Employment
		Small	16 - 100			
14	New Zealand	Small and medium	Less than 50			Employment
15	Philippines <sup>4</sup>	SME	Less than 200	< US\$ 1.31 M		Employment & Assets
16	Bulgaria <sup>3</sup>	Small	< 50	< US\$ 16.25 M		Employment
17	Singapore <sup>4</sup>	Services	Less than 200			Employment & Asset
		Manufacturing		< US\$ 11 M		
18	Chinese Taipei <sup>4</sup>	Services	Less than 50			Employment

		Manufacturing	Less than 200			
19	United States <sup>3</sup>	Non-manufacturing Manufacturing	Less than 500			Sheet
20	Vietnam <sup>4</sup>	Small	Less than 30			Employment

**Table 1.5 (Continued)**

No.	Unions/ Countries/Authors	Type of SMEs	No. Employees	Fixed Assets	Total Turnover / Total Balance Sheet	Measurement
21	Thailand <sup>4</sup>	Services/Manufacturing	Less than 200	< US\$ 5.94 M		Employment & Assets
		Wholesales	Less than 50	< US\$ 2.97 M		
		Retail	Less than 30	< US\$ 1.78 M		
22	Bangladesh <sup>4</sup>	Manufacture small		< US\$ 218 Th		Employment & Asset
		Manufacturing medium		US\$ 218 Th -1.45 M		
		Non-manuf small	Less than 25			
		Non-manuf medium	25 - 250			

23	India <sup>4</sup>	Small Scale Industries		< US\$ 233 Th		
24	Nepal <sup>4</sup>	Manufacturing small		> US\$ 433 Th		
		Manufacturing medium		US\$ 1.44 M		
25	Sri Lanka <sup>5</sup>	Small Medium		US\$ 190 Th US\$ 473 Th		

**Remarks:** <sup>1</sup> EU commission (2003), <sup>2</sup> Sinha (2003), <sup>3</sup> Hor (2003), <sup>4</sup> UNDP (2004), and <sup>5</sup> Fernando (2004)

### **1.2.6 Small and Medium-sized Enterprises in Hospitality Industry**

Small and medium sized enterprises in service sector, which include hospitality industry accounted for 80% of total SMEs jobs in 1990 and increased to 82% in 1999 (Sinha, 2003). Peters (2004) quoted in Hubertus (2000) that in 1996, over 6.5 million people in the European Union were employed in approximately 1.4 million enterprises in the tourism industry, which corresponds 7.7% of all enterprises and 5.8% of the total number of employees in the European Union. Although the number of tourism enterprises diminished over last four years in Europe, the SMEs still dominate the hospitality industry. Accordingly, 94.4% of the hospitality industry is classified as small businesses that employ nine or less employees. SMEs are still more prevalent in the hospitality industry as compared to other industries as in Europe; HSMEs employ 83% of all hospitality workers (Peters, 2004).

In UK, according to the statistics of the Small Business Service for 2001 (Thomson, 2001), out of the entire business population of 3.7 million enterprises, small businesses accounted for over 99% of businesses, 43% of non-government employment and 31% of turnover. The figures quoted for the British hotel and restaurant sector alone indicated that there were over 123,000 businesses, 98.3% of which had fewer than 50 employees. These businesses accounted for 43.4% of employment out of a total of 1,560 million and 47% of turnover out of a total of approaching £50 million.

In Afghanistan, SMEs account for 95% of total service industry, which comprises of three main industries, Hospitality industry, Public administration, and other services. The Hospitality industry, which includes hotel and restaurants as it is shown in the below table 1.6 indicates that it has contributed around 12.4% to total GDP in 1978 and around 13.6% in 1991.

**Table 1.6** The Contribution of Service Sector Components to Total GDP (%)

Source	WDI <sup>1</sup>		UN <sup>2</sup>		ADB <sup>3</sup>		
Component	1965	1978	1978	1990	1991	2001	2002
Trade, hotel/rest.	8.7	12.4	8.0	9.1	13.6	4.6	4.7
Public admin	2.2	8.6	4.3	4.2	5.3	5.1	9
Other Services	19.1	25.2	1.5	1.8	1.6	1.5	23.9
<b>Total Service Sector</b>	30.0	46.2	13.8	15.1	20.5	11.2	23.9

Sources: <sup>1</sup> WDB, 2007; <sup>2</sup> UNA (2003); <sup>3</sup> ADB (2003)

Furthermore, hospitality industry contributed around 26.8% to total service sector in 1978 and 66.3% in 1991. As a result of new hospitality establishment (guesthouses and wedding halls) introduction to the service sector, the contribution of service sectors to GDP has increased to 39.4% in 2005.

The hospitality industry is represented in every country in the world and is diverse and complex. SMEs in hospitality industry can simply be defined as those businesses, which employed less than 100 workers and serve guests away from home. Serving guests means provision of accommodation, food, drink, and leisure activities for guests (Jones & Heave-Tang, 2005). However, there are plenty of definitions for SMEs, in this study; the researcher will adopt Bangladesh SMEs definition for non-manufacturing units, which defines non-manufacturing SMEs as those enterprises that employed less than 100 workers (Moazzem, 2006).

HSMEs in general include those businesses that provide accommodation or food or beverage or mixture of these three services for customers. Page, Forer & Lawton (1999) in a survey of small business in tourism in Auckland, New Zealand have classified the small businesses in tourism according to tourism industry structure as follows: for the hospitality businesses, they were subdivided into hotel, motel, backpacker hostel and farmstay, restaurant, cafe and lunchbar, coffee shop,



visitor attraction, transport operator and rental car agency. For small tourism businesses, they were split into souvenir/gift shop, adventure tourism operator, museum, travel agent, tour operator, and other services. In UK, Beaver & Lashley (1999) in a study of small hospitality firms, have covered different hospitality businesses such as hotels, bed and breakfast establishments, restaurants, cafes, pubs, bars, (freehold, tenanted, and managed) public houses and clubs while Wanhill (2000) in a study of small and medium tourism enterprises in Denmark, has reviewed businesses related to service, accommodation, self-catering, caravan, camping, restaurants, activity attractions enterprises, and general attractions enterprises. A few years later, Tøge & Getz (2004) in their joint survey of family business in tourism and hospitality industry in Bornholm, Denmark and Alberta, Canada, have studied the following businesses as tourism and hospitality SMEs: hotels, pensions, holiday centers, hostels, campgrounds, summer house rentals, restaurants, cafes, attractions, recreation, arts, crafts, retail, transport, and other services. Jones & Heave-Tang (2005) have mentioned in their study that the tourism industry comprises of mix small and large businesses and a large number of them are often family-run SMEs and micobusinesses. Most of these business are engaged in industries like hotels, restaruants, pubs, bars and nightclubs, contract food service providers, membership clubs, events, gambling, travel services, tourist services, visitor attractions, youth hostels, holiday parks, self-catering accommodation, and hospitality services. The following table 1.7 illustrates that HSMEs are comprise of accommodation, food and beverage, transportation, attraction and leisure activities.

**Table 1.7** SMEs Involvement in Hospitality Industry

<b>Accommodation</b>	<b>Food and Beverage</b>	<b>Transportation</b>	<b>Attractions &amp; Leisure-Activities</b>
Hotels Motels Guesthouses Hostels Pensions centers Self-catering accommodation Holiday centers Caravans Campgrounds Bed and Breakfast establishments Farmstays Freehold, tenanted, and managed-public houses Summer house rentals	Restaurants Fast Foods Lunchbars Clubs Pubs Bars Wine Merchants Cafes Wedding Halls Contract food-service-providers	Car Rentals Bus Coaches Tour boats Motor bicke-rentals	Health clubs Spas Arts Crafts Gambling Holiday parks

**Source:** Combination of above-mentioned literature

In Afghanistan, HSMEs comprise of the following hospitality businesses: hotels, guesthouses, hostels, campgrounds, bed and breakfast establishments, tenanted public houses, summer house rentals, restaurants, fast food, coffee shops, wedding halls, contract food service providers, car rentals, holiday parks. However, there are many types of hospitality businesses in Afghanistan, the hotels, guesthouses, restaurants, wedding halls and coffeeshops are the main dominants whereas the rest other hospitality businesses are very few in numbr that could hardly have impact on the hospitality industry.

### 1.2.7 The Importance of SMEs

The only way to reduce poverty in a sustainable way is to promote economic growth through wealth and employment creation (UNIDO, 2003) and the sustainable growth for the economy will be through development of SMEs. In developing countries, SMEs are the major source of income and provider of employment and are considered as backbone of economies, especially in transitional and developing countries (Faustino, 2005).

The importance of SMEs is emerged from its portion in the national economies of countries and its contribution to employment of labor force and gross domestic product GDP. There are about 40 million SMEs in 130 countries employed 65% of the total labor force (IFC, 2006) and on the average, SMEs comprise over 95% of economies, particularly in Asia-Pacific countries. Accordingly, the importance of SMEs to the national economies to Asia-Pacific countries can be observed from table 1.8.

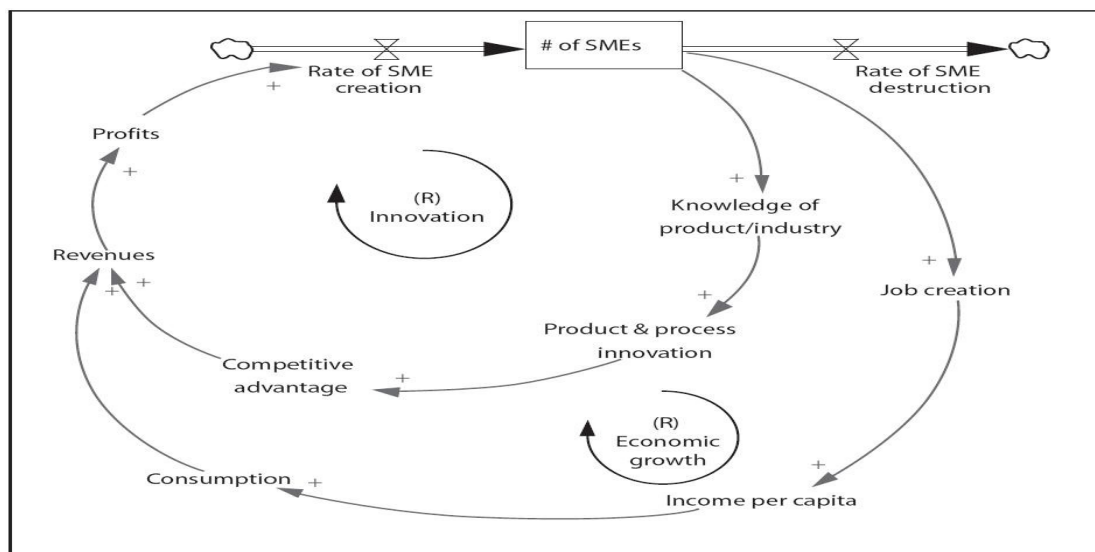
**Table 1.8** SMEs Employment in the Asia-Pacific Countries

No.	Country SMEs as % of all enterprises	SME employees as % of the total	SMEs employed population
1	Japan	98.9	69.2
2	Malaysia	96.1	45 (manufacturing)
3	Philippines	99.6	70
4	Republic of Korea	99.8	86.7
5	Singapore	99.7	57
6	Taiwan	97.7	68.8
7	Thailand	99.7	60

**Source:** WPSMET, 2006

Furthermore, SMEs are considered the driver of economic growth and innovation (Kotelnikov, 2007). The Figure 1.3 shows the reinforcing dynamics of the SMEs. The rate of SMEs creation depends on profitable market opportunities and as the total number of SMEs increase in community, it will increase new job creation and income per capita. When the income per capita increases, it will make people wealthier and they will increase in consumption that in turn will open up new market opportunities that will entice the creation of more SMEs (Kotelnikov, 2007), which leads to economic growth.

**Figure 1.3** SMEs are Driver of Economy Growth and Innovation



**Source:** Kotelnikov, 2007

Tourism and hospitality SMEs employed around 80 percent of SMEs jobs in 1990 and it increased to 82% in 1996 (Sinha, 2003) where in the European Union in 1996, over 6.5 million people were employed in approximately 1.4 million enterprises in the tourism industry, which corresponds 7.7% of all enterprises and 5.8% of the total number of employees in the European Union. Peters as quoted in Hubertus (2000), has

outlined the importance of SMEs in general and tourism and hospitality industry in particular as follows:

- Small business can be considered as an industry's bloodline in terms of innovation and growth providing a continued stream of new ideas, concepts and resources,
- Small business is the social and economic laboratory where entrepreneurs can be best trained and new ideas and concepts be tested,
- Because of their organizational make up (flat hierarchies) small firms are more sensitive and responsive to market changes than large firms, and hence can represent an industry's required instrument of change,
- Through self employment in the form of small business formation socially wasteful unemployment can be reduced particularly for some of the groups which are difficult to integrate otherwise into gainful dependent work (unemployed youth with little formal schooling, unemployed managers in mid career, unemployed woman re-entering the work force after child birth and child rearing),
- Owner-managers are completely dependent on the success of their small business operations in order to survive, thus possessing superior incentives towards working "hard" and "smart".

For the tourism industry, particularly the branches of food and accommodation, a number of additional reasons are often provided as regards the superiority of small business and entrepreneurship:

- Because of small size, owner managers have the ability to develop special and personal relationships with customers/tourists which

constitute one of the most important service quality elements in tourism;

- Ability of the owner manager to use local networks of contacts and information to produce and distribute integrated services/products sought by customers; e.g. the combination of health or sports services with food and accommodation or the integration of local agricultural products and/or culture with food and accommodation;
- Unimportance of economies of scale and scope in fragmented markets, e.g. it is estimated that accommodation economies are already exhausted at a capacity of approximately 120 beds;
- Traditionally, low entry barriers in terms of technology, capital or specialized know-how, thus providing an ideal starting or testing ground for self employment and entrepreneurship comparable only to the branch of retailing (Aram & Cowen, 1990).

### **1.2.8 The Importance of Developing HSMEs**

Dahles (1998), Wanhill (2000) and Rogerson (2004) have argued the importance of developing HSMEs as in today's developing world the importance of developing HSMEs can emerge from the needs of achieving the increased economic objectives, earning of foreign exchange, local and foreign investments, job opportunities and minimization of adverse social and cultural effects. Moreover, the importance of HSMEs development is acknowledged that "new tourism" is associated with small-scale tourism and of high levels of HSMEs participation (Hapton, 2004). New tourism is characterized of in direct contrast to mass tourism (Brohman, 1996) and stylised as small scale, locally owned with low import leakages and with a higher proportion of profits remaining in the local economy

(Ranck, 1987). Although, the importance of developing HSMEs is recongnized for economic development across the world, a limited studies have been pursued directly on hospitality entrepreneurship and enterpise development (Gartner, 1999; Rogerson, 2001).

### **1.2.9 SMEs Business Functions**

There are a limit numbers of studies, which have discussed overall business function of SMEs. Most of researches have focused on a particular SMEs business function and the researcher reviewed these studies as follows:

#### **1.2.9.1 Strategic Planning**

It is observed from the literature that SMEs do in fact plan, and mostly even in a formal way and use rather large time spans. The planning process in SMEs is categorized into formal (written) plan and informal (unwritten) plan. In the study which was carry out by Lyles et al., 1993, the smaller enterprises were assigned to the groups of formal and informal planners where French & Harrison (2004) have categorized the SMEs into non-planners with no strategic plan, informal planners with a strategic plan that is not written down, formal planners with a written strategic plan, but lacking one or more of the elements defining a sophisticated planner and sophisticated planners with a written strategic plan that is used to develop operational business plans and drive day-to-day operations.

Furthermore, in a study by Naffziger and Kuratko (1991), 83% of the small enterprises managers claimed that they plan in a formal way where in another study by French & Harrison (2004), 70% of the small enterprises managers reported using time spans of one to three years, and 92% claimed to even plan strategically, i.e. for more than three years. French & Harrison (2004) observed that formalized planning increases the firms' performance and even those SMEs which were informal planner had significantly higher growth than non-planners. In contrast, the studies which were undertaken by Robinson & Pearce (1984) and Lyles, Baird, Orris and Kuratko (1993) identified that there are no significant differences between firms with or without formal planning procedure in respect to improved performance and returns. Shrader, Mulford and Blackburn(1998) reviewed more than 60 studies and concluded that no clear relationship was obvious between formal planning and business performance, because the planning in small enterprises is rarely to be supported by planning instruments, since most of small enterprises are planning intuitively, and did not use planning instruments (Stonehouse & Pemberton, 2002).

On the other hand, the calls for improved and more extensive planning in the small firm sector are frequently cited in the literature. For example, Osbourne (1995) argued that the entrepreneur must first identify an opportunity and then create a marketing and financial plan to capitalize on the area. Control over the requisite resources must then be gained and an appropriate structure established. Osbourne (1995) also maintained that only about one-third of start-up entrepreneurs create comprehensive marketing and financial plans, those who do so increase the probability of venture success. Herter (1995) agreed that every business, regardless of size, needs an effective, comprehensive business plan because the process of developing the plan forces the entrepreneur to think about the harsh



“reality” of the business world, rather than the more common dream world. He believed that this is a necessary first step toward success and that it should have a well-defined format and parts.

Clayton (1996) took the requirement for strategic business planning in the small business sector even further with his belief that the lack of a strategic business plan in small businesses leads to outdated management practices. For example, SMEs that engage in strategic planning (compared to those that do not) are more likely to be those that achieve higher sales growth, higher returns on assets, higher margins on profit and higher employee growth (Berman, Gordon, and Sussman, 1997; Carland & Carland 2003; Gibson & Casser 2005). Strategic planning consists of planning processes that are undertaken in firms to develop strategies that might contribute to performance (Tapinos, Dyson, & Meadows, 2005). Key aspects of strategic planning are a long time horizon, formality, the use of planning instruments, and frequent control of plans. Strategic planning can contribute to performance by generating relevant information, by creating a better understanding of the important environment, and by reducing uncertainty (Hodgetts and Kuratko, 2001).

### **1.2.9.2 Human Resources Management**

There is a range of studies indicating that the human resource management (HRM) practices in SMEs is characterized for informality (Heneman, Tansky & Camp, 2000; Cassell, Nadin, Gray & Clegg, 2002; Cardon and Stevens, 2004; Nguyen and Bryant, 2004; Kotey and Slade, 2005), although some suggest that there is a greater sophistication in HRM practices than would be expected (de Kok and Uhlaner, 2001; Duberley and Walley, 1995). The development of the firm’s HRM and its policies is critical to long-term success of the small firm. Empirical studies of small firms also suggest a positive

relationship may exist between effective HRM and successful business performance (Rocha and Khan, 1985). Rowden (1995) examined three successful manufacturers with fewer than 200 employees and found use of both formal and informal HRM practices had a direct influence on the overall success of the firms. In a survey of 247 firms with less than 150 employees by Hornsby and Kuratko (1990), it was found that size of the payroll had an impact on the level of HRM and its policy sophistication used in the firm. Firms that do not develop suitable HRM policy systematically as they grow can find themselves facing higher than average personnel-related problems (Amba-Rao and Pendse, 1985). Kotey and Slade (2005) study of 1,330 micro, small- and medium-sized firms also found that there was increasing standardization and documentation of HRM practices as the firm grew. Similar results were found by Nguyen and Bryant's (2004) in their study of HRM formality in Vietnamese small firms. While it is not possible to determine causality in these studies, the evidence does point to a positive relationship between formalized HRM and firm performance when it is measured as higher perceived productivity, and lower workforce and voluntary turnover (Way, 2002), profit growth (Nguyen and Bryant, 2004) or sales (Barrett and Mayson, 2007).

The lack of formalized HRM practices in small firms can be explained in a number of ways other than that proposed by Taylor (2006). Small firms can suffer from "resource poverty" (Welsh and White, 1981) or a "liability of smallness" (Heneman and Berkely, 1999) and this presents unique issues around the practice of HRM which can be manifest in a number of ways: as a lack of resources and stability (Ranger-Moore, 1997), or in terms of their organizational attractiveness (Cardon and Tarique, 2008) or legitimacy as employers (Williamson, 2000; Williamson and Robinson, 2008) to potential employees. It also means that formalized HRM practices are relatively more costly and time consuming to implement in small firms than in

larger firms (McEvoy, 1984; Reid, Morrow, Kelly & McCartan, 2002), especially as they are unlikely to have the managerial resources and expertise in the area of HRM (Chandler and McEvoy, 2000; Hornsby and Kuratko, 2003; Klaas, McClendon, & Gainey, 2000).

Moreover, as small firms grow, managers may leave their informal staffing contacts (i.e. family members, referrals and “walk ins”) and more formal methods may be needed to recruit employees needed to sustain growth (Arthur, 1995). Despite this, the practices used to recruit, select, manage and appraise employees’ performance in SMEs are not written down (i.e. a list of skills and qualifications for each job), regularly applied (i.e., yearly performance reviews) or guaranteed they take place (i.e., employer sponsored training). Written, regular and guaranteed are the three criteria de Kok and Uhlaner (2001) use to define whether a practice is formal or not. An informal recruitment practice might therefore be the use of “word-of-mouth” advertising, while using family membership or friendship as the overriding criteria for selecting a new employee would be an example of an informal selection practice. Studies of small business recruitment for Atkinson and Meager, 1994; Carroll, Marchington, Earnshaw & Taylor, 1999 pointed to a reliance on these informal practices, particularly word-of-mouth. This increases as size decreases, to the point where recruitment in the smallest businesses can be conditional on the availability of a known individual (Atkinson and Meager, 1994).

In a study of 84 small businesses with an average of 75 employees, McEvoy's (1984) noticed that while employers identified finding competent workers a major problem, their recruitment practices were "unimaginative" (newspaper ads, and walk-ins) and their selection techniques were confined to application blanks and face to face interviews. Meanwhile, the indirect discrimination in selection processes could also occur where those people who were most liked by the employer or interviewer is selected rather than those people who are the best for the job. Practices that are convenient, inexpensive and directly controllable by the firm are frequently used in small firms. As Taylor (2006) argues that recruitment and selection are activities that enable small firm owners to express their temperaments and dreams in ways that may not fit with a managerial approach to HRM and this is why informality in small firm HRM can be seen as problematic. Heneman and Berkely (1999) in their study found that firms used attraction practices that were convenient, inexpensive and directly controllable by the firm, while others found that there is frequently a reliance on word of mouth and other informal recruitment processes in small firms (Gilbert and Jones, 2000; Kotey and Sheridan, 2001; Marchington, Carroll & Boxall , 2003). Marlow and Patton (1993) suggest small firm employers believe these to be effective means of ensuring new recruits "fit in". Others found that selection procedures such as face-to-face interviews, reference checks, job try outs and application blanks were chosen for ease of use and convenience (Gilbert and Jones, 2000; Kotey and Sheridan, 2001).

On the other hand, the SMEs in order to attract, motivate and retain employees, offer competitive salaries to their employees and refer their firm's performance and growth to appropriate rewarding. However, SMEs tend to opt for informal practices. In contrast, McEvoy (1984) found that only 29% of his sample used salary surveys to set compensation levels and 33% used job evaluation as a basis of determining compensation. He also found that recognition and reinforcement, pay rises or job security were commonly used reward systems.

Performance appraisal practices in small firms tend to be informal (Cassell et al., 2002) and continuous and often used for monitoring and control rather than development purposes (Gilbert and Jones, 2000). However, McEvoy (1984) found that performance review meetings in his sample served the dual purpose of providing feedback for developmental purposes as well as a forum for discussing compensation matters which is used for evaluation or monitoring of performance.

Some of SMEs even use strategic HRM as the main tool for competitiveness of the enterprise as the strategic HRM provides enterprises with the internal capacity to adapt and adjust to their competitive environments by aligning HRM policies and practices, e.g. recruitment and selection, training and development and reward systems with business strategies (Wright and Snell, 1998; Wright, Dunford & Snell, 2001). The resource-based view of the enterprise suggests that human resources can be a source of competitive advantage (Barney, 1991). Researchers argue that a firm's ability to develop distinct and unique "bundles" of inter-linked HRM practices aligned with business strategy are a source of sustainable competitive advantage (Boxall, 1996; Huselid, Jackson & Schuler, 1997). While the informal and ad hoc nature of planning in small firms in terms of business strategies and HRM contributes to the difficulty of developing a strategic approach to HRM (Gibb and Scott, 1985; Hannon and Atherton, 1998). On the other hand, a

number of researchers argue that a strategic approach to managing employees is vital for the success of all enterprises (Dyer, 1993), including small and medium ones (Hornsby and Kuratko, 2003; Rutherford, Buller & McMullan, 2003).

Although training is identified as an important HRM task for many small firms, researches showed that formal trainings are less likely to be provided in these firms (Storey, 2004; Westhead, 1997) and Storey (2004) provide two explanations for this: first the “ignorance” explanation where training is not provided because the benefit of training is underestimated by the small firm employer/manager; and second, the “market” explanation where the cost of training is too high for small firms (Storey, 2004; Storey and Westhead, 1997). In studies of Kotey and Sheridan (2001) and Gilbert and Jones (2000), it was found that induction training was implemented on an informal basis and internal and external training was not linked to employee performance appraisals (Marlow, 2000).

The formalization of HRM becomes desirable as firms grow, the ability for this to occur in small firms depends on the recognition of the owner/manager of the need for delegation and then the possibility of delegating that task. Furthermore, the formalization of HRM is also dependent on the awareness of legislation and legal requirements on HRM and employment matters (i.e., unfair dismissal, occupational health and safety, etc.) and recognition of the impact on their business should they not comply. The implementation of formal HRM practices is an important contributor to small business success but as Heneman and Berkley (1999) and Klaas et al. (2000) indicate the “liability of smallness” presents unique challenges for HRM in small firms.

### **1.2.9.3 Marketing Management**

It is generally accepted that the basic principles of marketing are universally applicable to large and small businesses (Siu and Kirby, 1998). Marketing practice in SMEs is thought to be largely done through networking (Gilmore, Carson & Grant, 2001) or through the combination of transactions, relationships, interactions and networks marketing (Gilmore, Carson & Grant, 1997). Previous studies on small business and their activities has been largely limited to the explanations of specific types of behavior observed in small business (Smith and Whittaker, 1998; Huang and Brown, 1999) or on the investigation of the factors that are missing or represent the barriers in smaller businesses, accounting for their apparent inability to apply or use marketing ideas and concepts that were often developed for larger business (Freel, 2000).

Marketing in practice in small firms seems to rely on personal contact networks (Hill and Wright, 2001; Gilmore et al, 2001) and is often driven by the particular way an owner-manager does business. According to Gilmore (2001), marketing in SMEs is likely to be haphazard, informal, loose, unstructured, spontaneous, reactive and conform to industry norms. Gilmore (2001) found that as a result of networking there was much more communication between the SME owner-manager and his/her competitors than is usually reported in the literature and that competing firms may be quite supportive of each other. Similarly, networking with customers usually involved building a relationship with one or two key individuals in those companies. SMEs owner-managers recognized that building relationships were vital to a company's success and they invested considerable time and effort in maintaining good relations with regular clients. The creation and existence of effective networking was concerned with maximizing marketing opportunities and ensuring the enterprise's survival and

development. Thus, although marketing is an important business function, its role within the organization and its relevance with regard to the business environment in which the company operates has a complex relationship (Moller and Anttila, 1987). In fact, it is so complex that many other strategies and orientations seem to be equally successful in SMEs (Huang and Brown, 1999)

It is questionable whether small businesses need to practice marketing at all to survive and grow. However, the study by Hogarth-Scott, Watson & Wilson (1996) concluded that small business owner-managers were often generalists, not marketing specialists and complex marketing theories may not be appropriate for small businesses and probably would not aid in the understanding of their markets. Nevertheless, marketing was practiced to some degree by small businesses. In most cases competitive advantage was based on quality and service, while those competing on price were in the highly competitive markets with little or no product differentiation and low entry barriers (Campbell- Hunt, 2000). Product differentiation was a source of competitive advantage in some businesses while others were looking for niche markets (Hogarth-Scott et al, 1996). Thus, it is appear from the studies that marketing did contribute positively to small business success and the ability to think strategically.

However in recent years the use of Internet marketing (Chaffey, Mayer, Johnston & Ellis-Chadwick, 2000) or e-commerce (Rayport and Jaworski, 2001) has become popular in all types of businesses including SMEs but there is considerable evidence in the literature that SMEs are weak in the use of Internet methods of marketing (Sparkes and Thomas, 2001) and low knowledge about marketing in small business remains and a small business marketing theory specifically related to the understanding and knowledge of strategic marketing is needed (Siu and Kirby, 1998).



Denison and McDonald (1995) point out that the studies have consistently shown that firms which were marketing orientated, or competent practitioners of marketing, performed better in terms of return on investment and market share. Siu (2000) noticed that higher performing Chinese small firms in Hong Kong gave a higher priority to marketing, particularly strategic marketing planning, than other business functions in their overall approach to business but many still remained sales or production orientated. Rue and Ibrahim (1998) identified that those SMEs with greater planning sophistication showed greater growth in sales as reported by executives and they suggested that small businesses with a sophisticated planning process may reap the benefits of these efforts in the long term. While Perry (2001) suggested that SMEs using sophisticated planning activities (including written business plans) may enhance their chances of survival and success. On the other hand, some SMEs have a clear idea of what they are doing about marketing and strategy but many do not know what they are doing. The main inhibitor of marketing effectiveness in UK businesses in the late 1980s and 1990s was poor implementation of basic marketing and suggested an explanatory framework for a new marketing orientation.

According to extensive literature review, marketing in small businesses can be categorized as: marketing as a culture; marketing as a strategy; and marketing as tactics. While Siu and Kirby (1998) identified four approaches to marketing in small firms: the Stages/Growth model; the Management Style approach; the Management Function model and the Contingency approach. The stages/growth model suggests that any model of small firm marketing must take into account the stage of development of the business and the management style approach acknowledges the limitations and constraints of the small firm (resources and capabilities) and provides a useful explanation for the poor development of marketing in small firms. The management function approach acknowledges that

marketing is both an important business function and an essential concept in small firm growth and survival while the management function approach has been strongly criticized and few small business researchers have adopted this approach. On the other hand, the contingency approach acknowledges that various factors affect the small firm's marketing performance and this approach is positioned between two extreme views which state that universal marketing principles exist and are applicable to all firms or that each small firm is unique and each situation needs to be analyzed separately. Thus, there is no grand unifying theory, the marketing concepts may be the same but the process of implementation is different in each firm (Siu and Kirby, 1998).

#### **1.2.9.4 Financial Management**

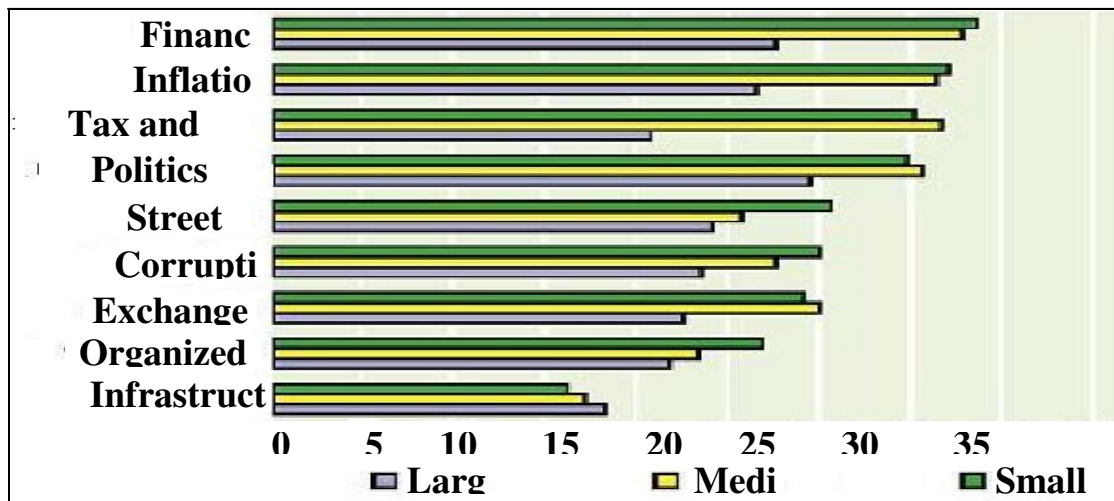
From the literature, it is observed that in recent years, the financing of SMEs has attracted much attention and interest of economists and policymakers working on financial and economic development. Since SMEs accounted for the majority of firms in an economy and a significant share of employment (Hallberg, 2001) while they face lack of appropriate financing and need to receive special assistance, like government programs for lending. On the other hand, the growing in number of SMEs need access to a wide range of sources of finance. Arguably, well functioning capital markets could facilitate access to finance, promote entrepreneurship and enable growth-oriented businesses to operate profitably and make a significant contribution towards employment and economic stability. It is suggested that SMEs, through their inherent advantage of size and flexibility, have the ability to engage in product, service and knowledge innovation, respond rapidly to new opportunities, diversify their operations and contribute significantly to net job creation (Garvan and O'Conneide, 1994).

According to Westhead and Wright (2000), the absence of adequate funding represents a major obstacle to the entrepreneurial process in a firm regardless of size, location or type of economic activity. A number of papers found that SMEs are more financially constrained than large firms (Schiffer & Weder, 2001; Beck, Demirg-Kunt, Laeven, & Maksimovic, 2006). For example, using data from more than 10,000 firms in 81 countries in 1999-2000, the World Business Environment Survey (WBES) showed that firms that rate financial constraints as a major obstacle was 38.68% for small firms, 37.83% for medium sized firms, and 27.62% for large firms. Around 38% of the SMEs surveyed (compared with 27% of large firms) reported that financing constraints were major. Figures 1.4 reports the share of firms that considered each general constraint to be major, for the world as financing constraints are the most serious obstacle, followed by inflation, taxes and regulations, and political instability (WB, 2000). In 2006, the using data from 10,000 firms in 80 countries, Beck, Demirgü-Kunt, Laeven, and Maksimovic (2006) showed that the probability that a firm rates financing as a major obstacle is 39% for small firms, 38% for medium-size firms, and 29% for large firms. Furthermore, small firms finance, on average, 13% points less of investment with external finance, compared to large firms (Beck, Demirg-Kunt, Laeven, & Maksimovic, 2008).

Notably, lack of access to external finance is a key obstacle to firm growth, especially for SMEs (Beck, Demirg-Kunt, and Maksimovic, 2005). Some “life style” entrepreneurs can satisfy their small firms’ financial needs by requesting loans from their families, friends or acquaintances (Hussain and Matlay, 2007). However, the vast majority of growth oriented SMEs rely on long-term funding made available by banks, financial institutions or venture capitalists (Donckels, 2000; Mason and Harrison, 2000). Importantly, when the cost of survival or growth strategies in these firms exceed the availability of financial resources owned and controlled by

owner/managers, they become dependent on the availability of external sources of finance.

**Figure 1.4** Firms Reporting Major Obstacles to Development Worldwide 1999-2000



Source: World Bank, 2000

Moreover, SME owners/managers' financing decisions are consistent with the "pecking order" theory (Holmes and Kent, 1991; Mayers, 1984). Furthermore, Cosh and Hughes (1994) suggest that under these circumstances an owner/manager will choose first a personal source of finance; second short-term borrowing; third – longer-term debt; and finally, the least preferred, equity finance which might affect his/her control upon the business. The pecking order theory also suggests that owner/managers tend not to sufficiently organize their finances in order to obtain an optimal capital structure (i.e. debt versus equity ratio) but prefer financing options that both ensure and maintain their control upon a business. Thus, it appears that for SMEs in the UK, bank financing remains the primary choice of finance (Petersen and Schulman, 1987).

In contrast, there is a growing body of literature that questions the capital market failure for SMEs (Fraser, 2004). According to Wilson (2004), 71% of respondents in his research sample did not perceive that accessing finance was a barrier to SME survival or growth. These findings indicated that less than 1% of respondents reported that access to finance was or could become a strategic issue. Cosh and Hughes (2003) also noted that finance is not a major barrier to SME development in the UK. Such studies, however, need to be treated with caution, as their samples only consider those SMEs that managed to secure finance and therefore, by definition, the finance gap might not have presented a barrier for these owner/managers.

It is argued in the literature that the inadequate financing of SMEs is to a significant extent rooted in “supply-side” factors. That is, the way in which the financial system works is biased against externally financing SMEs, leading banks and other financial institutions to be uninterested in being involved with them. The conventional view highlights a number of factors. First, financing SMEs is difficult because they are opaque (Goldberg & White, 2004) which means that it is difficult to know if firms have capacity to pay and if they have willingness to pay (due to moral hazard). Second, relative to large firms, SMEs are more likely to be informal, particularly in developing countries. Third, capital markets do not compensate for these deficiencies in the banking sector as they do not have a comparative advantage to deal with opaque and small firms. It was also found in the literature that banks (mainly small and niche) engage with SMEs through relationship lending (Cull, Davis, Lamoreaus, & Rosenthal, 2006). A number of studies on the US find that large banks allocate a much lower proportion of their assets to small business loans than small banks (Berger & Udell, 1996). Other studies on the US find that large institutions lend to larger, older SMEs with stronger financial ratios. Although some banks provide loans for SMEs, according to Deakins and Hussain (1994) banks tend to provide short-term

finance that limits SMEs' capacity to undertake long-term strategic planning. Consequently, most SMEs appear to operate with higher levels of debt than the large and also exhibit an increased reliance on short-term debt (Holmes and Kent, 1991).

### **1.2.9.5 Internet Adoption and SMEs**

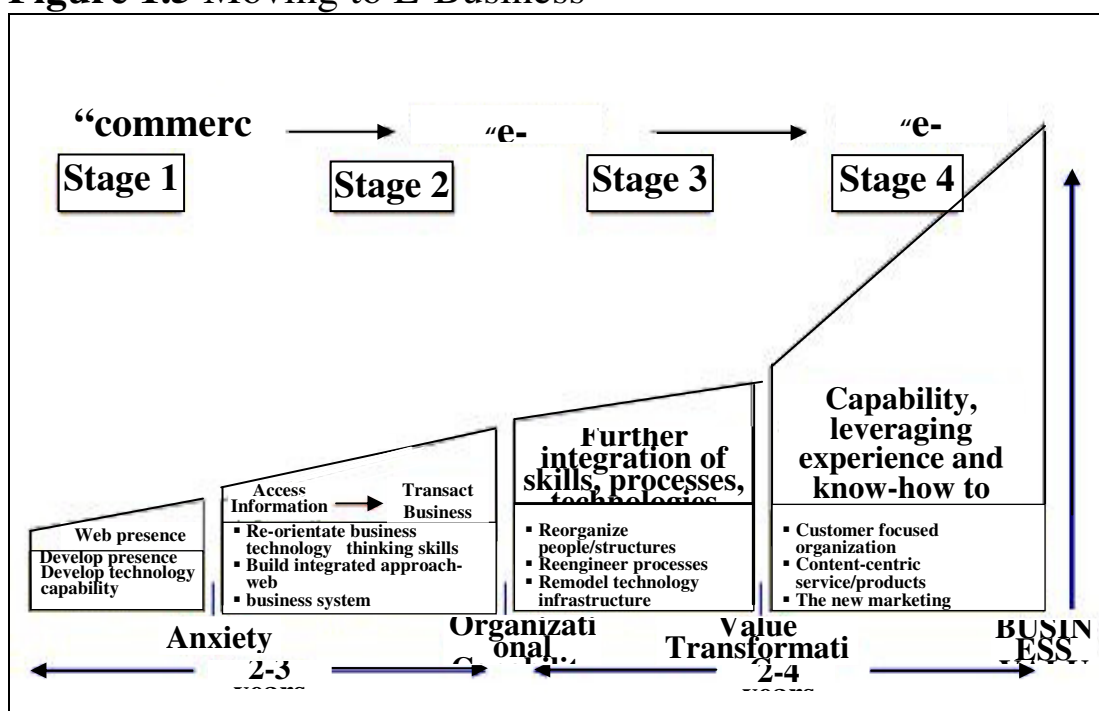
A large number of researchers suggest that SMEs can gain greatest benefits from the proper usage of the Internet and it has been recognized by the SMEs that the Internet would enable them to reach wider geographical markets and increase customers (Lunati, 2000). On the other hand, with improved trust and use as a transaction medium, the Internet is uniquely poised to promote and deliver services, both to individual and business customers (Zinkhan, 2002). Meanwhile, Sparkes & Thomas (2001, pp.332) stated that "internet users in the home rose by 76% to six million in the UK during 1998, with the use at the office up 54% to 5.3 million in the same period"; and Keogh & Galloway (2003) estimated that the proportion of those who purchase online rose from 41% in 1999 to 61% in 2000. Similarly, in the USA, Zinkhan (2002) estimates that approximately 50 million Americans are currently online. Inconsistent, Poon (2000) recognizes that there was lack of customers use for Internet, particularly of email (Sillence, 1998) which itself was barrier for Internet adoption of SMEs while Internet adoption is getting faster when SMEs recognize a business need (Kendall et al, 2001). However, the potential benefits to business are thus obvious, and indeed, Cardinali (2001) observes, that ecommerce is growing at a meteoric rate of greater than 150% per year, and Baourakis, Kourgiantakis and Migdalas (2002) note the internet is now considered as an established channel for commercial transactions.

Buhalis & Main (1998) noted that the internet is gaining commercial viability and is particularly suited to SMEs, where it enables SMEs to keep doors open 24 hours a day, at minimal cost to customers all over the world. With access to increasing markets throughout the world, businesses have a unique opportunity to expand business-to-business or business-to-consumer, operations from the traditional and local, to the global (Amit & Zott, 2001; Lawson, Alcock, Cooper & Burgess, 2003). However, a firm may not be able to trade online with customers, but the internet can give firms the advantage of increased profile in that it can allow them to present information to potential customers (Tse & Soufani, 2003), and provide another channel for the purposes of brand building (Jacobs & Dowsland, 2000), advertising, and marketing (Turban et al., 2000).

The ability of firms to develop relationships with customers via customer information gathering and personalized marketing further affords advantage to business, and particularly small businesses (Anderson & Lee, 2003). As Baourakis (2002) pointed out that by using the internet technology properly, the companies can gather information from consumers which would help them to improve the quality of products, to develop new products and adopt an attitude of flexible response to the wants and needs of their potential customers. There is little evidence of business strategy driving Internet adoption among SMEs. However, strategic commitment is critical in Singaporean SMEs (Kowtha & Choon, 2001) and Internet adoption is faster when SMEs recognize a business need (Kendall et al 2001). In common with most large businesses, SMEs have embraced the use of email (Poon & Swatman 1999), with 90% of SMEs using it regularly a year after its introduction to the business (Chapman, James-Moore, Szczygiel & Thompson, 2000).

An e-business model has been introduced by Willcocks, Sauer & Associates (2000) which suggested as shown in figure 1.5 that firms initially use some basic Internet tools such as web pages, before moving to stage 2 - transacting business. Moving to Stage 2 may cause difficulties for SMEs due to resource constraints: ICT is only introduced when there is a business imperative (Levy, Powell & Galliers, 1999). At Stage 3 firms recognize that changes to processes, structures and skills are necessary to exploit the technology. Stage 4 is only reached once they recognize that the business can transcend its existing products and use the Internet to develop new Markets and products.

**Figure 1.5** Moving to E-Business



Source: Willcocks, 2000



On the other hand, some commentators argue that the public sector has a role in intervening with respect to ICT use for business. Justification for this comes from the idea that business in general now requires ICT use for all intents and purposes as you cannot compete nowadays without having some kind of e-business strategy (Rodgers, Yen & Chou, 2002). Furthermore, policies are stated for a number of ICT-related issues, including raising awareness of ICT, providing advice and support for ICT use, and supporting infrastructure development (Hawkins & Prencipe, 2000). Gibbs & Tanner (1997) quoted in Thomas, Sparkes, Brooksbank & Williams, (2002) reported that existing ICT infrastructures were inadequate and their usage low, leading to intervention. Similarly, Leatherman (2000) and Smyth, Gray & Major, (2001) argue for support for technical infrastructure.

### **1.2.10 Special Characteristics of Tourism and Hospitality SMEs**

It is observed from the literature that Tourism and Hospitality SMEs are specialized with special characteristics. Jones & Tang-Heaven (2005) have specified the characteristics into ten and the researcher will add two more characteristics as follows:

#### **i. SMEs Generate more Interesting Employment Opportunities**

As mentioned in the previous section 1.2.7, the importance of HSMEs, and the proclaim of the ability of SMEs to create new jobs at a time when major corporation are downsized, create diversified and flexible industrial bases, stimulate competition and innovation, improve industrial relations and generate active enterprising culture (Armstrong and Taylor, 1993; cited in Wanhill, 2000). The tourism SMEs

are assigned an important role by the EU as an aid to regional convergence. Indeed, people enjoy working for smaller organizations because they offer challenges, decision making is more instant, communication are better, employees are more involved in setting business goals, provision of high development opportunities, and they are not tied by regulations Jones & Tang-Heaven, 2005.

## **ii. Business Failure Rates**

According to the Best Practice Forum, one in eight UK hospitality businesses fails every year which made the hospitality highly risky business field. Since small firms are more risky than larger firms, the small firm managements are less likely to invest in long-term human resource, which may cause financial difficulties in the short term (Jones et al. 2005).

## **iii. Flexibility**

Peacock (1993) argues that standardization, that is inherent to large orgaziations, enhances quality but resticts flexibility. SMEs can exploit their flexibility and their market proximity and personal contact with customers provides significant advantages for SMEs in terms of potential responsiveness to customer needs.

## **iv. Entrepreneurial Motivations**

Beaver, Lashley and Stewart (1998) identified self-employment and control as important motives for entrepreneurs and disparities among HSMEs in relation to the aims commercial objectives, such as business growth and profit maximization. As it is noted that the decision to enter the

industry is often motivated by non-commercial reasons, quality of life and a desire to be one's own boss are more important consideration.

#### **v. Business Strategies**

Individually, HSMEs has very different business strategies and, although some are well managed and effectively exploit their resources for business growth, others may be seriously deficient in business and management skills. Clayton (1996) belief that the lack of a strategic business plan in small businesses leads to outdated management practices and SMEs that engage in strategic planning (compared to those that do not) are more likely to be those that achieve higher sales growth, higher returns on assets, higher margins on profit and higher employee growth (Gibson & Casser 2005). Moreover, strategic planning can contribute to performance by generating relevant information, by creating a better understanding of the important environment, and by reducing uncertainty (Hodgetts and Kuratko, 2001).

#### **vi. Ease of Entry Lead to Weak Endemic Business Models**

There are few handicaps to entering the industry but some operators are poorly prepared and therefore businesses are underperforming (WTB, 2000; cited in Jones & Tang-Heaven, 2005). The ease of entry to the tourism industry for new operators often results in weak endemic business model, perpetuated by an "anyone can do it" mentality. Skill gaps exist among some owner-manager, who often lacks the abilities to manage their business and/or their staff. This has major implication for an SME's human resource function, where poor retention rates are often the result of poor management abilities (Haven and Jones, 2004; cited in Jones et. al, 2005).

### **vii. Lack of Management Skills and Attitudes toward Training**

Dewhurst and Burns (1993) reported that SMEs operate in a very distinct manner due to the lack of specialist managers to oversee their various activities. Financial constraints exacerbate lack of management skills and militate against training, future investment and knowledge management, with serious implication for the future of an individual tourism SMEs and ultimately, the destination. Although tourism SMEs are commercially satisfied, the fact that the business meets immediate survival needs, pays the bills and delivers and appropriate level of security which deters owner-manager from investing in training. Managers only train when the venture is under particular threat or has to meet legislative requirement.

### **viii. Poor Market Intelligence**

Poor market research and knowledge management about customers means that tourism SMEs can be introspective and fail to achieve their full potential. Mostly, tourism SMEs lack the in-depth knowledge and the skills that are required for the proper identification and measurement existing demand and marketing strategies are based on perceived rather than actual supply and demand curves (Matlay, 2004). Tourism businesses must deeply understand their market and build this knowledge into their organizational goals. Despite this, many tourism destinations are dominated by tourism SMEs with little global know-how and global reach. In order to create and market internationally appealing tourism products, to achieve competitive advantages and to sustain competitiveness against global or trans-national tourism firms, a number of tourism and hospitality management measures undertaken, including: intercultural management skills; proper choice and

implementation of market entry strategies in foreign market; and know-how concerning regionally/culturally differentiated travel motivations and tourism behavior of customers (Weiermair, 2000).

### **ix. Lack of an Integrated Approach to Business Planning and Functionality**

Many tourism SMEs do not adopt an integrated approach to business planning (Jones et. al, 2005). Indeed, many tourism micro-businesses do not develop a written business plan against which to monitor business performance except in response to external pressure, e.g. when applying for a loan from bank or a grant from the public sector. One example of poor integration relates to the ineffective way that some SMEs exploit information and communication technology, specifically the Internet and internet marketing. Despite the phenomenal growth in the number of tourism SME websites, the integration of their websites into wider business strategies and business cultures is a cause for concern (Morrison, 2002). Many tourism SME owners/managers opt for tourism entrepreneurship to achieve personal autonomy and perceive that representation on availability databases challenges that autonomy, posing issues for destination management organizations (Jones et. al, 2005).

### **x. Lack of Financial Resources**

Access to finance is still one of the obstacles that black HSMs are facing as Westhead and Wright (2000) found that the absence of adequate funding represents a major obstacle to the entrepreneurial process in a firm-regardless of size, location or type of economic activity. A number of researchers noticed that SMEs are more financially constrained than large firms (Schiffer & Weder, 2001). Notably, lack of access to external finance is a key obstacle to firm growth, especially for

SMEs (Beck, Demirg-Kunt, and Maksimovic, 2005). Some “life style” entrepreneurs can satisfy their small firms’ financial needs by requesting loans from their families, friends or acquaintances (Hussain and Matlay, 2007). However, the vast majority of growth oriented SMEs rely on long-term funding made available by banks, financial institutions or venture capitalists (Donckels, 2000).

#### **xi. Lack of ICTs Adoption**

However, information and communication technologies are making the business easier with overseas market segments through customize, package, book, and pricing the product, SMEs are generally poor in e-marketing and ecommerce technologies (Jones et. al, 2005). They are facing a number of significant difficulties for e-Business adoption including high costs associated with the implementation and operation of Internet trading, lack of medium and long term strategic planning, endemic skill shortage and deficiencies in ICT related expertise. Despite of this, in recent times, industry observer have acknowledged that ICTs offer HSMEs considerable benefits in terms of business efficiency, enhancement of product and service differentiation, cost reduction and speed of operational response. Therefore, in order to survive and prosper in a rapidly changing and highly volatile global economy, small tourism firms in e-Europe need to adopt and utilize ICTs (Wanhill, 2000).

### **1.2.11 Obstacles and Constraints Faced by HSMEs**

It is obvious from the literature that most of Tourism and Hospitality SMEs are facing common obstacles and constraints that impede their growth and development but they are different in their level of impedance from country to country. For example, in Africa, the obstacles that impede the development of HSMEs as explained by neo-classical school was poor or inadequate infrastructure, an uneducated and unskilled workforce, weak management skills, low or non-existent levels of savings and capital formation, and strained international relations (Gartner, 2004). Rantanen (1999) has claaified the obstacles into three catagories including internal, external and general obstcales whereas Garhmack, Molinar, Chu, & Chanpayom (2004) also noted a number of obstacles and classified them into five categories including infrastructure and investment obstacles, market obstacles, enviornment obstacles, community obstacles, and education obstacles.

According to Garhmack, Molinar, Chu, & Chanpayom (2004) infrastructure and investment obstacles are mostly faced by transitional and developing country. They include getting land, office space, buildings; power breakdowns; voltage fluctuations; telecommunications problems; water supply; wastewater disposal; garbage disposal; quality of roads; quality of railway transport; cannot ship production, bad transportation, quality of ports (Prissarides, Singer, & Svejnar, 2003) and access to finance (Rogerson, 2004) whereas market obstacles are related to fashion, relative costs and income levels and willingness of the people to travel, and perception of destination, competition is high; not enough qualified labor; insufficient demand for output suppliers are often not ready to deliver; deliveries of raw materials are often delayed due to transport problems; cannot find spare parts; difficult to repair production equipment due to lack of know-

how; equipment is too old and/or unreliable; lack of skilled man power; power shortages. Moreover, environment obstacle relates to balancing numbers, yield and resource protection and community obstacles include negative attitudes from labor force and financiers. Educational obstacles are limited and inadequate to the lack of access to specific training while government obstacles are high taxes, administrative costs (tariffs, licenses) necessary for export, and bad access to foreign markets.

Rantanen (1999) has classified the obstacles into three categories including internal, external and general obstacles as follows:

**Internal Obstacles** are the factors which are inside the firm or the factors that are under the control of the firm. The management and the workers can eliminate these internal obstacles or they can weaken their effects. For example, lack of time for planning is one typical internal obstacle as well as Lack of knowledge and poor production methods are also typical internal obstacles. Moreover, the internal obstacles also include lack of time to improve productivity, general lack of resource in the firm, workers shortcomings with knowledge and education on the productivity, superiors' shortcomings with knowledge and education on productivity, personnel's passive attitude and resistance to changes, lack of knowledge about productivity improvement, superiors' aspiration to suboptimization, and limited capacity of production equipment.

**The External Obstacles** are factors which are outside the firm and the firm cannot affect these factors directly. The only way is to try to affect them via the unions and other similar interest groups. Usually, the firm must adapt to these external obstacles. The external obstacles set the limits within which the firm must operate. For example, legislation and the action of trade unions are typical external obstacles.



**General Obstacles** are those factors which are impossible to categorize to above categories of obstacles and they can belong to both internal and external obstacles. For example, theoretical problems, measurement problems and lack of public information can be general obstacles.

In general, most of HSMEs 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, water supply, wastewater disposal, garbage, quality of roads, bad transportation, etc.), lack of skilled labor, lack of specific trainings, high taxes, bad access to foreign markets, lack of new markets, competition in new markets, administrative cost (Prissarides, Singer, & Svejnar, 2003).

### **1.3 Aim and Objectives of the Study**

#### **1.3.1 Aim**

This study aims to propose development strategies for hospitality SMEs in Afghanistan.

#### **1.3.2 Objectives**

The objectives of this research are:

1. To identify the obstacles impeding the development of HSMEs in Kabul, Afghanistan
2. To identify the opportunities supporting the development of HSMEs in Kabul, Afghanistan
3. To propose proper strategies for the development of hospitality SMEs in Kabul, Afghanistan

## **1.4 Significance of the Study**

1. This study is the first research that contributes knowledge to the development of HSMEs in Afghanistan.

2. The study will support the development of hospitality industry through the development of HSMEs in Afghanistan.

3. The proposed strategies will help hospitality SMEs' owners/managers to develop their enterprises and avoid failures.

4. The findings will be useful for relative government organizations, UN agencies, and NGOs who are involved with hospitality SMEs in preparation of policies, guidance and trainings supporting the development of hospitality SMEs.

## **1.5 Scope of the Study**

### **1.5.1 Scope of Research Period**

The scope of the study period was limited to the period from October, 2007 to June, 2008 and the collection of primary data from the stakeholders was undertaken from 29th November, 2007 to 6th January, 2008.

### **1.5.2 Scope of Geography**

The face-to-face interviews were conducted with HSMEs which were located in Kabul and the in-depth interviews with related senior officers were carry out at the Ministry of Culture and Tourism (MOIC), Afghan Tourist Organization (ATO), Afghanistan Investment Support Agency (AISA), and Nation Crafters Union in Kabul.

### 1.5.3 Scope of Research Area

In Afghanistan, HSMEs are comprised of the following hospitality businesses: hotels, guesthouses, hostels, campgrounds, bed and breakfast establishments, tenanted public houses, summer house rentals, restaurants, fast food, coffee shops, wedding halls, contract food service providers, car rentals, and holiday parks, however, the hotels, guesthouses, restaurants, wedding halls and coffeeshops are the dominans whereas other hospitality businesses are very few in numbr that can hardly have impact on the hospitality industry. Therefore, in this study, the researcher focuses only the hotels, guesthouses, restaurants, wedding halls and coffeeshops which are located in Kabul.

Moreover, in this study, the researcher has adopted Bangladesh SMEs' definition for the hospitality SMEs in Kabul. The Bangladesh Industrial Policy 2005 which has separated SMEs into manufacturing and non-manufacturing unites in terms of their employment and assets size has defind the non-manufacturing unites (Moazzem, 2006) as follows:

1. Non-manufacturing small industries defined as those which have employed less than 25 employees.
2. Non-manufacturing medium industries defined as those which have employed 25 to 100 employees.

However, in literature, Rubira, et al., (2005) have adopted Indian small scale industries (SSI) for Afghanistan SMEs. SSI are defined as "small scale industries engaged in manufacture, processing or preservation of goods, with a ceiling of INRs 10m (about US\$ 220,000) of investment in plant and machinery" (UNESCAP, 2005) where in Afghanistan most of hospitality SMEs use rental buildings for their business, if we go according to this definition, some of the large and medium

enterprises may be considered as small enterprises. In order to avoid misleading, the researcher has adopted the Bangladesh non-manufacturing SMEs definition, which is suitable for this research.

#### **1.5.4 Scope of Demography**

Face-to-face interviews were conducted with HSMEs' owners and managers, supervisor, employees and owners' family members in HSMEs while the in-depth interviews were conducted with relevant responsible officers from the Ministry of Culture and tourism, Afghan Tourist Organization, Afghan Investment Support Agency, and National Craters Union.

### **1.6 Definition of Key Terms**

#### **Hospitality SMEs:**

**Hospitality Small-sized Enterprises** is defined as those enterprises, which have employed less than 25 employees.

**Hospitality Medium-sized Enterprises** is defined as those enterprises, which have employed 25-100 employees.

#### **Strategy:**

Strategy is defined as a process through which the mission, vision, goals of an organization is achieved.

#### **Development:**

Development is process of improvement by expanding or enlarging.

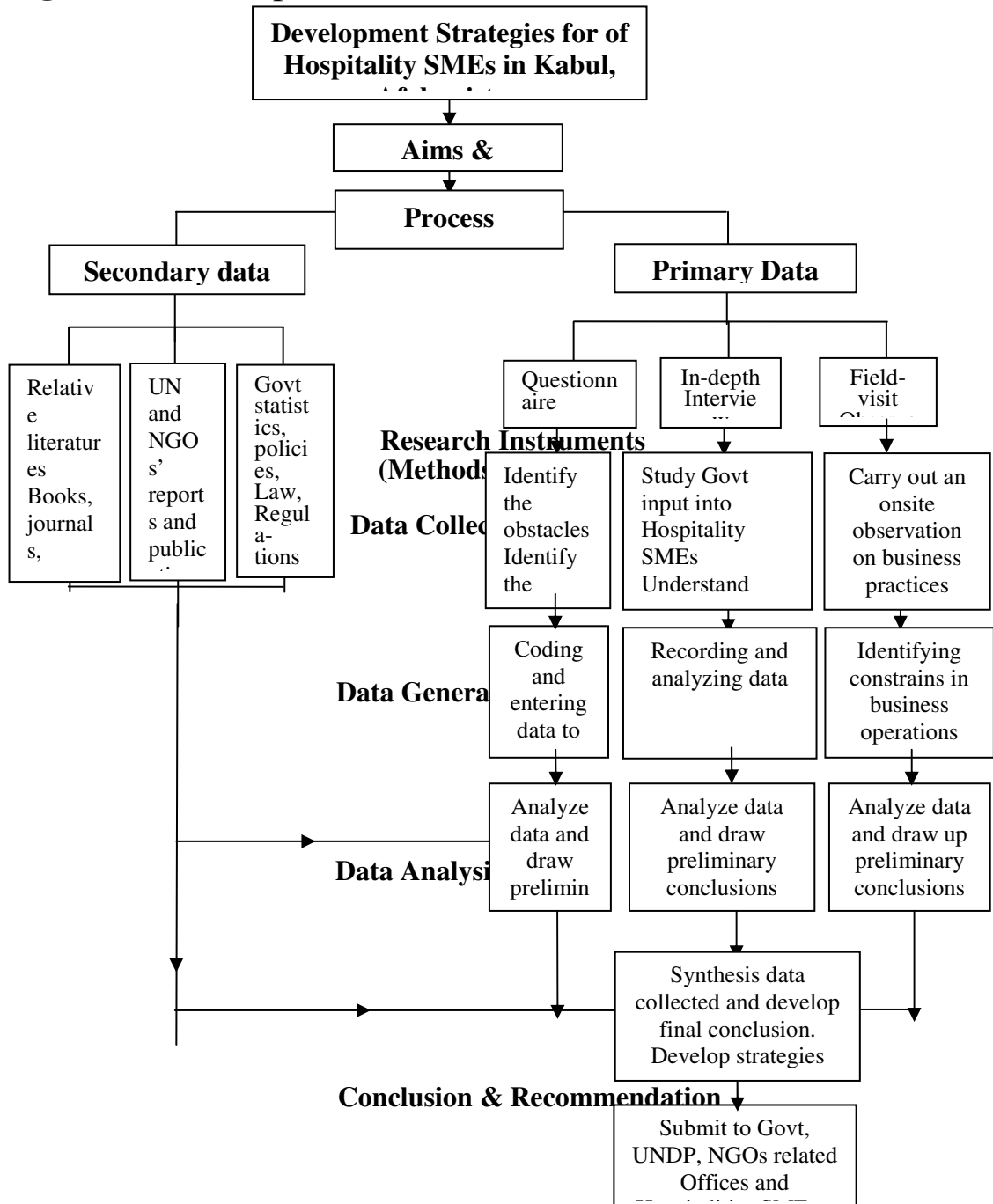
**Obstacle** is the factor, which stands in the way of an organization's progress, that delays or retards progress.

**Development Strategy:**

Development strategy is the process of organizational expansion through the achievement of the organization's goals.

## 1.7 Conceptual Framework

**Figure 1.6** Conceptual Framework



## **CHAPTER 2**

### **METHODOLOGY**

This research is a descriptive and explanatory study that mainly focuses on survey of hospitality SMEs (HSMEs) in Kabul for the purpose of identifying the obstacles that impede the development of these HSMEs and the opportunities that can support their development. Hence, it was necessary to collect data from both primary and secondary sources. In order to collect primary data, the researcher has used both quantitative and qualitative methods of which, the questionnaires, face-to-face interviews, observation and in-depth interviews have been used as research instruments. The secondary data has been gathered from different sources such as government statistics, policies, regulations, relevant UN agencies, relevant NGOs reports, relevant books, journals, research papers and articles, and websites.

This Study focuses on three groups:

- a. Owners and managers of HSMEs (hotels, guesthouses, restaurants, coffee shops, and wedding halls) in Kabul
- b. Relevant officers in Afghanistan Tour Organization, Afghan Investment Support Agency (AISA)
- c. Officers at National Crafters Union who are involved HSMEs

These three groups are directly involved with HSMEs and the methods used for data collection were different according to the nature of each group. The in-depth interviews were conducted with responsible officers in both groups B and C, and direct-interviews plus observations were conducted with group A.

Initially, the methodology part starts with discussing the theories concerning the best methods needed to be used for data collection. Clark, Riley, Wilkie and Wood (1998) have discussed deeply the research methods to collect data particularly, the quantitative method and qualitative method and have clarified the distinction between them. The main difference between two methods is that quantitative methods involve with numbers/quantities - whereas qualitative methods do not (Veal, 2006), moreover, over it also depends on how the data is gathered and how it is used and analyzed.

Qualitative methods are involved in collection and analysis of qualitative information rather than numerical data. Qualitative methods include different approaches to collect data such as in-depth interview, group interviews/focus group, participant observation, biographical methods and ethnographic approaches (Veal, 2006) whereas quantitative methods use questionnaires to collect data. Furthermore, the qualitative techniques rely on the skills of the researcher as an interviewer and observer in gathering data and whereas Quantitative techniques rely upon the research instruments employed to gather data and to analyze it.

A qualitative study aims to identify the presence or absence of a special phenomenon where a quantitative study aims at measuring the extent to which something is present (Kirk & Miller, 1986). Moreover, the qualitative approach tends to collect a great deal of rich information about relatively small limited population and concentrate on results obtained from interviews and observation in contrast to quantitative approach where it targets large number of population and focus more on statistical findings.

The choice of research method depends on how easy it is, to be implemented and how easy it will be to gain access to the quantity and quality of respondents (Clark, Riley, Wilkie and Wood, 1998). When it is required to understand people and answer questions concerning the underlying patterns, a



qualitative method is preferred (Patel & Davidsson, 1994) because through discussions and interviews, the researchers can gain in-depth information. Conversely, a quantitative method enables the researchers to gather high quality and with more reliable and executed information, although the information is not as deep as with a qualitative method.

Kelly (1980) suggested that qualitative research has the following advantages over quantitative research:

1. The method corresponds with the nature of the phenomenon being studied that is, leisure is a qualitative experience.
2. The method “brings people back into leisure” research. In contrast, quantitative methods tend to be very impersonal real people with names and unique personalities do not feature.
3. The results of qualitative research are more understandable to people who are not statistically trained.
4. The method is better able to encompass personal change over time in contrast; much quantitative research tends to look only at current behavior as related to current social, economic and environmental circumstances, ignoring the fact that most people’s behavior is heavily influenced by their life history and experience.
5. Leisure involves a great deal of face-to-face interaction between people involving symbols, gestures, etc. and qualitative research is well suited to investigating this.
6. The qualitative techniques are better at providing an understanding of people’s needs and aspiration.

However, the qualitative methods have a number of advantages; still can not be the only perfect method to collect of data from targeted population. In order to gain the both methods' advantages and validity of findings, in this study, the researcher used both quantitative and qualitative approaches to collect data. It is also widely accepted that the two methods complement one another (Bryman and Bill, 2003).

## **2.1 Type of Research**

This study is a descriptive and explanatory research that focuses on the survey of HSMEs in hospitality industry in Kabul. The hospitality industry in Afghanistan is dominated with both accommodation (including hotels and guesthouses) and food & beverages (including restaurants, coffee shops and wedding halls). Therefore, the study mainly concentrated on these two categories. The study describes the current situation of HSMEs and explores the obstacles that impede their development. The quantitative and qualitative methods were used to collect data from the targeted population. Primary data was collected from primary sources through the conduction of fact-to-face interviews, field visit observation and in-depth interviews. The secondary data was collected from secondary sources through reviewing different secondary sources such as printed or online government statistics, policies, regulations, relevant UN and NGOS reports, relevant books, journals, research papers and articles.

## 2.2 Targeted Population, Sampling Group Size, and Sampling Method

### 2.2.1 Targeted Population

Since no published statistics identify the exact number of HSMEs in Kabul, the population was drawn from availability of HSMEs' register lists with Afghan Tourist organization (ATO), Afghanistan Investment Support Agency (AISA), and National Crafters Union (NCU). The number of registered HSMEs is different from organization to organization as follows:

**Table 2.1** Number of Registered HMSEs with Different Organizations in Kabul

No	Organizations	Number of Registered HSMEs
1	<sup>1</sup> Afghan Tourist Organization	56
2	<sup>2</sup> Afghanistan Investment Support Agency	79
3	<sup>3</sup> National Crafters Union	175

*Remarks:* <sup>1</sup>AOT (2007), <sup>2</sup>AISA (2007), and <sup>3</sup>NCU (2007)

The targeted population for this research is all HSMEs located in Kabul including accommodation (hotels and guesthouses) and food & beverage (restaurants, coffee shops and wedding halls) enterprises. There was no statistic available indicating the exact number of HSMEs, therefore, in order to obtain the exact population of HSMEs in Kabul, the researcher collected lists of registered HSMEs from different government registration offices, and compared and combined them together. Hence, the researcher was able to find out the exact population of HSMEs in Kabul and categorized as follows:

**Table 2.2** Targeted Population of HSMEs in Kabul

No.	Type of Business		Targeted population
1	Accommodation	Hotels	17
2		Guesthouses	40
3	Food & Beverage	Restaurants	138
4		Coffee shops	2
5		Wedding halls	53
<b>Total HSMEs in Kabul</b>			<b>251</b>

### 2.2.2 Sampling Group Size

The targeted population is divided into 3 groups as follows:

#### **Group 1: The Hospitality SMEs**

A census population of all HSMEs in Kabul is targeted due to their small population and the survey has counted all the elements in the population as a sample, which is 251 HSMEs. However, due to lack of time, insecure situation of the country and refusal of HSMEs for interview, the researcher was able to conduct face-to-face interviews with 90 HSMEs, which total up 36% of targeted population.

#### **Group 2: Relevant Government Organizations**

This group includes all relevant senior officers who are involved with HSMEs at the Ministry of Culture and Tourism, Afghan Tourist Organization, and Afghanistan Investment Support Agency.

#### **Group 3: Unions**

This group includes all relevant senior officers at the Afghanistan National Crafters Union who are involved with HSMEs.

### **2.2.3 Sampling Method**

The researcher has used different sampling methods for each stakeholder as follows:

#### **Group 1: The Hospitality SMEs**

The census population was used as sampling method for the HSMEs in Kabul to cover all the targeted population but due to lack of time, insecure situation of the country and refusal of HSMEs, the researcher was not able to survey all target population.

#### **Group 2: Relevant Government Organizations**

A purposive sampling was used with relevant government organization to conduct in-depth interview with relevant senior officers at the Ministry of Culture and Tourism, Afghan Tourist Organization, and Afghanistan Investment support Agency.

#### **Group 3: Unions**

The snowball sampling was used with relevant officers at the Afghanistan National Crafters Union.

The targeted population, the sampling group, the research methods and sample size are summarized in the following table 2.3:

**Table 2.3** Summary of Research Methodology

<b>Stakeholders Content</b>	<b>(A) Hospitality SMEs</b>	<b>(B) Government</b>	<b>(C) Unions</b>
<b>Population</b>	All HSMEs in Kabul and registered with ATO, , AISA, and NCU including all Hotels, guesthouses, restaurants, coffee shops and wedding halls	Officers at: 1-Afghan Tourist organization 2-Afghan Investment Support Agency (AISA) 3-Ministry of Culture and Tourism	Officer at: National Crafters Union
<b>Sampling Method</b>	Census population	Purposive sampling (non-probability)	Snowball sampling (non-probability)
<b>Focal Point to collect data</b>	Hospitality SMEs owners and managers	Selected senior officials	Related Officers
<b>Population size</b>	251	All represent	All represent
<b>Sample Size (app.)</b>	Census	5	3
<b>Data Collection Method</b>	Face-to-face interview structured questionnaire, field-visit observation	In-depth interview with semi structured questions	In-depth interview with semi structured

## 2.3 Research Instruments

The researcher has used different types of research instruments for each stakeholder as follows:

**2.3.1 The Questionnaire** was used as research instrument to collect primary data from the HSMEs in Kabul. The Questionnaire was prepared in bilingual version, Persian and English. The Persian version questionnaire was submitted to industry expert for scanning whether the questions were cleared and understandable in local language and the English version questionnaire was also shown to analytical expert in HSMEs for scanning whether if there were needs to add or omit any questions from the questionnaire. The questionnaire combined closed-end questions, open-end questions, checklist, likered scale, and attitude statement questions. The closed-end questions were used to ask the respondents to answer with yes or no, the multiple-choice questions were used to provide alternatives to the respondents. The rating scale questions were used to ask the respondents about the obstacle level of factors. The numbers 1, 2, 3, 4, 5 were used to rate the level of obstacle of factors as (5 = very high, 4 = high, 3 = medium, 2 = low, and 1 = very low). A likerd scale was applied to evaluate the degree of their thoughts about the obstacle level of the factors. The meaning of each evaluated degree was rated on interval level at 0.80. The entire evaluation rating scales were analyzed by the descriptive statistic function of SPSS including frequency, percent, mean, and Chi-square.

The interval level, which was used to analyze the mean, is calculated as follows:

$$\begin{aligned}\text{The interval level} &= (\text{Maximum}-\text{Minimum})/n \\ &= (5-1)/5 \\ &= 0.80\end{aligned}$$

Thus, the level of assessed means was rated as follows:

**Table 2.4** Levels of Assessed Means

Assessed Levels	Scale of Mean	Mean Interpretation
5	4.21 - 5.00	Very high level obstacle
4	3.41 - 4.20	High level obstacle
3	2.61 - 3.40	Moderate
2	1.81 - 2.60	Low level obstacle
1	1.00 - 1.80	Very low level obstacle

Moreover, the questionnaire is composed of five sections including general characteristics, human resources, business operation, marketing and finance, and was designed in order to find out the obstacles and the opportunities.

**2.3.2 The Field-visit Observation** was used as very important research instrument during interviews with the HSMEs.

**2.3.3 The In-depth Interview** with semi-structured questions in Persian language with related officers at the Government and Crafters Union.



## **2.4 Data Collection**

This study is a descriptive and explanatory study that mainly focuses on the development of HSMEs in Kabul by indentifying the obstacles impeding their development and opportunities that support their development. Therefore, there are needs to collect data from both primary data through conducting fact-to-face interviews with five categories of HSMEs which total up 36% of total population, field visit observation and in-depth interviews and secondary data through reviewing previous researches, journals, etc.

### **2.4.1 Primary Data**

In this research, the primary data was collected through conducting face-to-face interviews with five categories of HSMEs located in Kabul and the field-visit observation while conducting interviews and in-depth interviews with the most relevant officers at the Ministry of Culture and tourism, Afghan tourist Organization, Afghanistan Investment support Agency and the National Crafters Union.

### **2.4.2 Secondary Data**

The secondary data was collected from sources such as:

1. Related research, books, journal papers, articles, and internet websites.
2. Government statistics, policies, and legislation.
3. Related UN and NGOs' reports and publications.

## **2.5 Data Analysis-Statistics Used to Analyze the Data**

After collecting primary data with the samples from the targeted population through the questionnaire, data was coded, computed and analyzed by the Statistical Package for Social Science (SPSS) version 15.0 by using mainly frequency, mean, standard deviation, and ANOVA as statistical tools.

-Frequency: Results in the number of the respondents who answered each question, shows the percentage of them.

- Mean: is the average of the investigated value.

- Standard Deviation: the common measures of spread or variability which standard deviation summarizes how far away from average the data values typically.

- In order to analyze the variables, One-Way ANOVA was used to analyze the means of several groups. Normally, ANOVA is widely used to analyze the independent variables that have more than two sub variables for nominal scale. Interpretation was analyzed at 95% of confidence level with 5% of significance. The results were illustrated in tables to provide bigger picture of the overall HSMEs current situation in Afghanistan.

## **CHAPTER 3**

### **RESULTS**

This chapter focuses on the results obtained from both quantitative and qualitative data collected from the survey of this study. The analysis of the quantitative data is derived from questionnaires used in face-to-face interview with the HSMEs in Kabul. The questionnaire has five sections: general characteristics, human resources, business operation, marketing and finance, and was designed to find out the obstacles impede the development of HSMEs in Kabul. The results are presented and illustrated through tables where appropriate. The collected data was analyzed by using mainly frequencies and crosstabs function of descriptive statistics and One-Way ANOVA function of compare mean at software package SPSS version 15. The analysis of the qualitative data, which is derived from in-depth interview with relevant officers at ATO, AISA, MOCT, and ANCU along with the personal field-observations, is summarized and presented as classified data and conclusion.

#### **Section 1: Questionnaire Results**

##### **3.1 General Characteristics**

This section includes both personal characteristics of the respondents and organizational characteristic of the enterprises. First, the personal characteristics of respondents are analyzed then the organizational characteristic of the enterprises.

###### **3.1.1 Personal Characteristics of Respondents**

The main purpose of questioning respondents about their personal characteristics was to analyze the relation between these characteristics and internal obstacles of HSMEs in Kabul. From table 3.1, the results show that 94.4% of respondents are

male and only 5.6% of respondents are female. The ages of the majority of respondents are stated between 30-49 years, representing 61.1% of respondents, followed by 27.8% of respondents whose ages are stated below 30 years. The education level for the majority of respondents was diploma, representing 37.8% of the sample, followed by 27.8% of respondents who are holding both bachelor degree and high school degree. Meanwhile, 4.4% of respondents are holding secondary school degree and only 2.2% of respondents are holding master degree respectively. The length of work means the duration that respondent worked in the enterprise and the purpose of questioning respondents in this regard was to find out the liability of provided information. The length of work for around half of respondents are between 2-5 years at 48.9%, followed by 33.3% of respondents whose work length is less than 2 years. The results also show that 52.2% of respondents are working in the same field before joining their current job whereas 47.8% of them are not. It also indicates that the current jobs for 47.8% of respondents are managers followed by the 43.3% of respondents who are the owners. Only 4.4% of respondents are employees, 2.2% of respondents are owner's partner, and the remaining 2.2% are owner's family members. It is also obvious from the table that the motivation beyond owning enterprise in the hospitality industry for the majority of HSMEs was to enjoy while making a living, representing 53.3% of respondents, followed by 33.3% of respondents whose motivation was to make more money. Only 8.7% of respondents are motivated by their experience in the hospitality industry.

**Table 3.1** Characteristics of Respondents

<b>Characteristics</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	85	94.4
Female	5	5.6
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Age</b>		
Below 30 years	25	27.8
30-49 years	55	61.1
50-69 years	10	11.1
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Level of Education</b>		
Secondary school	4	4.4
High school	25	27.8
Diploma	34	37.8
Bachelor's degree	25	27.8
Higher education	2	2.2
<b>Total</b>	<b>90</b>	<b>100</b>

**Table 3.1** (Continued)

<b>Characteristics</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Length of work in the enterprise</b>		
Less than 2 years	30	33.3
2-5 years	44	48.9
6-10 years	10	11.1
More than 10 years	6	6.7
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Previous job</b>		
Same field	47	52.2
Different field	43	47.8
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Current job</b>		
Owner	39	43.3
Joint owner or partner	2	2.2
Manager	43	47.8

Family member of owner (s)	2	2.2
Employee	4	4.4
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Motivation beyond owning enterprise</b>		
Enjoying while making a living	48	53.3
Make more money	30	33.3
Semi-retirement	4	4.4
To be my own boss	6	6.7
Other (Profession)	8	8.9

### 3.1.2 Qualification of the Owners and Managers

The results as illustrated in table 3.2 show that 43.6% of owners-respondent are holding diploma degree, representing 17 of respondents, followed by 33.3% of owner-respondents who are holding bachelor degree. Only 5.1% of the owner-respondents are holding secondary school certificate while same percentage are holding master degree and 12.8% of the owner-respondents are holding high school certificate. The managers-respondents are holding high school certificate at 41.9%, followed by 32.6% of manager-respondents who are holding diploma. Meanwhile, 20.9% of manager-respondents are holding bachelor degree.

**Table 3.2** Qualification of Owners and Managers

Characters	Secondary school		High school		Diploma		Bachelor degree		Master degree		Total	
	Fr eq	%	Fr eq	%	Fr eq	%	Fr eq	%	Fr eq	%	Fr eq	%
Owner	2	5.1	5	12.8	17	43.6	13	33.3	2	5.1	39	100
Manager	2	4.7	18	41.9	14	32.6	9	20.9	0	0.0	43	100

### 3.1.3 Previous Occupation Field of Owners/Managers

The results as shown in table 3.3 indicate that 48.8% of managers-respondents were working in hospitality field before joining their current enterprises while 51.2% of the manager-respondents were working in different fields. In contrast, 51.1% of the owner-respondents were working in the hospitality field before opening their current enterprises, whereas, 48.7% of the owners-respondents were not.

**Table 3.3** Previous Occupation Field for Owners/Managers

Organizations	Same field		Different field		Total	
	Freq	%	Freq	%	Freq	%
Managers	21	48.8	22	51.2	43	100
Owners	20.0	51.3	19	48.7	39.0	100

### 3.1.4 The Work Experience within the Enterprises

The results as explained in table 3.4 show that the majority of respondents who are owners owned their hospitality enterprises for the period of 2-5 years, representing 53.8% of the owner-respondents followed by 23.1% of the owner-respondents who owned their hospitality enterprises for the period of less than 2 years. Meanwhile, 17% of the owner-respondents owned the hospitality enterprises for the period of 5-10 years and 7% of owner-respondents owned their hospitality enterprises for the period more than of 10 years. On the other hand, 44.4% of the respondent who are managers worked in the hospitality enterprises for the period of less than 2 years followed by 41.9% of manager-respondents are working with the hospitality enterprises for the period of 2-5 years. Meanwhile, 7% of the manager-respondents are working with their enterprises for the period of 5-10 years and more than 10 years.

**Table 3.4** Manages/Owners Work Experience within the Enterprises

Organizations	Less than 2 years		2 - 5 year		5 - 10 years		More than 10 years		Total	
	Fre q	%	Fre q	%	Fre q	%	Fre q	%	Fr eq	%
Owner	9	23.1	21	53.8	7	17.9	2	7.0	39	100
Manager	19	44.2	18	41.9	3	7.0	3	7.0	43	100

### 3.1.5 Organizational Characteristic of Enterprises

The results as illustrated in table 3.5 indicate that the high majority of HSMEs in Kabul are local enterprises, representing 81.1% of respondents, followed by 14.4% of respondents who are foreign enterprises. Only 4.4% of respondents are joint local-foreign enterprises. The results also indicate that most of hospitality enterprises are private businesses, representing 96.7% of respondents and only 2.2% of respondents are related to the government or association. Additionally, the results also show that the legal form for the majority of HSMEs was partnership representing, 61.1% of respondents, followed by the 37.8% of respondents which are sole proprietorship and 1.1% of the sample was cooperation. Importantly, half of HSMEs are 2-5 years old, representing 50% of respondents, followed by the 32.2% of respondents that are less than two years old. Meanwhile 11.1% of respondents are 6-10 years old whereas 6.7% of respondents are more than 10 years old.

The majority of HSMEs are paying rents for their enterprises properties representing 57.8% of respondents whereas 37.8% of respondents owned the enterprises building and 2.2% of respondents are mortgaging and leasing the enterprises building. Notably, the results show that the owners of HSMEs have appointed managers to manage their enterprises



at the 42.2% of respondents whereas the owners themselves managed their enterprises at the 36.7% of respondents. Meanwhile, both owners and owners' partners managed 14.4 % of the sample enterprises and 4.4% of respondents enterprises are managed by the owners' partners and 2.2% of them are managed by the supervisors. **Table 3.5** Organizational Characteristics of Enterprises.

**Table 3.5** Organizational Characteristics of Enterprises

<b>Characteristics</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Nationality of enterprise</b>		
Afghan (local)	73	81.1
Foreign	13	14.4
Local-foreign	4	4.4
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Legal form of enterprises</b>		
Sole proprietorship	34	37.8
Partnership	55	61.1
Cooperation	1	1.1
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Date of establishment (Age of enterprise)</b>		
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
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Who manages the enterprise</b>		
Owner	33	36.7
Owner's partner	4	4.4
Both owner & partner	13	14.4
Manager	38	42.2
Other (supervisor)	2	2.2
<b>Total</b>	<b>90</b>	<b>100</b>
<b>Independency</b>		
Private	87	96.7
Government/Association	2	2.2
No idea	1	1.1
<b>Total</b>	<b>90</b>	<b>100</b>

<b>Property ownership</b>		
Owned	34	37.8
Rented	52	57.8
Mortgaged	2	2.2
Others (leased)	2	2.2
<b>Total</b>	<b>90</b>	<b>100</b>

The results as illustrated in table 3.6 showed that 38.9% of respondents are referring their friends in the same business for help whereas 30% of respondents are referring to the government for help. Meanwhile, 22.2% of respondents are referring to their family members for help and a small number of enterprises at 7.8% of the sample are referring to business consultants for help. Only 2.2% of respondents are referring to UN or NGOs whereas 4.4% of respondents are not referring to anybody for help.

**Table 3.6** List of Organizations that HSMEs Refer for Help

<b>Help providers</b>	<b>Frequency</b>	<b>Percentage</b>
Friends in same business	35	38.9
Government	27	30
UN / NGOs	2	2.2
Business consultant	7	7.8
Family members	20	22.2

### **3.1.6 Classification of HSMEs**

From table 3.7, the results indicate that the majority of HSMEs are small size businesses, representing 67.8% of the sample and the remaining 32.2% of enterprises are medium size enterprises during the year 2006. On the other hand, the number of small business has increased from 67.8% to 70% during the year 2007 and the number of medium sized enterprises has fallen down from 32.2% to 30% of the sample. The medium size

restaurant has fallen down from 18.5% or 5 medium size restaurants to 11.1% or 3 medium size restaurants, which means that small size restaurants have increased from 81.5% or 22 enterprises to 88.9% or 24 enterprises. Furthermore, the results also indicated that the majority of hotels and wedding halls are medium size enterprise during 2006 and 2007 whereas the majority of guesthouses, restaurant and coffee shops are small size enterprises.

**Table 3.7** Classification of HSMEs by Number of Employees for 2006 - 2007

Type of HSMEs	Small size		Medium size		Small size		Medium size	
	2006				2007			
	Freq	%	Freq	%	Freq	%	Freq	%
Hotels	4	30.8	9	69.2	4	30.8	9	69.2
Guesthouse	22	95.7	1	4.3	22	95.7	1	4.3
Restaurants	22	81.5	5	18.5	24	88.9	3	11.1
Coffee shops	2	100	0	0.0	2	100	0	0.0
Wedding halls	11	44.0	14	56.0	11	44.0	14	56.0
<b>Total</b>	61	67.8	29	32.2	63	70.0	27	30.0

### 3.1.7 Hospitality SMEs Registration Organizations

From table 3.8, the results show that HSMEs are registered with different governmental organizations.

**Table 3.8** HSMEs Registration Organizations

Organizations	Accommodation				Food & Beverage						Total registered	
	Hotels		Guest-house		Restaurant		Wedding halls		Coffee shops			
	Fre q	%	Fre q	%	Fre q	%	Fre q	%	Fre q	%	Fre q	%
Afghan Tourist Org.	13	14	21	23	20	22	0	0	2	3.6	56	62
Chamber of Commerce	3	3	4	4.4	2	2.2	0	0	0	0	9	10
Investment Support Ag.	7	25	7	25	12	43	0	0	2	7.1	28	31
National Crafter Union	5	9	2	4	8	15	0	0	25	47	40	44
Department of Hotels	13	22	15	25	12	20	17	29	2	3.4	59	66
Ministry of Public Health	0	0	0	0	27	30	0	0	2	2.2	29	32
License Renewal	13	14	23	26	26	29	2	2	25	28	90	99

The Afghan Tourist organization (ATO) is one of the organizations that register HSMEs with specific conditions i.e. in order to register a restaurant with ATO; the main customers of the restaurant should be foreigners or tourists. Thus, 62.2% of respondents are registered with ATO at the ministry of Information, Culture and Tourism, 65.6% with the Department of Hotels at municipality, 44.4% with the National Crafters Union, and 31.1% are registered with Afghanistan Investment Support Agency (AISA). Moreover, 10% of respondents are registered with the Chamber of Commerce at the ministry of Commerce.

### 3.2 Strategic Planning Process

The results as illustrated in table 3.9 indicate that 64.4% of respondents or 58 respondents had mission statements followed by 24.4% or 22 respondents who had it to some degree and 11% of the sample or 10 respondents did not have it. Meanwhile, 38.9% of respondents review their mission statements to see whether or not it was successful and achievable. Whereas 44.4 % of the sample or 40 respondents review it to some degree and 16.7% of the sample or 15 respondents do not do it at all. Moreover, the employees in 48.9% of respondents are conversant with mission statement and its objectives while the employees in 38.9% of respondents are conversant to some degree and the employees in 12.2% of respondents are not. As for working on annual plane, 67.8% of respondents do work on it, whereas 23.3% of respondents do this to some degree and 8.9% of respondents do not work. More than half of respondents are had strategies to achieve the business goals at 64.4% whereas 28.9% of respondents had strategies to some degree and 6.7% of respondents did not have at all. The majority of respondent have operated profitably in the last 3 years, representing 70% of respondents while 25% of respondents did to some degree and 2.2% of the sample or did not do at all.

**Table 3.9** Strategic Planning Process

Items	Yes		To some degree		No	
	Fre q	%	Fre q	%	Fre q	%
Does your enterprise have mission statement?	58	64	22	24	10	11
Do you review your mission statement on an annual basis?	35	39	40	44	15	17
Are your employees conversant with your mission & objectives?	44	49	35	39	11	12

Do you work on an annual plan?	61	68	21	23	8	8.9
Do you have strategies in place to achieve your goals?	58	64.	26	29	6	6.7
Has your business been operating profitably?	63	70	25	28	2	2.2

### 3.2.1 The Impact of Strategic Planning on the Profitability of HSMEs

The analysis of the impact of strategic planning process on the profitability of HSMEs as shown in table 3.10 indicates that the HSMEs with strategic planning process are more profitable than those without it. However, conducting strategic planning for business in informal way (unwritten format) by the majority of HSMEs, yet it has a positive impact on the business profitability.

**Table 3.10** The Impact of Strategic Planning on the Profitability of HSMEs

Process	Profitability of HSMEs					
	Yes		To some degree		No	
	Fr eq	%	Fr eq	%	Fr eq	%
Does your enterprise have mission statement?	47	81	11	19	0	0
Do you review your mission statement on an annual basis?	29	83	6	17	0	0
Are your employees conversant with your mission & objectives?	36	82	8	18	0	0
Do you work on an annual plan?	48	79	13	21	0	0
Do you have strategies in place to achieve your goals?	47	81	10	17	1	1.8

### 3.3 Human Resources Management

The results as shown in table 3.11 indicate that the majority of respondents are carrying out job analysis and job design for their human resource management, representing 88.9% of respondents while 7.8% of respondents do this to some degree and 3.3% of respondents do not do it at all. The reason behind not carrying out job analysis and job design on the paper is that HSMEs are so small that the owners and the managers knows what type of tasks are needed and what type of employees are required for those tasks. Meanwhile, 42.2% of respondents had recruitment plan where 43.3% of respondents had it to some degree and 14.4% did not have it. The majority of respondents who conduct orientation for their new employees, representing 93.3% of respondents while 4.4% of respondents are conducting it to some degree and 2.2% or two respondents are not conducting it at all. Notably, the orientations that are provided to the new employees are not in formal format.

In addition, what concern employees' performance appraisals, the results indicate that the majority of respondents are evaluating their employees' performance at 88.9% of respondents. Notably, the performance appraisal is conducted through the management observations only. Around one third of respondents are the middle group who had written plan for the development of employees' knowledge and skills at 32% whereas 41.1% of respondents had it to some degree and 26.7% of respondents did not have a written plan at all. Meanwhile, 86.7% of respondents are the largest group who are providing necessary trainings for their employees while 7.8% of respondents are providing it to some degree and 5.6% of respondents are not. The results showed that the majority of respondents had appointed an expert to identify current or future skill gaps, representing 74.4% of respondents where 21.1% of respondents appointed expert to some degree and 4.4%

respondents did not. Meanwhile, the employees' skill matched their responsibilities at the 61.1% of respondents whereas the employees' skills at 33.3% of respondents matched their responsibilities to some degree and employees' skills at 5.6% did not.

**Table 3.11** Human Resources Management

Process	Profitability of HSMEs					
	Yes		To some degree		No	
	Fr eq	%	Fr eq	%	Fr eq	%
Do you carry out Job analysis and job design for your HR?	80	89	7	7.8	3	3.3
Do you have any recruitment Plan?	38	42	39	43	13	14
Do you conduct orientation for your new employees?	84	93	4	4.4	2	2.2
Do you have employees' performance appraisal?	80	89	7	7.8	3	3.3
Do you have written capacity development plan for employees	29	32	37	41	24	27
Is there any responsible person to identify employees' skill gaps?	67	74	19	21	4	4.4
Do you provide necessary trainings for your employees?	78	87	7	7.8	5	5.6
Do your employees' skills match their responsibilities?	55	61	30	33	5	5.6



### 3.3.1 The Impact of Human Resources Management Practice on the Profitability of HSMEs

The analysis of the human resources management practice impact among HSMEs as shown in table 3.12 indicates that two third of those HSMEs which are practicing HRM are operating profitably in last three years.

**Table 3.12** The Impact of Human Resources Management Practice on the Profitability

Process	Profitability of HSMEs					
	Yes		To some degree		No	
	Fr eq	%	Fr eq	%	Fr eq	%
Do you carry out Job analysis and job design for your HR?	58	72	20	25	2	2.6
Do you have any recruitment Plan?	29	76	8	21	1	2.8
Do you conduct orientation for your new employees?	60	71	22	26	2	2.5
Do you have employees' performance appraisal?	55	69	23	29	2	2.7
Do you have written capacity development plan for employees?	23	79	5	17	1	3.2
Is there any responsible person to identify employees' skill gaps?	51	76	15	22	1	1.6
Do you provide necessary trainings for your employees?	56	72	21	27	1	1.3
Do your employees' skills match their responsibilities?	43	78	11	20	1	1.9

From table 3.13, it is obvious that the general managers are responsible persons for identifying employees' skills gaps at 46.7% of the sample or 42 respondent followed by owners at 24.4% of respondents, followed by management team at 21.1% respondent. In the mean time, human resources managers are responsible persons at 4.4% respondents.

**Table 3.13** Persons Responsible for Identifying Gaps in Employees' Skills

Person / Group	Frequency	Percentage
Owner	22	24.4
General manager	42	46.7
Human resource manager	4	4.4
Management team	19	21.1
A group formed by representatives of the management team	3	3.3
Human resource manager	22	24.4
The owner	42	46.7

**Remark:**  $N=90$

From table 3.14, the results showed that the 46% of respondents have operation department, followed by 33.3% of the sample or 30 respondents who had financial and accounting department while 14.4% of respondents have human resource departments and 10% of respondents have marketing departments. Moreover, 6.7 % of respondents have other departments such as food and beverage.

**Table 3.14** Number of Managers

Departments	Frequency	Percentage
Human Resources Manager	13	14.4
Financial Manager	30	33.3
Marketing Manager	9	10.0
Operational Manager	42	46.7
None of these	38	42.2
Other	6	6.7

**Remark:**  $N=90$

From table 3.15, the survey results show that while 36.7% of respondents recruit their employees through internal sources and 7.8% of respondents from external sources; 55.6% recruit from both internal and external sources. Furthermore, the survey shows that 52.2% of respondents, who use external sources for recruiting employees, recruit through referrals, followed by 11.1% of respondents who recruit through advertising in the local press. Only 10% of the external recruiter recruits employees through job centers, 7.8% of respondents through walk-in and 5.6% of respondents through Employment Services Center.

**Table 3.15** Sources of Recruitment

Source	Frequency	Percentage
Internal sources	33	36.7
External sources	7	7.8
<b>External recruitment sources</b>		
Job Center	9	10.0
Word of mouth	47	52.2
Local press	10	11.1
Employment Services	5	5.6
Website	1	1.1
Other (Walk-in)	7	7.8

The results as shown in table 3.16 indicate that 53.3% of respondents prefer to hire those employees who are less qualified but familiar to them only. In contrast, 42.3% of respondents prefer those employees who are not familiar but qualified and 3.3% of respondents prefer employees who are qualified and familiar.

**Table 3.16** Type of Employee Preference to HSMEs Management

Type of Employee	Frequency	Percentage
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
<b>Total</b>	90	100

The results as shown in table 3.17 indicate that the majority of HSMEs set experience as criteria for selecting employees at 95.6% of respondents, followed by honesty at 90% of respondents. Meanwhile, 88.9 percent of respondents see skills and familiarity as criteria for selection and qualification at 61.1% of respondents.

**Table 3.17** Employees Selection Criteria

Criteria	Frequency	Percentage
Qualification	55	61.1
Experience	86	95.6
Skills	80	88.9
Familiarity	80	88.9
Appearance	27	30
Honesty	81	90
Gender	25	27.8

**Remark:**  $N=90$

The results as shown in table 3.18 indicate that 5.6% of respondents participated in trainings provided by the United Nations Development Program (UNDP), followed by 4.4% of respondents who participated in trainings provided by the public authorities. Moreover, 3.3% of respondents participated in trainings provided by other non-governmental organizations (NGOs) and 2.2% of respondents participated in trainings provided by the business and trade associations.

**Table 3.18** Training Providers

Training providers	Frequency	Percentage
UNDP	5	5.6
NGOs	3	3.3
Business and Trade Associations	2	2.2
Public authorities	4	4.4

**Remark:**  $N=90$

The results as shown in table 3.19 indicate that the participation of employees from management level was at 11.1% of respondents followed by the operational level employees at 3.3% and the supervisory level employees at 1.1%.

**Table 3.19** Type of Employees who Participated in Activities

Employees type	Frequency	Percentage
Operational level	3	3.3
Supervisory level	1	1.1
Management level	10	11.1

**Remark:**  $N=90$

The results as shown in table 3.20 indicate that 8.9% of respondents had visited exhibitions and trade fairs, followed by 7.8% of respondents who had participated in seminars and conferences provided by the government. Only 5.6% of respondents had participated in seminars and conferences provided by UNDP while 4.4% of respondents had arranged seminars and conferences by themselves. Moreover, 4.4% of respondents had conducted job rotation among their employees while only 3.3% of respondents had participated in seminars and conferences provided by non-governmental organizations.

**Table 3.20** The Activities which HSMEs are Involved with during Last Three Years

Activities	Frequency	Percentage
Visits to expose/trade fairs	8	8.9
Courses/seminars/conferences provided by own personnel	4	4.4
Courses/seminars/conferences provided by Government	7	7.8
Courses/seminars/conferences provided by UNDP	5	5.6
Courses/seminars/conferences provided by NGOs	3	3.3
Job rotation (in-house or in other firms)	4	4.4
Other Activity (Open new business)	1	1.1

The survey results as shown in the below table 3.21 indicate that those employees who had participated in the aforementioned activities are the operational level employees, representing 7.8% of respondents, followed by employees from supervisory level at 9% of respondents and management level employees at 14.4%.

**Table 3.21** Type of Employees who Participated in Activities

Employees type	Frequency	Percentage
Operational level	3	3.3
Supervisory level	1	3.3
Management level	10	11.1

**Remark:**  $N=90$

From table 3.22 it is shown that all respondents are paying salaries to their employees and Chi-Square test was applied to determine the statistically significant difference of salary payment among the respondents at 95% of confidence interval. The test showed that there is no statistics that could be computed because salary payment was a constant.

The majority of the respondents are paying bonus to their employees representing 55.6% of respondents, followed by 46.4% of respondents, who pay service charge to their employees while only 17.8% of respondents provide overtime. The test result of Chi-Square at significant level of 0.05 indicates that there are statistically significant differences (p-value  $\leq 0.05$ ). As for medical insurance, 14.4% of respondents are providing it to some extent. Only 3.3% of respondents are providing social security like job security and job guarantee to their employees and Chi-Square test pointed that there are no statistically significant difference in provision of medical insurance, life insurance, and social security (p-value  $\geq 0.05$ ). Notably, 43.3% of respondents do not deduct from their employees salary if they attend English or computer courses for around two hours a day while they are on their duty. Importantly, 35.6% of respondents provide annual vacations to their employees where 61.1% of respondents giving off days on the state holidays. The Chi-Square test at significant level of 0.05 indicated that there are statistically significant differences (p-value  $\leq 0.05$ ). The majority of HSMEs are providing sick leaves to their employees at 81.1%.

**Table 3.22** HSMEs Compensation System

Compensation	Accommodation		Food & Beverages			Total	Pearson Chi-Square		
	Hotels	Guesthouse	Restaurants	Coffee shops	Wedding hall		Val	d.f	P-v
	%	%	%	%	%				
Salary	100	100	100	100	100	100	-	-	.a
Overtime	46.2	8.7	26	0	4	17.8	13.4	4	.010
Bonus	76.9	78.3	63	50	16	55.6	23.7	4	.000

Service charge	92.3	13	15	0	92	46.7	54.7	4	.00 0
Medical insurance	30.8	13	14.8	0	8	14.4	4.02	4	.40 3
Social security	0	4.3	7.4	0	0	3.3	2.84	4	.58 4
Pay for time not worked	61.5	65.2	37	50	20	43.3	12.3	4	.01 6
Vacation	23.1	13	25.9	0	76	35.6	26	4	.00 0
Holidays	92.3	87	59.3	50	24	61.1	26.4	4	.00 0
Sick leave	92.3	87	66.7	50	88	81.1	7.29	4	.12 1

**Remarks:** 1: Value = Chi-Square Value;

2: d.f. = (degree of freedom) the amount of information from the sample data that has been used up;

3: p-value = Level of statistically significant (2-sided);

4: a = No statistics are computed because Salary is a constant.

### 3.4 Business Operation

#### 3.4.1 Impeding Level of the Obstacles

The results of the study as shown in table 3.23 indicate that there are five major obstacles that impede the business operation of HSMEs in Kabul. “Lack of basic infrastructure” is perceived as a high-level obstacle (mean- 3.98), followed by “high taxes” (mean- 3.85), “high cost of raw materials” (mean- 3.79), “insecurity” (mean- 3.76), and “entrepreneurs’ future concerns” (mean- 3.63).



**Table 3.23** Impeding Level of Obstacles

Factors	Impeding level of Obstacles					Mean	Std. Deviation	Obstacle
	V. Low	Low	Medium	High	V. High			
	(%)	(%)	(%)	(%)	(%)			
Basic infrastructure	2.2	0	23.3	46.7	27.8	3.98	3.98	High
High Taxes	2.2	4.4	10	71.1	11.1	3.85	1	High
Raw material Cost	1.1	7.8	23.3	46.7	21.1	3.79	0.83	High
Insecurity	2.2	12.2	14.4	50	21.1	3.76	1.05	High
Future concerns	5.6	6.7	13.3	67.8	6.7	3.63	0.76	High
Lack skilled labor	6.7	23.3	43.3	22.2	4.4	2.94	0.85	Medium
Local Competition	12.2	23.3	42.2	18.9	3.3	2.78	1.04	Medium
Lack of customers	17.8	20	37.8	18.9	5.6	2.74	1.21	Medium
Access to finance	13.3	28.9	35.6	17.8	4.4	2.71	0.95	Medium
Competition	13.3	28.9	40	12.2	5.6	2.68	0.99	Medium
High rents rates	37.8	4.4	17.8	34.4	5.6	2.66	1.13	Medium
Labor costs	6.7	57.8	28.9	2.2	4.4	2.40	1	Low
Lack of guidelines	25.6	34.4	31.1	6.7	2.2	2.26	1.1	Low
High interest rates	46.7	12.2	25.6	13.3	2.2	2.12	0.95	Low
Govt. regulations	33.3	41.1	14.4	5.6	5.6	2.09	0.89	Low
Partnership	52.2	37.8	4.4	4.4	1.1	1.64	0.85	V. Low

Govt. Inspection	60.0	25.6	6.7	6.7	1.1	1.63	0.66	V. Low
Religion interference	92.2	3.3	1.1	2.2	1.1	1.17	0.91	V. Low

### 3.4.2 Statistical Comparisons of Obstacles by Type of HSMEs

The findings as shown in table 3.24 indicate that the impeding level of the “lack of basic infrastructure” among different HSMEs is high. Similarly, the impeding level of the “insecure of Kabul” is high except for restaurants (4.26), which is very high and for wedding halls, it is medium (3.28). Moreover, the impeding level of “raw material cost” is also high for all type of HSMEs in Kabul. Importantly, the impeding level of “high taxes” and “entrepreneurs’ future concerns” are perceived as a high-level obstacle as well.

The One-way ANOVA test indicates that there was statistically significant difference in the impeding level of “Insecurity condition of Kabul” among different type of HSMEs ( $p\text{-value} \leq 0.05$ ). In contrast, the test also indicated that there was no statistically significant difference in the impeding level of the obstacles such as “Lack of tourism and basic infrastructure”, “Cost of raw material”, “High Taxes”, and “entrepreneurs’ future concerns” among the type of HSMEs ( $p\text{-value} \geq 0.05$ ).

**Table 3.24** Impeding Level of Obstacles by Different Types of Hospitality Businesses

Obstacle	Type of Business (Mean value)					Overall Mean	ANOVA	
	Accommodation		Food & Beverage				F-value	p-value
	Hotel	Guesthouse	Restaurant	Coffee shop	Wedding Hall			
Basic infrastructure	4.15	4.22	4.00	3.50	3.68	3.98	1.57	0.19
High Taxes	3.62	4.00	3.81	3.50	3.92	3.85	0.69	0.60
Raw material Cost	3.69	3.61	3.89	4.00	3.88	3.79	0.43	0.79
Insecurity	4.15	3.43	4.26	4.00	3.28	3.76	5.06	0.00*
Future concerns	3.69	3.39	3.67	3.00	3.84	3.63	0.98	0.42
Lack skilled labor	3.46	2.65	3.44	2.50	2.44	2.94	6.52	0.00*
Local Competition	2.92	2.00	3.22	2.00	3.00	2.78	6.91	0.00*
Lack of customers	2.92	2.26	2.96	3.00	2.84	2.74	1.50	0.21
Access to finance	2.92	2.17	3.00	2.00	2.84	2.71	2.64	0.04*
Other Competition	2.92	2.17	2.89	2.00	2.84	2.68	2.32	0.06
High rents rates	2.69	3.17	3.07	2.50	1.72	2.66	4.73	0.00*
Labor costs	2.38	2.43	2.70	2.00	2.08	2.40	2.04	0.10
Lack of guidelines	1.85	2.48	2.11	1.00	1.92	2.09	1.56	0.19
High interest rates	2.54	1.61	1.85	1.00	2.76	2.12	4.58	0.00*
Govt. regulations	1.85	2.48	2.11	1.00	1.92	2.09	1.56	0.19
Partnership	1.54	1.22	1.59	1.00	2.20	1.64	5.33	0.00*
Religion interference	1.23	1.00	1.33	1.00	1.12	1.17	0.89	0.47

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

**Remarks:** 1: *F-Value = One-Way ANOVA (computed) value*

2: *d.f = Degree of freedom (the amount of information in sample data that has been used up)*

3: *p- value = Level of statistically significant*

### **3.5 Computer Usage and Internet Adoption**

From table 3.25, the results show that 65.6% of respondents used computer for different purposes. Approximately half of respondents use computer for accounting and bookkeeping at 48.9% of respondents while 18.9% of respondents use it for stock control. Meanwhile, 55.6% of respondents do their business correspondence through the computer and 33.3% of respondents do their reservation through computer. Additionally, 35.6% of respondents use computer for cash flow planning or monitoring purposes whereas 30% of respondents use it for their personnel records. Only 22.2% of respondents use computer for storing customers' data, 14.4% of the respondents use it for updating their websites and 5.6% of respondents for online ordering.

**Table 3.25** Computer Usage and Internet Adoption within HSMEs

<b>Functions</b>	<b>Frequency</b>	<b>Percentage</b>
Computer usage	59	65.56
<b>Computer usage areas</b>		
Accounts and book-keeping	44	74.6
Stock control	17	28.8
Business correspondence	50	84.7
Reservation	30	50.8
Cash flow planning/monitoring	32	54.2
Personnel records	27	45.8
Storing customer data	20	33.9
Updating Website	13	22
On-line ordering of supplies	5	8.5

### **3.6 Marketing**

#### **3.6.1 Target Market**

The survey findings as shown in table 3.26 point out that there are six types of market segments that HSMEs are targeting. The results show that expatriates are the largest target market for HSMEs, representing 64.4% of respondents, followed by businesspersons who are making up 63.3% of respondents and tourists at 58.9% or 53 respondents. On the other hand, HSMEs also target local people at 45.6% of respondents and the rich people at 36.7%. Moreover, the target bypass at 4.4% of respondents. The Chi-Square test was performed to determine the statistically significant difference of HSMEs target market at 95% of confidence interval. The test results indicated that the p-value of all market segments are less than 0.05, except for by passers which are over 0.05. Therefore, they can be considered statistically significantly different. The target markets for HSMEs are different from each other as most

of HSMEs such as hotels, restaurants; guesthouses target tourists, expatriates, and businessmen while wedding halls only targets local people.

**Table 3.26** HSMEs' Main Target Markets

Target market	Type of HSMEs					Overall	Pearson Chi-Square		
	Accommodation		Food & Beverage				Value	d.f	p-value
	Hotels	Guesthouse	Restaurants	Coffee shops	Wedding hall				
	%	%	%	%	%				
Tourists	92.3	78.3	81.5	50	0	58.9	51.1	4	.000*
Expatriates	76.9	91.3	92.6	100	0	64.4	63.9	4	.000*
Businessmen	84.6	60.9	88.9	100	24	63.3	28	4	.000*
High-class	0	4.3	70.4	50	48	36.7	32.6	4	.000*
Local people	7.7	0	55.6	50	96	45.6	53.5	4	.000*
Bypass	0	4.3	7.4	0	4	4.4	1.27	4	.867

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

**Remarks:** 1: Value = Chi-Square Value

2: d.f = Degree of freedom (the amount of information in sample data that has been used up)

3: p-value = Level of statistically significant (2-sided)

### 3.6.2 Reservation Tools

The results of the survey as illustrated in table 3.27 show that according to HSMEs responds; the telephone was the main tool, that being used by customers for reservations in HSMEs, representing 70% of the sample or 63 respondents followed by email, making up to 47.8% of the sample or 43 respondents. A very low number of customers asked tour operators to reserve for them at 7.8% of the sample or 7 respondents where 5.6% of the sample or 5 respondents reserved through HSMEs' online bookings. 3.3% of the sample or 3 respondents send official letters while 2.2% of the sample or 2 respondents send fax for reservations. In addition, 61% of the sample or 55 respondents along with other reservation tools are not asking for prior reservations and 4.4% of the sample or 4 respondents use other tools for their reservations. Chi-Square test indicated that there was statistically significantly different at 95% of confidence interval or 5% error for usage of telephone and email as reservation tool among HSMEs in the sample ( $p\text{-value} \leq 0.05$ ) while there was no statistically significantly different among the usage of remaining reservation tools ( $p\text{-value} \geq .05$ ).

**Table 3.27** Reservation Tools

Reservation tools	Type of HSMEs					Overall	Pearson Chi-Square			
	Accommodation		Food & Beverage							
	Hotel	Guesthouse	Restaurant	Coffee shop	Wedding hall			Value	d.f	p-value
	%	%	%	%	%		%			
Telephone	100	100	92.6	50	4	70	74.2	4	.000*	
Tour operator	7.7	8.7	14.8	0	0	7.8	4.2	4	.384	
E-mail	76.9	87	44.4	50	0	47.8	41.6	4	.000*	
Online booking	0	17.4	3.7	0	0	5.6	8.7	4	.070	
Fax	0	8.7	0	0	0	2.2	5.9	4	.202	
Letter	7.7	0	7.4	0	0	3.3	6.3	8	.610	
No prior booking	46.2	21.7	74.1	100	88	61.1	27	4	.000*	
Other	0	0	3.7	0	12	4.4	7.5	8	.483	

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

**Remarks:** 1: Value = Chi-Square Value

2: d.f = Degree of freedom (the amount of information in sample data that has been used up)

3: p-value = Level of statistically significant (2-sided)



### **3.6.3 Marketing Management Practice**

The main purpose of inquiring about marketing principles was to find out how far HSMEs are using marketing principles for their marketing plan and promotion. The findings of the survey as explained in table 3.28 show that the majority of HSMEs have marketing strategies at 55.6% of the respondents whereas 28.9% of respondents have it to some degree. Despite that the majority of HSMEs claimed to have marketing strategies, but from personal observation of the researcher, the marketing strategies are not on written format.

The HSMEs who have pricing strategies are less than half, representing 45.6% of respondents while 43.3% have it to some degree. Nevertheless, the 45.6% of HSMEs have pricing strategies but from personal observation of the researcher, these strategies are not on written format. Most of HSMEs believed that their prices are reasonable for their customers, representing 85.6% of respondents while 14.4% of respondents believed to some degree. The minority of HSMEs have product strategies at 36.7% respondents while 40% of respondents have it to some degree. A very small number of HSMEs are conducting product life cycle analysis, representing 17.8% of respondent while 37.8% of respondents are conducting it to some degree. The HSMEs conduct product life cycle analysis only when the demand for specific product gets down; the management replaces it with a new one. More than half of respondents have promotion strategies, representing 54.4% of respondents while 27.8% of respondents have this kind of strategies to some degree. Although 54.4% of respondents have promotion strategies, from personal observation of the researcher, the HSMEs apply these strategies when the number of the customers goes down. Moreover, these strategies are not written format. The number of HSMEs who allocate budget for advertisement was low, at 28.9% of the sample or 26

respondents while 16.7% of respondents are allocated to some degree and 50% of the sample or 45 respondents do not. A few HSMEs allocated budget for innovation, representing 15.6% of respondents while the majority of HSMEs did not at 67.8% of respondent and 16.7% of respondents allocated budget to some degree. The majority of HSMEs did not create website for their enterprises, representing 71.1% of respondents while 26.7% of respondents do not.

**Table 3.28** Marketing Management Practice

Strategies	Yes		To some degree		No	
	Fre q	%	Fre q	%	Fre q	%
Do you have Marketing Strategy	50	55.6	26	28.9	14	15.6
Do you have any pricing strategy	41	45.5	39	43.3	10	11.1
Do you think that your prices are reasonable?	77	85.5	13	14.4	0	0.0
Do you have any product strategy	33	36.7	36	40.0	21	23.3
Do you conduct product life cycle analysis	16	17.8	34	37.7	40	44.4
Do you have any promotion strategy	49	54.4	25	27.7	16	17.8
Have you allocated budget for advertisement	26	28.9	19	21.1	45	50.0
Have you allocated budget for innovation	14	15.6	15	16.6	61	67.8
Do you have website of your enterprise	24	26.7	64	71.1	64	71.1

### 3.6.4 The Impact of Marketing Management Practice on the Profitability of HSMEs

The analysis of the marketing management practice impact on the profitability of HSMEs as shown in table 3.29 indicates that the business of two third of HSMEs which practice marketing management practice was profitable in last three years.

**Table 3.29** The Impact of Marketing Management Practice on the Profitability of HSMEs

Marketing Management Process	Profitability of HSMEs					
	Yes		To some degree		No	
	Fre q	%	Fre q	%	Fre q	%
Do you have Marketing Strategy	43	86	7	14	0	0
Do you have any pricing strategy	31	75.6	9	22	0	0
Do you think that your prices are reasonable?	57	74	18	23.4	1	2.6
Do you have any product strategy	25	75.8	8	24.2	2	2.7
Do you conduct product life cycle analysis	13	81.3	3	18.8	0	0
Do you have any promotion strategy	36	73.5	12	24.5	0	0
Have you allocated budget for advertisement	19	73.1	6	23.1	1	2.2
Have you allocated budget for innovation	10	71.4	3	21.4	1	4
Do you have website of your enterprise	19	79.2	5	20.8	1	7.1

### 3.6.5 Marketing Plan

The survey findings as illustrated in table 3.30 show that a very small numbers of HSMEs have formal marketing plan, representing 11.1% of respondents. More than half of the respondents have informal marketing plan, representing 56.7% of respondents and 32.2% of respondents do not have it at all.

**Table 3.30** Marketing Plan

Marketing Plan	Frequency	Percentage
Formal written plan	10	11.11
Informal unwritten plan	50	55.6
No plan	30	33.3
<b>Total</b>	90	100

Furthermore, the length of current marketing plan as illustrated in table 3.31 that 85% of HSMEs have less than one year marketing plans<sup>1</sup> respondents, while the current marketing plan for 11.7% of respondents was 1-2 years and for 3.3% less than 3-5 years.

**Table 3.31** HSMEs' Current Marketing Plan Length

Marketing plan	Less than 1 year		1 - 2 years		3 - 5 years		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
Formal marketing plan	8	13.3	2	3.3	0	0	10	16.7
Informal marketing plan	43	71.7	5	8.3	2	8.3	50	83
<b>Total</b>	51	85	7	11.7	2	3.3	60	100

### **3.6.6 Market Assessment**

The survey results as illustrated in table 3.32 show that the majority of HSMEs assess the customers' needs, representing 55.6% of 42 respondents whereas 2.2% of respondent assess it to some degree. However, from personal observation of the researcher, the assessment is done through observation only. The majority of respondents look for possible new products or service at 42.2% while 36.7% of respondents are look for them to some degree. A large number of respondents evaluate the local competition around their enterprises, 80% of the respondents whereas 17.8% of respondents evaluate to some degree. From personal observation of the researcher, the evaluation is being executed through observation only. Notably, the majority of the respondents assess the quality of customers' service at 81.1% while 17.8% of respondents assess it to some degree and 1.1% respondent do not do it at all. A small number of HSMEs assess the effectiveness of their marketing capability, representing 46.7% of respondents while 32.2% of respondents assess it to some degree and 21.1% of respondents do not assess at all. More than half of respondents assess the number of customers or visitors at 60% of respondents while 33.3% of respondents assess it to some degree and 6.7% respondents do not do it at all. A very large number of respondents evaluate the customers' or visitors' satisfaction, representing 92.2% of respondents while 5.6% of respondents evaluate to some degree and 2.2% of respondents do not do it at all.

**Table 3.32** Market Assessment

Fields	Yes		To some degree		No	
	Fre q	%	Fre q	%	Fre q	%
Customer needs	86	95.6	2	2.2	2	2.2
Possible new products/services	38	42.2	33	36.7	19	21.1
Local competition	72	80	14	15.6	4	4.4
Quality of service	73	81.1	16	17.8	1	1.1
Effectiveness of your Marketing	42	46.7	29	32.2	19	21.1
Number of Visitor	54	60	30	33.3	6	6.7
Visitors Satisfaction	83	92.2	5	5.6	2	2.2

### 3.6.7 The Impact of Market Assessment on the Profitability of HSMEs

The analysis of the impact of market assessment on the profitability of HSMEs as illustrated in table 3.33 indicates that the business of HSMEs which conduct market assessment was profitable in the last three years.

**Table 3.33** The Impact of Market Assessment on the Profitability of HSMEs

Assessment	Profitability of HSMEs					
	Yes		To some degree		No	
	Fre q	%	Fre q	%	Fre q	%
Customer needs	7	70	1	10.0	2	20
Possible new products/services	41	82	9	18.0	0	0
Local competition	59	68.6	25	29.1	2	2.3
Quality of customer service	31	79.5	7	17.9	1	2.6

Effectiveness of your Marketing	53	75.7	17	24.3	0	0
Number of Visitor	52	72.2	20	27.8	0	0
Visitors Satisfaction	36	81.8	6	13.6	2	4.5

### 3.6.8 Promotion Tools

The results as illustrated in table 3.34 show that HSMEs use different tools for the promotion of their enterprises as we see in the followings description: The majority of respondents use price discounts as their main promotion tool, representing 81.1% of respondents, followed by the newspapers and magazines, which are being used at 53.3% and the brochures at 45.6%. Moreover, 22.2% of respondents use outdoor sells such as personal introduction of products to the local and foreign organizations and 20% of respondents advertising on the television. A small number of respondents use yellow pages as a promotion tool at 16.7% of respondents where 15.6% of respondents use internet as a promotion tool. Meanwhile, 14.4% of respondents use advertisements on the radio and a few respondents use sponsorship of events as a promotion tool 4.4% of respondents.

The Chi-Square test results showed that there was statistically significant difference ( $p\text{-value} \leq 0.05$ ) among usage of Newspapers and magazines, yellow pages, Brochures, outdoor sells, internet and product sticker among HSMEs while there was no statistically significant difference among usage of other remaining promotion tools.

**Table 3.34** Promotion Tools

Target market	Type of HSMEs					Total	Pearson Chi-Square		
	Hotel	Guesthouse	Restaurant	Coffee shop	Wedding hall		Val	d.f	p-v
	%	%	%	%	%				
Newspaper	92.3	43.5	70.4	100	20	53.3	25	4	.000*
Radio	30.8	4.3	14.8	0	16	14.4	5.1	4	.278
Television	30.8	8.7	14.8	0	32	20.0	5.9	4	.200
Yellow pages	61.5	4.3	22.2	0	0	16.7	27	4	.000*
Brochures	76.9	65.2	55.6	50	0	45.6	31	4	.000*
Discounted prices	84.6	82.6	66.7	100	92	81.1	6.2	4	.184
Outdoor Sells	15.4	30.4	33.3	100	0	22.2	17	4	.002*
Internet	15.4	43.5	7.4	0	0	15.6	20	4	.001*
products	0	4.3	3.7	0	40	13.3	21	4	.000*

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

**Remarks:** 1: Val = Value = Chi-Square Value;

2: d.f = Degree of freedom (the amount of information in sample data that has been used up);

3: p-v = p-value = Level of statistically significant (2-sided)



### 3.6.9 The Key Factors to Gain Competitive Advantages

The HSMEs in the sample are asked to explain the importance of different factors in gaining the competitive advantages. The numbers 1, 2, 3, 4, 5 are used to rate the importance of the factors as (5 = most important, 4 = more important, 3 = moderate, 2 = less important, and 1 = least important). The importance of each factors are individually analyzed and illustrated in to number, percentage and mean in table 3.35. The results indicate that “Quality of customer service” perceived as the most important factor to gain competitive advantages (Mean = 4.8), followed by “Product quality” (Mean = 4.7), “Expertise in marketplace” (Mean = 4.5), “Quality of employees” (Mean = 4.4), “Product selection” (Mean = 4.4), and “Product Price” (Mean = 4.3). Moreover, “Ability to respond quickly to opportunities” perceived as more important factor to gain competitive advantage (Mean = 4.2).

**Table 3.35** The Key Factors to Gain Competitive Advantages

<b>Factors</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Level of Importance</b>
Quality of customer service	4.8	0.6	Most Importance
Ability to respond quickly to opportunities	4.2	0.8	More Importance
Quality of employees	4.4	0.8	Most Importance
Product quality	4.7	0.7	Most Importance
Price	4.3	0.7	Most Importance
Expertise in marketplace	4.5	0.7	Most Importance
Product selection	4.4	0.9	Most Importance

## 3.7 Finance

### 3.7.1 Financial Analysis

The survey's results as illustrated in table 3.36 indicate that the majority of respondents plan for their financial needs at 94.4% of respondents while 3.3% of respondents plan to some degree and 2.2% do not plan at all. A large number of respondents carry out financial analysis for their financial position at 91.1% of respondents while 7.8% of respondents do it to some degree and 1.1% of respondent does not. Meanwhile, the majority of respondent did not mind paying interest for obtaining loan, representing 60% of respondents while 36.7% of respondents mind to pay interest for obtaining loan.

**Table 3.36** Financial Analysis

	Yes		To some degree		No	
	Fre q	%	Fre q	%	Fre q	%
Do you plan for your financial needs	85	94.4	3	3.33	2	2.2
Do you carry out financial analysis	82	91.1	7	7.78	1	1.1
Do you pay interest for your loan	7	7.8	0	0.00	83	92.2
Do you mind if you obtain loan for paying interest	33	36.7	3	3.33	54	60

### 3.7.2 Sources of Funding

The findings of survey as explained in table 3.37 show that the majority of respondents finance their enterprises through their own funds (owner's investment), representing 88.9% of respondents, followed by 74.4% of respondents who finance through self-financing of enterprise (retained profits) and 53.3% of respondents finance through business partner.

Only 7.8% of respondent finance their enterprise through obtaining loan from relatives while 4.4% of respondents finance through outside private investors, 3.3% respondents finance through banks and 2.2% through financial institutions.

**Table 3.37** Sources of Funding

Source	Frequency	Percentage
Own funds	80	88.9
Partner	48	53.3
Outside private investors	4	4.4
Financial institution	2	2.2
Relative	7	7.8
Bank	3	3.3
Self Financing (retained profits)	67	74.4

### 3.7.3 HSMEs Behavior with Relatives and Friends while Obtaining Loan

From personal observation of the researcher, the most common way to get loans in Afghanistan is to borrow money from rich relatives and friends. Notably, according to the Islamic law, obtaining interest or paying interest for loan is extremely prohibited; as a result, a few relatives or friends are willing to give loan, because they would not benefit from provision of loan. Therefore, the findings of survey as illustrated in table 3.38 that the majority of respondents have never tried to obtain loan from their relative, representing 67.8% of respondents, because they knew that their relative would not provide them any loan. Notably, 25.6% of respondents are obtaining loan without paying interest or profits where 4.4% of respondents are sharing them in profit and 2.2% of respondents are paying them interest.

**Table 3.38** Behavior of Entrepreneur while Obtaining Loan from Relatives

Source	Frequency	Percentage
I share them in profit	4	4.4
I pay them interest	2	2.2
I get loan without paying interest or profit	23	25.6
Other (Never tried)	61	67.8

### 3.7.4 The Difficulties Faced by HSMEs while Accessing to Finance

The results of the survey as explained in table 3.39 show that 47.8% of the respondents are faced with financial difficulty of “high interest rate”, which is around 12% - 22% per year, whereas “high bank charges” is faced by 13.3% of respondents. Moreover, 10% of the respondents are faced with difficulties of “lack of enough financial institutions” and 4.4% of respondents are faced with both “lack of enough guarantee” and “prohibition of paying interest”. Notably, half of respondents have never tried to get loan from financial institutions at 51.1% of respondents.

**Table 3.39** Difficulties Faced by HSMEs while Accessing to Finance

Source	Frequency	Percentage
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

## Section 2: Interview Results

In-depth interview was one of the main qualitative methods that have been used for collecting data. The interviews were conducted with key responsible figures from different governmental and non-governmental organizations who were engaged with SMEs affairs. The officials who were interviewed are listed in the table 3.40 as follows:

**Table 3.40** Interviewees' Profile

No	Designation	Related Organization
1	Director general	Afghan Tourist Organization (ATO)
2	Director of Tourism Services	Afghan Tourist Organization (ATO)
3	General manager of license	Afghan Tourist Organization (ATO)
4	Analytical Unit Manager	Afghanistan Investment Support Ag. (AISA)
5	President of Kabul Council	Afghanistan National Crafters Union (ANCU)
6	Advisor in Exports & Marketing	SMEs Business Services, ANCU
7	Advisor in Technology & Standardization	SMEs Business Services, ANCU
8	Officer manager for Tourism Deputy Minister	Ministry of Culture and Tourism (MOCT)

## **3.8 In-depth Interview Results**

### **3.8.1 Current Situation of HSMEs in Afghanistan**

In in-depth interviews with the relevant officials at ATO and MOCT, it was expressed that in 1970s, around 120,000 tourists are visiting the country each year. But in 2007, as a result of insecurity, this number declined to only 12,000. The HSMEs in Afghanistan are still in their early stages of development and there is a number of HSMEs in Kabul, which are believed to have the capacity to receiving the current level of tourist arrivals to Afghanistan. However, approximately, 20% of HSMEs was shut down since 2006 as a result of customers' demand deficiency, whereas around 30-35 foreign HSMEs are closed for violating Afghanistan's Islamic law.

As for HSMEs association, they still have not established a union or association, to empower and represent them as a unified voice in front of the authorities in Kabul. The foundation of a Union would have a great impact on HSMEs situation. They could ask the authorities to help them in improving their performance and facilitate the development of this re- born industry in past - war Afghanistan. Considering the significance of this sector, the Government has also asked the HSMEs to initiate the establishment of this body.

### **3.8.2 Importance of HSMEs to the Hospitality Industry**

The officials at ANCU pointed out that HSMEs are playing an important role in developing Afghanistan's Hospitality industry as it is largely dominated by these enterprises. The existence of HSMEs is of strategic importance and their activities are making a great contribution to the

Afghanistan's economy and society. This sector, while providing jobs for Afghans more than other large firms, it is also a major source of foreign currency and is expected to continue providing greater livelihood opportunities to young Afghans.

However, the HSMEs restructure needs to get improved and streamlined so they can exercise greater efficiency in their establishments and services. Entrepreneurial skills and innovation within the sector also need to be facilitated and developed. This will create a multiplier effect within the industry and enable HSMEs to play an even greater role.

### **3.8.3 Difficulties and Weaknesses of HSMEs**

The officials at ATO and MOCT, pointing out that the main difficulties and weakness of HSMEs are hidden in the lack of skilled labors coupled by lack of customers, which is due to the low number of tourists visiting the country. It was estimated that approximately 95% of guesthouses suffered of decrease in number of customers in 2007. This has been attributed to the political disturbances and deteriorating of the security situation in the country.

On the other hand, the officials at ATO and ANCU say that the high interest rate, which is 12%-22%, is one of the constrains that HSMEs are facing along with lack of innovativeness within the HSMEs in terms of design and facilities which could be used in a better way and as an effective tool to attract customers.

### **3.8.4 Trainings**

Based on in-depth interviews findings, it was noticed that most owners of HSMEs are mostly well informed and had experience in the Hospitality industry as the majority of them have been working abroad in neighboring countries such as

Pakistan, Iran, and India. It was also noticed that employees have sufficient experience in the hospitality field.

Due to low budget and lack of facilities in the government, a limited numbers of HSMEs have been invited to participate in seminars, workshops and training both within and outside the country to enhance their experience and knowledge in the hospitality field. Some of the HSMEs did not attend the seminars and workshops, which are arranged by the government. However, the government of Afghanistan has signed a protocol with Indian government to provide short-term courses for Afghanistan HSMEs in Hospitality field.

The interviewees admitted that there are no proper plans or strategies in place to provide training courses, seminars or workshops for the HSMEs. However, in 2006, three seminars are arranged for the training Employees of HSMEs.

It was also pointed out that the arrangement of seminars and workshops was mainly dependant on the customers' complaints. Mostly, customers' complain about certain HSMEs through which the ministry of Culture and Tourism provides workshop for HSMEs. Additionally, the organization of DAKA has also promised to train HSMEs in hospitality field.

### **3.8.5 Classification of HSMEs**

There is no specific classification for HSMEs. Afghan Tourist organization, which is responsible for licensing the HSMEs, has divided them into three categories of A, B, and C. The category A consists of large enterprises, category B consists of small and medium guesthouses and hotel and category C consists of restaurants.

But the Afghanistan National Crafters Union (ANCU) has classified the HSMEs according to their location, quality of services, type of customers, and the variety of cuisine



they offer. Therefore, it put them into three classes: First-class, Second-class and Third-class.

The ANCU has defined the first class restaurants as those where every meal price is more than US\$ 3, and provide high-class services with outstanding location and their main customers are tourists, expatriates, and the high-end customers. The second-class restaurants are defined as those which's meal price is US\$ 3 or less than US\$ 3, provide normal services with ordinary location and their main customers are the domestic market. The third class restaurants are those restaurant which's meal price is between 1-1.5 US\$, provide normal services and their main customers are the local population.

### **3.8.6 Measures to Support the HSMEs**

The Afghan Tourist Organization has asked the HSMEs to report about the problems they are facing and while the government is - as the officials say- ready to support and solve HSMEs' problems; it seems no HSME is ready to inform about their problem. The government says, it has facilitated all registration procedures and has reduced the tax payments from 15% to 10% of gross profit. Moreover, ATO said that it has supported the HSMEs by attracting customers through the Ministry of Culture and Tourism website and creation of activities. Meanwhile, the Afghanistan National Crafters Union works on finding markets for HSMEs through Internet and standardizing the quality of services by introducing new equipments and tools. The ANCU has also provided workshops on learning how to obtain loans from the financial institutions and how to effectively utilize the loans obtained.

### **3.8.7 Future Development Plan and Strategies**

The Afghanistan National Crafters Union is currently working on how to reduce the taxes burden on HSMEs and has sent a proposal to the Afghan Parliament to be approved. Importantly, it has also planned to arrange training courses and workshops for HSMEs' managers in the coming winter of 2008. Also, the President of Afghanistan has been asked to allocate 0.05% of total exports to the Union to invest on the development of crafters including HSMEs and to provide small and micro loans with low interests.

## **CHAPTER 4 SUMMARY**

This chapter is designed for the conclusion, discussions, and recommendations based on the research findings and to identify the limitations of the study. Initially, the researcher will summarize the main findings of the survey and discuss the results of the study according to the three objectives of the research, which were to investigate obstacles impeding the development of HSMEs and to identify opportunities that can support their growth. Finally, recommendations will be designed by proposing proper strategies for the development of HSMEs in Afghanistan.

### **4.1 Conclusions**

The first objective of the research was to investigate the obstacles impeding the development of HSMEs in Kabul, Afghanistan. Therefore, the obstacles were investigated in each section of questionnaire and integrated with in-depth interview results and summarized as follows:

#### **4.1.1 Characteristics of HSMEs Owners and Managers**

The majority of HSMEs in Kabul are run by owners/managers, who are less qualified and experienced in hospitality industry as most of them are holding high school & diploma degrees and they have been working in their HSMEs for less than two years. Around half of them never worked in the hospitality industry. In contrast, the in-depth interview results indicated that the majority of HSMEs owners and employees have experience in the hospitality industry as they have been working abroad in the neighboring countries such as Pakistan, Iran, and India.

### **4.1.2 Characteristics of the Hospitality Enterprises**

The majority of HSMEs in Kabul is local enterprises and dominated with small sized restaurants and guesthouses. Remarkably, the number of medium sized enterprises that were restaurants decreased during 2007. The majority of HSMEs in Kabul are registered with different government bodies. 93 governmental bodies do not have any coordination themselves and none of them have a complete list of HSMEs. Meanwhile, the interview results show that HSMEs still do not have an association that allows them to have a unified voice in front of the government to ask its help for the improvement of their performance and facilitating of the industry's development.

### **4.1.3 Strategic Planning Process**

The majority of HSMEs in Kabul have mission statements, but a few HSMEs review their mission statement annually. Around half employees of HSMEs in Kabul are conversant with their mission statements and their objectives. Moreover, the majority of HSMEs are working on annual plans. Likewise, the majority of HSMEs had strategies in place to achieve their business goals. From the personal observation of the researcher, the mission statements, plans and strategies were on an informal format. However, the majority of HSMEs have been operated profitably for the last three years.

#### **4.1.4 Human Resources Management Strategic Planning Process**

The majority of HSMEs in Kabul are carrying out job analysis and job design for employees and around half of them have recruitment plans but on an informal format. Similarly, the majority of HSMEs are conducting orientation informally. Likewise, the majority of HSMEs are appraising employees' performance through observation. A few numbers of HSMEs have written plan for the development of their employees' capacity while the majority of them provide on-job-trainings to their employees. Additionally, half of HSMEs employees' skills match their responsibilities.

On the other hand, the majority of HSMEs are recruiting their employees from both internal and external sources. The proper approach used for external sources was the word of mouth. Notably, the majority of HSMEs prefer to recruit those employees who are less qualified but familiar to them and have appointed out that familiarity is the most important criteria for the selection of employees. Furthermore, aside with the familiarity, the HSMEs have set experience as important criteria for the selection of employees followed by honesty, skills and others.

Importantly, a small number of governmental and non-governmental organizations have provided trainings to the HSMEs in Kabul and the employees that were trained, were mostly from the management level. According to ATO, the majority of HSMEs' owners were mostly well informed and had experience in the hospitality industry as most of them have been working abroad in the neighboring countries such as Pakistan, Iran, and India. The employees were also noted to be with sufficient experience in the hospitality field. Notably, the ATO refers to the lack of training from the government to the lack of budget and facilities. The ATO invited a number of HSMEs to attend workshops but some of HSMEs did not attend. Moreover,

the government of Afghanistan has signed a protocol with the government of India to support the Afghanistan HSMEs through providing short-term courses in hospitality. Moreover, the DAKA has also promised to train the Kabul HSMEs. The ATO provide trainings to HSMEs based on the customers' demand. Therefore, the ATO doesn't have any long-term plans or strategies in place to provide trainings courses to HSMEs. In contrast, the ANCU has planned to arrange training courses and workshops for HSMEs' managers in the coming winter of 2008. Meanwhile, a few numbers of HSMEs were invited to attend exhibitions, trade fairs, conferences, seminars and workshops within the last three years and the employees who participated in these activities were mostly from the management level. In this regard, the ANCU is planning to work on finding new markets for HSMEs such as fairs and exposes in foreign countries and have taken steps toward standardization of HSMEs services.

It is noticed that HSMEs' employees are working for a very low compensation. The majority of HSMEs pay low salaries and pay for holidays and sick leaves but less than half of them pay service-charge and for annual vacation.

#### **4.1.5 Marketing**

The majority of the HSMEs in Kabul have marketing strategies, pricing strategies, product strategies and promotion strategies but from personal observation of the researcher, these strategies were not in a written format. Moreover, a small percentage of HSMEs have allocated budget for advertisement and innovation along with conducting product life cycle analysis. In addition, the majority of HSMEs have informal short-term marketing plan. The majority of HSMEs are assessing the customers' needs, quality of service, customers' satisfaction, local competition and number of visitors through observation while a small percentage of the HSMEs were assessing the possibility of creating new products or services

with their marketing efforts. Meanwhile, the majority of the HSMEs believed that their prices were reasonable for their customers. The main market target for HSMEs are expatriates followed by business persons and tourists. Notably, the hotels and restaurants are mostly targeting the tourists as their main customers whereas the guesthouses, restaurants, and coffee shops are mainly targeting the expatriates and the wedding halls are targeting local residents.

Importantly, price discounts are used by HSMEs as a main promotion tool whereas brochures are used as a promotion tool mainly by the hotels, guesthouses, and restaurants. However, the majority of HSMEs perceived that the quality of the services to customers, quality of employees, quality of products, product selection, product prices, effective marketing as the most important factor to gain competitive advantages, but they do not have proper assessment system to retain their competitive advantage. The main reservation tool used by the customers is telephone, particularly in the hotels and guesthouses and restaurants followed by email, which is used mainly by the guesthouses and hotels customers.

#### **4.1.6 Computer and Internet Adoption**

The majority of the HSMEs use computer for business correspondents whereas less than half of them use it for accounting and book-keeping, reservation and cash flow planning and monitoring. Moreover, less than quarter of the HSMEs possess website for their enterprises promotion.

#### **4.1.7 Finance**

The majorities of HSMEs in Kabul have plan for their financial needs and conduct financial analysis. Meanwhile, the majority of them finance their enterprises through owners' capital, retained profits and partnerships while a few numbers of them get source of fund through banks, relatives, and other financial institutions.

Notably, around half of the HSMEs are facing difficulties of high interest rate while half of the HSMEs do not know what kind of difficulties they face due to the lack of awareness about external financing. As a result, the ANCU provides workshops on how to obtain loans from the financial institutions and how to effectively utilize the obtained loans.

#### **4.1.8 Business Operation Obstacles**

The study has revealed that there are five major obstacles impeding the business operation of HSMEs including deficiency of basic infrastructure, insecurity, cost of raw material, high tax payments, and future uncertainty concerns. Fortunately, the government has reduced the tax payments from 15% to 10% of gross profit. However, the government has taken action toward developing the basic infrastructure and security, but still they are perceived as the main obstacles for HSMEs in Afghanistan. Moreover, the high rents are perceived also as a major obstacle for those HSMEs, which are paying rent for their enterprise properties. Although "religious interference" was not perceived as an obstacle by HSMEs managers/owners, in fact 30-35% foreign HSMEs were closed as a result of violating Afghanistan Islamic laws. The government regulations are perceived as a major obstacle for foreign enterprises only.



Surprisingly, the officials at ATO have expressed the insufficient number of customers as a major obstacle for HSMEs operation and around 20% of HSMEs have been closed since 2006 due to the insufficient number of customers but the study reveals it as a medium-level obstacle. However, the government has tried to support the HSMEs by attracting customers for them through creating new activities such as arranging cultural festivals and exhibitions, handicraft fairs, fashion shows, and musical concerts.

## **4.2 Discussions**

The discussion of finding is based on the objectives of the study as follows:

### **4.2.1 Objective (1): To Identify the Obstacles Impeding the Development of HSMEs in Kabul, Afghanistan**

The study investigates the obstacles impeding the development of HSMEs in Kabul, Afghanistan and proposes proper strategies for the development of them. A number of internal obstacles and external obstacles are identified and arranged in the following tables:

**Table 4.1** Internal Obstacles

<b>Internal Obstacles</b>	
<p><b>Strategic planning:</b></p> <ul style="list-style-type: none"> <li>- Informality of mission and strategic direction</li> <li>- Informality of plans</li> </ul> <p><b>Human resource management:</b></p> <ul style="list-style-type: none"> <li>- Lack of qualified and experienced manager</li> <li>- Lack of positive attitude towards training</li> <li>- Lack of proper employment mechanism</li> <li>- Lack of proper compensation system</li> <li>- Lack of labor law implementation</li> </ul>	<p><b>ICT and Internet:</b></p> <ul style="list-style-type: none"> <li>- Low level of ICT &amp; Internet adoption</li> </ul> <p><b>Marketing:</b></p> <ul style="list-style-type: none"> <li>- In formality of marketing plan and strategies</li> <li>- Lack of product and pricing strategies</li> <li>- Lack of promotion strategies</li> </ul> <p><b>Financial management:</b></p> <ul style="list-style-type: none"> <li>- Lack of formal financial plan</li> </ul>

**Table 4.2** External Obstacles

<b>External Obstacles</b>	
<p>Absence of basic infrastructure</p> <p>High taxes</p> <p>High interest rates</p> <p>Lack of new activities and new markets</p> <p>Insecure condition of Kabul</p> <p>High cost of raw materials</p>	<p>Future uncertainty concerns</p> <p>Lack of trainings from the government and NGO</p> <p>Lack of coordination among HSMEs registration organizations</p>

#### **4.2.1.1 Strategic Planning**

The study found that even though the majority of HSMEs in Kabul had informal (unwritten) business strategies and plan, their businesses are still profitable than those HSMEs which did not have any mission statement, business strategies and plans. Since more than half of HSMEs have informal business strategies and plans, therefore, the HSMEs in this research are categorized according to French & Harrison (2004)

into non-planners without any strategic plan and informal planners with strategic plans that are not written down. The HSMEs who have informal business strategies can develop their strategies into formal ones that would lead them to achieve higher sales growth and returns and those HSMEs which do not have business strategies and plans can design their formal business strategies and plans and gain the advantages of formal business strategies and plans as French & Harrison (2004) observed in their studies that those SMEs which were informal planner had significantly higher growth than non-planners. Whereas Clayton (1996) believed that the lack of a strategic business plan in small businesses leads to outdated management practices and the SMEs that are engaged in strategic planning (compared to those that do not have) are more likely to achieve higher sales growth, higher returns on assets, higher margins on profit and higher employee growth (Berman et al. 1997; Carland & Carland 2003; Gibson & Casser 2005). In contrast, Robinson & Pearce (1984) and Lyles et al. (1993) observed that there are no significant differences between firms with or without formal planning procedure in respect to improved performance and returns. Similarly, Shrader et al. (1998) concluded that no clear relationship was obvious between formal planning and business performance. Arguably, those formal plans, which are not supported by planning instruments, may not make any difference in improving performance or increasing returns because most of HSMEs plan intuitively (Stonehouse and Pemberton, 2002). Moreover, HSMEs should also look forward for how to develop their enterprises, regardless government or NGOs assistance as the proverb says: no gains without pains and there are a number of Business Administrative institutes, UN and NGOs agencies which provide guidelines and training on how to design and develop business plan. Hence, it can be concluded that lack of both formal and informal business strategies among HSMEs is an internal obstacle for the growth of HSMEs. Therefore, HSMEs should consider the drawing and

formalizing of business strategies and plans, which are supported by planning instruments as an opportunity for their higher performance and growth.

#### **4.2.1.2 Human Resources Management**

The study found that human resources management practices in Kabul HSMEs are informal as the majority of HSMEs conduct job analysis and job design, orientation and on-the-job trainings and had performance appraisal on informal way. Likewise, it was also observed by Cassell (2002) that the performance appraisal practices in small firms tend to be informal. On the other hand, more than two third of HSMEs in charged managers to carry out training assessment, but still the majority of HSMEs do not have formal training plans, which is the indication of informal trainings in HSMEs. Similar facts were found by Storey (2004) & Westhead (1997) that small firms are less likely to provide formal trainings and the trainings induction were implemented on an informal basis (Kotey & Sheridan, 2001 ; Gilbert & Jones, 2000). There are two explanations behind the informality of trainings in Kabul HSMEs which is suggested by Storey (2004): first the “ignorance” explanation where training is not provided because the benefit of training is underestimated by the small firm managers; and second, the “market” explanation where the cost of training is too high for small firms.

In the mean time, more than half of the HSMEs recruit their employees from both internal and external sources and use referrals and walk-ins as recruitment sources. Similarly, it was observed by Arthur (1995) that the managers in small firms use informal recruitment practice in recruiting family members, referrals, and walk-ins and use the world-of-mouth as an advertising tool (Gilbert and Jones, 2000; Kotey and Sheridan, 2001; Cassell et al., 2002; Marchington et al., 2003). In addition, the majority of HSMEs prefer to recruit those

employees who are less qualified and familiar and have set the familiarity as overriding criteria for selecting new employees, which is an example of an informal selection practice. The reasons that stand behind HSMEs emphasize on the familiarity and honesty is that most of HSMEs in Kabul do not trust and rely on any employee because of the lack of internal control and competition concerns. Another reason could be the shortage of skilled labors that force the HSMEs management to recruit the unskilled employees whom they know rather than those who they do not know.

The main reason that stands behind the informality of human resources management is that very few numbers of HSMEs have human resource managers where the remaining HSMEs had only one general manager who was responsible for all business function. This might have resulted in informality of HRM practice because the general managers are busy with different business activities and they do not have time to formalize and pursue the HRM practices. Furthermore, the formalization of HRM practices cost both time and money in implementing small firms than in larger firms (McEvoy, 1984; Reid et al., 2002) especially the majority of general managers are unlikely to have the managerial skills and experience in the area of HRM because around half of HSMEs owners/managers have never had previous experience in the hospitality industry and their education level is diploma.

Nonetheless, more than two third of HSMEs are practicing informal HRM, but still their business are profitable than those who did not practice informal HRM. This shows that the informal HRM also has positive impact on the HSMEs. Similarly, Rowden (1995) found that the use of both formal and informal HRM practices had a direct influence on the overall success of the firms and Racha and Khan (1995) concluded that there are positive relationship between effective human resources management and successful business performance. Hence, it can be concluded that lack of both formal and informal

HRM practices among HSMEs is an internal obstacle for the growth of HSMEs. Therefore, HSMEs should consider the formalization as an opportunity for their higher performance and growth.

#### **4.2.1.3 Marketing Management**

The study found that more than half of the HSMEs in Kabul claimed to be practicing informal marketing management whereas the rest of HSMEs do not practice it. The marketing plan and strategies are informal, and the promotion is being carried out through price discounts and advertisement in newspapers. The majority of HSMEs receive their customers through the personal contacts with the responsible person in most critical area such as tourism information center at the Airport, secretaries and coordinator at the UN, NGOs and Government by paying them commission. Likewise, Gilmore et al, 2001 noted that the marketing in SMEs is thought to be practiced through networking or through the combination of transactions, relationships, interactions and networks marketing (Brodie et al, 1997). Moreover, the HSMEs in Kabul also use friendship as a marketing tool for making long-term relationship with the customers and they have invested considerable time and effort in maintaining good relations with regular clients. Similar facts were observed by Brodie et al (1997); Hill and Wright (2001); Gilmore et al (2001) that the small firms marketing practices rely on personal contact networks and building relationships was vital to a company's success.

The reasons behind informal marketing practice could be those as suggested by Hogarth-Scott et al (1996), that SMEs managers are often generalists, not marketing specialists and it is also found that complex marketing theories may not be appropriate for small businesses and may not help in understanding of their markets. Notwithstanding, the majority of HSMEs in Kabul practices informal marketing and conduct

observation market assessment, they operated profitably than those that did not practice. Denison and McDonald (1995) also found similar results the firms, which were conducting marketing orientation and competent practitioners, have performed better in terms of return on investment (ROI) and market share.

#### **4.2.1.4 Financial Management**

The financial management process in the majority of Kabul HSMEs is informal. As the majority of HSMEs plan for their financial needs and carry out financial analysis for their current financial position in an informal way. Meanwhile, few HSMEs obtained loans from banks because the majority of HSMEs were financed through their owned funds and retained profits. Around half of the HSMEs were funded by partnership and a few of them were funded through borrowed money from the relatives. Similar results were found by Hussain & Matlay (2007) that some entrepreneurs solve their financial needs by requesting loans from their families, friends or acquaintances whereas Cosh and Hughes (1994) suggest that an owner or manager chooses first a personal source of finance; second – short-term borrowing; third – longer-term debt; and – finally, the least preferred, equity finance which might affect his/her control upon the business. However, in Afghanistan, obtaining loan from relatives and friends is widespread known, and the HSMEs owners or managers prefer to fund through partnership as the partner shares both profits and loss.

Notably, more than half of HSMEs in Kabul did not face any type of difficulties while accessing to finance while less than half the HSMEs claimed to be faced by the high interest rate, especially those HSMEs which tried to obtain loans from banks. There are more than 10 banks in Kabul providing small loans for the SMEs with high interest rate between 12% - 22% excluding bank charges. Likewise, Wilson (2004) found

that 71% of respondents did not perceive any difficulties in accessing to finance and accessing to finance itself was not a barrier to SMEs survival or growth. In the UK, Cosh and Hughes (2003) also noticed that finance is not a major barrier to SME development. In contrast, Westhead and Wright (2000) reported that the absence of adequate funding represents a major obstacle to the entrepreneurial process in a firm regardless of size, location or type of economic activity. Moreover, SMEs are more financially constrained than large firms (Schiffer & Weder, 2001; Beck, Demirguç-Kunt, Laeven, & Maksimovic, 2006). For example, using data from more than 10,000 firms in 81 countries in 1999-2000, the World Business Environment Survey (WBES) that firms that rate showed financial constraints as a major obstacle is 38.68% for small firms, 37.83% for medium sized firms, and 27.62% for large firms. Thus, it can be concluded that high interest rate can be a major obstacle for those HSMEs, who want to finance through the financial institutions.

#### **4.2.1.5 Computer and Internet Adoption**

The study found that around two third of HSMEs in Kabul use computer for business correspondence through using email and for accounting and reservation, cash flow planning and personal records. Similarly, Poon and Swatman (1999) found that 90% of SMEs in his study have embraced the use of e-mail and using it regularly a year after it was introduced to the business. Importantly, a few numbers of HSMEs in Kabul use Internet for updating website and online ordering for supplies and due to the lack of HSMEs and customers familiarity with website and online ordering system. Likewise, Poon (2000) also found that there was lack of customers use for Internet, particularly of e-mail (Sillence, 1998) which itself was barrier for Internet adoption (Kendall et al, 2001).



However, a large number of researchers suggest that SMEs can gain greatest benefits from the proper usage of the Internet and it has been recognized by the HSMEs that the Internet would enable them to reach wider geographical markets and increase the number of customers (Lunati, 2000). Similarly, it is also suggested by Baker (1999) who quoted in Sparkes & Thomas (2001, pp.332) stated that “internet users at home rose by 76% to six million in the UK during 1998, with the use at the office up to 54% to 5.3 million in the same period”; and Keogh & Galloway (2003) estimated that the proportion of those who purchase on-line rose from 41% in 1999 to 61% in 2000. Similarly, in the USA, Zinkhan (2002) estimated that approximately 50 million Americans are currently on-line which means that there are potential opportunities in adoption of Internet for the HSMEs in Kabul. However, the usage of computer and adoption of Internet for the HSMEs in Kabul depend on the availability of electricity and low cost of Internet connections and website hosting.

#### **4.2.1.6 External Obstacles**

The study revealed that there are a number of external obstacles impeding the business operation of HSMEs in Kabul. The external obstacles include lack of basic infrastructure, high taxes, high interest rates and high cost of raw materials, lack of new activities and new markets, insecurity, future uncertainty concerns, lack of trainings from the government and NGOs, and lack of coordination among HSMEs registration organizations. Similarly, Prissarides, Singer & Svejnar (2003) in their study of Bulgaria and Russia SMEs noted that lack of infrastructure (electricity, water supply, wastewater disposal, quality of roads, bad transportation and

telecommunications), lack of skilled labor, lack of trainings, high taxes, and lack of new markets as major obstacles for SMEs development. On the other hand, lack of managerial capabilities and poor access to management was noticed by Wan (2003) and Stuti (2005) as obstacle for SMEs operation. Moreover, lack of human resources was also identified by Saleh and Ndubisi (2006) as a major obstacles for SMEs.

#### **4.2.2 Objective (2): To Identify the Opportunities Supporting the Development of HSMEs in Kabul, Afghanistan**

The identification of opportunities that support the development of HSMEs is based their current situation analysis through their strengths, weaknesses, opportunities and threats as follows:

##### **4.2.2.1 The Strengths of Kabul HSMEs**

###### **i. Entrepreneurs' Positive Attitude toward Improvement**

While conducting the face-to-face interviews with the HSMEs' owners and managers, it was noticed that the author was the first researcher investigating the obstacles that impede the development of HSMEs in Kabul and studying the methods to develop them. There are some researches about HSMEs in Afghanistan, but it seems that this is the first individual major approach to HSMEs in Kabul. However, the findings of the study showed that the majority of HSMEs have concerns about the future's uncertainty, insecurity, and the political unrest, still they asked the researcher for guidelines in how to develop their enterprises, especially about the marketing management. Moreover, the majority of HSMEs are willing to develop their enterprises in terms of decoration, services

improvement and products development. For example, there are some guesthouses that having more than two branches and others are planning to expand their business in other major cities.

## **ii. The Efforts toward Competitiveness**

The majority of HSMEs in Kabul are conducting market assessment to gain competitive advantages through the assessment of customers' needs, quality of services and products, number of visitors and for their satisfaction and competition. Accordingly, most of HSMEs are using the design and decoration of their enterprises as a differentiation strategy. For example, the wedding halls in Kabul found that the Afghan people are concerned more about the decoration and architectural styles, so the majority of wedding halls in Kabul are applying foreign styles in wedding halls as differentiation strategy to attract customers. Similarly, the hotels are using both foreign style decorations with elevators and escalators to gain competitive advantages. Therefore, the efforts which HSMEs are using to gain competitiveness can be considered as their strength for development.

## **iii. Huge Pool of Labors (High Unemployment Rate)**

Afghanistan has around 15 million labor-force and of which, 40% are facing high unemployment against 12% annual growth (CIA, 2008). Meanwhile, 10% of the labor-force is considered to be from Service Industry. Moreover, the Service sector labors are claimed to be low skill labor, which has resulted in low cost of labors among HSMEs. Therefore, huge pool of labors would be the strength for hiring proper employees with low cost.

#### **iv. Low Competition**

The study revealed that level of competition among HSMEs is low because the practice of marketing in Kabul HSMEs relies on networking, personal contacts and long-term relationship with regular clients. Moreover, the HSMEs in this study are comprised of five categories and each category has its own customers and target markets. It was also observed that if the number of similar enterprises in a category increases, the competition among the enterprises of similar category also increases. For example, if the numbers of the restaurants are higher than other HSMEs, therefore, the levels of competition among restaurants are higher. Thus, the low level of competition among HSMEs is considered as strength of HSMEs to attract more customers and to develop faster with lowest efforts and costs.

#### **v. HSMEs Financial Self Sufficiency**

The findings indicated that the majority of HSMEs have low financial constraints because the HSMEs in Afghanistan finance their enterprises through internal funds such as own-fund and retained profits. Moreover, Afghanistan as a traditional society, it is well known that the family members, relatives, and friends co-operate and most of enterprises are financed through either borrowing money from relatives or partnering the relatives in the business. It is widely known that funding in Afghanistan is being done through borrowed money from the relatives, friends and moneylenders. According to the World Bank's investment climate survey (2006), only three out of 335 enterprises in five major cities in Afghanistan reported having bank credit for new investment and entire remaining

were funded by either internal funds or through the money provided by relatives and friends. Therefore, the HSMEs financial self-sufficiency can be considered as HSMEs' strength against the funding of the banks with high interest rate.

#### **vi. Flexibility**

The HSMEs in Kabul are more flexible in term of meeting the fluctuations in customer needs. They assess their customers' needs, satisfaction and the competition through observation and take immediate decision and action if needed. Moreover, they have the ability to engage in products and services to respond rapidly to seize new opportunities and diversify their operations. Therefore, their flexibility can be considered as strength of HSMEs to meet the unpredictable changing market.

#### **4.2.2.2 The Weaknesses of HSMEs in Kabul**

##### **i. Informality and Lack of Strategic Business Plan**

More than half of HSMEs in Kabul have informal strategic business plan whereas the remaining do not have it. However, it was observed from the literature that the HSMEs which are engaged in (formal) strategic planning compared to those that do not, have achieved higher sales growth, higher returns on assets, higher margins on profit and higher employee growth (Carland & Carland 2003; Gibson & Casser 2005) whereas, French & Harrison (2004) observed in their studies that those HSMEs which were informal planners had significantly higher growth than non-planners. Therefore, the informality and lack of strategic plan in HSMEs can be considered as HSMEs' weakness.

## **ii. Inexperienced and Unqualified Managers**

The findings indicated that more than half of the owner-manager and managers in Kabul HSMEs were not qualified in the hospitality industry as the majority of them had only high school and diploma degree. Meanwhile, more than half of them did not have previous experience in hospitality industry which has in informality business functions in HSMEs. Therefore, the inexperience of the HSMEs managers can be considered as HSMEs' weakness.

## **iii. Low Attitude toward Trainings**

The study stated that there is low attitude toward training of employees. However, the majority of HSMEs in Kabul have appointed managers to assess the training needs. Meanwhile the majority of them provide orientation, on-the-job trainings but few HSMEs have formal training plans which give the indications of low attitude toward trainings.

## **iv. High Emphasize of HSMEs on Familiarity**

Lack of skilled labors has forced HSMEs management in Kabul to recruit employees who are less qualified and familiar. More than half of HSMEs in Kabul prefer to recruit employees who are less qualified and familiar rather than those who are qualified but not familiar to them. Additionally, the majority of HSMEs have set familiarity as overriding criteria for selecting employees. Selection of employees on the familiarity bases rather than the qualification and experience bases would have negative impact on the business. The negative impact would be the ignorance of the employees for carrying out their tasks in a proper way because the familiar employees know that the owner or the manager

would not fire them if they did any mistakes and the managers would be more flexible with the familiar employees. This would create negative impact in long-term. Therefore, the emphasis of HSMEs on the familiarity rather than qualification and experience are counted the HSMEs' weakness.

#### **v. Poor Working Condition of Employees**

The employees in HSMEs are working in poor conditions as the majority of HSMEs in Kabul do not sign hiring contracts with their employees and do not provide them with job security, medical insurance and annual vacations. Poor working condition leads to job dissatisfaction, low productivity, high absenteeism and low commitment of employees. Therefore, the poor working condition of employees is a weakness of HSMEs in Kabul.

#### **vi. Absence of HSMEs Association**

There is still the absence of HSMEs association which would allow HSMEs having a powerful and a unified voice in front of the authorities to improve their performance and facilitate the industry's development. The association will also increase the level of interaction and enable group discussions within HSMEs. Moreover, it will help create networking relationship among HSMEs and facilitate finding solutions for the problems and exchanging experience. Therefore, the absence of HSMEs' association is a threat to HSMEs growth.

## **vii. Entrepreneurships' Future Uncertainty Concerns**

The majority of HSMEs owners in Kabul are very concerned about the uncertainty of the future as Afghanistan has experienced for 29 years of political unrests. The majority of them hesitate to extent their businesses, as there are very low improvements in the people's everyday life and the numbers of tourists has declined due to the political uncertainty. The future uncertainty is also perceived as a major obstacle for HSMEs development. As a result, according to the researcher's observation, most of HSMEs have lost hope in the new government. They see the new established government as an unsuccessful government that could not deliver its promises to improve life conditions. As a results, the future uncertainty perceive as a major threat for the HSMEs expansion and growth.

### **4.2.2.3 The Opportunities for HSMEs in Kabul**

#### **i. The Existing of International NGOs and Foreign Investments in Afghanistan**

Initially, the international NGOs staff and the foreign investment staff are the main customers for the HSMEs in Kabul. There are more than 2,355-registered local and international NGOs and more than 1,500 foreign investments in Kabul. Most of the international NGOs are responsible for capacity development and some are responsible for capacity development of HSMEs in particular. Therefore, the presence of the international NGOs is an opportunity for HSMEs to be trained and promoted through publication of HSMEs' image and address on the international NGOs websites. Moreover, the HSMEs can use the international NGOs staff as a marketing



team in promoting the HSMEs business outside Kabul and Afghanistan through the word of mouth.

## **ii. Broader ICT Adoption**

Around two third of HSMEs in Kabul are using computer and most of them use it for business corresponding through emails and for accounting while only half of them are using it for reservation and a few for updating their websites and online supplying. Buhalis & Main (1998) noticed that the internet is gaining commercial viability and is particularly suited to small business, where it enables them to keep doors open 24 hours a day, at minimal cost to customers all over the world. However, a firm may not be able to trade online with customers, but the internet can give firms the advantage of increased profile in that it can allow them to present information to potential customers (Tse & Soufani, 2003), and provide another channel for the purposes of brand building (Jacobs & Dowsland, 2000), advertising, and marketing (Turban et al., 2000). Therefore, the adoption of broader ICT, especially the Internet can bring immense benefit in terms of business efficiency, product and service differentiation, cost reductions and speed of operational response to orders.

## **iii. Domination of Hospitality Industry by HSMEs**

Around 99% of the hospitality industry in Afghanistan is dominated with HSMEs and this have the influence of attracting the Government and international NGOs attention in solving their problems and facilitating their development. This could be an opportunity for HSMEs to influence the Government and the international NGOs to support their development and growth.

#### **iv. Tourism Development Plans**

The Afghanistan National Development Strategy has outlined the development of 20 tourist destinations in Afghanistan by the end of 2010 which will attract more tourists to the country. Although, the security situation in eastern and western parts of Afghanistan is not stable, the government makes efforts to promote the northern parts of Afghanistan where most tourist destinations are located through arrangement events and activities. One of these activities was the laser show of the history of Buddhism and the historical giant two Buddha statues in Afghanistan which attracted hundreds of tourists. Moreover, it is also outlined the development of 20 domestic and 4 international airports with the International Civil Aviation Organization (ICAO) standards which will encourage International airline companies to organize flights to Afghanistan that will facilitate in the arrival of foreign tourists to the country. Therefore, the development of 20 tourist destination, 20 domestic and 4 international airports is an opportunity for HSMEs in Kabul for HSMEs' growth.

##### **4.2.2.4 The Threats for HSMEs in Kabul**

###### **i. Political Instability and Insecurity**

Since the establishment of republic government in Afghanistan in 1973, ten Presidents have ruled the country and five of them were assassinated. This indicates the highest political instability of the country. Moreover, the tourism industry was collapsed in 1979 with the invasion of Soviet Union. Prior to 1979, Afghanistan was a popular destination for tourists traveling on their way to India. Afghanistan was attracting thousands of tourists from around the world with its ancient cultural and historical sites and its 5000-year –old history. Since the start of political instability and insecurity in

1979, the number of tourist arrivals declined from 120,000 in 1976 to 12,000 in 2007. Furthermore, the existence of foreign troops in Afghanistan is also a threat to the tourist arrivals in the country. The foreign media cover the activities of the existing foreign troops in Afghanistan and their operations in way that affect the image of safe traveling to Afghanistan. The HSMEs have also pointed out that their future concerns is a major obstacles for their development and as a result, more than half of HSMEs have rented their enterprises' properties.

### **ii. Absence Basic Infrastructure**

Lack of basic infrastructure such as availability of electricity, gas, and water supply and the quality of roads and airports are perceived as a major threat and obstacle for HSMEs business operations. The lack of electricity availability forced the HSMEs in Kabul to use electricity generators which are too costly. Meanwhile, the low quality of roads, transportations and other basic infrastructures restrict the tourist arrivals to the country. However, the government planned to improve the accessibility of 50% of households in Kabul and 30% of households in other major urban areas to piped water and at least 65% of households and 90% of non-residential establishments in major urban areas and 70% of all roads in major cities will be improved with good standard.

### **iii. High Taxes**

The study found that high taxes are one of the major threats and obstacles for the Kabul HSMEs growth as the government has imposed different types of taxes such as 10% income tax for over US\$ 292 and 20% income tax for over US\$ 2,000 a month, 20% corporate tax, 12.5% tax on gross receipts. Therefore, the HSMEs in Kabul cannot afford these taxes at the time when they have low customers especially during the winter which would have negative impact on the HSMEs development.

Therefore, the high taxes are threat to the HSMEs growth and development.

#### **iv. High Rent Rates and High Raw Material Cost**

The high raw material cost is also one the major threats and obstacles for the HSMEs business operation as nowadays the cost of raw material increases and meanwhile, the HSMEs management cannot increase its price on time as cost of raw materials increases that could resulted in the loss of HSMEs. Moreover, high rent rates are also considered as a threat and obstacle for those HSMEs which pay rents for their business property especially during the winter season where the number of customers declines and HSMEs can not afford this high fixed cost. Therefore, both high raw material, high rent costs are threats to the HSMEs growth.

#### **v. Limited Access to Finance and High Interest Rates**

In Afghanistan, HSMEs have almost no access to bank credit but only limited banking services. Recently, it is noted in WB's Doing Business report (2008) rankings for Getting Credit, a measure of credit information sharing and legal rights of borrowers and lenders, Afghanistan ranked 177th out of 178 countries. As a result, Afghan businesses are almost entirely reliant on internal funds from friends, relatives and money lenders. Although informal financial sector credit maybe play an important role on manufacturing and commercial activities, it is not sufficient for long-term private sector development because such funds are often costly and short-term. Moreover, in spite of a strong demand for credit from HSMEs, the financial institutions are not responding to it. Limited access to finance, particularly for working capital, is a severe problem

for HSMEs. The WB's investment climate survey (2006) stated that 51% of firms considered access to finance a major problem for investment and business operations in Afghanistan. An ongoing World Bank survey of 50 enterprises, registered under the Afghanistan Investment Support Agency (AISA), shows that institutional financing in terms of working capital or investment capital could have a positive impact on business competitiveness, resulting in business expansion, increased employment and improved profitability.

#### **vi. Absence of Coordination among HSMEs Registration Organizations**

The HSMEs in Kabul are registered with different government organizations that have no coordination among themselves. There is no specific government organization covering all HSMEs, except the Ministry of Commerce which is in charge of collecting taxes and issuing licenses. The same HSMEs claim that the government organizations have never provided any training or development support. On the other hand, the government organizations reject those claims and emphasize that they have provided training only to the registered HSMEs with them. Therefore, the absence of coordination among the HSMEs registration organization is a threat that HSMEs is facing, particularly in regard of trainings and in the timely dissemination of information.

### **vii. Absence of Hospitality Institute**

Afghanistan at the present is facing lack of Hospitality and Tourism institutes. Prior to 1992, Afghanistan had had institute of Hotels, which offered bachelor degrees in hotel management. As a result of home conflicts in Afghanistan, the institute was collapsed and has not opened yet. However, in 2007, the Ministry of Culture and Tourism has projected to establish a Tourism Center that would provide education in Hotel management and Afghan Hospitality. Unfortunately, the project was not approved by the Ministry of Finance. Lack of skilled labors forced HSMEs managers to recruit employees with no required skills and spend both time and money to train them. As a result, the HSMEs in Kabul recruit unqualified family members, friends and those who are familiar and trusted. This would affect the HSMEs business negatively in long-term. Therefore, lack of skilled labors and hospitality institute is a threat for the HSMEs growth and development.

### **viii. Lack of Support from the Government and NGOs**

There are a few of government organization and NGOs which are responsible for supporting HSMEs development in Afghanistan, but only a few HSMEs have been trained and supported. National Crafters Union with the cooperation of GTZ is the only organization that provides improvement supports for HSMEs' business operations. These improvement supports include identification of new markets, understanding and meeting legislative, improving labors working conditions and broader ICT and Internet usage. In other countries, there are a number of governmental and non-governmental institutions which support the development of HSMEs and their efforts were crucial for HSMEs development. Therefore, the absence of government and NGOs support could

be considered as a threat for the HSMEs growth and development.

From the above SWOT analysis, it can be concluded that the development of HSMEs is possible through a close cooperation and coordination between HSMEs and the government. The strengths, weaknesses, opportunities and threats are summarized in the following table 4.3:

**Table 4.3** SWOT Analysis of HSMEs

<b>Strengths</b>	<b>Weaknesses</b>
<ol style="list-style-type: none"> <li>1. Entrepreneurs' positive attitude toward development</li> <li>2. Efforts for competitive advantages</li> <li>3. HSMEs financial self sufficiency</li> <li>4. Huge pool of labors (unemployment)</li> <li>5. Low competition</li> <li>6. Flexibility</li> </ol>	<ol style="list-style-type: none"> <li>1. Informality and lack of strategic business plan</li> <li>2. Informality of business functions.</li> <li>3. Managers are not qualified and experienced</li> <li>4. Low attitude toward trainings</li> <li>5. High emphasizing of HSMEs on familiarity</li> <li>6. Poor working condition of Employees</li> <li>7. Absence of HSMEs association</li> <li>8. Entrepreneurs' future uncertainty concerns</li> </ol>
<b>Opportunities</b>	<b>Threats</b>
<ol style="list-style-type: none"> <li>1. The existing of NGOs and foreign investments in Afghanistan</li> <li>2. Broader ICT adoption</li> <li>3. Dominate of Hospitality industry by HSMEs</li> <li>4. Tourism Development Plans</li> </ol>	<ol style="list-style-type: none"> <li>1. Absence of basic infrastructure</li> <li>2. Political instability and Insecurity</li> <li>3. High taxes</li> <li>4. High interest rates</li> <li>5. High rent rates and raw material cost</li> <li>6. The absence of coordination among Government registration organizations</li> <li>7. Absence of Hospitality Institute</li> <li>8. Lack of support from the Government and NGOs</li> </ol>

### **4.3 Recommendations**

The final objective of this study is to propose strategies for the development of HSMEs in Kabul. Therefore, a number of development strategies are proposed for HSMEs to adopt and a number of policies are recommended for the government's consideration.

#### **4.3.1 Strategies for HSMEs Development**

##### **4.3.1.1 Setting up Strategic Plan**

The majority of HSMEs in Kabul are informal planners as their employees are not aware of their mission and goals. Moreover, less than two third of HSMEs have informal strategies in place to achieve their goals. However, the HSMEs that are engaged in strategic plan compared to those that are not are more likely to be those that achieve higher employee growth, higher sales growth, higher returns on assets, and higher margins on profit. Therefore, there are needs for the HSMEs to set up a formal strategic plans including the set up of HRM plan, marketing plan to support their growth of enterprises. In order to set up a strategic plan, the HSMEs owners/managers need to learn how to set up a strategic plan and find the required tools to support their strategic plans because most of the HSMEs managers are holding high school and diploma degrees and even they do not have the knowledge of drawing a strategic management plan. Therefore, the HSMEs owners/managers should attend training courses at any business administration institute that teaches strategic management, strategic HRM plans, marketing plans, financial management plans, ICT usage, and decision making through case studies and emphasizing on experiential and real-world learning and resource-based and problem-based teaching. There are many public and private educational institutions in Kabul which provide business



administration programs. Meanwhile, the Afghanistan Tourist Organization (ATO) and Afghanistan Investment Support Agency (AISA), the National Crafters Union (NCU), United Nations Development Program (UNDP), and German Technical Cooperation (GTZ) are involved in building capacities, should support the public and private institutes to provide training courses particularly for HSMEs. The training courses should include business planning, human resource management, marketing, financial management, leadership and decision making skills.

On the other hand, the Planning and Research Department (PRD) should cooperate with Afghanistan Tourist Organization and the Ministry of Communication, Information, and Technology in providing information about the customers' trend which is necessary to understand the customers' needs and legislations for the HSMEs to draw their plans. The PRD should also create online database that can be access through any computer from anywhere.

Once the owners/managers were trained, they should first conduct training need analysis and find out what trainings are needed for each management level employees and then conduct in-house trainings for them. It is also important that the HSMEs should encourage employees to pursue self-study in regard to their current and future careers.

#### **4.3.1.2 Human Resources Management**

Since employees are the individuals who deliver the hospitality products and services to the customers and interpret the culture of the organization, it is necessary to set up recruitment plan by carrying out job analysis and job design to recruit the right staff for each job. The HSME should first determine the business goals and then develop a job description and job specification through the job analysis process. This process reveals the tasks, behavior, and personal characteristics

needed for individual jobs. Job description and job specification can be used for recruiting, selecting, communicating explanations, performance appraisals, identifying training needs, making promotional decisions and determining compensation. The next step is finding the right employee for each job through both internal and external sources. The HSMEs managers can use their employees as referral source for their internal recruitment and advertising at the employment agencies, university and local press as external recruitment source.

The employees should be selected without any bias as the HSMEs managers should recruit the right staff according to the job requirements by emphasizing on knowledge, skills, attitudes and abilities of employees. Once the employees were selected, the orientation program should be conducted. The orientation program should cover information about the mission, vision, goal, culture, traditions, management philosophies and strategic believe of enterprise, policies and procedure at a enterprise and the management expectation of employees. Moreover, specific job orientation should be provided to familiarize the new employees with their job responsibilities and work environment. Necessary skills trainings in how to perform job and organizational culture adoption trainings are required to be provided to ease the achievement of responsibilities within the organization.

In order to improve the performance of employees, the HSMEs management should conduct training needed to analyze the different management level of employees by carrying out task analysis for the new employees a performance analysis for current employees to identify the negative gaps between the actual performance of the employees and the enterprise standards for a worker. The training should be undertaken to fill the negative gaps if existed. The technical skills trainings should be provide to those employees who perform technical tasks and administrative trainings should be provided to those employees who are involved in paper work

and management and professional skills should be provided for the managers.

In order to increase the ability of monitoring the corresponding and tasks performance with standards, management expectations, and objectives, the HSMEs managers should conduct performance appraisals for their employees. Performance appraisal is important for staff motivation, attitude and behavior development, communicating and aligning individual and organizational aims, and fostering positive relationships between management and staff. Moreover, it will help to identify and correct existing problems, and to encourage better future performance. Therefore, it is necessary to provide employees with performance appraisal feedback to enhance and improve their performance by providing them with required trainings. The evaluation of employees' performance should be conducted through formal evaluation system such as guest appraisals which will help in determining training needs and 360-degree appraisals which include a wide variety of raters such as supervisors, subordinates, co-workers, employees from other departments, guests, and suppliers in appraising the employee's performance and provide the feedback to each rates. The rates do not know who their raters are and it reduces the chance of discrimination or bias. It is also necessary to keep the feedbacks anonymous and confidential in the enterprise.

Moreover, in order to increase the contribution of employees to the enterprise development and motivate them to perform their jobs well, a proper direct and indirect compensation system should be implemented within the enterprise according to living cost which refers to worker's purchasing power for ordinary necessities and according to availability of workers in the labor market, union compensation rates which emphasize on seniority and government's labor law. The direct compensation should be based on payment of salaries, bonuses, and service charge. On the other hand, in

order to value the employees and increase their productivity, the indirect compensation system should be based on provision of medical insurance, job security and unemployment, vacation pay, holiday pay, and sick leave and their performance should be tied to reward system such as achievement awards and the rewards must be linked to output, not to time invested. Furthermore, since, the employees are delivering the hospitality products and services to the customers and interpret the culture of the enterprises to them; the employees should be considered as the enterprise's greatest asset and should be trained on how to be adjusted to the hospitality business world.

#### **4.3.1.3 Marketing**

It is generally accepted that the basic principles of marketing are universally applicable to large and small businesses. However, marketing practice in HSMEs in Kabul is conducted through networking and personal contacts but the HSMEs that have formal marketing compared to those that do not have are more likely to be those that have achieved higher sales growth and higher margins on profit. However, the main marketing strategy for the majority of HSMEs is to attract customers through contacts and networking, but the formal marketing plan with proper strategies will help the HSMEs to focus on their market segments and stabilized them with market fluctuations.

Therefore, the HSMEs should set up a formal marketing plan for their businesses by considering several points in each stages of marketing plan. The HSMEs managers/owners at the first stage should set up the marketing objectives in a way that defines the business goals and links them directly with the enterprise marketing campaign. The owners/managers should conduct SWOT for the enterprise by determining the strengths and weakness of internal factor of enterprise and opportunities and threats of external factors of the enterprise. In the second

stage, the HSMEs owners/managers should formulate strategies for their products and services by considering the uniqueness and differentiation of their products/services and price strategies by considering the competitiveness of the price. They should also formulate promotion strategies by considering the way to promote and placement strategies by considering the different ways to sell the products and services. It is important for HSMEs to identify the uniqueness of their products and services and then develop it for its competitiveness. In the third stage, the HSMEs should decide the routes for marketing by determining the distribution channels as direct-to-customers channel and web-to customer channel. In the fourth stage, the HSMEs should choose the right promotion tools for the enterprise such as product sampling or trails by providing free samples of products, price deals by reducing sale price, coupons by providing discount on particular sales, competition by a media outlet and premiums by offering reward with a purchase. The HSMEs should also advertise to promote the enterprise through information, advertising and stressing on lower price and greater value of money or influential advertisements by using celebrities and using attention grabbing advertisement to increase awareness.

Moreover, as it was observed that the main market segments for the hotels and guesthouses are tourists and expatriates, therefore, they should pursue focus strategy by focusing on providing the service and products that particular market segments need. Similarly, the wedding halls should also pursue focus strategy by focusing on local residence. In contrast, as the market segment for the restaurants and coffee shops are wider including all, they should follow differentiation strategy through differentiating their product and services from the others as the customers must feel that the service or product value the money.

#### **4.3.1.4 Broader Adoption of ICT**

The number of Internet users and online purchasers are increasing daily and the Internet itself brings immense benefit to HSMEs in term of business efficiency, products and services differentiation, cost reductions and speed of operational response to orders. However, in Kabul, around two third of HSMEs are using Internet for business corresponding only but still the cost of adopting ICT is high (high Internet networking fee, high maintenance cost, and high cost of fuel for electricity generator) and there are also lack of ICT skills such as networking and web creating skills among HSMEs.

Therefore, in order to ensure the broader adoption of ICT for HSMEs, the department of Information and technology at the Ministry of CIT and private ICT sector such as Internet service providers should offer special promotion for HSMEs by discounting the Internet connections setting costs and hosting websites cost and the monthly fees. Moreover, the relevant organization should support HSMEs in creating, designing, and updating website for HSMEs.

In addition, the department of Information and technology and the Internet service providing companies should provide ICT training courses or support the public and private educational institutions to provide ICT training courses with low fees. The ICT training courses should include basic computer and Internet skills, administrative accounting software trainings, web design graphics software trainings, networking, e-commerce (online supply and order) skills trainings that enable them to be globally competitive.

### **4.3.2 Policies for Afghanistan Government**

#### **4.3.2.1 Development of Basic Infrastructure**

Lack of basic infrastructure and security are the major threats and obstacles for the development of HSMEs in Kabul, Afghanistan. The development of Basic Infrastructure should be compiled with intensifying the security and safety of the tourist destinations and the cooperation and coordination of different Ministries as follows:

First of all, the Ministry of Urban development (MOUD) and the Ministry of Public Work (MOPW) should jointly work to prepare the country's action strategies and structure plans. The ministry of Urban Development with the participation of Municipalities should exert their effort to improve the related basic infrastructure including roads, footpaths, storm drainage, street lights, sanitation, and solid waste collection. It is also necessary to rebuild and develop the social infrastructure such as parks, community and health centers.

Secondly, the Ministry of Energy and Water (MOEW) with the coordination of the Ministry of Culture and Tourism should take steps to rehabilitate and extend electricity, gas, water supply, and sanitation services by giving priority to rehabilitating the tourist destinations with an adequate level of service before extending service to new areas. Moreover, the availability of electricity, gas, and water supply should be managed through allowing new hydro power and water investments in the energy and water sector to fulfill the increased domestic electricity, gas, and clean water demands. Meanwhile, the ministry should enable the environment for private sector investment through friendly market environment

to facilitate the private sector's investment in energy and water sector.

Thirdly, the Ministry of Transport (MOT) should take actions for the improvement of transportation management and for the improvements of circulation and road networks, transportation facilities and services by function, type, capacity, and condition, bus system, bicycles and pedestrians, transportation demand management including on- and off-street parking system management.

The Ministry of Transportation with cooperation of the Ministry of Culture and tourism and the Ministry of Public Works should also secure the safety and integration transportation network to ensure connectivity of major cities and tourist destination, and easiness of tourists' movement which will increase their level of satisfaction. A system for road maintenance and rehabilitation urgently needs to be put into place because the roads that have been reconstructed will begin to deteriorate unless maintenance is done in a systematic way.

On the other hand, a limit number of airports are available for commercial use and all are in need of infrastructure improvements. None of the civil air services meet the international standards and practices required by the International Civil Aviation Organization (ICAO) and the International Air Transport Association (IATA) therefore, the Ministry of Civil Aviation should improve the infrastructure of existing airport to ICAO and IATA standards and meanwhile construct new international and domestic airports to correspond the demand. Moreover, it should improve the local airlines to international standards and encourage foreign and local investors to invest in airline sector and invite foreign airline to open trips to Afghanistan which will facilitate the tourist arrivals.



Fourthly, in the short-term, the Ministry of Interior (MOI), and National Directorate (NDS) should intensify the security major cities and tourist destinations by deploying small security groups in every critical point to control the stability. In long-term, the security sector includes include National Security Council (NSC), National Directorate of Security (NDS), Ministry of Interior (MOI), and Ministry of Defense (MOD) should secure the entire country and control the cross-border movements with cooperation and coordination of ISAF and US troops.

Fifthly, there is lack of ICT knowledge among HSMEs and meanwhile, the cost of setting an Internet connection and its maintenance is too high. Therefore, the Ministry of Communications, Information and Technology should support ICT basic infrastructure by directing the ICT sector in developing policy and supervise the implementation of ICT projects, such as the National Data Center, the Optical Fiber Cable and the Copper Cable Network projects and ease the access to basic ICTs. In addition, the Information Communication Technology Institute (ICTI) should also support in building ICT capacities among HSMEs through providing special ICT trainings such as online marketing and graduating experts through providing bachelor degrees in ICT education.

#### **4.3.2.2 Giving More Priority for HSMEs**

The HSMEs represent 99% of the hospitality industry and they can be considered as the industry's bloodline in terms of poverty reduction, economic growth and employment generation. However, a few HSMEs have been trained and participated in seminars and workshops arranged by the government because of the government's low intention toward HSMEs. Therefore, Afghan Tourist Organization with the assistance of UNDP, GTZ and related bodies should support the HSMEs in Kabul through solving the obstacles that impede

their development and facilitating their development. The related government body should support the HSMEs through the followings actions:

**1.Exemption of on-gross Receipts Tax:** The Ministry of Commerce should realize the importance of HSMEs to the hospitality industry and reduce the taxation burden. The HSMEs in Kabul consider the government taxes as a major obstacle to their growth while the HSMEs are still in their earlier growth. Therefore, regarding the importance of the industry, the ministry of Commerce should provide incentive through the exemption of on-gross receipts tax which is currently 12.5% and it is too high for HSMEs to afford. An alternative would be the reduction of the on-gross receipts tax to its minimum rate. Thus, the HSMEs would be able to retain profits and expand their business.

**2. Establishment of HSMEs Funding Body:** as a result of high interest rates, the HSMEs were discouraged to obtain loan from the banks in regard of their expansion. The existing banks in Afghanistan provide loans with an interest rate of 12-22% with high required collaterals. In order to support and facilitate the HSMEs development and growth, the Ministry of finance with the support of Afghanistan National Bank (ANB) should establish a HSMEs funding body that would provide loan with low interest rates and for longer period. Moreover, the body would provide other financial incentives and support for HSMEs who are facing financial problems in the industry. A one-year interest relaxation could be considered by the Afghanistan National Bank for the development and prosperity of the HSMEs. Meanwhile, the government should encourage and influence the commercial banks to provide special loans for the HSMEs with low interest rates i.e. 5% per year and for longer period i.e. 5 years and one year interest relaxation should be also applied.

### **3. Human Resources Capacity Development:**

Skilled labors shortage has forced HSMEs managements to recruit people without the necessary qualifications and spend more money and time to train them. Therefore, the Ministry of Culture and Tourism, in particular, ATO and AISA, ANCU, UNDP, and GTZ should support of the public and private educational institutes to provide required trainings courses for HSMEs. Beside, the Ministry of Higher education, public and private institutes should establish a Hotel and Tourism Institute offering Bachelor degree programs in Tourism and Hospitality management to fill the required skilled labors' gap.

### **4. Raising the Level of Market Intelligence:**

Raising the level of market intelligence is essential when HSMEs plan their business and target their marketing expenditure more effectively. In order to move the HSMEs from a cost-oriented to stance to the one that is proactive in the market place, the Afghan Tourist Organization with the support of MOC, and MOCIT need to create an interactive database, which can be accessed from PC networks, to research and analyze market trends. Specifically, HSMEs need tailored printouts to: understand their customers' needs and profile, monitor the effectiveness of their marketing effort, understand the customers' satisfaction level, and compare their demand position to the wider picture.

**5. Creating New Markets and Activities:** The study showed that a few HSMEs have participated in fairs and exposes. Many of them have faced with lack of new markets and activities, especially, during the winter season when the customers' demand declines. Therefore, the Ministry of Culture and Tourism with the support of UNECO, Ministry of Foreign Affairs, and the Ministry of Commerce should establish cultural exposes and traditional fairs, celebrate the New Year, arranging musical concerts and other events to attract more tourists/visitors.

### **4.3.2.3 Establishment of HSMEs Association**

There is still the absence of a HSMEs association which allows for a powerful and a unified voice of the HSMEs to the authorities to improve and facilitate the development of the industry.

The Ministry of Culture and Tourism, in particular, Afghan Tourist Organization with the support of National Crafters Union which has the largest list of HSMEs should influence the HSMEs to establish the association by providing encouragement and incentives for those HSMEs which are registered with the association.

The HSMEs association will play critical role in coordination among related government and non-government organizations in regard of trainings, development supports and in the timely dissemination of information to HSMEs. Moreover, since the HSMEs are very concerned about the future uncertainty, the HSMEs association will be the supportive body in reduction of HSMEs concerns and motivating them through giving hopes about brighter and prosper future of the country.

The HSMEs' association will increase the level of interaction among HSMEs and enable group discussions within the industry. Furthermore, it will help in creation of networking, relationship and contacts among HSMEs and facilitate problems sharing and exchange of experience. Therefore, considering the significance of this body, the Government has encouraged the HSMEs to initiate the development of this body but the main responsibility of establishing this body will be on Afghan Tourist Organization and National Crafters Union to initiate this body.

**Table 4.4** Development Strategies and the Responsible Organizations

N o.	Obstacles	Proposed Strategies	Responsible bodies	
			Primary	Supportive
1	<b>Informality of Business Plan</b> - Informal mission and goals - Informal of plan and strategies	- Setting up Formal Strategic Plan - HSMEs should be trained in how to set up a formal strategic management plan	Public and private educational institutes	ATO, AISA, NCU, UNDO, and GTZ
2	<b>Informality of HRM practice</b> - Lack of experienced managers - Lack of positive attitude toward trainings - Poor working conditions of employees	- Setting up Formal HRM plan - HSMEs should be trained in how to set up a Formal HRM Plan - Training Employees for long-term benefits - Emphasize on the qualification and employees rather than familiarity - Valuing employees as important resource of any HSME	Public and private educational institutes	ATO, AISA, NCU, UNDO, and GTZ
3	<b>Informality of Marketing management</b> - Informal marketing plan - Lack of product and pricing strategies	- HSMEs should be trained in how to set up Formal Marketing Plan - Emphasize on Formal Marketing through making connections and networks with customers and related institutions	Public and private educational institutes	ATO, MOCIT, MOC, AISA, NCU, UNDO, and GTZ
4	<b>Low ICT adoption:</b> - Low level of ICT & Internet adoption - <b>Lack of ICT skills</b> - <b>High cost of Internet instillation</b>	- Adopting Internet as the main way to reduce costs and accelerate the business operation - Enhancing efforts for promoting HSMEs thought creating website. - HSMEs should be trained to use advance e-commerce and professional Websites	Institute of Information and Technologies, MOCIT and Private ICT companies	Public and private institutes, ATO, NCU, UNDO, and GTZ

**Table 4.5** Development Policies and the Responsible Organizations

No .	Obstacles	Proposed Policies	Responsible bodies	
			Primary	Supportive
1	<p><b>Absence of basic infrastructure</b></p> <ul style="list-style-type: none"> <li>- Unavailability of electricity, gas, and water</li> <li>- Low quality of roads and transportation</li> <li>- Low quality of airports and airlines</li> <li>- In security</li> <li>- Lack of ICT skills</li> </ul>	<p><b>Development of basic infrastructure</b></p> <ul style="list-style-type: none"> <li>- Availability of Electricity, Gas, Water supply</li> <li>- Transportation management and roads</li> <li>- Improvement of Airports and airline</li> <li>- Improving ICT infrastructure and reducing ICT cost through encouraging new investment in ICT</li> <li>- Security and safety in tourist destinations</li> <li>- Encouragement of Internet network companies to offer special Internet connection discount for HSMEs</li> </ul>	MOUD, MOPW, MOEW, MOTA, MOCT, MOCIT, MOI, and NDS	US Army, ISAF, and International NGOs
2	<p><b>The absence of Government development support</b></p> <ul style="list-style-type: none"> <li>- High taxes</li> <li>- High interest rates</li> <li>- Lack of skilled labors</li> <li>- Lack of trainings</li> <li>- Lack of new markets and activities</li> </ul>	<p><b>Giving more priority for Hospitality SMEs</b></p> <ul style="list-style-type: none"> <li>- Exemption of on-gross receipts tax</li> <li>- Establishment of SMEs funding body</li> <li>- Development of capacities in the Hospitality industry</li> <li>- Raising level of Market intelligence</li> <li>- Creating new activities and new market</li> <li>- Development of tourist destinations</li> </ul>	MOC, ANB, MOCT, Public and Private institutes	MOF, MOWSA, NCU, UNDP, and GTZ

3	<b>Absence of HSMEs association</b> - Future uncertainty concerns - Lack of coordination among relative HSMEs registration organization	<b>Establishment of HSMEs association</b> - Coordination among relative Organizations - Promoting the country for stability and prosperity - Providing market intelligence	ATO, MOCT, MOC, Public and Private media	NCU, UNDP and GTZ
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## **4.4 Limitations and Suggestions for Further Study**

### **4.4.1 Limitations**

The study was faced with a number of limitations as follows:

1. There was no published statistics available about the exact number of hospitality SMEs in Kabul, the population was drawn from availability of the registered HSMEs with Afghan Tourist organization (ATO), Afghanistan investment support agency (AISA), and National Crafters Union (NCU).

2. This study has focused on only two categories of HSMEs including accommodations and food & beverages enterprises.

3. There was limited time for collecting primary data from the HSMEs in Kabul, which resulted in collection of data from 36% of total population only.

4. Some of the HSMEs refused to be interviewed, especially the foreign HSMEs because of the security and competition concerns.

5. The questionnaire was too long to be answered as many of HSMEs owners/managers were getting bored while interviewing them.

### **4.4.2 Suggestions for Further Study**

1. The further research should be on identifying the obstacle impeding the development of hospitality and tourism SMEs in Afghanistan.

2. Studies should focus on the business function of hospitality and tourism SMEs in Afghanistan such as Human Resource Management in HSMEs, Marketing in HSMEs, Financial Management in HSMEs, and ICT adoption in HSMEs.



3. A study should be conducted on the comparison of HSMEs in Afghanistan and HSMEs in other countries for the purpose of sharing experience.

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## APPENDIX A QUESTIONNAIRE



### Questionnaire “Development Strategies for Hospitality SMEs in Kabul, Afghanistan”

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Dear Business Owners,

My name is Shabir Ahmad, I am studying MBA in Hospitality and Tourism Management (International Program) at Prince of Songkla University, Faculty of Hospitality and Tourism, Phuket Campus, Thailand. The purpose of this questionnaire is to collect data and information for my MBA thesis on “Development Strategies for Hospitality SMEs in Kabul, Afghanistan” I would highly appreciate if you could spare some minutes to fill in this questionnaire. The data collected will be used for academic purposes only and will be kept confidential. The collected data will be used to design strategies for development of hospitality SMEs in Afghanistan.

Thank you for your cooperation  
Shabir Ahmad

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d d m m y y y y

Date 

--	--	--	--	--	--	--	--

Interviewed: \_\_\_\_\_

Place \_\_\_\_\_

Interviewed: \_\_\_\_\_

Sample No: \_\_\_\_\_

Interviewer: \_\_\_\_\_

**General Characteristics**

**Personal Characteristics**

Q1: Gender of respondent (without asking)

- 1)  Male                                      2)  Female

Q2: In which of the following age categories do you belong?  
(Please tick one of the following boxes)

- 1)  Below 30 years                                      2)  30-49 years  
3)  50-69 years                                      4)  70 & above years

Q3: What is your education level? (Please tick one of the following boxes)

- 1)  Not educated                                      2)  Primary school  
3)  Secondary school                                      4)  High school  
5)  Diploma                                      6)  Bachelor's degree  
7)  Higher education                                      8)  Other (please specify):

.....

Q4: How long have you been in this enterprise? (Please tick one of the following boxes)

- 1)  Less than 2 years                                      2)  2-5 years  
3)  6 - 10 years                                      4)  More than 10 years

Q5: What was your occupation before you joined this enterprise? .....

Q6: What is your position within the enterprise? (Please tick one of the following boxes)

- 1)  Owner                                      2)  Joint owner or partner  
4)  Manager                                      3)  Family member of owner (s)  
5)  Employee                                      6)  Other (please specify):

.....

**Organizational Characteristics**

Q7: What is nationality of the enterprise?.....

Q8: What type of business is your enterprise? (*Please tick one of the following boxes that shows your main business operation*)

- |  |  |
|--|--|
| 1) <input type="checkbox"/> Hotel        | 2) <input type="checkbox"/> Guesthouse                       |
| 3) <input type="checkbox"/> Restaurant   | 4) <input type="checkbox"/> Coffee shop                      |
| 5) <input type="checkbox"/> Wedding Hall | 6) <input type="checkbox"/> Other ( <i>please specify</i> ): |

.....

Q9: Is your business an independent private enterprises or a subsidiary of another enterprise? (*Please tick one of the following boxes*)

- 1)  Independent enterprise
- 2)  Subsidiary of large enterprise ... End
- 3)  Non-private: (semi)government /associations ... End
- 4)  Don't know/no answer ... End

Q10: What is your enterprise legal form?

- |   |   |
|---|---|
| 1) <input type="checkbox"/> Sole proprietorship | 2) <input type="checkbox"/> Partnership |
| 3) <input type="checkbox"/> Cooperation         |   |

Q11: How long ago has this enterprise been established? (*Please tick one of the following boxes*)

- |   |  |
|---|--|
| 1) <input type="checkbox"/> Less than 2 years | 2) <input type="checkbox"/> 2-5 years          |
| 3) <input type="checkbox"/> 6 - 10 years      | 4) <input type="checkbox"/> More than 10 years |



Q12: Who manages the enterprise? (*Please tick one of the following boxes*)

1)  Owner

2)  Owner's partner

3)  Both You & Owner's partner

4)  Manager

5)  Other (*please specify*):

.....

Q13: Are land and building owned by the enterprise? (*Please tick one of the following boxes*)

1)  Yes, it is owned

2)  No, it is rented

3)  No, it is mortgaged

4)  Other (*please specify*): .....

Q14: When the enterprise has problems, whom do you refer for help? (*Please tick as many boxes as applicable*)

1)  Friends in same business

2)  Government/AISA

3)  UN/NGOs

4)  Business Consultant

5)  Family member

6)  Other (*please specify*): .....

Q 15: Please answer the following question by tick one box for each row

	Questions	Yes	No	To some degree
1	Does your enterprise have Mission Statement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Do you review or revise the mission statement on an annual basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Are your employees conversant with mission statement and its objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Do you r work based on an annual plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Do you have strategies in place to achieve the goals?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Has your business been operating profitably in the last three years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### **Human Resources**

Q16: How many people did your enterprise employ on average during 2006?

(Including respondent and owner, excluding the temporary contract workers)

- 1)  Less than 10                      2)  10 - 24  
3)  25 - 100                              4)  Above100 ... End

Q17: How many people did your enterprise employ on average during 2007?

(Including respondent and owner. Excluding the temporary contract workers)

- 1)  Less than 10                      2)  10 - 24  
3)  25 - 100                              4)  Above100 ... End

Q18: Please answer the following question by tick one box for each row

		Yes	No	To some degree
1	Do you carry out job analysis / job description / job specification for your human resources plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Do you have recruitment plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Do you conduct orientation for your new employees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Do you have employees' performance appraisal?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Do you have a written plan for the development of employees' knowledge and skills?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Is there any special person or group responsible for identifying current or future skill gaps?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Do you provide necessary trainings for your employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Do your employees' skills match their responsibilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q19: Who is/who are these persons responsible for identifying current or future skill gaps?

- 1)  The owner
- 2)  General manager (if different from above)
- 3)  Human resources manager (if different from above)

4)  Management team

5)  A group formed by representatives of the management team and employees

6)  Other (*please specify*):

.....

Q20: Do you have specific manager for the following departments: *(Please tick as many boxes as applicable)*

- |   |   |
|---|---|
| 1) <input type="checkbox"/> Human Resources | 2) <input type="checkbox"/> Financial                       |
| 3) <input type="checkbox"/> Marketing       | 4) <input type="checkbox"/> Operational                     |
| 5) <input type="checkbox"/> None of these   | 6) <input type="checkbox"/> Other <i>(please specify)</i> : |

.....

Q21: A- How do you normally recruit your employees? *(Please tick as many boxes as applicable)*

- 1)  Recruit from internal sources
- 2)  Recruit from external sources

B- If external sources, how do you recruit? *(Please tick as many boxes as applicable)*

- |  |   |
|--|---|
| 1) <input type="checkbox"/> Job Centre       | 2) <input type="checkbox"/> Word of mouth                   |
| 3) <input type="checkbox"/> Local press      | 4) <input type="checkbox"/> Employment service              |
| 5) <input type="checkbox"/> Polytechnics     | 6) <input type="checkbox"/> Website                         |
| 7) <input type="checkbox"/> Exercise centers | 8) <input type="checkbox"/> Other <i>(please specify)</i> : |

.....

Q22: What type of employee do you prefer to hire in you enterprise? *(Please tick one of the following boxes)*

- 1)  Unqualified but familiar
- 2)  Less qualified but familiar
- 3)  Qualified but not familiar
- 4)  Other *(please specify)*:

.....

Q23: What are the criteria for selecting your employees?

*(Please tick as many boxes as applicable)*

- |   |   |
|---|---|
| 1) <input type="checkbox"/> Qualification | 2) <input type="checkbox"/> Experiences                     |
| 3) <input type="checkbox"/> Skills        | 4) <input type="checkbox"/> Familiarity                     |
| 5) <input type="checkbox"/> Appearance    | 6) <input type="checkbox"/> Honesty                         |
| 7) <input type="checkbox"/> Gender        | 8) <input type="checkbox"/> Other <i>(please specify)</i> : |

.....

Q24: Have any of the following groups or organizations provided any trainings or workshops to enhance knowledge or skills of your enterprise in the past 3 years? Please identify the occupational groups that have taken part in these trainings/workshops.

	<b>Trainings/Workshop Providers</b>	<b>Participants</b>
1	<input type="checkbox"/> UNDP	<input type="checkbox"/> Manual, low-skilled workers
2	<input type="checkbox"/> NGOs	<input type="checkbox"/> Clerks, administrative personnel
3	<input type="checkbox"/> Training centers / Universities	<input type="checkbox"/> Semi-skilled (e.g. drivers, machine operators)
4	<input type="checkbox"/> Business and Trade Associations	<input type="checkbox"/> Directors and managers
5	<input type="checkbox"/> Public authorities	<input type="checkbox"/> Technicians, engineers
6	<input type="checkbox"/> Auditors & Banks	<input type="checkbox"/> Middle management, foremen
7	<input type="checkbox"/> Other entrepreneurs	
8	<input type="checkbox"/> Other groups <i>(please specify)</i> : ..... .....	

Q25: Has your enterprise been involved in any of the following activities in the last 3 years for improving its knowledge or skills base? Please identify the occupational groups that have taken part in these activities.

	Activities	Participants
1	<input type="checkbox"/> Visits to expose/trade fairs	<input type="checkbox"/> Manual, low-skilled workers
2	<input type="checkbox"/> Courses/seminars/conferences provided by own personnel	<input type="checkbox"/> Clerks, administrative personnel
3	<input type="checkbox"/> Courses/seminars/conferences provided by external trainers	<input type="checkbox"/> Semi-skilled (e.g. drivers, machine operators)
4	<input type="checkbox"/> Courses/seminars/conferences provided by Government	<input type="checkbox"/> Directors and managers
5	<input type="checkbox"/> Courses/seminars/conferences provided by UNDP	<input type="checkbox"/> Technicians, engineers
6	<input type="checkbox"/> Courses/seminars/conferences provided by NGOs	<input type="checkbox"/> Middle management, foremen
7	<input type="checkbox"/> Job rotation (in-house or in other firms)	
8	<input type="checkbox"/> Co-operation with consultants and advisers	
9	<input type="checkbox"/> Other activities ( <i>please specify</i> ) ..... .....	

Q26: How do you compensate your employees? (*Please tick as many boxes as applicable*)

- 1)  Salary payment    2)  Overtime payment  
3)  Bonus                    4)  Commission or service charge  
5)  Medical insurance    6)  Life insurance  
7)  Social Security        8)  Pay for Time not worked  
9)  Vacation                10)  Holidays  
11)  Sick leave            12)  Other, (*please specify*):.....

**Business Operation**

Q27: Please indicate the following items according to their level of obstacles to the development of your enterprise:

No ·	Items	Level of obstacles				
		V. High	High	Mediu m	Lo w	V. Low
1	Luck of basic Infrastructure (road, gas, electricity, communication)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Lack of skilled labor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Access to finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Security condition of Kabul	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Labor costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Cost of raw material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Religion interference	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Authorities inspection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	High interest rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Lack of customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	High rents rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Debtors/poor cashflow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Government policies and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Lack of guidance on business development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	Competition from larger businesses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	Competition from local similar businesses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	Tax payments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	Future uncertainties or concerns	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	Implementing new technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	Partnership	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>





Q31: Please answer the following question by tick one box for each row

		Yes	No	To some degree
1	Do you have Marketing Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Do you have any pricing strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Do you think that your prices are reasonable for your customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Do you have any product strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Do you conduct product life cycle analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Do you have any promotion strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Have you allocated budget for advertisement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Have you allocated budget for innovation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Do you have website of your enterprises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q32: Do you have a formal marketing plan for this business?

- 1)  Yes, a formal written plan                      2)  Yes, an informal unwritten plan  
 3)  No, I don't

Q33: How far ahead do you currently plan your marketing activity?

- 1)  Less than 1 year 2)  1-2 years                      3)  3-5 years

Q34: Do you conduct any market assessment or research in relation to any of the following?

	Fields	Yes	No	To some degree
1	Customer needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Possible new products/services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Local competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Quality of customer service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Effectiveness of your Marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Number of visitor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Visitors satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q35: Do you use any of the following tools to promote your enterprise? (*Please tick as many boxes as applicable*)

- |   |  |
|---|--|
| 1) <input type="checkbox"/> News paper/magazine     | 2) <input type="checkbox"/> Radio                  |
| 3) <input type="checkbox"/> Television              | 4) <input type="checkbox"/> Yellow pages           |
| 5) <input type="checkbox"/> Brochures               | 6) <input type="checkbox"/> Sponsorship            |
| 7) <input type="checkbox"/> Discounted prices       | 8) <input type="checkbox"/> Outdoor Sells          |
| 9) <input type="checkbox"/> Conducting competitions | 10) <input type="checkbox"/> Wall Stickers         |
| 11) <input type="checkbox"/> Internet               | 12) <input type="checkbox"/> Other ( <i>please</i> |

*specify*): .....

Q36: Please rate the following factors according to their importance to your enterprise's competitive position:

	Factors	Level of Importance				
		Most	More	Moderate	Less	Least
1	Customer service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Ability to respond quickly to opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Quality of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Product quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Price of products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Expertise in marketplace	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Product selection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Other, ( <i>please specify</i> ) .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Financing**

---

Q37: Please answer the following question by tick one box for each row

		Yes	No	To some degree
1	Do you plan for your financial needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Do you carry out financial analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Do you pay interest for your loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Do you mind if you obtain loan for paying interest	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q38: How do you finance your enterprise? (*Please tick as many boxes as applicable*)

- 1)  Own funds    2)  Partner    3)  Outside private investors  
 4)  Bank    5)  Self Financing  
 6)  Finance company    7)  Relative  
 8)  Other (*please specify*): .....

Q39: How do you deal with your relatives or family members if you obtain loan from them?

- 1)  I share them in profit    2)  I pay them interest  
 3)  I loan without paying interest or profit  
 4)  Other (*please specify*):.....

Q40: What are the most difficulties you have faced with financing your enterprise? (*Please tick as many boxes as applicable*)

- 1)  Not enough institutions to loan      2)  Not enough guarantee collateral  
 3)  Interest rates too high      4)  Bank charges too high)  
 5)  Institutions ask for interest, it is not allowed in my religion  
 6)  No difficulties, *please specify*.....

Q41: Which one of the following statements best describes owner's motivations for owning your own business?

- 1)  To do what I enjoy doing while making a living  
 2)  To make more money than by being employed  
 3)  Started because of redundancy or unemployment  
 4)  Semi-retirement  
 5)  To be my own boss  
 6)  Other (*please specify*):  
 .....

Q42: Is your enterprise registered with the following organs? (*Please tick as many boxes as applicable*)

- 1)  Afghan Tourism Board      2)  Chamber of Commerce  
 3)  AISA      4)  National Crafter Union  
 5)  Department of Hotels      6)  Other (*please specify*): .....

Q43: A- Do you renew your enterprise license each year?

- 1)  Yes      2)  No

Q44: Any suggestion for the development of Hospitality SMEs in Afghanistan?

.....  
.....  
.....

**Thank you for your kind cooperation**

## APPENDIX B INTERVIEW QUESTIONS



### Interview Questions “Development Strategies for Hospitality SMEs in Kabul, Afghanistan”

- Q 1. How do you define the SMHEs in Afghanistan?
- Q 2. What kind of policy is in place for SMHEs?
- Q 3. What kind of role does the SMHE’s play in Afghanistan’s economy?
- Q 4. What are some of the weaknesses that you see in the existing SMHEs in Afghanistan?
- Q 5. What are some of the measure taken by the Government to offset the weaknesses?
- Q 6. What type of incentives and other benefits does the Government provide to SMHEs?
- Q 7. When was the regulations and taxation last revised in SMHEs?
- Q 8. What has the government done to facilitate the establishment and operation of SMHEs?
- Q 9. How do you explain the current classification system of SMHEs and how does it benefit the industry?
- Q 10. What has the government has done for the development of SMHEs, regarding training of employees, upgrading their skills and participation in workshops, trainings, and seminars?

- Q 11. On which aspects do these workshops, trainings, seminars focus?
- Q 12. How do you explain the benefits of these workshops, trainings, and seminars to SMHEs?
- Q 13. Does the Government provide incentives and encourage SMHEs' manager/owner to enhance their management skills in the region or abroad?
- Q 14. Does the government conduct periodical survey to investigate the current situation of SMHEs?
- Q 15. According to Government's point of view, what are the main obstacles for the development of SMHEs and what has been done yet to solve these obstacles?
- Q 16. What has the government planned for SMHEs development in future?
- Q 17. What kind of strategies have been adopted by the government develop the SMHEs?  
(Any short, medium, and long terms strategies)
- Q 18. What type of financial supports has been provided to SMHEs in Kabul and how has the government facilitated the procedures to obtain these supports?
- Q 19. What kind of marketing promotional measures has the government has taken for SMHEs?
- Q 20. Is there a monitoring mechanism of the SMHEs in place?  
How does the process work?
- Q 21. Does the Govt. feel the need to incorporate a self-monitoring mechanism of the SMHE's within the industry?

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Abdul Saleem, Shabir Ahmad and Naree Weerakit (2008).  
*Strategies for the Development of Hospitality SMEs in Kabul, Afghanistan*. The Seventh Asia-Pacific Forum for Graduate Students' Research in Tourism, June 3-4, 2008, Shah Alam, Malaysia.