

Challenges facing rural entrepreneurship in selected areas in South Africa

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ABSTRACT

South Africa, unlike other developing countries, is classified as one of the best performing economies in Africa. Unfortunately the economic growth of the country continue to be limited by the general constraints of the small business sector, due to challenges of skills such as managerial skills, lack of global competition and the weak entrepreneurial performance. The primary objective of the study is to investigate the influence of selected challenges on the perceived success of entrepreneurship and small businesses within selected rural areas. The primary objective is aided by other secondary objectives including understanding the concept of entrepreneurship and the identification and assessment of entrepreneurial challenges, amongst others.

The study was conducted using the quantitative process with main focus to identify the challenges that limit entrepreneurship in the study areas of John Taolo Gaetsewe and Frances Baard District Municipalities of the Northern Cape Province. Drawing from the findings of the study, an integrated framework was designed to improve rural entrepreneurship and small businesses. The study identified the dependent and independent variables of typical, business and operational, personal and specific challenges. From the empirical study, it emerged that these challenges bear significant relationship to entrepreneurial success.

An exploratory factor analysis research was conducted using a convenience sample of 282 owner-managers of small businesses to gather relevant data. Besides, a 7-point Likert scale was distributed to owner-managers (entrepreneurs) of small businesses for data. It was revealed that most of the respondents', who operated most businesses as a sole proprietorship, were male. The majority of the owner-managers (entrepreneurs) ranged between 40 to 49 years old. Most of the small businesses (63.82%) are established in the John Taolo Gaetsewe District Municipality. It further emerged that only 10.28% of respondents were aged between 20 to 29 years. There is the need to embark on serious entrepreneurial education for the youth in South Africa.

Generally, most of the owner-managers (entrepreneurs) received some formal level of education; data indicated that 23.05% received matric education whilst 22.70% received education that was below the matric level; 18.09% qualified as diplomats and 7.09% received education as university graduates. The empirical study further indicated that most of the small businesses offered full-time employment opportunities to between four to six employees. According to the report, most of the small businesses are able to survive only for a maximum period of 6 years; the annual turnover of these businesses ranged from R30 000 to R50 000.

Throughout the study, all the requirements and the criteria set for a credible study were met. Thus it was possible to realise that the primary and secondary objectives that were set initially for this study were satisfied. As a result, this study provides the owner-managers (entrepreneurs) with different forms of challenges that impact on entrepreneurial activities within rural communities. Drawing from the empirical study, it was also possible to highlight specific recommendations that can be utilised to enhance entrepreneurial success.

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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

The small business sector is recognised as a key driver of job opportunities and a provider of linkages between the first and second economies (the latter is commonly known as the informal economy) with the main objectives to create wealth among rural entrepreneurs and to solve immense challenges of growing unemployment (Ladzani & Van Vuuren, 2004:154; Pretorius & Shaw, 2004:222; Pretorius, Van Vuuren & Nieman, 2005:414; Morris & Zahra, 2000:92; Tustin, 2001:23; Nieman, 2001:445). The economy in the rural areas is driven mostly by small businesses in the informal sector. These businesses are very small and extremely vulnerable to various challenges that could endanger their existence.

The South African Government continues to pursue various initiatives to be of maximum assistance to small businesses, even though not much information is available regarding the small business sector; thus it has not been easy to provide this information for public use. The sector is plunged by various challenges including the lack of access to funding, the lack of ability in terms of modern technologies and the lack of access to adequate support and other needs, among others.

The focus of this study is therefore on the challenges facing small businesses in rural areas in the Northern Cape Province of South Africa. The South African National Small Business Act (1996) and National Small Business Amendment Act (2004:2) classify micro-businesses, very small and small businesses, as businesses that employ less than 50 full-time, paid employees.

In this chapter the importance of the small business sector will be briefly reviewed, followed by a discussion of the research problems, the objectives of the study, the

scope of the study and the research methodology conducted to investigate the research problem. The chapter will be concluded by presenting the demarcation of the study.

1.2 IMPORTANCE OF THE SMALL BUSINESS SECTOR

Globally small businesses are major contributors to economic growth and employment. These small businesses, for instance, contribute at least 35% to the Gross Domestic Product (GDP), generate 40% of all forms of economic activities, in addition to creating an employment capacity of 50% (Rwigema & Venter, 2008:10; Perks & Struwig, 2005:171; Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam & Van Seventer, 2002:4; Cornwall & Naughton, 2003:61). Antonites and Van Vuuren (2005) reiterate that the increasing rate of entrepreneurial activity in any specific country is most likely to directly influence existing levels of unemployment in a positive way.

According to a report by the Department of Trade and Industry (the DTI), the small business sector in South Africa does not only contribute 75% to every form of employment opportunity in country-wide, but also add roughly 28% to South Africa's GDP (Wadala, 2005:1). Baard and Van den Berg (2004:1) also emphasised that small businesses contribute meaningful amounts of employment opportunities to the economy of South Africa. It is estimated that 80% of the total business activities country-wide are described as small businesses (Glover & Darroch, 2005:238).

Since the late 1990s most small businesses in South Africa have embarked on policies of retrenchment and restructuring in an attempt to upbeat the looming global competition; as a result, over 100 000 employment opportunities were lost yearly (Tustin, 2001:5; Morris & Zahra, 2000:92; Nasser, Du Preez & Herrmann, 2003:393). Furthermore, various protective economic policies which were in favour of South African industries were removed soon after South Africa became part of the global economy (Nasser *et al.*, 2003:393).

The free market economy and the resulting effect of the very competitive global business environment, however, have plunged South Africa into serious economic problems as the population of the country continues to increase which leads to higher unemployment, estimated between 30% and 41% since 2001 (Toye, 2002:2; Rwigema & Venter, 2008:10; Nasser *et al.*, 2003:393; Viviers, Van Eeden & Venter, 2001:10). Worst of all, there was a growing number of school leavers of between 325 000 and 462 000 country-wide that were unable to secure employment in the job market (SA, 2006; Pretorious & Shaw, 2004:222; SA, 2002). The negative economic trends amounted to millions of rands lost as small businesses in South Africa were unable to become sustainable and to establish sustainable job opportunities (Van Eeden, Viviers & Venter, 2003:13; Baard & Van den Berg, 2004:1; GEM, 2007:20).

Unfortunately the present climate of entrepreneurship in South Africa is unable to attract the necessary potential for employment avenues due to the following factors:

- Since 2002 to 2011, GEM reports consistently highlighted that the South African economy continued to experience lower levels of entrepreneurial activities as compared to other developing countries (Simrie, Herrington, Kew & Turton, 2011).
- In 2008 the entrepreneurial activities of South Africa stood at 7.8% in contrast to 5% in 2006. Other developing countries such as Columbia and Mexico showed 24.5% and 13.1% in terms of the rate of entrepreneurship (GEM, 2008).
- Herrington, Kew and Kew (2009:59-60) emphase that in terms of business operations, South Africa ranked last out of 53 participatory countries with poor business establishment records of 1.4%; developing countries such as India, Brazil, Mexico and Argentina performed better than South Africa in terms of entrepreneurship (Von Broembsen, Wood & Herrington, 2005).
- The general state of South African entrepreneurship continues to decline further; the nascent entrepreneurship and new business establishment is extremely low due to the prevalence rates of business establishment which account for 2.3% in 2011 as compared to 2.1% in 2010 (GEM, 2011:4).

- Other factors such as lack of business profit and difficulties in raising the necessary funds, account for business closure (2011:21). Kelly, Singer and Herrington (2012) agree that these factors are major contributory factors to small business closures.
- Furthermore, GEM (2010 & 2011) reports maintain that the factors of financial support and lack of Government assistance hampers entrepreneurship in South Africa (GEM, 2011:44).
- Again the recent report by Doing Business (2012) emphasises that administration procedures impact negatively on the business environment - for instance, it takes between 19 and 22 days to complete various processes that lead to business establishment in South Africa (Global Competitiveness Report, 2011-2012).

There are various contributory factors to small businesses' rate of high failure; most common reasons include lack of competition, persistent growth of over-expansion, inability to put together proper business plans and lack of capital management skills (Rankhumise, 2009). In the United States of America (USA), for instance, the small business sector continues to suffer similar faith of rampant failure. Research indicated that approximately 46.4% of new business establishments have experienced high failure rates (Timmons & Spinelli, 2009:106). According to researchers, newly formed small businesses experience high rates of failure during their first year of operation, 60% in the second year and an even much higher rate of failure during the first 10 years of existence (Bowler, Dawood & Page, 2006; Phakisa, 2009). It is clear that there are challenges that contribute to the high failure rates within the small business sector (Van Scheers, 2011:5048). According to Von Broembsen *et al.* (2005), it is impossible for small businesses to survive beyond 42 months of their business operations in South Africa and elsewhere. For instance, researchers are of the view that about 75% of newly formed small businesses are unable to become sustainable (Fatoki & Garwe, 2010:730).

1.3 PROBLEM STATEMENT

The frequency at which entrepreneurial activities have failed in South Africa is well documented in Global Entrepreneurship Monitor (GEM) reports for some years now. According to GEM report (2006), entrepreneurial activities in South Africa have shown a gradual decline over the years compared to other developing countries. Due to rampant failure of entrepreneurial activities, it was impossible to sustain the existing level of economic growth and job opportunities of the country (Maas & Herrington, 2006).

The government of South African has been unable to solve the socio-economic issues of high unemployment and poverty reduction because of the constraints that hampers entrepreneurship (Dockel & Lighthelm, 2005:54; Bradley & Roberts, 2004:37). Key constraining factors such as a lack of knowledge and insufficient business start-up information have been some of the major contributors to the decline in entrepreneurship (Janse van Vuuren, 2005:20). During the past years, issues of a lack of funding, a complex business environment and deficiencies in training have featured prominently in South African policy discussions regarding entrepreneurship (GEM, 2007/2008).

According to Viviers and Venter (2008:51), although the small business sector adds to the socio-economic growth of South Africa, the majority of small businesses are victims of challenges such as excessive costs due to fraudulent activities and lack of financial assistance (Rankhumise, 2010:9). The owner-managers (entrepreneurs) of small businesses who use business assets for personal gain at the expense of the business, is a cause for concern (Van Aardt, Van Aardt, Bezuidenhout & Mumba, 2008:249; Rankhumise, 2010:8).

As stated by the series of the Global Entrepreneurship Monitor (GEM) Reports 2002, 2003 and 2008, some of the entrepreneurial problems have engulfed the small business sector - a lack of adequate funding, issues regarding a sub-standard education system and training, a lack of basic infrastructure and unfavourable Government policies, are

some of the critical challenges that are faced by the owner-managers (entrepreneurs) of small businesses (Foxcroft, 2002; Oxford, 2003; Herrington & Kew, 2008).

The reason for the study is to explore the challenges of rural entrepreneurship within the selected areas. Thus, drawing from the various Global Entrepreneurship Monitor reports and other scientific literature work, it is important to determine and evaluate some of the critical challenges that limit the potential of rural entrepreneurship and small businesses to become successful and sustainable.

1.4 OBJECTIVES OF THE STUDY

The objectives of this study are divided into primary and secondary objectives.

1.4.1 Primary objective

The primary objective of this study is to investigate the challenges of rural entrepreneurship in selected areas and based on that, to develop an integrated framework to ensure the sustainability of small businesses in rural areas in South Africa.

1.4.2 Secondary objectives

In order to achieve the primary objective, the following secondary objectives are formulated:

- To gain an understanding of entrepreneurship by means of a literature study.
- To identify the challenges facing small businesses by means of a literature study.
- To gain an understanding of rural entrepreneurship and evaluate the impact of key constraining factors by means of a literature study.
- To gain an understanding of the research process by means of a literature study.
- To assess the challenges facing small businesses in the research area.
- To assess the perceived success of the participating rural small businesses.

- To assess the challenges facing and perceived success of the participating rural small businesses.
- To investigate the relationship between the challenges facing participating small businesses and the perceived success of these businesses.
- To use the results of the empirical research to draw conclusions and make recommendations.
- To propose an integrated framework to ensure the sustainability of small businesses in rural areas in South Africa.

1.5 RESEARCH HYPHOTHESES

Based on the study objectives and the literature review (refer to Chapters 2 to 4), the following hypotheses were formulated:

- H¹: There is a significant relationship between the *Business and operational challenges* and the *Perceived business success* of the participating small businesses.
- H²: There is a significant relationship between the *Specific challenges of small businesses in the district municipality* and the *Perceived business success* of the participating small businesses.
- H³: There is a significant relationship between the *Typical challenges of rural small businesses* and the *Perceived business success* of the participating small businesses.
- H⁴: There is a significant relationship between the *Personal challenges of the owner-managers* and the *Perceived business success* of the participating small businesses.

1.6 SCOPE OF THE STUDY

The scope of this study is limited in both the field of study and the geographical demarcation.

1.6.1 Field of the study

The field of this study falls within the subject discipline of entrepreneurship with specific reference to the challenges and the perceived success of small businesses.

1.6.2 The geographical demarcation

The study will be conducted in two rural districts namely John Taolo Gaetsewe and Frances Baard district municipalities in the Northern Cape Province. The Northern Cape Province is unique and one of the diversified provincial administrative hubs of South Africa. The province is earmarked as one of the 13 nodal areas in the country; a priority area identified by the Government to institute programmes of poverty alleviation. Nodal areas in South Africa experience growing poverty rates among the population groups as well as a severe backlog of inadequate basic infrastructure and sub-standard delivery of basic services to various communities (Department of Social Development, 2003:1).

The majority of the Northern Cape provincial population resides in scattered rural communities with high levels of illiteracy, increasing rates of unemployment and abject poverty. Generally, the Northern Cape Province relies on economic activities in the agricultural and mining sectors for minerals such as diamonds, iron ore and steel prospects as potential sources of economic activities which injected immense financial inputs into the local districts' economy. Other revenue generating activities include the wholesale and retail trading sectors as well as quarrying activities; a few local community members operate the break and breakfast industries. Figure 1.1 below illustrates the map of South Africa showing the Northern Cape Province of South Africa.

Figure 1.1: The map of South Africa showing the Northern Cape Province



Source: www.afrilux.co.za/.../maps/South_Africa_map

The study will be conducted at two district municipalities in the province, i.e. the John Taolo Gaetsewe and Frances Baard District Municipalities respectively.

1.6.2.1 The John Taolo Gaetsewe District Municipality

The John Taolo Gaetsewe District Municipality is currently a cross-border municipality of the Northern Cape and the North West Province of South Africa. The district consists of three different municipalities namely Gamagara, Ga-Segonyana and Moshaweng municipalities and a District Management Area (DMA).

With the current population of 85 000, John Taolo Gaetsewe district municipality covers approximately 23 616 square kilometres with a population density of eight people per kilometre (Census, 2001). John Taolo Gaetsewe district municipality is presently

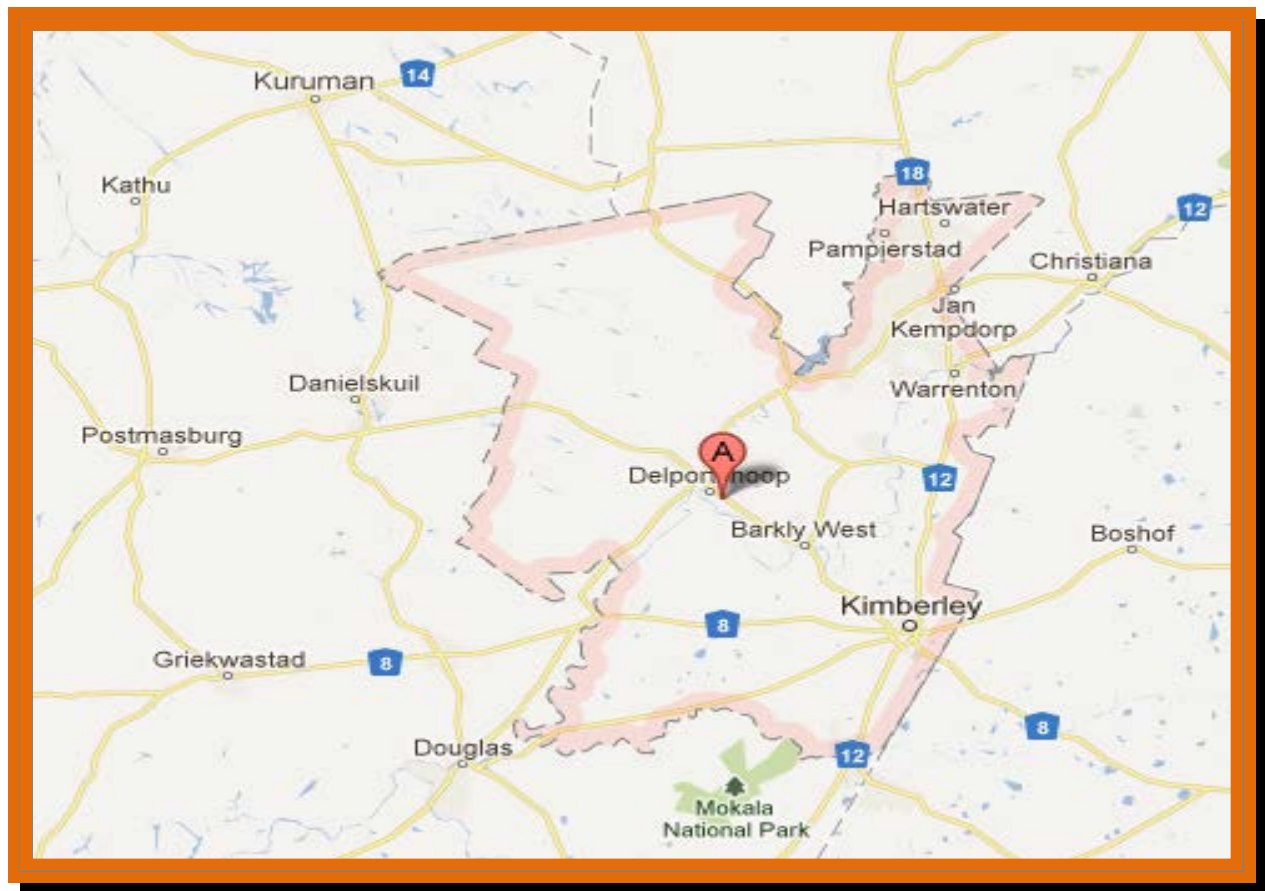
housing 186 settlements and towns of which about 80% are villages mostly found in the Moshaweng district municipality. The entire district is vastly a semi-desert area where 98% of the population resides in rural areas.

The livelihoods of its inhabitants are mainly dependent on agricultural (mostly animal rearing) and mining activities as the main sources of employment. Besides, the district continues to experience high poverty levels. The increasing poverty rate within the province is a major concern because it is one of the contributory factors of the dismal educational performance of learners in the district. As much as 59% of the district's population only has primary or no formal education; roughly about 43% to 46% of the district's population has reached at least a grade seven qualification. As a result, about 68% of the entire population are unemployed (Census, 2001). The resultant effect is that 75% of the district's population have no monthly income except monthly State grants.

According to the National Department of Transport 'Strategic Transport Audit for the Kgalagadi district: IRDP priority rural node 13 *"Draft April 2002"*, the level of illiteracy is very high in the district. Tertiary education, according to the above audit, is very low and widespread and therefore renders large population groups unskilled and unable to participate in developmental projects across the district. Consequently about 14.5% of the population between the ages of 15-64 years are unemployed in the local economy.

Figure 1.2 on the next page depicts the map of John Taolo Gaetsewe district municipality.

Figure: 1.2: The map of John Taolo Gaetsewe District Municipality



Source:www.google.com

1.6.2.2 The Frances Baard District Municipality

The Frances Baard District Municipality (FBDM) is the smallest district in the Northern Cape Province at about 12 439 square kilometres. The district accounts for approximately 3.4% of the total area of the province with a population density of about 26.2 persons per square kilometre (Frances Baard District 2005/06 IDP). The dominant language groups in the district are the Tswana, Sotho and the Xhosa. Apart from these varying ethnic compositions in the Frances Baard District Municipality, about 60.5% of the entire district consists of the coloured population, mostly Afrikaans-speaking.

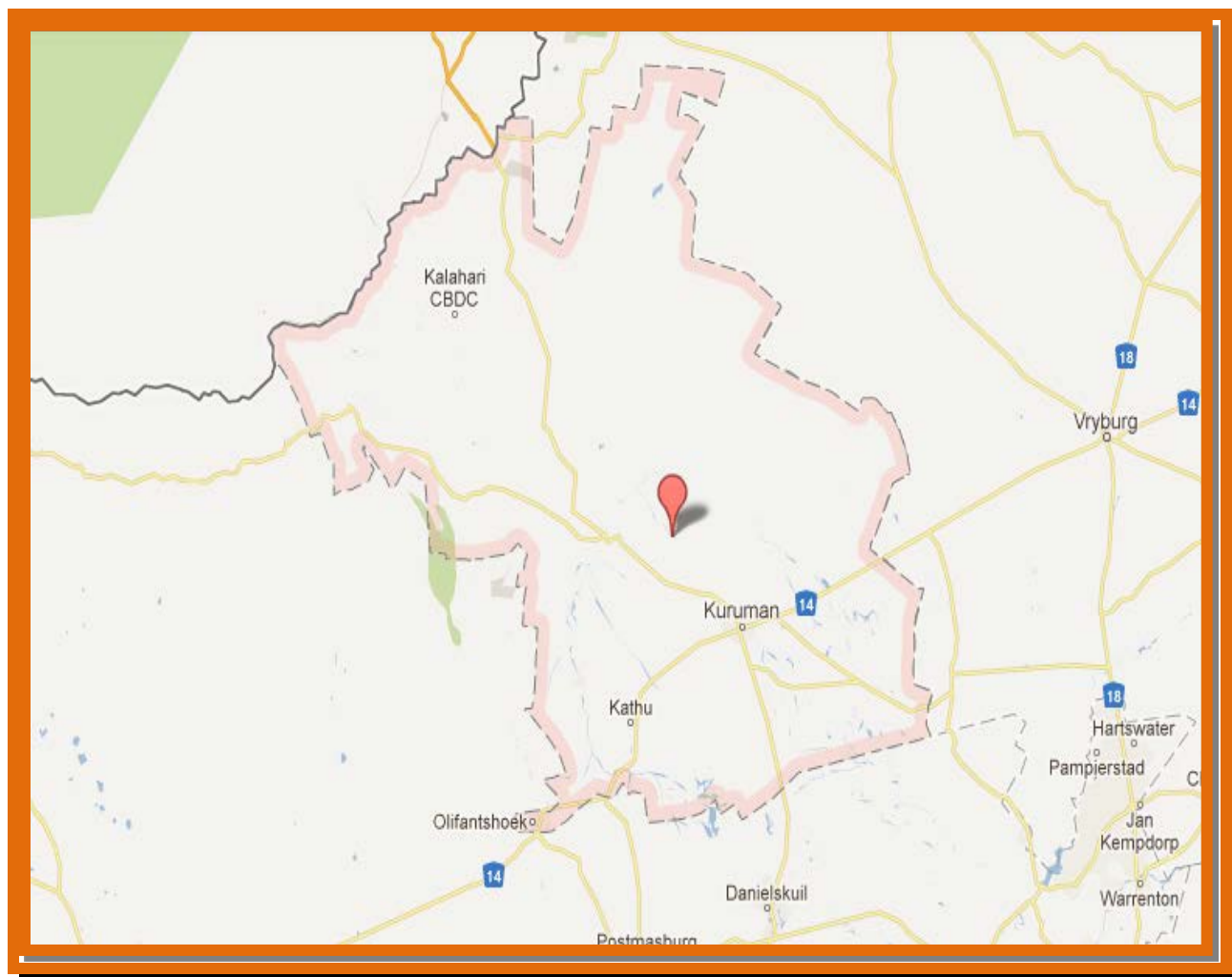
According to Statistics South Africa (2001), about 42.4% of the district's population are over 20 years of age with no schooling or only primary education. Remarkably, about 18.4% of the district's school going population were able to attain grade 12 education, whilst only 7% of the entire population received qualifications at higher education level.

The majority of the population of the Frances Baard District Municipality, about 65.1%, is between the ages of 15-65 years and economically active. From the total population of 211 594, 34.3% are not active participants in the local economy due to a lack of skills and an increasing high rate of unemployment. A further breakdown of the figures has shown that 72 648 citizens are employed within the formal economy. However, only 97% are active participants in the informal economy with an additional 10.5% involved in farming activities.

The economic potential of the local economy depends largely on mining, agro-processing and cultural activities. Tourism, mining and agricultural activities are the main income providers for the Frances Baard District Municipality. The district exports quality fruits, vegetables and olives, whilst cotton and quality leather products feature permanently as additional source of income to the district.

From the financial period 1995 to 2003, the national economy recorded an average growth rate of 2.5%. Within the same period, the Frances Baard District Municipality has also sustained an unbelievable growth rate of 3.7%, more than the national average, and the fifth largest growth rate recorded among all the districts within the country. Figure 1.3 on the next page shows the map of Frances Baard District Municipality as one of the research areas.

Figure 1.3: Frances Baard District Municipality



Source: www.google.com

1.7 RESEARCH METHODOLOGY

The study includes a literature review as well as an empirical study.

1.7.1 Literature study

In order for this study to determine the challenges facing rural entrepreneurship and small businesses, the study has pursued a comprehensive literature study. The following topics will be researched:

- The definition and characteristics of entrepreneurship
- The general nature and definition of small businesses
- Economic theories of entrepreneurship
- Concept of entrepreneurship opportunities
- Motivational factors of entrepreneurship
- The impact of entrepreneurship on employment opportunities
- Challenges and constraints of small businesses

Sources which will be utilised to obtain a comprehensive understanding of these topics will include mostly secondary sources, for example:

- Scientific journal articles.
- Text books.
- The Global Entrepreneurship Monitor and other annual reports.
- Reports on previous research performed.
- Reports based on the statistics of the South African population and the business environment.
- Internet articles.

1.7.2 Empirical study

The empirical research focused mainly on data collection and other key areas of the research design including sample design, the design of the measuring instrument, the data collection methods and the process to follow in analysing the raw data. In this study, much is highlighted about the empirical research in Chapter 5. Below is a brief outline of the process is presented in Chapter 1.

1.7.2.1 The research design

In general, research problems require a specific plan of study yet prior to conducting the study, an appropriate design that needed to be followed was considered (Glatthorn & Joyner, 2005:97; Cooper & Schindler, 2008:156). The empirical research design selected for this study is quantitative research in the form of a structured questionnaire. Quantitative research is concerned primarily with data collection in numerical form (Harrison & Reilly, 2011:11). A typical description of a quantitative study, suggests that the method used is deductive, and thus the conclusions follow necessarily from the premises (Bruce, 2007:52).

1.7.2.2 Construction the questionnaire

The literature study gave valuable insight in to those items necessary to measure the challenges facing small business owner-managers (entrepreneurs) as well as the perceived success of small businesses. A comprehensive questionnaire was designed to evaluate the items. The questionnaire was based on the relevant literature on the topic as well as a questionnaire developed by the Potchefstroom Business School measuring the challenges facing women entrepreneurs in South Africa (Van der Merwe & Lebakeng, 2008).

The questionnaires were designed to meet the research objectives and to provide answers to the research questions. To achieve these aims, some of the items included

in the questionnaire assessing women entrepreneurship, were rephrased to simplify their meanings according to the literacy level of the research respondents. The questionnaire consisted of seven sections of varying open and close-ended questions and statements; in total over 90 statements of different degrees of understanding formed part of the questionnaire.

With regard to assessing the challenges by and perceived success of the small businesses (Sections A to E), a 7-point Likert-type interval scale was used to collect data for this study. In response to statements in the questionnaire, different levels of responses such as strongly disagree, disagree, slightly disagree, neutral view, agree and strongly agree statements. Apart from the challenges that limit small business growth and rural entrepreneurial activities, this study was also structured to provide insightful meanings regarding the impact of small businesses and entrepreneurship on the socio-economic lives of the rural communities. Besides, the questionnaire incorporated demographical information (Section F and G).

The questionnaire was structured as follows:

- **Section A: Business and operational challenges**
- **Section B: Specific challenges of small businesses in the district municipality**
- **Section C: Typical challenges of rural small business**
- **Section D: Personal challenges of the owner-managers of small businesses**
- **Section E: Perceived success of the businesses**

- **Section F: Personal information**

- Age group
- Marital status
- Highest academic qualification
- Past experience prior to self-employment
- Number of years self-employed
- Gender
- Race
- Ethnic group

- **Section G: Business and operational information**

- Location of your business in municipality
- Daily average hours per week of business operations
- Number of full-/part-time employees
- Market location of products/services
- Industry sector of small businesses
- Age classification of small businesses
- Legal status of small businesses
- Path to small business ownership
- Source of start-up funding
- Location of business premises
- Total number of permanent employees
- Business turnover
- Childhood experience
- First time business ownership
- Reasons for business failure

In designing the research questionnaire, utmost care has been taken to ensure that guidelines and strict criteria have been followed in order for the questionnaire to enhance the processes of data collection for analysis.

1.7.2.3 The study population

The target population of this study was small businesses in the John Taolo Gaetsewe and Frances Baard District Municipalities in the Northern Cape Province, South Africa. Numerous attempts have been made to secure a database of small businesses in research areas, but to no avail. It was decided to use a convenience sample, by means of the snowball sampling technique, to identify the small businesses that participated in this study (Page & Meyer, 2000:100).

To generate a preliminary list of small businesses, well-known business people in the two district municipalities have been contacted. These business people have acted as informants and identified potential small businesses for inclusion in the sample. The latter has identified a further set of small businesses. These referrals have subsequently been contacted to confirm that they adhere to the definition of small businesses used in this study (National Small Business Act, 1996; National Small Business Amendment Bill, 2004:2) and to gauge their willingness to participate in the study. A list of 570 small businesses willing to participate in the study has been compiled as a result of these efforts.

1.7.2.4 Data collection

The primary data for this study was collected by means of structured questionnaires through the assistance of two skilfully trained field workers. The field workers, who were tasked with key responsibilities of administering the structured questionnaires, assisted with explaining some of the questions to the owner-managers of the participating small businesses as the problem of illiteracy is of utmost concern in rural Northern Cape. The

field workers were asked to collect and cross-check all the completed questionnaires in the presence of the owner-managers (entrepreneurs) of small businesses.

The field workers were directly involved in the distributing and collecting of the questionnaires, because the research areas are vastly dispersed with a lack of basic infrastructure such as roads, postal services and telephones, and other means of communication. The structured questionnaires were delivered with a cover letter addressed to the owner-managers of the small businesses, detailing the reasons for the study and its benefits not only to the respondents but also to the entire rural settings across the country. The cover letter also guaranteed the confidentiality of the respondents.

1.7.2.5 Statistical analysis

The frequency with regard to the biographical information of respondents and the structure of the participating businesses, were assessed. Frequencies were also used to assess the challenges facing the small businesses as well as the perceived success of these businesses. In addition factor analyses were used to determine the validity of the measuring instrument. This was followed by measuring the reliability of the data by determining the Cronbach alpha coefficients.

Multiple linear regression analyses were used to determine the relationship between selected independent and dependant variables. The analysis was performed by using Statistica (Statsoft, 2011) and SPSS (SPSS, 2011).

1.8 LIMITATIONS OF THE STUDY

This study is not without its limitations and, as in all empirical studies, the limitations should be identified and considered when making recommendations and conclusions. The limitations of the study are the following:

- The study only focused on small business owner-managers in a specific geographical area. Care should be taken in generalizing the findings to all rural small businesses in other regions in the country.
- Although a relative large sample of rural small businesses participated in this study, owing to the use of a non-probability snowball convenience sample, the sample cannot be considered to be representative of all small businesses in the two participating municipality districts, the Northern Cape Province and in South Africa.
- Generally, great care needed to be taken in the interpretation and ultimate utilisation of the research findings, because South Africa is largely dispersed with different rural environmental conditions. In summary therefore, it is likely that rural small businesses as defined could be under-represented in the study sample as applied.
- Only owner-managers (entrepreneurs) who were willing to participate in this study were surveyed. Because some of the data gathered could be sensitive issues in most small businesses in the informal sector, only owner-managers who perceived their businesses to be legal or successful, might have chosen to participate in this study. This study may only reflect small businesses where the owner-managers (entrepreneurs) felt that the study would not put them in a negative light. This self-selection bias, however problematic, is common in small business research.
- The sample size was influenced by the lack of response from the small business sector in the research area and it can be argued that the study is limited to a particular group of owner-managers in the demarcated area.
- The owner-managers were contacted to determine whether they were willing to participate in the survey. Those that were not willing to participate were then not considered which limits the study to selected small businesses and participants only.
- The questionnaire only addressed selected determinants as compiled by the author. Furthermore, respondents (the owner-managers) could have treated the survey simply as another exercise, thus not completing the survey honestly. This

may result to negative impact on the study. Respondents might also have interpreted questions in different contexts as initially intended. The validity and the reliability of some of the constructs measuring the challenges were however not acceptable. Some of the constructs were discarded in further statistical analyses. Care should therefore be taken in the interpretation of the results and in generalising the findings to all small businesses in the participating district municipalities, the Northern Cape Province and South Africa.

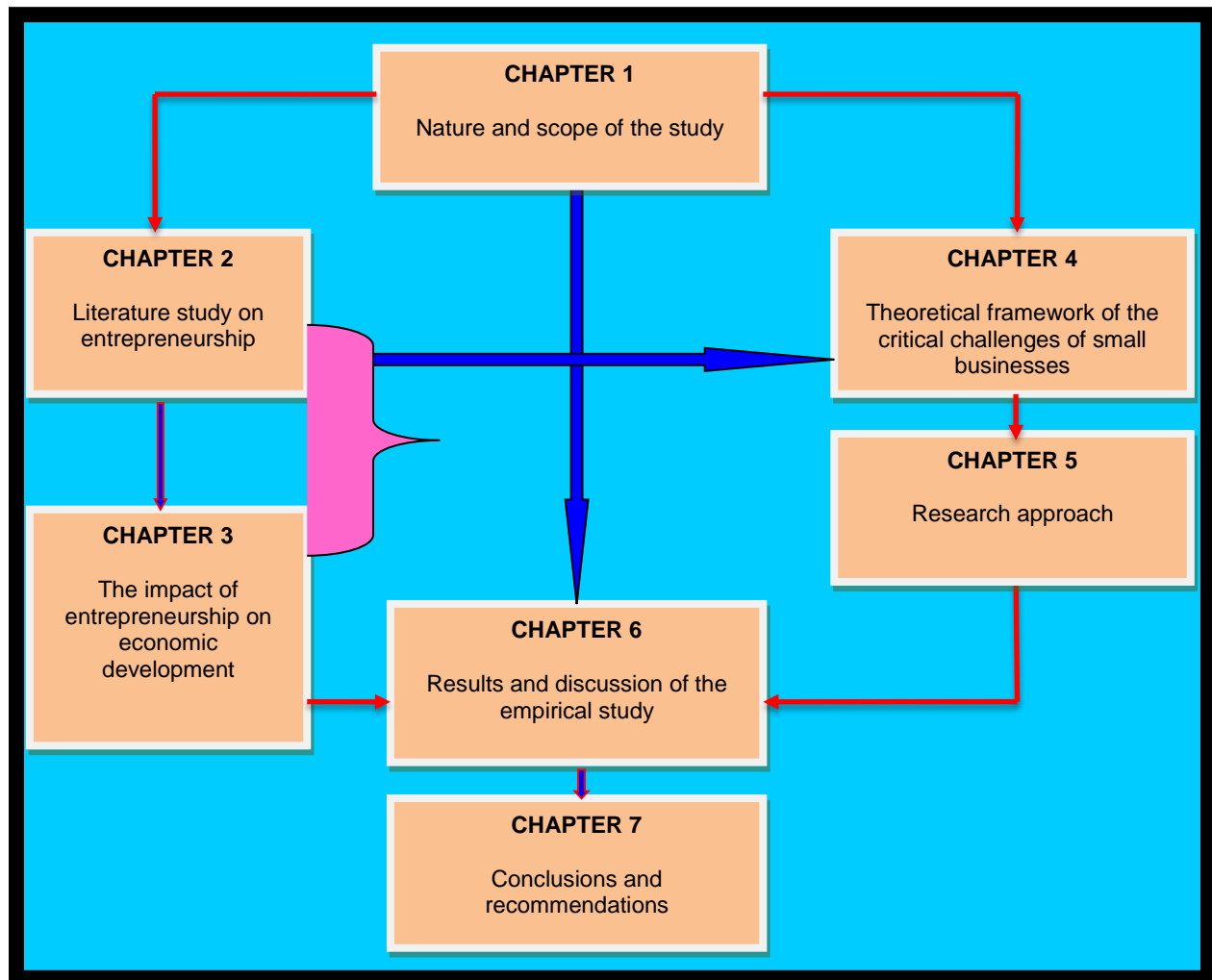
Despite the limitations identified, this study is designed to add to existing empirical body of small business research in rural areas. The study is further based on the scientific opinion that existing published evidence of quantitative nature that influences the challenges faced by small businesses to become sustainable globally is still lacking, the findings of this study could make a significant contribution to a better understanding of the challenges facing rural small businesses.

1.9 LAYOUT OF THE STUDY

The thesis consists of seven interrelated chapters. The relationships between these seven chapters are summarised and depicted in a diagram as shown in figure 1.4 on the following page.

Chapter 1 provides the introduction and background information of the study. The chapter also features an overview of the importance of small businesses, a discussion of the research problem with emphasis on the challenges of the small business sectors in South Africa, followed by the study objectives, the research methodology, the limitations of the study, and the demarcation of the study.

Figure 1.4: Schematic illustrations of the study layout



Chapter 2 forms part of the literature study on entrepreneurship; it commences by reviewing scientific literature at local and international level on entrepreneurship and small businesses. Some entrepreneurship models have been discussed including the process of entrepreneurship. The chapter describes the early theorists and their work - the main idea has been to find a common definition that leads to the various characteristics and traits of entrepreneurship that underline its complexity.

Chapter 3 focuses on the economic contributions of entrepreneurship, taking into account the local and international economic trends. Literature studies of chapters 2 and 3 provide the exact background to the rationale for the study.

Chapter 4 discusses the different forms of small businesses' challenges; the impact of the challenges on the growth and sustainability of small businesses; and some of the key constraining factors that extend into this chapter.

Chapter 5 outlines the research methods with descriptions of the survey, sampling technique, the design of the research instruments as well as the profiles of the owner-managers (entrepreneurs). Detailed explanations have been done to identify the exact problem statement that directed the study, establish the relevant research design and to select the research method; other areas include the procedures used in selecting the study sample, the data collecting method, techniques for analysing the study results and ways of reporting the research outcomes.

Chapter 6 consists of the presentation and discussion of the results of the study. That include the responses to the questionnaires distributed; the presentation and discussion of the biographical information of the participating small businesses' owner-managers; the structure of the small businesses that participated in the study; the analyses of the constructs measuring the challenges facing the small businesses and the perceived success of the businesses and the relationship between the challenges and the perceived success of the businesses.

Chapter 7, the final chapter, presents the conclusions drawn from the results of the study, recommendations and suggestions presented as possible solutions to the problem, the integrated framework to ensure sustainable small businesses in South Africa, an evaluation of whether the research objectives were achieved, and finally, suggestions for further research.

CHAPTER 2

LITERATURE STUDY OF ENTREPRENEURSHIP

2.1 INTRODUCTION

For years the concept of entrepreneurship has received immense global recognition across the developed and developing countries because of its influence on economic growth and sustenance (Le & Nguyen, 2009:867). The concept of entrepreneurship, however, still remains one of the oldest stimulants of economic activities which enable individuals to identify business opportunities for exploitation (Landstrom, 2008:3).

In spite of its existence for years as an economic enhancement process, entrepreneurship is regarded as an outstanding concept in developing countries that involves processes of shifting ideas into commercial opportunities for value creation (Melicher, 2009:7). Challenges of poor entrepreneurial culture and general negative sentiments regarding entrepreneurship as career option exist (Burger, O'Neill & Mahadea, 2005:89). Yet governments continue to groom and empower potential entrepreneurs (Haasje, 2006:43).

Due to its global recognition as a driver for economic growth, entrepreneurship is generally focused as an action-oriented phenomenon with immense creativity and innovativeness that ranges from opportunity or necessity entrepreneurship (Mokaya, Namusonge & Sikalieh, 2012:128). Currently, there are approximately 400 million entrepreneurs across 54 countries around the globe that operate start-up businesses (GEM, 2011:8). Entrepreneurial activities in South Africa continue to be challenged in many areas including the lack of financial support from financial institutions (Fatoki & Van Aardt Smit, 2011:1414; Beck, 2007:9).

As indicated by Glaeser and Kerr (2009:1), streams of empirical evidence further suggests that entrepreneurship provides essential ingredients for local employment

growth which is further fuelled by numerous factors including regional growth trends and diverse policy frameworks. The option to pursue entrepreneurship and its processes require enduring attitudes to resist severe difficulties and accept risks. Sine, Haveman and Tolbert (2005:200) theorize that entrepreneurship is inherently a risky option. With further reference specifically to extant literature by Knight, an individual entrepreneur is perceived as a risk-taker. Yet, in spite of the risk dominance, entrepreneurship has gained individual and organisational recognition as an essential tool for economic growth (Urban, 2007:91).

This chapter provides an insightful literature study of entrepreneurship taking into consideration some of the critical but yet relevant variables that are some of the contributory factors to finding the solutions to the research phenomenon. The chapter continues to pursue the concepts of entrepreneurship and the entrepreneur as well as an emphasis on entrepreneurial theories. Most of these theories underline who the entrepreneur is and the modern approaches to entrepreneurship as employment option. The chapter highlights the economic roles of entrepreneurship not deviating from the immense contributions made by the entrepreneurial process. Included in this chapter are some of the conceptual definitions that inform entrepreneurship.

The study focuses on entrepreneurship within the context of rural South Africa; therefore the most appropriate operational definition that guides the study is, *“the force that mobilises other resources to meet unmet market demands”; “the ability to create and build something from practically nothing; the process of creating value by pulling together a unique package of resources to exploit opportunity”* (Bahl, 2012:90). Much entrepreneurial thinking besides entrepreneurial actions and business activities are carried out across the globe (Kamffer, 2004:1). Entrepreneurship has gained enormous global recognition as very significant towards economic growth through a sustained competitive nature with positive financial gains (Antoncic & Hisrich, 2003:8; Urban, 2008:91).

According to Dhliwayo (2007:144), the deepening mindset concerning the general entrepreneurial activities focuses on business ideas and opportunities for financial rewards in environments of uncertainty. Entrepreneurship entails various processes of great value through coordination of resources for the exploitation of opportunity (Morris, Kuratko & Covin, 2008:10; Schumpeter, 1934:74). In essence, entrepreneurial thinking entails business opportunities that pose harsh realities of uncertain business conditions and its associated final outcomes (Dhliwayo, 2007).

As Drucker (1985) simply reiterated, entrepreneurship focuses on practical changes with responses to exploit available business opportunities within the environment. Radosevic (2007:20) disagreed and propounds that entrepreneurship entails three kinds of opportunities namely market, technology and institutional opportunities. But as researchers Dalohoun, Hall and Van Mele (2009:90) recommend, that in general opportunity emerges from entrepreneurship rather than the individual entrepreneur through various processes and at the end marshal requisite resources. In support, Gantsho (2006:4) confirms that for the entrepreneur to perform its core tasks certain attributes become obligatory throughout the process; these include the traits of innovation, risk management, taking proactive decisions, being creative and find solutions to problems.

2.2 EVOLUTION OF ENTREPRENEURSHIP

Since the two centuries of Cantillon (1680-1734) and Say (1767-1832), the twin concept of entrepreneurship and the entrepreneur still remains elusive (Nieman, 2006:4). Entrepreneurship unlike the entrepreneur is broadly underpinned with real economic opportunities and the exploitation of viable economic opportunities in the mist of risks and uncertainties with the central thesis of creativity (Nieman, 2006:9). What is more is that entrepreneurship differs from small businesses in specific areas of innovation, growth possibilities and setting strategic goals (Wickham, 2006:102-103).

For years, the concept of entrepreneurship continues to evolve further into the realm of the present education system and portrays sufficient linkages between business ventures, social and other individual personalities (Swanepoel, Strydom & Nieuwenhuizen, 2010:63). Contrary, the entrepreneur continues to spot renewed business opportunities which need sufficient preparation and planning; the entrepreneurship world is full of uncertainties (Timmons & Spinelli, 2009:104).

Historically, the concept of entrepreneurship is about the individual's capability to spot opportunities and take relevant action of exploiting such opportunities. Resources are then mobilised to exploit such opportunities, followed by trading for maximum profit; thus societies with more entrepreneurial activities are more likely to economically outperform others with lesser entrepreneurial activities (Venter, Urban & Rwigema, 2010:11).

During the early 17th and 18th centuries, there was a significant emergence of some famous industrialists including Cantillon and Say who confirmed that the birth of new businesses were the results of specialised skills of individual innovators (Falion, 1997). Falion (1997) contends that the development of entrepreneurship revealed concept dates as far back as the 17th century. Cantillon (1725) was one of the forerunners of entrepreneurship; he proposed a clear conception of entrepreneurial function and the risks of how it relates to innovation during the 18th century. Entrepreneurial roles became more famous during the industrial revolution. Cantillon (1725) applied the concept of the entrepreneur to denote a self-employed individual who tolerates risk to allow for personal well-being.

The Industrial Revolution during the 18th century have popularised entrepreneurship world-wide by means of business applications because of a favourable business climate. That could lead to accessing capital or the use of internal business funds for the purposes of business operations. Hisrich, Michael and Shepherd (2005) stated that the period coincided with the industrial era as such; innovators namely Edison, Whitney and others were seen as potential entrepreneurs. During that period, there were

demanders and providers of funds (Hisrich *et al.*, 2005). Say (1830) during the Industrial Revolution showed adequate distinctions between entrepreneur profits from capital profits. During the 1800s Say (1830) describes the entrepreneur as an individual who transfers resources from low to high business ventures; thus, the entrepreneur is a change agent who through various forms of changes allows for innovation. Schumpeter (1947) shared the same sentiments by stating that changes in the business environment lead to a healthier economy with more efficient and innovative prospects for the creation of entrepreneurial value.

The concept of entrepreneur was further expanded during the 20th century as an inventor. Schumpeter (1947) was one of the early theorists to introduce innovation (the introduction of new methods, new machineries, new materials, new organisational structures and new products. Drawing from prior definitions of distinctive meaning of entrepreneurship, it can be argued that the concept of entrepreneurship is embedded in many economic growth theories (Acs & Armington, 2006). Supporting this argument (Kirzner, 1973) mentioned key elements of risk taking, alertness for business opportunities and the combinations of market factors as the means to define and characterised entrepreneurship. Bosma and Levie (2010:11) summarised the concept of entrepreneurship as:

- The general impact of entrepreneurship on a developmental project is likely to show signs of dissimilarities in each phase regarding time frame and actual size.
- Entrepreneurship serves as essential tool in every phase of the economic development.
- Policy makers have stressed the basic requirements of efficiency enhancement innovation machinery yet entrepreneurship serves as the primary tool of development.

Schumpeter (1947) linked entrepreneurship to innovative activities and further demonstrated the importance of entrepreneurs in '*creative destruction*'. According to Schumpeter, radical improvements and the frequent changes to products and services

by entrepreneurs make old technology quickly obsolete. Through the principles of '*creative destruction*' by entrepreneurs, different economic sectors are most likely to be developed. Schumpeter's revolutionary concept of *dynamic circular flow* and *creative destruction* leads to unearth the explanations of entrepreneurship in terms of economic development using five circular flow models such as:

- The introduction of new products.
- Introduction of new production methods and processes.
- Open new marketing activities.
- Search for new sources of raw materials.
- New industry organisational structures.

The 21st century saw the concept of entrepreneur further increased; the entrepreneur was perceived as an individual who is out to satisfy needs (McClelland, 1961). According to McClelland 1962 (as cited in Bull & Willard, 1993) individual needs are classified as follows:

- The need for achievement.
- The need for power.
- The need for affiliation.

McClelland (1962 as cited in Bull & Willard, 1993), identifies the need for desire or for achievement to be more relevant to entrepreneurship. The entrepreneur is an individual who is keen to achieve a specific need ('n'achievement); an entrepreneur is described as an achiever. These needs can be translated into the following needs:

- The need to reach the best levels of business pursuit.
- The urge to experiment something new in business.
- To fulfil a specific business task.
- To avoid unpleasant business situations (McClelland, 1961).

For years McClelland (1965, 1976; 1986) have noticed three key individual needs which are known as the theory of motivation. These include the need for achievement, the need for affiliation and the need for power. The need for achievement leads to the accomplishment of something very difficult to master or overcome the challenges in order to reach high standards, and to surpass others.

The theory of motivation is very significant in describing in detail the characteristics of entrepreneurs because the key focus of the theory displays the basic characteristics of business start-ups. The theory highlights successful economic development nationally in different countries provided the need for achievement (n'ach) is highly adopted by citizens.

Shapiro (1975) was of the view that the entrepreneur exhibits certain behaviour patterns which shows:

- Taking initiative.
- Organising and re-structuring the socio-economic mechanisms to turn resources and business situations to meet practical business requirements and to willingly accept business risks or failure.

Also, during the 21st century, other theorists such as Vesper (1980) and others identify the entrepreneur as:

- The economists; as someone who put together the resources of labour, materials and assets, introduce changes of innovation and production processes for profitable and rewarding needs.
- The psychologist; the entrepreneur as an individual who is triggered by certain forces (Vesper, 1980).

In addition to the evolution of entrepreneurship during the 20th century, Bosma and Levie (2010:11) summarised the concept of entrepreneurship as follows:

- The general impact of entrepreneurship on a specific project of development is likely to show some dissimilarity in each phase in terms of timeframe and product size.
- Entrepreneurship serves as the most vital tool in every phase of economic development.
- Policy makers reiterate the basic requirements of efficiency, enhancement tools of innovation; entrepreneurship on the other hand serves as the basic fundamentals of the phases.

2.3 THEORIES OF ENTREPRENEURSHIP

In this section some of the key theories that underline entrepreneurship are highlighted to project the relevance of entrepreneurship theories and determine the depth of each theory's contributions to entrepreneurship and how each of the theories enhance the existing literature of entrepreneurship. Entrepreneurship has emerged as one of the key global economic drivers with its origin from France during the 17th and 18th centuries.

Various researchers and academics (Arif, 2008:5; Karlof & Loevingsson, 2005:137; Tominc & Rebernik, 2003:780; Van Zyl & Mathur-Helm, 2007:19) have expressed the sentiments that entrepreneurship remains very complex and in search for a definite explanation; however, its basic tenet focuses on the development of a new idea. Most theories allow individuals to understand the relationships between entrepreneurship and the various principles that shape its complexity (Kuratko, 2010). During the 18th and the early 19th centuries, it was impossible to distinguish entrepreneurs from managers; instead, the entrepreneur is seen as economic agent (Bruni, Gherardi & Poggio, 2004:408). Entrepreneurship is perceived as a thought-out process to establish and develop an economic task with a mixture of risk, creative skills besides innovative techniques within a newly or on-going entity (Crane & Crane, 2007:14).

The concept of “*entrepreneurship*” was accredited early to the French economist, Jean Baptiste Say. At the turn of the 19th century, Jean Baptiste Say defined the term entrepreneur as “*a person who shifts economic resources from the least productive area into an area of higher productivity*” (cited in Dess, 2001). Drawing from the French definition of entrepreneurship since the 1700s, Jean-Baptiste Say indicated that the concept of entrepreneur entails the transfer of available economic resources from a low productive environment to areas of higher productivity with higher yield (Herrington, Kew & Kew, 2010:11).

Furthermore, Herrington *et al.* (2010:11) indicated that in the present context, the entrepreneur is described as “*one who organises, manages and assumes the risk of a business enterprise*”. Ironically, the definition of an entrepreneur according to the Oxford Dictionary is limited because individuals with an entrepreneurial mindset are linked not only to business ventures; entrepreneurial mindset is located within the welfare, social and sporting climates. Kuratko (2010) adds that for years, individuals have fully understood and prepared for the future. As such, to fully comprehend the present literature of entrepreneurship and its triggering elements, it is significant to digest some key theories that bear linkages to entrepreneurship.

When entrepreneurship was introduced as an economic concept, it was closely associated with two main issues; risk-bearing in terms of business activities and the use of personal initiatives (Fuchs, Werner & Wallau, 2008:367). Two decades ago, the concept of entrepreneurship has received global recognition from the academic fraternity and researchers. Specific scientific entrepreneurship studies continue to focus on different economic fronts such as job creation and poverty reduction (Acs, Desai & Klapper, 2008; Mead & Liedholm, 1998; Schumpeter, 1934; Thurik, Carree, Van Stel & Audretsch, 2008). Entrepreneurs are considered as unique individuals who in most instances deviate from the practical norm and once a viable business opportunity are identified, the entrepreneur seizes to utilise the past and future data that could be of utmost support for success (Koellinger, Minniti & Schade, 2007:520).

As a vital dynamic process which seeks the elements of vision, change and creative skills, entrepreneurship focuses on individual's energy and passion to become more creative; as well as other traits of entrepreneurship namely to seek opportunities, risk-taking and the edge to push fresh for more innovative and creative ideas (Kuratko & Hodgetts, 2009:30; Kuratko, 2005:578). Through ceaseless review of available literature over the years, Davidsson (2008:16) states *"Entrepreneurship consists of the competitive behaviours that drive the market process"*. At the same time within the academic realm, entrepreneurship is conceptualised as *"The behaviour undertaken in the process of discovery and exploitation of ideas for new business ventures"* (Davidsson, 2008:15).

Similarly, Wennekers and Thurik (1999:48) continued to define the entrepreneur as an individual who *"owns and directs an independent firm that innovatively and creatively destroys existing market structures"*. According to Schumpeter's definition of what constitutes entrepreneurship, it is argued that the concept of entrepreneurship is very critical to continue the growing dynamism that engulf the present-day market economy by means of sufficient innovation of out-dated products and production processes and at the end left to be destroyed (Schumpeter, 1934).

There have been growing prominence about what constitutes the individual entrepreneur as part of the entrepreneurial agent and yet each of the present theories provide an insightful description of the entrepreneurial function differently. Some of the economic theories integrate psychosocial elements with some degree of objectivity and utmost formality; in general, therefore because the future is unknown entrepreneurship is likely to create value (Kirzner, 1997; Fontela, Guzman, Perez & Santos, 2006:4; Foss, Klein, Kor & Mahoney, 2008:76; Wennekers & Thurik, 1999). Besides, three leading social scientists including Weber, Schumpeter and Knight have emerged as contributors to the theories of entrepreneurship. The theory of Weber was attributed to economic development and associated to the Calvinist nationality theory.

For years, the theory of entrepreneurship have progressed and strongly positioned the individual entrepreneur as a vital economic developer; reward; combination of available resources; and be exposed to business risk and uncertainty. Schumpeter's theory (1934) firmly positioned the innovative entrepreneur at the forefront as the economic developer, the undertaker who makes things happen and hence, the entrepreneur always disturbs the way things are done as change agents (Kirby, 2005:511; Betta, Jones & Latham, 2010:230; Brouwer, 2000:103). Entrepreneurship entails various tasks that require every aspect of discovery, evaluation and the exploitation in order to introduce new products and services and to coordinate resources (Shane, 2004:4).

The views of Schumpeter bear similarity to the general disapproval by the Austrian Von Mises and Israel Kirzner which echoed that the entrepreneur is a critical driver of economic theory (Batstone & Pheby, 1996:34). Consequently, most entrepreneurial actions are caused by individuals who take charge of business opportunities with a view to do doing things differently; and hence, trigger and stimulate potential innovative ideas with consequences of economic development (Betta *et al.*, 2010:230).

Schumpeter's (1934) system of innovation is central to economic changes due to "*gales of creative destruction*" which represents his popular process of innovation (Dabic, Crijanovic & Gonzales-Loureiro, 2011:195-196). Schumpeter (1934) further argued that the economic development becomes a process that changes the ways entrepreneurs do things with the intention to create steady circular flow within the economic environment (Hebert & Link, 1989:43-44). Moreover, he provides in-depth descriptions of the entrepreneur's role as a leader within the economic system. Accordingly the entrepreneur is "*continually organising the economic system*" by developing new processes and a new marketing environment; as such Schumpeter (1934) describes entrepreneurship as a process of "*creative destruction*".

The entrepreneur is perceived as undertakers who make things to occur; consequently, entrepreneurs always disturb the processes of doing things as the change agents in small businesses (Kirby, 2005:511; Betta *et al.*, 2010:230). Further explanation of

Schumpeter's "*gale of creative destruction*" ascribed to the energy of the entrepreneur's innovation of highly standardised enough to earn a vital competitive edge in the market and the process of creative destruction (Casson, Yeung, Basu & Wadeson, 2006:46; Hospers, 2005:20).

In comparing the views of Schumpeter about the innovation of entrepreneurship, Kirzner perceived the entrepreneur as "*dynamic auctioneers*" with indigenous knowledge of environmental circumstances from a diverse climate as progress is seen in the light of "*incremental, experimental and evolutionary*" also known as "*equilibrators*" (Vaughan, 1992:255). The concept of "*entrepreneurial profit*" has been globally researched. Knight (1942:126) defined the '*profit*' that accrued from a proactive business entity. Throughout the explanations of the "*entrepreneurial profit*"; Knight (1942) stressed that profit entails most of the remuneration for services rendered through the entrepreneur by means of resources such as labour, capital and services (Knight, 1942:126).

In general, profit is further explained as the alertness to business opportunities (Hebert & Link, 1989:46; Jakee & Spong, 2003:466). Consequently, the most important concern for the entrepreneur is the issue of market disequilibrium which is rather perceived as the potential to business opportunities (Jakee & Spong, 2003:466). Market disequilibrium drives various forms of inequalities of primary economic principles of supply and demand. As pointed out by Pittaway (2005:212), the model of disequilibrium in economic theory provides an insight into the entrepreneurial actions that is necessary to exploit business opportunities to institute better economic systems.

Theorists such as Cantillon, Schumpeter, Kirzner, Knight and Weber were of the view that combining all the available resources is the main focus of the entrepreneurial tasks and related business activities. Besides, Malecki (1994) states that there are three levels to the meaning of entrepreneurship namely at the lowest level entrepreneurship is about existing small businesses, the establishment of new businesses and at the highest level the focus of entrepreneurship is the sustainability of existing businesses or start-ups (Acs & Szerb, 2009; Fritsch, 2011). According to Cantillon in Pettaway (2005),

entrepreneurs are *“undertakers of their own labour without capital”*; thus Schumpeter (1939:103) adds that the entrepreneur is likely to invent products or new production methods onto the marketplace while the only source of capital for the entity may result from the entrepreneur.

Schumpeter (1939) considered the theory of equilibrium to be incomplete and further argued that the inherent section of *‘energy’* as located in the economic system creates most of the existing disequilibrium within the marketplace (Landstrom, 2008:32). In his views Liebenstein (1968) concurs that *“all forms of successful entrepreneurs are those individuals that are able to overcome the inefficiency in the marketplace”*. The entrepreneur needs specific skills to administer the scarce resources and to selling potential resources to others (Knight, 1942:130). However, early proposition of the entrepreneurial notion echoed *“pure and penniless entrepreneur”* as Weber views the entrepreneur as an individual with *“unusual will and energy”* yet without capital (Hebert & Link, 1989:46).

2.3.1 Economic theory: uncertainty and risk

Entrepreneurship transcends different economic tasks at the most basic fundamental level for the identification of opportunities in order to provide innovative marketable products and services (Dacin, Dacin & Matear, 2010:42). Most academics and researchers have active ideas regarding risks and challenges of entrepreneurship as most of the entrepreneurs appear to be hopeful about entrepreneurship rewards; but were unable to correctly estimate the risks and the level of sacrifices involved in entrepreneurship (Van der Merwe & De Swardt, 2008:450; Pinfold, 2001:279).

Entrepreneurship is embedded with very dynamic and complex traditions of economic theory (Mokaya *et al.*, 2012:128). Further illustrations of how entrepreneurship has evolved over the years are extremely difficult to understand. Long (1983) provides the historical perspective of the development of entrepreneurship. According to Long (1983), entrepreneurship can be traced over the past 800 years to demonstrate the

French word “*entreprendre*” which means “*to do something*”. The emergence of risks and uncertainty of entrepreneurial activity enables Cantillon to define entrepreneurship as a self-employment venture of uncertainty (Long, 1983:43). Further interpretations have shown that individuals are in frantic search for profit through the applications of business judgement within the climate of severe uncertainty as the entrepreneur experiences risks and uncertainties (Hebert & Link, 1989:42; Batstone & Pheby, 1996:39).

Several academics including Quesnay, Baudeau and Turgot proposed similar literature on uncertainty and business risks (where the probability distributions of results are known) (Murphy, Liao & Welsch, 2006:18-19). The notion by Knight (1921) on “*Risks, Uncertainty and Profit*” was again stressed with maximum support that individual entrepreneur is expected to exercise judgement during the time of uncertainty (Casson *et al.*, 2006:45). Davidsson (2004:4) emphasises that newly established initiatives need to produce sustainable impact with some values to be produced with lesser utilisation of resources.

In summary, the business environment is largely affected by the factors of uncertainty; the entrepreneur is unable to predict and prepare for business operations; hence, the individual entrepreneur is referred to as the specialist who bears risk and uncertainty (Knight, 1942:129). In describing entrepreneurship, Marshall (1930:206) indicates that factors such as family background, education and innate capability, the knowledge of trade and the power to forecast opportunities are potentials to entrepreneurship success. Kirzner (1973:52-53) disagreed that entrepreneurship requires no specialised skills for success.

According to Kirzner (1973), entrepreneurship can be hired provided resources are available. However Kirzner (1973:68) contends that entrepreneurship needs specialised knowledge for success. Schumpeter (1934:137) continued to argue that entrepreneurial risks formed part of the critical component of entrepreneurial function and that most possessions of the entrepreneurs are insignificant in realising entrepreneurial success;

as such, the level of persistent failure of entrepreneurship is due to several people including credit providers.

According to Hebert and Link (1989:47), the idea of Kirzner was that uncertainty is not essential, but he later agreed that the issues regarding uncertainty are very significant to encourage entrepreneurial activity. Ebner (2005:262) further confers the analysis of entrepreneur as indicated by Weber's "*Spirit of capitalism*" as a modern professional is deeply rooted in the core values of the protestant; as such the entrepreneur is not only a risk-taking adventurer or explorer. The rejection of entrepreneurial risks by Schumpeter needs a very cautious formula.

Two schools of thought are used in this regard. Firstly, in 1982, Helene Verin provided two meanings for the French word of '*entrepreneur*': as the broker (l'entremetteur) and the adventurer (l'entrepreneur). Say using the French school of thought, classified the entrepreneur as the manager or the avoider of risk; the Austrian school of thought with contributions by Schumpeter described the entrepreneur as innovator and risk-taker (Marchesnay, 2011:358).

2.3.2 Economic theory: function and personality traits

The economic theory has labelled the concept of entrepreneurship as a function as well as personality trait. Hebert and Link (1989) stated that Cantillon has generalised the entrepreneurial function as sizeable number of occupations that make use of business functions including production, exchange and distribution to other tasks of entrepreneurship. The entrepreneur is perceived as individuals with no invention skills but rather an innovator with new marketing ideas; a true agent of change in economic development (Schumpeter, 2003:76).

Supporting these views, Weber's theory of sociology defined the functional approaches of entrepreneurial supply as an inherent exogenous religious ability and social values. The entrepreneur is not supposed to be part of the physical individual, instead of a

systematic change of focus from leadership to a more de-personification of entrepreneurial functions which serves as the publication of Schumpeter's earlier work of "*Theorie*" in 1911 (Becker & Knudsen, 2002:394; Michaelides & Theologou, 2010:367).

According to Casson *et al.* (2006:46), the entrepreneur put into active utilisation, all forms of innovative approaches into the economic system in order to ascertain competitive advantages within the market environment over potential competitors. Entrepreneurship is therefore very significant in economic development due to its prompt response to technological needs and the means to better innovation to meet demands (Hospers, 2005:20). Cantillon (1730), in his view, the entrepreneur is a self-employed individual who bears risk and provides for own economic satisfaction. During the Industrial Revolution in 1830, Say advanced the definition successful entrepreneur as an individual with adequate managerial skills.

Schumpeter's literature on entrepreneurs centres on the economic importance of entrepreneurship; and further attributes the competitive nature of overall marketing forces to the innovative approaches of the entrepreneur (Herbert & Link, 1989:43-44). Within the economic systems, the entrepreneur's contribution starts from the correct employment of the factors of production in a more productive and innovative means to realise adequate benefit (Schumpeter, 1934:136).

Kirzner theorised that the entrepreneur is '*dynamic auctioneer*'; as a result any form of economic agent is likely to become an entrepreneur. This view is not in agreement with Schumpeter's views that innovations by the entrepreneur cannot be a continuous process and that it is marginal (Casson *et al.*, 2006:48). According to Kirzner, the innovative skills of the entrepreneur emerge from the locality of the entrepreneur with the conditions that exist in the economy as the leading progression in the form of "*incremental, experimental and evolutionary*" (Casson *et al.*, 2006).

In addition to the existing economic theory, Schumpeter (1934) explained “*the entrepreneurial profit*” is coined as the surplus over business costs. The circular flow system of the economy is of primary importance and not just to invent assets for use or consumption but rather to yield entrepreneurial profit as the outcomes of efficient assembling of resources into productive means or ventures. Schumpeter’s theories continue to view the entrepreneur as a key player within the circular flow system of the economy (Schumpeter, 1934:131-133).

From a Schumpeterian perspective, the competitive nature of the marketing environment centres on the aggressive marketing capabilities of competitors due to new business establishments either through product innovations or new venture creations. The marketing environment is poised to see restructuring of the entire marketing systems into various industry sectors, increased productivity, and heightened competition among competitors and employees’ layoffs (Schumpeter, 1934:133).

Entrepreneurship, according to the theory of Kirzner, provides deepen insight into alertness to venture profit (Jakee & Spong, 2003:466). The theory of Kirzner states that market disequilibrium creates business opportunities for profit to exist within the economy; the advent of business opportunity allows the entrepreneur to direct marketing conditions to equilibrium for the realisation of profit (Jakee & Spong, 2003). Kirzner continues to state that the entrepreneur plays an active role in adjusting marketing conditions for the purposes of equilibrium (Jakee & Spong, 2003:466). From the era of Cantillon to Kirzner, individual entrepreneurs are highly associated with market functions. Entrepreneurs are known to be risk bearers, plan coordinators, organise resources and introduce new products onto the market; thus through these functions, the entrepreneur pursue monetary gains (Jakee & Spong, 2003:466)

2.4 DEFINING ENTREPRENEURSHIP

Entrepreneurship has long been associated with globally acceptable norms; until the 1950s, the concept of entrepreneurship has been linked to most economists such as

Cantillon (1725) and the French economist Jean Baptiste Say (1803) and finally, the economist of the twentieth century, Schumpeter (1934). From these years onwards, global researchers and academics have been toiling to reach a common definition of what constitutes entrepreneurship. Globally, entrepreneurship is defined in various ways. For instance, the organisation for economic cooperation and development (OECD) defines entrepreneurship as the process dynamic that easily locates economic opportunities (OECD, 1997:151). Entrepreneurship is about self-employment and not to be employed (OECD, 2001(a):23). Entrepreneurship constitutes new venture creation through innovation of economic goods and services (Zimmerer & Scarborough, 2008:5).

Defining entrepreneurship is still the subject of global argument (Goetz, Partridge, Deller & Fleming, 2010:31). Thus, the concept of entrepreneurship continues to remain very complex and elusive meaning different things to individuals (Anderson & Starnawska, 2008:222). Entrepreneurship entails interrelated processes of vision, change and creation and it requires so much energy that the individual needs to be passionate. It, furthermore, serves as the catalyst for economic growth within competitive environment (Swanepoel *et al.*, 2010:66; Kelley, Bosma & Amoros, 2011:4). Unfortunately the majority of entrepreneurs are unable to become creative enough to provide the exact definition of entrepreneurship (Zahra, 2007:445).

Entrepreneurship stems from any form of rational actions that respond to a socially motivated environment (Chigunta, Schnurr, James-Wilson & Torres, 2005:2). Davis (2002:3) advances the notion that entrepreneurship is a critical process which allows successful individuals to assist others by increasing their standard of living through producing and contributing goods and services to various communities (Mahadea & Pillay, 2008:431). Zafirovski (2008:353) argues that entrepreneurship is nothing but individual action that is fuelled by any act of rational elements with social or anti-social traits. Holt (2008:53) agrees that entrepreneurship mainly centres on socially motivated effort which requires combined attitudes of individuals; it is an individual attempt towards self-employment, new venture creation and for existing business expansion (Bosma, Wennekers & Amoros, 2012:9).

In essence, entrepreneurship deals with the creation of newly established economic systems of utmost benefit to the general society and further characterised by innovation, change, risk-bearing, opportunity recognition, driving force, of benefit to the business, the employees and to shape the entrepreneurial culture of individuals in the economy for economic growth (Arbaugh, Cox & Camp, 2008:367; Ahl, 2006:610). In general, entrepreneurship involves certain tasks of entrepreneurial thinking as well as actions across countries regarding business operations at various levels (Kamffer, 2004). By its nature, entrepreneurship occurs within multiple conditions and thus, it stirs-up economic changes through individuals' acts of innovation and provide adequate responses to viable economic tasks for ultimate societal and individual rewards (Churchill & Muzyka, 1994:16). In addition, entrepreneurship is a systematic process run by individuals for personal reasons or through corporate initiatives in the pursuance of opportunities with lesser regard to available resources (Stevenson & Jarillo, 1990:23).

Similarly, the concept of entrepreneurship is not only linked to small businesses or start-up businesses; equally, the concept is very active within the corporate environment in which strategic decisions are made for corporate alternatives (Nieman, 2006:9). Entrepreneurship is structured well enough to focus on the identification of real economic opportunities, risk-taking to exploit opportunities through innovative and creative processes for reward and business growth (Nieman, 2006:9). Scheepers, Hough and Bloom (2007:238) concur that entrepreneurship features either as organisational characteristics or an individual action of economic prosperity.

In spite of its universal socio-economic popularity, entrepreneurship remains very elusive in providing a globally accepted definition (Anderson & Jack, 2008:263; Nafukho & Muyia, 2010:99; Thompson, 2009:676; Cromie, 2000:7; Howorth, Tempest & Coupland, 2005:30; Kobia & Sikalieh, 2010:110). Entrepreneurship as a globally acknowledged concept is defined through two fronts. On one front, entrepreneurship is defined as *"a way of thinking that emphasise opportunities over threats"* (Krueger, Reilly & Carsrud, 2000:411). This definition is mainly focused on the intention to establish a business venture with more focus on entrepreneurial intentions (Krueger *et al.*,

2000:411). Recent empirical studies by Dimitratos and Jones (2009) indicated that entrepreneurship can as well be perceived as:

- An opportunity seeking business venture with determination.
- A business venture that creates and seizes opportunities irrespective of resources presently controlled.
- Establish new business ventures within a business climate that is doubtful.
- Innovative, very proactive characteristics and not mindful of associated risks.

Entrepreneurship as a concept centres mainly on personal conviction of individuals who intends to establish their own start-up businesses (Thompson, 2009:676). Similarly from a cognitive perspective, Mitchell and Busenitz (2007:3) assumed that the concept of entrepreneurship is not only about distinctive ways of thinking but also the entrepreneur must display better and exceptional behaviour standards. However, the concepts of entrepreneurship and the entrepreneur are further defined in a more practical context by successful entrepreneurs.

For instance, recently a South African technology entrepreneur, Lingham (2011:46), described entrepreneurship as *“the ability to create a new meritocratic enterprise that can participate in an open market opportunity”*. Though the concept of entrepreneurship shares similar personality traits and characteristics as well as different qualities with intrapreneurship, it is still interesting to note that other environmental factors differ (Thornberry, 2003:330). Entrepreneurship in most instances is grounded as an innovative process (Thornberry, 2003:330).

Schwarz, Wdowiak, Almer-Jarz and Breiteneker (2009:276) opined that entrepreneurial intent is crucial for the development of efficient interactive models which defined entrepreneurial behaviour as a function of both personal and environmental conditions. Another approach defined entrepreneurship based specifically on the research outcome by Kobia and Sikalieh (2010:110) which account for a holistic picture of entrepreneurship. According to the above authors, the definition of entrepreneurship

should focus more on the entrepreneurial process and not only on a single segment namely individual behaviour, or the identification of opportunity.

2.4.1 The 21st century entrepreneurship

The current entrepreneurial definitions are still in the developing phases of various disciplines as follows:

- According to definitions by researchers Acs and Audretsch (2005:88), two key constructs were highlighted; initially, alertness to fresh opportunities and then seizing the opportunity through innovative, entrepreneurial activities. The entrepreneur is an individual that is ready to take up business opportunities within the environment and to put across correct innovative action during the entrepreneurial process. The entrepreneurs are alert, seeking real business opportunities with an instant plan of action (Acs & Audretsch, 2005).
- According to Zimmerer and Scarborough (2008:5), the entrepreneur is an individual who in the mist of uncertainties establish new business to achieve profit and growth through continuous identification of business opportnuinties and putting together the available resources.

Presently there are numerous and new definitions of entrepreneurship and the entrepreneur.

- *“...a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach and leadership balanced”* (Timmons & Spinelli, 2009:101).
- *“...a person who sees an opportunity in the market, gathers resources and creates and grows a business venture to meet these needs. He or she bears the risk of the venture and is rewarded with profit if it succeeds”* (Nieman & Nieuwenhuizen, 2010).

- “...a general attitude that can be usefully applied in all working activities and in everyday life” (European Commission as cited in Fuchs *et al.*, 2008:367).

The definition of Timmons and Spinelli (2009) above highlights the various dimensions of entrepreneurship. Entrepreneurship emerges as a result of how individuals think, behave and act in order to take advantage of every potential entrepreneurial opportunity. The researcher Cantillon (1755) defined entrepreneurship as a self-employed person who buys at certain prices to sell at uncertain prices in the midst of risks (Chen, Weng & Hsu, 2010:11). According to Oosthuizen (2006:52), entrepreneurship is about alertness to business opportunities and how to use available resources to attain maximum outcomes. Entrepreneurship is about creative activity that can be easily influenced and finally yield the desired wealth.

According to Hisrich and Peters (2008:8), there are four main themes that are used to explain entrepreneurship; these themes include:

- The creation process.
- Time and effort is needed.
- The entrepreneur ascertains monetary rewards, independence and personal satisfaction.
- In the process, the entrepreneur assumes uncertainty and risks.

According to Rwigema and Venter (2008:5), entrepreneurship is a conceptualisation process that is launched through innovative methods to nurture business opportunities within high growth organisations. Expanding on the definitions, Timmons and Spinelli (2009:101) confirmed entrepreneurship as ...“a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced”.

Entrepreneurship is a dynamic process with associated visionary acts that constantly change and create wealth. Entrepreneurship expects individuals or team of individuals with energetic skills, very passionate to access new information for business opportunity

solutions within organisational context taking into account risks and available resources (Kuratko & Hodgetts, 2004:30; Lambing & Kuehl, 2007:16).

One of the early philosophers of entrepreneurship, Cantillon (1734), referred to entrepreneurship as a risk-bearing venture that is centred on self-employment with an uncertain system of rewards (Lambing & Kuehl, 2007:16). Schumpeter (1947) associates entrepreneurship with innovation and further displays the significance of entrepreneurs as creative destruction and also to be utilised for economic development (Venter, Urban & Rwigema, 2010:13).

Having outlined the various definitions of entrepreneurship can therefore be clearly identified as:

- The concept of entrepreneurship is a process that is manageable; at the same time the process can be divided into various workable activities and within the context of the business environment (Collins, Smith & Hannon, 2006:190).
- Entrepreneurship creates wealth from practically nothing. Potentially the wealth that is created must be of utmost important to the entrepreneur as well as the entire market environment (Hisrich & Peters, 2008:8; Nieuwenhuizen, 2003:9).
- Entrepreneurship is a carefully initiated act of creating, building and expanding an organisation to establish a solid entrepreneurial team, and gather the available resources for the exploitation of marketing opportunities. The general growth and long-term sustainability of the establishment is very critical. Small businesses that are established only for continuous existence of the entrepreneur are not in any way deemed as entrepreneurial venture (Van Aardt, Van Aardt, Bezuidenhout & Mumba, 2008:5).

- The entrepreneur assembles different forms of resources namely individuals, money, production process, technologies, materials, required facilities, packaging techniques, and the channels of distribution (Thornberry, 2003:332).
- An entrepreneur is a person who is opportunity driven (Kirby, 2003:11). As stated by Burns (2008:6), the entrepreneur is able to spot opportunities as a result of certain changes from the environment, focus the relevant resources to take advantage of the enormous business opportunities and to further deliver on the expectations of the market.
- Entrepreneurship involves risk-bearing; also the entrepreneur behaviour and even the processes including new products creation, services and other related processes including the risk bearing factor (Hisrich & Peters, 2008:8-9).

Morris *et al.* (2008:10) stressed that there is no concrete agreement on the definition of entrepreneurship and the entrepreneur. Entrepreneurship also involves the social processes of individuals or teams with the possibility of spotting and exploiting marketing opportunities for wealth creation (Morris *et al.*, 2008:10). Table 2.1 illustrates some of the generic elements that are found in the definitions of this global phenomenon.

Table 2.1 demonstrates and confirms entrepreneurship as a global economic phenomenon yet without a globally accepted definition. However, it is important to generally accept the theories that this concept outlined with some key elements that provides its degree of understanding and its meaning in the specific field of study.

Despite its complex nature, many contemporary definitions and descriptions exist in the extant literature on entrepreneurship. During the 1800s *“an entrepreneur shifts economic resources out of an area of low productivity to greater yield”* (Herrington *et al.*, 2009:11). However, most of the definitions of entrepreneurship in general have emerged during the 20th century.

Table 2.1: Generic elements of entrepreneurship

Generic elements	References
Types of risk: <ul style="list-style-type: none"> • Financial risk • Career risk • Family/Social risk • Economic risk 	Timmons and Spinelli (2009:167) Van Aardt, Van Aardt and Bezuidenhout (2002:8) Nieman and Bennett (2002:58) Hellriegel, Jackson, Slocum, Staude, Amos, Klopper, Louw and Oosthuizen (2004:146-182)
Business opportunities	Wickham (2004:197) Nieman and Bennett (2002:58) Cronjé, Du Toit and Motlatla (2005:43)
Complex and unstable climate	Hellriegel <i>et al.</i> (2004:102-103) Wickham (2004:197)
Innovation and creativity	Wickham (2004:183) Nieman and Bennett (2002:58) Cronjé <i>et al.</i> (2005:43)
Visionary	Van der Walt, Kroon and Fourie (2004:26) Cronjé <i>et al.</i> (2005:40) Wickham (2004:267-269)
Change	Hellriegel <i>et al.</i> (2004:383) Cronjé <i>et al.</i> (2005:40) Wickham (2004:267)
Energetic and passionate	Cronjé <i>et al.</i> (2005:40) Hellriegel <i>et al.</i> (2004:32)

Source: Own compilation

Table 2.2 below gives an account of some selected definitions by theorists of entrepreneurship from 1934-2004.

Table 2.2: Selected definitions of entrepreneurship from 1934-2004

Authors	Definitions
Schumpeter(1934)	Entrepreneurship is seen as new combinations of various things that are in existence but need to be done differently, for instance, introduction of new devices, new production processes, create new markets and establish new ventures.
Kirzner (1973)	Entrepreneurship is the ability to spot new business opportunities through recognition and to seize opportunities thus tend to undo marketing factors for market equilibrium.
Stevenson, Roberts and Grousbeck (1985)	Entrepreneurship is in pursuance of business opportunities with less resources and capabilities.
Low and MacMillan (1988)	Entrepreneurship involves the creation of new enterprises.
Venkataraman (1997)	Research in entrepreneurship probe into understanding opportunities to try and introduce future goods and services into the market; exploit and create such opportunities.
Morris (1998)	Entrepreneurship involves processes by individuals and teams to create potential values through specialised packages and resource inputs for exploiting opportunities within the environment. Outcomes may be through venture creation, products, service markets and technologies.
Sharma and Chrisman (1999)	Entrepreneurship involves organisational creation, innovation or renewals that take place inside or outside of an on-going concern.
Busenitz (2003)	The study of entrepreneurship is focused on various constructs such as opportunity, individuals and teams, the mode of organising within the context of a wider business environment including opportunities and threats to the entrepreneurs.
Yamada (2004)	Entrepreneurship should focus on multi-dimensional constructs such as the definition of the organisational domain, think of gaps that exists between different parties for consensus; through knowledge creation by means of social networks and knowledge communities; entrepreneur obtain social capital to establish the business domain.
Sharma <i>et al.</i> (2004)	Entrepreneurs are individuals or groups of individuals, acting independently or as part of a corporate system that creates new organisations or instigate renewal or innovation within an existing organisation.

Source: Meyer *et al.* (2002:22) and Herrington *et al.* (2009:12).

Table 2.2 above outlines specific sections of the definitions of entrepreneurship as stated by early theorists of entrepreneurship. The table further indicates some of the most significant definitions of entrepreneurship from the early centuries since the inception of entrepreneurship to the 20th century. Successful entrepreneurship represents profitable business achievements. Thus, entrepreneurship is highly significance to all forms of society as the decision to pursue entrepreneurship forms part of the personal act of willingness (Shavinina, 2006:225).

From a theoretical perspective, one of the key personal contributory attributes to a new start-up is the entrepreneurial self-efficacy (McGee, Petersen, Mueller & Sequeira, 2009:965). However, it is not every individual that can become more entrepreneurial yet everyone should be coerced to believe that it could be possible to take on entrepreneurship as an option though entrepreneurship still remains an ill-defined concept with varying meanings to different people (Anderson & Starnawska, 2008:222). The entrepreneur is equally mixed-up to denote self-employment though these two concepts are not similar; by definition self-employment is focused on different economic activities (Martinez, Mora & Vila, 2007:23).

2.4.2 The individual entrepreneur

The entrepreneur serves as a vital catalyst to primary changes within the economic environment due to multiple acts of being innovative and spotting business opportunities for self-satisfaction (Antonites & Van Vuuren, 2005:255). Macleod and Terblanche (2004:10) describe the entrepreneur as someone who sees gaps within the market environment and take the advantage to fill the gap; thus it is accepted that the entrepreneur takes more risks to increase personal interest to seize available opportunities (Certo, Moss & Short, 2009:4).

Whilst the concept of entrepreneurship cannot be limited to only one source of interpretation but to multi-layered approaches through various fields of study, the entrepreneur is known to reshuffle available inputs for productive use despite various

disagreements on what constitutes the actual concept of the entrepreneur. Schumpeter (1934:93) defined the entrepreneur as “...*the economic agent who performs the service of innovating; for instance, introducing changes that radically change the framework of the economic system*”. Existing economist theory demonstrates that the individual entrepreneur represents an individual who assembles resources, labour, materials and other forms of assets for productive use for value added motives at the same time, to propose valuable changes and innovative ideas (Baker & Nelson, 2005). The economists defined the entrepreneur as the “*innovator*”; in contrast, the behaviourists defined the entrepreneur as a “*creator*” with intuitive characteristics (Niewenhuizen, 2003:4).

The individual entrepreneur, therefore, is perceived to disturb the current “*status quo*” within the market environment; as such he is regarded as a vital economic changer who is not only self-employed but also employed in other sectors of the economy (Kirby, 2004:44). Besides, the process of entrepreneurship involves both team players and individuals (Morris *et al.*, 2008:167). According to Deamer and Earle (2004:24), the entrepreneur is associated with other personal characteristics namely the willingness to take risks, the need for achievement, firmly in control of own destiny, accept uncertainty, resourcefulness, tolerance and perseverance that make the entrepreneur very unique from other business ownerships.

The psychologist views the entrepreneur to be driven by forces such as the need to ascertain the unknown through experimentation or escape authority for accomplishment (Crane & Crane, 2007:17). The social scientist is of the view that the entrepreneur is capable to unearth new ideas; something new to the society, creating or identifying newer production processes or new market shares. Entrepreneurship as a whole is proposed to be the key outstanding policy objective that paves substantial development in developing countries; the entrepreneur is identified and serves the “*gap-filling*” role where there are no entrepreneurs, assembly resources for advantages of market gap (Acs & Virgill, 2009:70; Zimmerman & Scarborough, 2005:4). The entrepreneurship is of economic essence in terms of new business and wealth creation besides the

provisioning of employment opportunities mostly within the private sector environment (Acs & Virgill, 2009:69). The individual entrepreneurs are severely challenged due to the potential of *"thin profit margin"* which then creates serious growth limitations (Schoof, 2006:16).

Who is the individual entrepreneur? The concept *"entrepreneur"* has its origin from France; its translation into French means *"...one who takes between"* (Deakins & Freel, 2006:3). According to Long (1983:52), the concept of entrepreneur originates from the verb *"entreprendre"* which according to the English version stand for *"to do something different"*. By definition, the entrepreneur is an individual who owns and manages a business, bearing the risk of profit and loss (Oxford Dictionary, 2011). Again, the entrepreneur is regarded as the sole founder and owner of an establishment with unique business ideas and sufficient skills to offer to the market (Visser, 2006:12).

The entrepreneur is an individual who drives job creation and as a result, the entrepreneur is acknowledged to disturb the status quo, with aspirations that differ from other common individuals (Kirby, 2004:44; Basu, 2004:28). Based on Schumpeter's (1883-1950) theory, the entrepreneur is defined as *"the role of dam breakers, unleashing a flood of innovation into the marketplace"* (Beinhocker, 2007:40).

By becoming an entrepreneur or undertaking entrepreneurship as a career option, the individual risks the financial well-being, other career opportunities, family relations, and a psychic personality (Liles, 1974). Furthermore, McClelland (1961) states that individuals with high n-Ach were perceived to have lesser risk; according to the study, high levels of internal locus of control as well as high achievement motivation means there are very low chances of business failure (McClelland, 1961).

Deo (2005) echoes similar sentiments that *"...a person who recognises a gap or an opportunity in the market in his/her own areas of interest and passion; seizes and converts the opportunity into a workable and marketable idea; uses effort, time, money and skills to add value to the idea; takes risks to implement the idea generally in a*

competitive marketplace; and endeavours to obtain the rewards for taking risk and use of resources". Deo (2005:2) concluded that no single definition exists for the entrepreneur because all forms of entrepreneurs bear no similarities. "...a person, who sees an opportunity in the market, gathers resources and creates and grows a business venture to meet these needs. He or she bears the risk of the venture and is rewarded with profit if it succeeds" (Nieman & Nieuwenhuizen, 2009:9).

From the existing academic literature, entrepreneurship is defined as *"...a dynamic processes of vision, change and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients such as the willingness to take calculated risks in terms of time-frame, equity or career; the ability to formulate an effective venture team, the creative skills to marshal needed resources; the fundamental skill of building a solid business plan; and finally, the vision to recognise opportunities where others see chaos, contradiction, and confusion" (Kuratko & Hodgetts, 2009:30).*

Drawing from its French original sentiments, Hisrich, Peters and Shepherd (2008:6-8) established the exact time-frame in order to determine how the entrepreneur has developed over the years as entrepreneurs are individuals who are reluctant to become unemployed and to bear calculated risks of establishing their own employments (Lingham, 2011:46). According to Pandey (2007:1), the entrepreneur is an individual who vows to operate start-up businesses with the main responsibility of taking risk during operations.

Baumol (2004:318) add that the critical missing function of entrepreneurship in the developing economies lack productive entrepreneur with incentives to allow innovative productivity. Some of the personality traits as seen outside the circle can easily pose much threat to the entrepreneur especially the traits of *'knowing it all'* and *'too impulsiveness'* needs proper surveillance by the entrepreneur (Timmons & Spinelli, 2009:48).

The entrepreneurs are viewed in modern times as bearers of risk in pursuance of business opportunities. The fact that entrepreneurship is perceived as an economic stimulant due to innovation, literature indicates losses to some individuals (Dew & Sarasvathy, 2007:269). Most often, the entrepreneur is linked with creativity of product and production process through innovations. Individuals or non-founders of businesses can be said to be an entrepreneur as long as they are in the process of exploiting opportunities (Women Entrepreneurs in Science & Technology, 2005).

Being the potential wealth creator, the entrepreneur adds value to varieties of processes by incubating ideas, put together available resources and start the process of delivery. Research findings by Kropp, Lindsay and Shoham (2008:103) have indicated that the individual entrepreneurs have the following orientations of proactiveness, innovation and risk-taking (Kropp *et al.*, 2008:103). Sobel (2011:1) posits that the entrepreneur organises, manages and assumes business risks and in addition acts as a change agent who takes advantage of unnoticed business opportunities.

In brief, the entrepreneur stands at the centre of new business creation, thus the entrepreneur capitalises on any form of intellectual and other assets to create potential wealth through unique opportunities and innovative processes the establishment of new business; the entrepreneur creates and builds innovative values due to renewed perceived business opportunities (Liang & Dunn, 2008:52).

Academic literature has over the years tried to explain and define what the entrepreneur means. The complex nature of entrepreneurship further provide more insight into the reasons why it is very difficult to unmask some of the basic issues that dominate the field of entrepreneurship (Howorth *et al.*, 2005:26). In order to fully understand entrepreneurship, it is important to seek specialised knowledge from other fields of study for the application of different approaches during the entrepreneurial survey (Howorth *et al.*, 2005).

From the literature it was explicit that the entrepreneur also lacks agreement in terms of definition; there are numerous definitions that attempt to qualify who the entrepreneur is in different fields of study. Table 2.3 below further illustrates the definition of the entrepreneur from the sixteenth century to date in the fields of economic and psychology (behaviourist).

Scientists in the field of economy and psychology have immensely contributed towards the definition of entrepreneurship. From table 2.3 above it is evident that during the eighteenth century, most economists struggled to reach agreement on what constitutes entrepreneurship. Still in the 21st century, the definition of entrepreneurship is undergoing gradual changes for improvement. Through close observation, the characteristics of individual entrepreneurs bear significant relations to the basic framework that was proposed by Timmons and Spinelli (2009:48). These characteristics are commitment and orientation, creativity, self-reliance and motivation to excel. Thus, these characteristics form part of the “*core entrepreneurial attributes*” of individual entrepreneurs (Timmons & Spinelli, 2009:48).

Considering all these definitions of the entrepreneur, during the current study, the entrepreneur is defined as individual who spots viable business opportunities within the marketing environment, puts together resources, then establishes and grows start-up businesses taking into account the business risks and gains as businesses grow (Nieman, 2006:9).

Table 2.3: Defining entrepreneurship according to a specific field of study

Specific study field	Who is the entrepreneur?	Related references
Economic theory	<ul style="list-style-type: none"> • Detects and seizes business opportunities • Assumes risk associated with uncertainty • Seizes business opportunity in order to make profit • Provide own “seed capital” • An innovator; change agent • Add value, buys raw materials and resale at uncertain prices • Creator of start-up businesses • Transforms ideas; inventions of economically viable entities 	Nieman and Niewenhuizen (2009); Raposo, do Paco and Ferreira (2008); Smith (1776); Say (1839); Mill (1848); Knight (1921); Schumpeter (1934); Collins <i>et al.</i> (1964); Baumol (1968); Schloss (1968); Leibstein (1978); Veciana (1988);Davidsson (1989)
Behavioural theory	<ul style="list-style-type: none"> • Higher needs for achievement • Evaluates situations with specific requirements and functions to carry out tasks • Takes moderate risks • Takes personal responsibility for business performance • Very attentive to feedback of costs and business reward system • Look for innovative means of providing production and services • Ability of strong internal locus of control 	Nieman and Niewenhuizen (2009); Raposo <i>et al.</i> (2008); Webber (1930); McClelland (1961); Davidsson (1989); Miner (1990); Barkham <i>et al.</i> (1996); Davidsson and Wiklund (1999); Boydston <i>et al.</i> (2000); Beverland and Lockshin (2001)

Source: Own compilation from extant literature

2.4.3 Characteristics of the entrepreneur

Academic literature often cited various characteristics of entrepreneurship with various forms of the entrepreneur's being as the most critical and influential factors in pursuing business performance for competitive advantage (Gurol & Atsan, 2006:28; Simpson, Tuck & Bellamy, 2004:484; Wickham, 2006:150). In general, men entrepreneurs begin to follow entrepreneurial careers between the ages of 25 and 35 years' in contrast to

their women counterparts who pursue entrepreneurial careers between the ages of 30 to 40 years (Burke, 2006:46).

Comparably men entrepreneurs are able to stay in business operations longer; thus they are able to gain more experience in many business functional areas and most are within the manufacturing sector of the economy (Nieman, Hough & Nieuwenhuizen, 2008:37). Forbes (2005:636) alluded to the fact that individual entrepreneurs are characterised by sufficient illustrations of cognitive processes such that they are able to portray a high degree of confidence. According to Barringer and Ireland (2008:8), successful entrepreneurs require varieties of characteristics such as being passionate for business, intelligent and a high level of tenacity as well as being customer focused. The entrepreneur needs every form of creativity and innovation for the development of new products, to cut costs and product improvement for dynamic and competitive businesses (Timmons & Spinelli, 2009:53). On the other hand, the individual entrepreneur is known to depend solely on previous personal experience patterns to spot opportunities (Timmons & Spinelli, 2009:53).

Entrepreneurship research focuses on the personality traits of individual entrepreneurs with the aim of making the exact distinctions between entrepreneurs and non-entrepreneurs (Maes, 2003:4). Defined as the exact dispositions to demonstrate certain responses from different situations, personality traits are therefore strong evaluation of entrepreneurial behaviour (Rauch & Frese, 2007:355).

According to Marcati, Guido and Peluso (2008:1579), various personality traits reinforce the degree of human capital that is mostly found in organisations. Coleman (2007:304) argued that human capital and good financial standing increase small business success and sustainability. Coleman (2007:304) emphasis that entrepreneur with high educational standard is most likely to succeed. Hayton and Kelly (2006:407) argued that individual characteristics are based on specific traits or behaviour patterns.

Individual talents demonstrate the outcomes of continuous investment not only in specific industry but also in the field of human capital (Robertson, Collins, Medeira & Slatter, 2003:309; Bosma, Van Praag, Thurik & De Wit, 2004:227). It remains to be seen whether these characteristics are birth-related and hence, developed over the years and as such, are most likely to enable entrepreneurs to become successful (Lambing & Kuehl, 2007:18). Thus, human capitals which include the level of education, previous managerial and industry experiences promote business success (Acs, Armington & Zhang, 2007:370).

Successful entrepreneurs display various characteristics (Kauffman Centre for Entrepreneurial Leadership, 1999:1). In addition, the individuals possess numerous elements such as the availability of capital, personal know-how, individual level of experience and the overall stability of the environment (Develi, Sahin & Sevimli, 2011:118). Given the fact that entrepreneurial success is contingent on environmental and demographic variables, Hisrich, Peters and Shepherd (2002:32-33) echoed the notion that individual characteristics pave the way for success.

According to Chell, Haworth and Brearley (1991:47), factors such as perceived change of opportunity, imaginative, creative, the ability to become innovative, personal skills of flexibility and endurance, self-endurance, being adaptable, able to bear uncertainty and risk promote entrepreneurial success. Some of the displayed characteristics need thorough explanations whilst others demonstrate the exact traits of specific entrepreneurs. According to Kuratko and Hodgetts (2004:116), from almost eighteen entrepreneurial traits, the present list is incomplete as more insightful characteristics are being added. Below are some of the most relevant entrepreneurial characteristics.

2.4.3.1 Alertness to business opportunity

Schumpeter (1934) and Kirzner (1973) have identified the role of entrepreneurs as very instrumental in the discovery and the exploitation of opportunity. Rwigema and Venter (2008:57) and Ahwireng-Obeng (2003:1) concur that individuals' ability to spot opportunities within the environment at the early stage of isolation, quantify and refine

the opportunities is of essence in influencing entrepreneurship. Entrepreneurs are able to successfully identify and be alerted to opportunities and utilise the entrepreneur who possesses the creative and innovative skills (Mueller & Thomas, 2001:57). Individual entrepreneurs are very particular and instrumental in discovering and exploiting new business opportunities (Schumpeter, 1934; Kirzner, 1973).

2.4.3.2 Desire and passion

Practically there is a growing need for entrepreneurship to provide assistance to other entrepreneurial characteristics (Dollinger, 2003:44; Lambing & Kuehl, 2008:18). Each entrepreneur requires a large energy source to be passionate enough for success due to an opportunity utilised to establish a successful business venture (Rwigema & Venter, 2008:60).

2.4.3.3 Commitment, determination and high levels of perseverance

Modern entrepreneurship requires maximum consistency from individual entrepreneurs to try to overcome severe limiting factors (Bolton & Thompson, 2004:63). According to Rwigema and Venter (2008:60), individual entrepreneurs must be committed and be determined to defeat all forms of setbacks which entrepreneurship presents and which other people view as very significant. Thus entrepreneurship is not essentially about success but also failures; most entrepreneurs become successful after a number of failures (Lambing & Kuehl, 2007:19).

2.4.3.4 The need to achieve

The entrepreneur's desire to become successful is associated with five basic driving needs for self-actualisation which strongly bears relationships with the identified "*need for achievement*" and "*accomplishment for goods*" as these forces features stimulants for the successful entrepreneurs (Darroch & Clover, 2005:327).

Entrepreneurs by their nature are self-starters internally driven by the desire to aggressively compete, in order to become successful against set standards in pursuit of challenging business objectives (Deakins & Freel, 2006:116; Rwigema & Venter, 2008:61).

2.4.3.5 Internal locus of control

The internal locus of control is paramount to enable the entrepreneur to become successful because of its depth of assisting the individual entrepreneurs for the realisation of events' outcomes (Gurol & Atsan, 2006:28; Thomas & Mueller, 2001:292). Rauch and Frese (2007:359) concur that the internal locus of control bears strong linkages to entrepreneurship because any form of action taken by entrepreneurs determines a specific reward system. The entrepreneur is believed to exercise environmental control as well as personal destiny in spotting opportunities within the environment prior to possible distraction (Burns, 2001:30).

Entrepreneurs believe in themselves but not in failures of established business ventures as other forces namely fate and luck are not part of the overall deciding factors of business outcomes (Kuratko & Hodgetts, 2004:117). According to Harper's theory, individual entrepreneurs with internal locus of control are endowed with the skill of alertness to perceive opportunities and be able to access better entrepreneurial activities (Koellinger *et al.*, 2007:505).

Entrepreneurs believe that business setbacks are controllable and within their power and they can impose much influence to realise the business outcomes due to individual actions (Rwigema & Venter, 2008:64; Lambing & Kuehl, 2007:19). The researchers argued that individuals who believe in the existing economic systems and other related variables can truly be successful within the entrepreneurial environments. There is strong support for the notion that entrepreneurs are controlled from within to attain high achievements and to enable the entrepreneur to be responsible and also gain self-confidence (Raab, Stedham & Neuner, 2005:74; Deakins & Freel, 2006:14).

2.4.3.6 Bearing calculated risk

There is a substantial amount of risk in every establishment as well as in decisions taken by management (Von Stamm, 2008:387). Thus, the ability of individuals to accept every form of innovative approaches further accelerate various fresh thinking as well as the desire to commit errors and thus encourage a fresh sense of thinking without the fear of barriers of punishments for such errors (Wang, 2008:640). This is in line with the sentiment by Cohen (2004:18) that individual employees be exempted from punishment due to errors of innovation.

In general the propensity towards uncertainty and entrepreneurial risk is identified from the extant literature studies as the primary characteristics of entrepreneurship (Miller, 1983; Kuratko & Hodgetts, 2004; Timmons & Spinelli, 2009:53). Entrepreneurs are faced with uncertainty and business failure because major business decisions are made throughout the innovative processes (Bhardwaj, Agrawal & Momaya, 2007:134; Vesala, Peura & McElwee, 2007:52). The theory of Adam Smith (1776) deeply underline risk taking major defining characteristics of entrepreneurs; taking calculated risks, being realistic in analysing opportunities are seen as critical factors which positively impact on entrepreneurship (Gurol & Atsan, 2006:28; Stewart, Carland, Carland & Sweo, 2003:27; Rwigema & Venter, 2008:57).

Entrepreneurial activity takes place mostly in uncertain business environments. At the core of most entrepreneurial ventures lies the risk factor. However, entrepreneurs try to avoid the odds and unnecessary business risks such as financial and personal risks; advance credit to customers; entrepreneurs persuade other stakeholders to share inherent financial as well as business risks (Hellriegel, Jackson & Slocum, 2004:146; Rauch & Frese, 2007:359; Timmons & Spinelli, 2009:12). Properly controlled and with enough level of risk management is one of the core requirements to successful entrepreneurship (Lambing & Kuehl, 2007:19).

Generally, the entrepreneur bears the calculated risk and tries to accommodate the challenges within the business environments for commercial gains (Timmons & Spinelli, 2009:52). Strategically entrepreneurs try to share the inherent financial and business risks, persuade investors and business partners for investment opportunities, and attract creditors for beneficiating discounts and suppliers to offer lengthy advances on merchandise to augment entrepreneurial activity (Kuratko & Hodgetts, 2004:119). The entrepreneur is known as a risk-taker and represents founders of business ventures with enormous inherent unique skills of business ideas (Van den Berg, 2007:12).

2.4.3.7 Self-confidence and optimism

Individual entrepreneurs are constantly faced with continuous obstacles and challenges. At the same time, entrepreneurs believe themselves to accomplish the various set of aspirations (Lambing & Kuehl, 2007:19). As pointed out by Burns (2008:30) entrepreneurs are expected to be confident in the foreseeable future in dealing with all business operations. Kuratko and Hodgetts (2007:111) stated that entrepreneurs must maintain high levels of enthusiasm at all times of business activity even during bleak business periods.

High confidence levels of entrepreneurs will therefore make possible effective problem management (Kuratko & Hodgetts, 2007:121). The entrepreneur is known for his/her external optimism in an attempt to avoid serious drawbacks during the course of entrepreneurial activity (Rwigema & Venter, 2008:59). According to Baron (2008:222), the issue of optimism is likely to encourage vital problems of severe fallacy and to contribute to small business failure.

2.4.3.8 Access to market opportunities

The early stages of entrepreneurship involve isolating, quantifying and refinement of business opportunities from untapped or extreme chaotic situations (Rwigema & Venter, 2008:61). Growth-minded entrepreneurs focus more on opportunity and not on

resources, business structures or the best business applicable strategy. The ultimate driver of entrepreneurial activity focuses mainly on the pursuance of lucrative business opportunities to ascertain its goals. (Kuratko & Hodgetts, 2007:117; Kaplan, 2003:13).

Generally, managerial skill is one of the core requirements of entrepreneurs to take advantages of business opportunities. The entrepreneurs need specific skills to be competent enough to identify viable business opportunities within the environment (Muzychenko, 2008:369). Entrepreneurs think of new ideas, spot profitable patterns and connect relevant business dots through own experience to take advantage of business opportunities (Timmons & Spinelli, 2009:51).

2.4.3.9 Creativity and innovativeness

Creativity is defined as “...*the envisioning of new resource combinations and market realities, often through the questioning of conventional wisdom, fresh discoveries of new knowledge about market needs, technology, the availability of resources and or finding new applications for pre-existing knowledge*” (Pretorius, Nieman & Van Vuuren, 2005:56). Botha (2006:68) and Rwigema and Venter (2008:57) indicate that creativity constitutes the cognitive process that is applicable in generating and developing business ideas which relate to the concepts and other forms of business discoveries.

Within the confine of entrepreneurial establishment, one of the organisational concerns is to establish key enterprising stimulants (Gurbuz & Aykol, 2009:323). In general, the existing business environment is not static; the issue of innovation remains paramount to provide guidance throughout the era of change and growing environmental uncertainties (Kropp *et al.*, 2008:104). Innovation ushers in much creativity by the introduction of new products and services as well as technology (Lumpkin, Coglisier & Schneider, 2009:56). According to Lowe and Marriott (2006:70), innovation has become a newly discovered phenomenon with much focus on the exploitation of present ideas about products and services.

Schumpeter's (1934) theory features explicitly innovativeness of the entrepreneur as a catalyst of change. He further emphasised that the entrepreneur is an *"idea man and a man of action... instrumental in discovering new opportunities"*. Mueller and Thomas (2001) add that innovation surpasses invention and ideas; innovation is an act by the individual to commercialise inventions to attain potential values. Corporate entrepreneurship is about creativity; the relevance of innovation as a critical tool of both the entrepreneur and entrepreneurship cannot be ignored. Entrepreneurs use innovative means to exploit every change regarding business opportunities (Zhao, 2005:28). Innovation assumes the willingness and the interest by entrepreneurs to do things differently (Rauch & Frese, 2007:358).

Innovation is about continuous alterations to old things or improvement of existing business operations to add value in competitive marketing environments. Creativity and innovation involves creation of new products and services, cost reducing measures, product improvement and also a search of alternatives means of effective competition (Bolton & Thompson, 2004:63; Deakins & Freel, 2006:14; Rwigema & Venter, 2008:65; Timmons & Spinelli, 2009:13).

2.4.3.10 Problem solving skills

The owner-managers of small businesses are faced with serious problems. As Rwigema and Venter (2008:55) indicated the owner-manager is expected on numerous occasions to solve problems to remain afloat within the turbulence business climate. Some of the problem solving skills as indicated by Rwigema and Venter (2008) include time management, the ability to handle stress and all other problem solving behaviour.

Business operations require the application of very decisive actions in solving problems (Venter *et al.*, 2010:56). Individual entrepreneurs are not likely to be intimidated in the face of solving difficult problems. Because individual entrepreneurs are in most instances inclined to solving problems as such they can easily view unfamiliar and poorly constructed tasks without difficulties (Raab *et al.*, 2005:75).

2.4.3.11 Tolerance for ambiguity

Generally entrepreneurship is about positive responses to ambiguous situations (Teoh & Foo, 1997:72). Many individuals make decisions without taking into account the environmental uncertainties but rather the application of minimal information; such individuals are perceived to have high tolerance (Teoh & Foo, 1997).

Moreover, economic risks are one of the vital dimensions for individual entrepreneurs with a multitude of other risks, namely the uncertain business environment and economic risks (Brochaus, 1980:510). Given the level of entrepreneurship risks, the concept of the entrepreneur can be described in the context of social psychological values such as personality values structure but not in economic activity context of opportunity preferences (Tan, 2001:538-539).

Simply put, individuals with high tolerance for ambiguity are capable of making decisions that are beneficial to business performance. Within the business context, psychologists revealed the distinct characteristic of business optimism which is mainly focused on both the positive as well as the negative influence of individual entrepreneurs (Liang & Dunn, 2008). According to Petrakis (2005:237), individual entrepreneurs with increasingly high optimism levels illustrate signs of high volume of risk.

Furthermore as Kuratko and Hodgetts (2004:111) pronounced, “...*the ceaseless optimism that emanates from entrepreneurs (even in the bleak time) is a key factor in the drive toward success*”. Hence, entrepreneurship is not only dependent on human actions but it entails other external factors such as the immediate state of the economy, market competition as well as the government regulatory framework (Shane, Locke & Collins, 2003:288).

Entrepreneurs are faced with multitudes of challenges as compared to managers; nevertheless, the entrepreneurs are more likely to accept high tolerance to be part of

business ideas than managers (Shane *et al.*, 2003:265). Besides, due to the severe lack of knowledge regarding tolerance of ambiguity, researchers are unaware whether the level of tolerance of any magnitude motivates the entrepreneurial process (Shane *et al.*, 2003:266). In a survey, a comparison was carried out which concluded that human motivation can serve as a stimulant for individuals to embark on the entrepreneurial process (Shane *et al.*, 2003:269).

The world of entrepreneurship is hardly known for its well-structured initiatives and of its occurring level of high certainties. Surprises and major organisational setbacks are the most common sight. However, successful entrepreneurs endeavour to work within a very ambiguous business climate to achieve success (Kuratko & Hodgetts, 2007:119). Successful entrepreneurs are known to be adaptive and very resilient in knowing their level of performance (Timmons & Spinelli, 2009:53). Yet entrepreneurs are comfortable in the face of the turbulent present-day business climate (Lambing & Kuehl, 2007:20).

2.4.3.12 Adapting to change

The business environment mostly becomes unstable due to factors in the environment; as such it becomes impossible to easily adapt and become flexible (Rwigema & Venter, 2008:55). The owner-managers of small businesses need to easily adapt to enhance the total business performance (Andries & Debackere, 2007:81).

2.4.3.13 Tolerance for failure

According to Lambing and Kuehl (2007:19), successful entrepreneurs do not think of business failures. Individual entrepreneurs are not disappointed, discouraged or even depressed due to drawbacks or possible business failures (Lambing & Kuehl, 2007).

2.4.3.14 Integrity and reliability

Individual values including ethics, honesty, integrity and ethical code of conduct as well as the entrepreneur's ability to display a sufficient level of consistency is critical for the

business survival and trust between the owner-managers (the entrepreneurs) and other stakeholders (Rwigema & Venter, 2008:69). These are entrepreneurial qualities that are valued by investors, creditors, partners and customers as entrepreneurs focus on what is supposed to be accomplished (Rauch & Frese, 2007:359). Also a high personal standard of individual entrepreneurs are their strong moral fibre that bounds successful entrepreneurial activity and business endurance (Timmons & Spinelli, 2009:54).

According to Kuratko and Hodgetts (2007:117), the entrepreneur(s) take responsibility towards the success or failure of the business. Bessant and Tidd (2007:258) opinion that taking responsibility bears clear linkages with the desire to be successful or to achieve the desired goals. Entrepreneurs are responsible for various business activities namely subordinate performances and accountability towards employees (Bolton & Thompson, 2004:63; Rwigema & Venter, 2008:62).

2.4.3.15 Low support needs

Burns (2008:25) states that the entrepreneur's desire to be independent translates differently as individuals who control their destiny, do things not similar to others for personal fulfilment. Furthermore, entrepreneurs deserve total level of commitment during every form of start-up activities to understand how to establish a sustainable business venture, working alone and as part of a team (Timmons and Spinelli, 2009:49-50).

2.4.3.16 Influence of society

The cultural features within an entity determine the degree of entrepreneurial activity. As such, the locally established social conditions play an indispensable role in enhancing economic development. Entrepreneurial culture in most instances triggers the core elements of business risks, values and the reward systems for personal effort by individuals; the majority of individuals will opt for entrepreneurship in comparison to

other forms of employment within the corporate entities through similar societal entities (Beugelsdijk, 2010:137; Mitchell, 2003:727).

The cultural settings are disputed to encourage societal individualism and hence, establish strong business success. According to Jackson, Amaeshi and Yavuz (2008:401), the daily business activities need to demonstrate enough communal culture within which the business is established with the intention of displaying enough culture of collectivism not individualism which is known to foster serious disassociation at workplaces. There are a plethora of humanism and collective responsibilities of communal self-assistance which bears common values within the fibre of African communities.

Due to the historical belief in collective culture, entrepreneurship is seen to be suitable across the African continent (Jackson *et al.*, 2008:401-402). Entrepreneurship is gravely affected within the cultural environment where failure in general has been stigmatised as a result, uncertainty avoidance continue to retard the quest of the individual to become innovative besides adding value to creativity (Nieman *et al.*, 2008:11-12).

2.4.3.17 Open-mindedness

Entrepreneurs continue to think and rethink strategic actions, restructure organisational needs to the applicable relevant communication systems and to align the business culture that is suitable to every section of the business environment Hisrich *et al.*, 2008:33). The authors added that the ability to sense and seize viable business opportunities requires constant thinking of the dominant business logic and relevant questionnaires regarding marketing conditions, issues that are likely to change within the business environments.

2.4.3.18 Desire for immediate feedback

According to Bjerke (2007:82), entrepreneurs are very keen to receive feedback as it forms part of the entrepreneur's characteristics of the need for achievement. As much as entrepreneurs enjoy their business operations, they also need to know how the business performs within the environment through feedback from prospective customers. Kuratko and Hodgetts (2007) described individual entrepreneurs as "*quick learners*" who use feedback to learn from mistakes and setbacks" (Oosthuizen, 2006:54, 60-62, 337).

2.4.3.19 Decision-making and leadership

Entrepreneurship flourishes as the individual entrepreneur is very decisive in decision-making approaches to determine the success and failure of a business venture (Rwigema & Venter, 2008:57). In addition, Rwigema and Venter (2008:69) indicated that business dynamics is associated with a skilful leader who is able to correctly articulate the company vision in order to build an efficient team.

2.4.3.20 Limited need for status and power

Entrepreneurs who are successful are equally responsible and eager to achieve specific results instead of personal power (Kirby, 2003:112). Schumpeter (2003:111) argued that human nature is static despite the fact that individuals work hard for income; still individuals are unable to create new things outside the economy but are reactive to the static environment. According to Timmons and Spinelli (2009:60), entrepreneurs are much likely to be powerful with great status. These qualities do not form part of the entrepreneurial process and therefore does not form part of the entrepreneurial driving force.

2.4.3.21 Achievement of motivation

The general construct of motivation is the ambition or the desire to be successful and to achieve absolute excellence (McClelland, 1961, cited by Darroch & Clover, 2005:325). According to Cromie (2000:16), the need for achievement (nAch) is perceived as a core entrepreneurial attitude. Gurol and Atsan (2006:28). Stewart *et al.* (2003:31) indicated that the need for achievement is the ultimate outcome of self-drive which is very essential in order to realise the business objectives.

2.5 THE ROLE OF ENTREPRENEURSHIP IN DEVELOPING COUNTRIES

There has been world-wide consensus that sustainable entrepreneurship means stronger economies, more opportunities for employment through the various economic opportunities (Timmons & Spinelli, 2009:50; Co, Groenewald, Mitchell, Nayager, Van Zyl, Visser, Train & Emanuel, 2006:7). Entrepreneurship plays a pivotal role in economic development because it allows economists to carry out assessment not only on innovative techniques and knowledge (Minniti & Levesque, 2008:604; Minniti, Bygrave & Autio, 2005); but also fast-track the processes of innovation as well as to establish diversity of knowledge which provides knock-on effect on individuals (Audretsch & Keilbach, 2005). Consequently, as stated by Acs and Armington (2006:924), at regional levels, the new businesses serve to take advantage of existing stock of knowledge thus it accords entrepreneurship as key potential conduit of knowledge transfer and potential contributor to economic growth.

Yet, an empirical survey revealed a rather sad and gloomy picture regarding the entrepreneurial role towards economic growth. As indicated by the researchers Sanyang and Huang (2010:318) entrepreneurship is a process rather than being perceived as dynamic; as such for years of intensive survey, entrepreneurship is operative in various fields of studies including the field of psychology and sociology. Subsequently, the role of entrepreneurship found its solid foundations to accelerate economic growth (Sanyang & Huang, 2010). For example, entrepreneurship and the

small business sector are recognised as triggering forces of economic growth particularly in developing countries (Beck, Demirguc-Kunt & Levine, 2005:224).

Streams of academic theories further advance the core issues of entrepreneurship and small businesses as economic drivers (Mullen, Budeva & Doney, 2009:287). Similarly the concept of entrepreneurship received broader coverage as a vital developing scientific probe that stems from the field of economic, management science to the study of psychology (Landstrom, 2008:31-37; Naudé, 2010:1).

The study of entrepreneurship should be structured not to include only the individuals but also embodied the entire society within which the concept is generated (Swanepoel & Strydom, 2009:2). Aldrick (1992) cited in Stevenson (2004:3) argued that in studying entrepreneurship, it is vital to consider the entire cycle of stakeholders such as the individuals, businesses and the developmental context of the organisation's environment because it is not easy to separate these entities (Li & Mitchell, 2009:370).

Within the less developed economies, entrepreneurial trends and the small business sector have acquired world-wide recognition at regional and national level in both the developed and the developing countries (Nieman *et al.*, 2008:80); thus entrepreneurship enables the role of start-up businesses to mushroom at regional and national levels of the economy (Acs & Armington, 2006). Entrepreneurship generates sufficient levels of economic growth and development; as such, it broadly impacts on significant amounts of employment opportunities (Audretsch, Keilbach & Lehmann, 2006:38).

The role of entrepreneurial activity is to transfer resources and institute new businesses that offer products and services that were previously not in the market environment; thus entrepreneurship enhances not only the growing number of productive factors of labour, capital and knowledge but also add to improving the allocation of the production factors within the economy and continue to generate enough economic interest in various countries across the globe including Brazil, China, India and South Africa as the only source of private sector development (Acs & Storey, 2004:873). Entrepreneurial

activities continue to surge in developing countries because of the growing Asian economy, the declining African economies as a result of widespread mismanagement of resources and serious forms of corrupt practices (Naudé, 2008b & 2008c).

Proponents within the private sector economy continue to stress that entrepreneurship emerged as a vital tool for economic development because the concept has seen over the years a significant shift (Anokhin, Grichnik & Hisrich, 2008:117). Within the paradigm of the informal sector of the South African economy, small businesses and entrepreneurial activities have shown immense benefits. Global scientific research on entrepreneurship has further outlined to a large extent the degree of entrepreneurial development (Herrington, Kew & Kew, 2008:15; Naudé, 2010:26; Wennekers & Thurik, 1999:38). Entrepreneurship bears an enormous relationship with the level of development regarding individual levels of self-employment; thus, entrepreneurial activity is outsourced from different countries. Unfortunately, due to the economic decline of 2008, most people resort to self-employment or entrepreneurial activity for minimal rewards (Naudé, 2008:27).

2.5.1 The elements of the successful entrepreneur

Successful entrepreneurs mostly use their level of prior experience, knowledge and the individual personality; entrepreneurs' characteristics that are known to contribute to the enterprise's success are the technical, the human relationship skills, the drive for creativity and the high desire for achievement (Naicker, 2006:39).

Similarly, Timmons and Spinelli (2009:47) suggest that some desirable themes that describe successful entrepreneurs are known as:

- Courage
- Leadership
- Opportunity obsession
- Tolerance of risk, ambiguity and uncertainty

- Motivation to excel
- Creativity, self-reliance and adaptability

The Strategic Business Plan of the National Small Business Advisory Council (DTI, 2010:14) indicates that individuals who pursue small business need to acquire adequate developmental skills and adequate support system; acquiring those skills enable individuals to easily access resources and to pursue opportunities to take advantages within the environment. Individuals have shown enough entrepreneurial intentions due to self-efficiency in order to ascertain positive entrepreneurship outcomes; the intentions by individuals to pursue entrepreneurial activity mainly depends on the tolerance of risk; the dynamism of the entrepreneur is crucial; skills such as physical, intellectual and financial abilities impact on the entrepreneur's success (Segal, Borgia & Schoenfeld, 2005:53; DTI, 2008:46).

2.5.2 Critical issues of entrepreneurship

The study of entrepreneurship started ages ago by prominent learned individuals in the fields of economy and psychology. Some of the critical issues that were discussed were in the area of economics taken into their individual personal traits and, to what degree entrepreneurship impacts on global countries and societies. Consequently, critical themes of the entrepreneurial process and other relevant issues of entrepreneurship are detailed in table 2.4 on the next page.

Table 2.4: Some critical perspectives of entrepreneurship

Theories of the critical issues of entrepreneurship	Relevant references
<ul style="list-style-type: none"> What are the personality traits of entrepreneurs? <p>The need for achievement, autonomy, dominance; low need for conformity, ambiguity and uncertainty, the propensity for bearing risk; adaptability and flexibility; sense of self-esteem, personal self-confidence; self-assurance; alertness to opportunity</p>	McClelland, 1961; Brush, 1992; Schein <i>et al.</i> , 1996; Schwartz, 1997; Hirsh and Brush, 1987; Buttner and Moore, 1997; Cuba <i>et al.</i> , 1983; Rosa <i>et al.</i> , 1994; Kirzner, 1973, 1979, 1997, 1999
<ul style="list-style-type: none"> What are the entrepreneurial learned and acquired attributes? <p>The ability to communicate, acquire interpersonal relations and resourcefulness of the entrepreneur</p>	Hirsh and Brush, 1983, 1986, 1987; Birley <i>et al.</i> , 1987; Buttner and Rosen, 1988; Buttner and Moore, 1997; Esters, 1997; Schwart, 1979; Ireland <i>et al.</i> , 2001.
<ul style="list-style-type: none"> What are the success factors of entrepreneurship? <p>Creativity and innovation; risk orientation; leadership; efficient human relationship; positive attitude; perseverance; personal commitment</p>	McClelland 1986; Brady, 1995; Zeelie, 1998; Barrier, 1995; Eggers and Leahy, 1995; Vega, 1996; Pendley, 1995; Kinni, 1995; Bird, 1989; Osborne, 1995; Boeyens, 1989; Glynn, 1996; Amabile, 1996; Schein 1977; Bird, 1989
<ul style="list-style-type: none"> What are the perceived entrepreneurial behaviours? <p>Pro-activeness and planning; commitment; sense of observation</p>	Kropp, Lindsay and Shoham, 2007; Andersson <i>et al.</i> , 2004; Aldrich and Martinez, 2003; Bell <i>et al.</i> , 1992; de Bono, 1985, Pinchot, 1985; Shaver and Scott, 1992; Shapero, 1985.
<ul style="list-style-type: none"> What are the determinants of entrepreneurial orientation? <p>Pro-activeness, innovation and bearing risk; global mind-set; education and experience; competitive aggressiveness (achievement orientation)</p>	Kropp, Lindsay and Shoham, 2007; Gifford, 1998; Knight 2001, 2002; Harveston <i>et al.</i> , 2000; Kedia <i>et al.</i> , 2001; Zahra <i>et al.</i> , 2000; Kedia and Mukherji, 1999., Kuivalainen <i>et al.</i> , 2004; Nemmula <i>et al.</i> , 2004; Themba, Chamme, Phambuka and Makgosa, 1999.
<ul style="list-style-type: none"> What does the entrepreneurial process entail? <p>It entails the identification and opportunities evaluation, create vision and direction, capital acquisition for the business operations; provide the required resources; competitive planning; plans for expansion and growth; establish networks and networking; social and ethnic networking and to receive reward.</p>	Nieman and Niewenhuizen, 2009; Ibrahim and Goodwin, 1986; Buttner and Moore, 1997; Carsrud and Kruger, 1996; Coviello and Munro, 1995; Dana <i>et al.</i> , 2000; Etemad <i>et al.</i> , 2001; Johanson and Mattson, 1998.

<ul style="list-style-type: none"> • What are the supportive environments of entrepreneurship? <p>The culture environment recognises and celebrates that no stigma is attached to an unsuccessful business venture; more entrepreneurial role-models; entrepreneurship to be the best desirable option; training, developmental and available funding, encouraging entrepreneurship; availability of relevant infrastructure.</p>	Niemam and Nieuwenhuizen, 2009.
<ul style="list-style-type: none"> • What are the entrepreneurial outcomes? <p>Create employment; create wealth; add value to the socio-economic climate; raise the standard of living; growth of regional development; develop technological sector and Increase general tax base</p>	Nieman and Nieuwenhuizen, 2009; Aldrich and Martinez, 2003; Bellman, 1992; Bygrave, 1989; de Bono, 1985; Gifford, 1998; Pinchot, 1985; Shaper, 1985, Shaver and Scott, 1992; Zapalska, 1997.

Source: Researcher's own compilation

Table 2.4 above outlines some critical issues that relate to the concept of entrepreneurship or the reasons for the rampant failures of entrepreneurship. The table displays some potential outcomes of entrepreneurship from the extant literature.

2.5.3 The significance of entrepreneurship

Due to the ever-increasing rate of unemployment and growing rates of poverty, there is a growing level of economic decline; as such entrepreneurship has a huge role to play in fighting unemployment and to develop small businesses (Van Vuuren & Groenewald, 2007:269). According to Van Vuuren and Groenewald (2007:274), the promotion of the small business sector is likely to reduce the current surge in unemployment as the small business sector form about 95.7% of all the businesses across the country. Luiz (2002:53) reiterates that the unemployment crisis of South Africa can be solved through the establishment of small businesses and entrepreneurial activities. Entrepreneurship has the edge to increase economic activities and contribute immensely to economic growth and create wealth (Khawar, 2007:3). Through entrepreneurship there has been growing economic and social mobility (Timmons & Spinelli, 2009:27).

According to the United Nations Development Programme (UNDP) (2003), the small business sector is significant in assisting the South African economy to address some of the socio-economic challenges. In addition, researchers are of the view that through entrepreneurship, high-imports of technological appliances have enormous spin-off effects on domestic innovation and hence trigger productivity and growth (Baliamoune-Lutz & Ndikumana, 2007:3). The World Bank highlights the essence of entrepreneurship through small business operations with emphasis that the informal economy provides enhancement to existing economic activities (Acs & Virgill, 2010:25).

Globally, economic policies such as globalisation, declining trade barriers, growing technological and telecommunications environments have created fertile grounds for entrepreneurial activity and for more opportunities to be utilised by entrepreneurs (Heinonen & Poikkijoki, 2006:80-81). Aside different policies of globalisation, most entities around the globe continue to pursue policies of downsizing, restructuring and forming strategic alliances; yet there is some level of ambiguity and increasing complexities and hence, entrepreneurial activity becomes the most popular form of wealth creation (Heinonen & Poikkijoki, 2006).

In general, the South African population has for years not been tutored as an entrepreneurial society instead; the majority of the population seeks to create employment option (Van Aardt *et al.*, 2008). During the past 20 years, entrepreneurship has achieved an overwhelming success in driving social and welfare improvement through small businesses and entrepreneurship which are recognised as critical drivers of the South African economy (Anon., 2010:1; Martinez, Levie, Kelly, Saemundsson & Schott, 2010:9). Significant differences exist across the developed and developing countries including South Africa in terms of necessity and opportunity entrepreneurship (Acs, Dessai & Hessels, 2008:219).

Opportunity entrepreneurship is only prevalent in high-income countries as opposed to the low-income countries where necessity entrepreneurship is of utmost importance. Opportunity entrepreneurship attracts more educated entrepreneurs that are engaged in

entrepreneurial businesses in contrast to less educated individuals who pursue necessity entrepreneurial activities to escape poverty and unemployment (Acs, Arenius, Hay & Minniti, 2004). Thus, Nieman, Hough and Nieuwenhuizen (2003:28) add that to curtail rising unemployment, it is important to establish a strong entrepreneurial culture. This should include various members of the communities including the government, educators, parents and the private sector (Gouws, 2002:41).

Empirical surveys support the idea that entrepreneurship is critical in discovery and exploitation of technologically inclined entrepreneurship by means of knowledge spill-over that generates to enormous economic growth (Acs & Varga, 2005:326). For instance, in Central and Eastern European countries, there has been a huge injection of entrepreneurial dynamism into the private sector activities; thus there have been growing entrepreneurial activities due to the emergence of economic opportunities of heightened market competition and innovation (Brixiova, 2010:440).

According to Rogerson (2001), the acute shortage of productive entrepreneurship is a major concern. Gelb, Ramachandran and Turner (2007:46) concur that in most African countries, there is minimal productivity between small businesses and the corporate entities with foreign stakeholders in possession of minority ethnic powers. The entrepreneur is associated with innovative ideas of change to initiate opportunity for profit motives. Burns (2007:11) contends that the entrepreneur through innovative ideas shifts resources from unproductive to areas of need.

Entrepreneurship influences the general economic development in every sphere of economic activities. For instance, efficiency-driven countries including South Africa; nurturing the existing economy attracts sufficient growth and technology oriented entrepreneurs and create employment opportunities (Bosma & Levie, 2009:11-12). Entrepreneurship facilitates economic growth, innovation, job and venture creation rejuvenating the present business and relocate national institutional infrastructure (Minniti, Allen & Langowitz, 2005:140).

There has been growing perceptions that entrepreneurship is very fundamental to economic growth; globally, governments have acknowledged the overall importance of entrepreneurship; thus, much attention is paid to the nature of motivating individuals to develop new business opportunities to accelerate positive economic growth (Martinez *et al.*, 2010:9; Kirzner, 2009:147). Botha, Nieman and Van Vuuren (2007:163) contend that entrepreneurship is the most critical path for finding solutions to the increasing problems of unemployment, poverty and low economic growth. Entrepreneurship creates personal opportunities to support the local economy, encourages innovation and creativity towards new market development thus entrepreneurship promotes wealth distribution (World Bank, 2007; Hisrich, 2005). In South Africa most of the early-stage entrepreneurs are employed; through state interventions to enable potential entrepreneurs are able to grow sustain their small businesses and contribute meaningfully to socio-economic development (Herrington *et al.*, 2010:74).

Entrepreneurship has for years been recognised for economic growth and development; entrepreneurs exploit most viable opportunities, thus the small business sector enhances the general economy by means of innovative processes of increased productivity (Garga & Bagga, 2011). Hisrich and O'Kinneide (1985) in Heinonen and Poikkijoki (2006:80) shared similar sentiments that entrepreneurship is of essence to the society because through entrepreneurial activities new ideas are generated with the establishment of new ventures and job opportunities and economic prosperity. Entrepreneurship facilitates economic growth, create new business ventures, and restructuring of existing business entrepreneurial activity absorbs large amount of surplus resources in terms of humans and finances (Minniti *et al.*, 2005:14).

Recent surveys indicate that entrepreneurship provide vital solutions and not create environmental problems; broadly, challenges within the environment provides business opportunities for value creation (Cohen & Winn, 2007:47). For example, Dean and McMullen (2007:51) stated that the entrepreneurial role in solving the existing environmental predicaments is seen as a major issue of debate. At the same time, the

growing desire by individuals to alleviate environmental challenges represents environmental opportunities (Dean & McMullen, 2007:51).

Environmental challenges continue to be of utmost concern despite key policy measures to curb its effect during the past 30 years (Anastas, 2003; United Nations, 2006). Given an entrepreneurship definition as being the key concept of discovery with the potential tasks of evaluating business opportunities (Shane, 2004), the concept of entrepreneurship is focused on the pursuance of the entrepreneurial path to establish an organisation (Sarasvathy & Venkataraman, 2010:117). Besides, through persistent entrepreneurial efforts of individuals, a constant vehicle of motion is established which generates add-on string of new opportunities of dynamism (Sarasvathy & Venkataraman, 2010:118).

Accordingly individual entrepreneurs are likely to provide basic solutions to solve pressing environmental challenges through activities such as institutional conformity to review their environmental objectives to align the needs besides establishing newly and more friendly environmental and sustainable products and services (York & Venkataraman, 2010:452). Barringer and Ireland (2008:6) propose that entrepreneurship serves as a process which is utilised to further pursue business opportunities; thus with minimal and efficient utilisation of resources, the depth of entrepreneurship identifies opportunities and put lucrative ideas into practical use and hence there is generally a positive impact on the economic growth and the broader society (Barringer & Ireland, 2008:18).

The researchers (Barringer & Ireland, 2008:21) continue to state that entrepreneurship has a knock-on effect on the economy, the society and the big businesses through the processes of innovation. In addition through the power of innovation, the entrepreneur creates sufficient employment opportunities to grow the economy; and hence, the entrepreneur can pull the global economy from recession by adopting business models that are successful and workable (Drucker, 1985:10; Draper, 2009:25). Moreland (2006:6) adds that self-employment is vital for the economy due to entrepreneurship;

through entrepreneurial activities, over 10% of the United Kingdom's workforce becomes employed. Entrepreneurship by its nature, do not only create competitive economic system but also provide employment options that accelerate market opportunities (Timmons & Spinelli, 2009:50; Co *et al.*, 2006:7).

Mare (1996:8) states that the significance of entrepreneurship mainly centred on the following key areas such as:

- Entrepreneurship advances economic prosperity.
- Entrepreneurship alleviates unemployment.
- Entrepreneurship creates improvement for future perspectives.
- Entrepreneurship advances own initiatives.

According to Mare (1996:9), new venture establishment through entrepreneurial activities triggers the possibility of economic well-being, create job opportunities and combat unemployment. Hisrich, Langan-Fox and Grant (2007:575) indicate that entrepreneurship develops into paramount global machinery through which major socio-economic vehicles including employment opportunities, economic growth, innovative skills, market competition and flexible economic activities are sourced. Entrepreneurship provides the mechanism through which a large section of the population is able to play a very active role in the economy in forming entrepreneurial culture as well as social mobility (Hisrich *et al.*, 2007:575). In effect, entrepreneurship has the potential to quickly expand the existing global economic base, contribute towards generating enormous economic wealth and growth (Petrin, 1994:7; Khawar, 2007:3).

2.5.4 Challenges of entrepreneurship

The South African economy is experiencing challenges of multiple proportions ranging from decline in economic activities that is prompted by poor Total early-stage Entrepreneurial Activity (TEA) and rising levels of unemployment (Swanepoel *et al.*, 2010:58). The declining rate of entrepreneurship in South Africa cannot be overlooked.

For instance, the GEM Report (2009) adds some impetus to the downward trends of entrepreneurial activities due to some challenges. The report confirms that factors such as social and negative entrepreneurial attitudes, inadequate financial assistance, a sub-standard system of education and a strict regulatory framework are some of the challenges that confront entrepreneurship in South Africa (Timm, 2011:48).

Throughout the developed and emerging countries, it is empirically documented that entrepreneurial activity is confronted with fierce challenges (Collins, Hanges, Locke, 2004; Kwong, Thompson & Jones-Evans, 2012; Matlay & Carey, 2007). In emerging countries in particular, not much scientific research about entrepreneurship has been conducted (Nabi & Linan, 2011; Lan & Wu, 2010; Ahmad & Xavier, 2012). According to Lingelbach, De la Vina and Asel (2005), researchers and academics have strongly believed that the concept of entrepreneurship is similar in the global context.

According to the GEM report (2009:53), in South Africa roughly two-thirds of the total population comprise the youth with ages ranging from 18 to 35 years and who are mostly jobless. However, to turn these challenges into positive outcomes, youth development to create jobs is critical in areas of socio-economic development (Botha *et al.*, 2007). For the youth to willingly venture into entrepreneurship as a potential career option, it is argued that educational institutions are able to produce well-educated individuals with adequate creative minds as a result of entrepreneurial training in various establishments (Graaf, 2007:11). Access to finance is vital to small business and entrepreneurial success in South Africa (Naudé, Gries, Wood & Meintijies, 2008). Furthermore, there is evidence that commercial banks in South Africa are not willing to assist small businesses in the black townships due to fierce competition (Woodward, Rolfe, Ligthelm & Gruimaraes, 2011:72).

Entrepreneurship is always challenged by two main schools of thoughts namely the psychological elements detailing entrepreneurial efforts in addition to emphasising other business environmental factors (Taormina & Lao, 2007). Entrepreneurs by their nature are faced with issues of psychology including striving for achievement and optimism

(Taormina & Lao, 2007). In the past, there have been scientific studies regarding social capital in terms of entrepreneurship (Batt, 2008). According to Ostron (2000:176), social capital is defined as “the shared knowledge, understanding, norms, rules and expectations about patterns of interactions that groups of individuals bring to on-going activities. Minniti (2005:5) further outlines social capital to include the trustworthiness of obligations and the environmental expectations.

Yet, entrepreneurship is viewed as a “web” of various interconnections including personal relationships that establish a potential foothold at organisational and personal level (Zhou, Wu & Luo, 2007:674). Zhang, Soh and Wong (2010) state that through social networkings, viable information can be easily transferred at minimal risk. Furthermore, entrepreneurship can be linked to networks including norms and trust that coordinate and facilitate mutual benefits (Chou, 2006:889).

Macro-level environmental forces cannot be overlooked as these factors can severely influence entrepreneurial activities. According to Ahmad and Xavier (2012), forces of the macro-environment such as financial assistance, bureaucracy, lack of a proper regulatory system, inadequate system of education and insufficient entrepreneurial training are key challenges. Similarly, Chowdhury (2007) indicates that in developing countries additional factors such as political instability, corruption, lack of infrastructure, education and training as well as lack of financial support pose severe challenges to entrepreneurial success. According to Naudé (2004:10), the younger generation finds it extremely difficult to access existing support mechanisms. Supporting this claim, Azapo (2008:2-6) asserts that there is lack of efficient support systems that are accessible to the younger entrepreneurs.

Entrepreneurial activities in particular, at entry levels of start-ups are perceived to be marred by issues of strict regulatory framework and excessive start-up costs (Ardagna & Lusardi, 2009; Fonseca, Michand & Sopraseuth, 2007). Glaeser and Kerr (2009) emphasise that high-level costs pose severe challenges to entrepreneurial success besides the negative impact of taxation (Cullen & Gordon, 2007). Most entrepreneurs

are unable to maintain favourable credit records, adequate business plans and lack of collateral; hence, financial houses are reluctant to offer credit assistance (GEM, 2008:33).

Demographic and personal factors including the age, the marital status and gender of the individual entrepreneur as well as the educational achievement of the entrepreneur influence entrepreneurship (Develi *et al.*, 2011:117). The ability of the individual entrepreneur to accomplish a new opportunity is indicative of the vast amount of linkages between the individual's proficiency and existing levels of entrepreneurship (Hardy, 1999:52). According to Develi *et al.* (2011:117), other factors such as the present level of personal motivation, individual characteristics, individual family unit structure, educational standard and personality traits of individuals are regarded as the most impacting elements on entrepreneurial activities.

All forms of individual demographic factors are critically significant. For example, the first-born children in a family unit, individuals with a high standard of education, and persons born of entrepreneurial background stand a better chance to become successful entrepreneurs (Develi *et al.*, 2011). Coulter (2003:16-17) advance the early sentiment that the entrepreneur's age, marital status, family income in addition to the socio-economic standing of the entrepreneur influences significant changes in entrepreneurial activities. In general, entrepreneurship is very reactive to the social, political, economical and technological environment in addition to various culture settings that are acknowledged to impact on different entrepreneurial aspects of behaviour, prior experience, personality, talents and the ability of the entrepreneur (Lee & Peterson, 2000:402-403).

Entrepreneurship suffers from cultural settings; within a specific cultural background where self-employed individuals harvest success, it is likely that entrepreneurship is bound to be accepted or suffer rejection due to the inability of the extant culture to generate entrepreneurial ideas as such lower entrepreneurial activity is recorded. Nevertheless, high societal trust of entrepreneurship allow for easy transfer of power

and personal responsibility to aspiring entrepreneurs; as such it leads to potential corporation to enhance future entrepreneurial success (Hisrich *et al.*, 2002:52-54).

Rasmussen and Sorheim (2006:185-194) concur that, education is at the centre of stimulating entrepreneurship through the youth's education. Unfortunately the present systems of education in South Africa still remain very poor and below the general expectation. Worst of all the challenges of entrepreneurship are severely limited by the general lack of correct databases due to a high level of unregistered small businesses; and hence the government attempts to offer the necessary assistance is further constrained (Herrington *et al.*, 2010:13).

2.6 THE ENTREPRENEURIAL PROCESS

The entrepreneurial process is vibrant but very unclear; conceptually, it is fluid and worst of all, deeply chaotic; yet, regular changes in the entrepreneurial process mostly highlight puzzles that it requires to be keenly managed by the entrepreneurs at the same time. The process entails various complexities of new venture establishment (Hisrich *et al.*, 2008:39; Baron, 2008:169; Timmons & Spinelli, 2009:101-102). According to the Schumpeterian theory, entrepreneurship symbolises the catalyst for innovation which is part of the vital element of the process (McFadzean, O'Loughlin & Shaw, 2005a:350).

In summary, the entrepreneurial process features various activities and functions that bear direct linkages to opportunity identification, establishment of productive techniques to enhance the exploitation of viable business opportunities, because opportunity recognition is at the centre of the entrepreneurial process (Jones, 2005:502; Schwartz, Teach & Birch, 2005). Researchers have described entrepreneurship as an act to pursue opportunities in the marketplace for value creation and for future innovative products and services; the exploitation and evaluation of these products and services is critical to determine the socio-economic values of the environment that finally enable

the formation of new business ownership (Kirzner, 1973; Shane & Venkataraman, 2002:218).

It has been established that entrepreneurs follow certain processes of success with the view to attain the desired objectives. The process of entrepreneurship entails acts of innovation and venture establishments including individuals, businesses, the environment and other processes of collaborative government sponsored networks, the underlying system of education and other institutions (Kuratko & Hodgetts, 2007:47). The process of entrepreneurship displays various segments of related actions and business functions that point to major roles of establishing viable business opportunities integrate resources for business formation in pursuance of business opportunities (Cornwall & Naughton, 2003:62; Bygrave, 1997:2; Glancey, 1998:18).

The entrepreneurship process differs: the primary focus of the process mainly rests on two to five different phases yet the process entails common elements (Mueller & Thomas, 2001:53). However, drawing from Timmons's model (Timmons & Spinelli, 2009:110), there are three elements that are the main composition of the entrepreneurial process: these include the resources, opportunity and the entrepreneurial team who takes the added responsibilities.

The central focus of the entrepreneurial process is the critical element of viable business opportunities that shed more light on the general environment in order to determine various business opportunities (Timmons & Spinelli, 2009:111). Viable business opportunities are further constrained due to inadequate resources; thus the entrepreneurial team is expected to use the least resources at their disposal for maximum competitive advantage (Timmons & Spinelli, 2009:112). In addition, the entrepreneurial team plays an important role towards the enhancement of the entrepreneurial process to be successful (Timmons & Spinelli, 2009:112-113).

Table 2.5 on the next page illustrates varying levels of entrepreneurial processes as defined by different authors of scientific significance.

Table 2.5: Contributions by various authors to explain entrepreneurial process

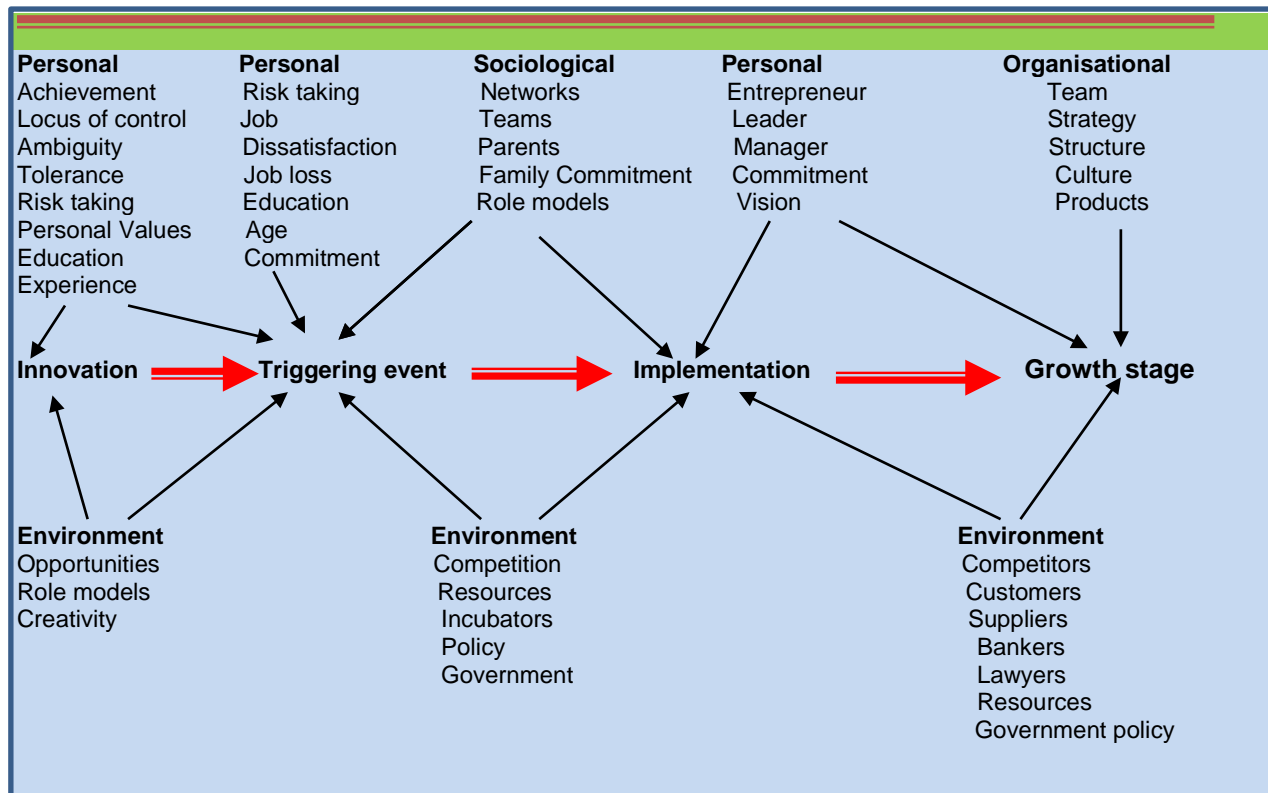
Authors	Phases of entrepreneurship process
Bhave (1995:223)	<ul style="list-style-type: none">• Identification of opportunities• Technology processes• Create an organisation• Various stages of exchange
Gruber (2002:193)	<ul style="list-style-type: none">• Pre-founding phase Opportunity identification and evaluation• Founding phase Business plan, resource gathering Incorporation; market entry• Early stage of development Business or company formation Market penetration
Baron (2004:170)	<ul style="list-style-type: none">• Idea screening Feasibility; assembling resources• New business development
Pretorius (2005:157)	<ul style="list-style-type: none">• Opportunity recognition• Resources acquisition
Hisrich and Peters (2008:9-12) and Morris (2008:30-32)	<ul style="list-style-type: none">• Opportunity identification and evaluation• Business plan development• Resources needed• Management of desired outcomes
Rwigema and Venter (2004:28)	<ul style="list-style-type: none">• Identify, measure and refine opportunities• Formulate business plan• Gather resources• Organise, mobilise entrepreneurial team• Manage business creation and growth
Ardichvili (2003:107)	<ul style="list-style-type: none">• Market needs• Business concept• Business plans• Business establishment• Business venture success

Source: Researcher's own compilation

Table 2.5 illustrates the different forms of the entrepreneurship process which is built on almost similar phases starting from opportunity identification to the level of resource

gathering. The table provides individual contributions to the process by various researchers indicating the period of the surveys. However, this study adopts Bygrave's (2004) model of the process of entrepreneurship shown in the figure 2.1 on the following page.

Figure 2.1: Bygrave's model of the entrepreneurial process



Source: Bygrave (2004:385)

Figure 2.1 above gives an in-depth illustration of the entrepreneurial process that is applied throughout this study. Thus, a steady but logical progression of the entrepreneurial tasks through the cycle of innovation is outlined. Depending on the exact organisational setting, innovation can be applicable in any environment in which an entrepreneurial event occurs. Consequently, the model above provides four major elements of personal, sociological, organisational and environmental factors (Hisrich & Peters, 2002:40) that moderate and stimulate entrepreneurial activity and hence, this model is used to find answers to the current research problems within the given research environment.

According to Bygrave (2004), the process of entrepreneurship involves the functions, activities and other business related actions. These include opportunity recognition which then leads to the establishment of new businesses. In simple terms, these functions are interrelated and therefore include the development of products and services for customer markets, resource acquisition, the exploitation of various forms of opportunities, the design of organisational structures as well as strategies to exploit credible business opportunities (Shane *et al.*, 2003:250-251).

The entrepreneurial process is broadly influenced by certain factors namely personal, sociological as well as specific factors within the macro environment (Bygrave, 2004). According to researchers, the entrepreneurial process seems very complex as the model (figure 2.1 above) illustrates four different elements (Bosma, Acs, Autio, Condures & Levie, 2009:11). Timmons and Spinelli (2009:111) contend that the entrepreneurial process is *“highly dynamic, fluid, ambiguous and chaotic in character”*. Due to these factors, the entire process must be properly controlled with excellent managerial skills to realise the expected business objectives.

The entrepreneurial process is centred at the heart of four interrelated phases namely to identify and evaluate business opportunity, the development of a business plan, determine the requisite and management of resources. These phases are interrelated in their approach during entrepreneurial events; proceed without being applied in isolation as such each stage need to be completed prior to the next phase (Hisrich & Peters, 2008:9-14).

Entrepreneurship is very dynamic with interrelated tasks which in most instances are driven by small pockets of opportunities with special focus on the lead entrepreneur and the entrepreneurial team (Hisrich, 2008). Also the process must be consistent and also foster a proper fit in balancing the least available resources with abundance of creative thinking. A comprehensive depiction of the entrepreneurial process is shown in table 2.6 on the next page.

Table 2.6: Entrepreneurial process

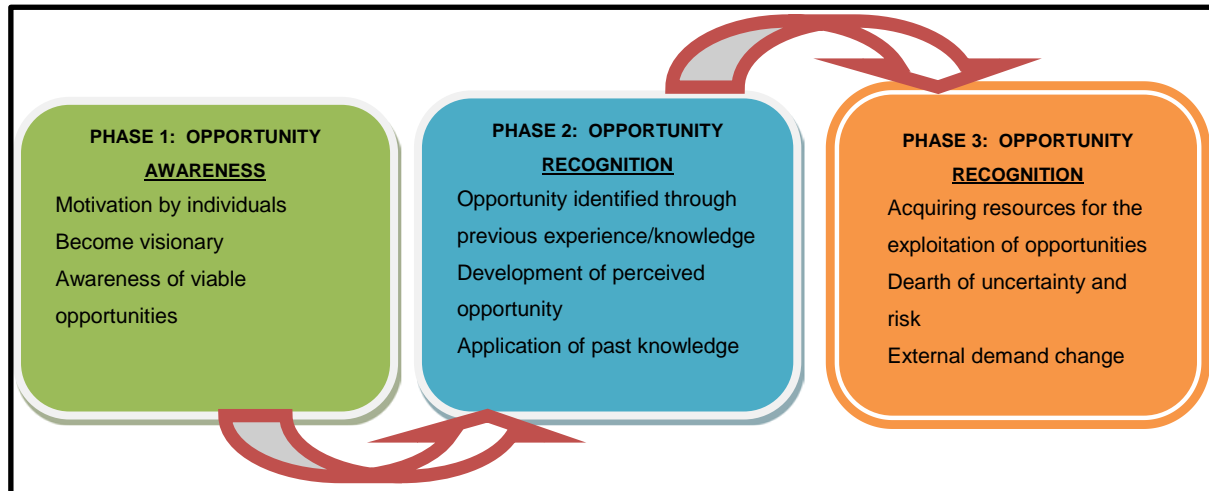
Identify and evaluate opportunity	Business plan development	Resources needed	Management businesses
Opportunity assessment	Title page	Determine resources	Develop management plan
Opportunity creation and duration	Table of content	Determine present resources	Determine key variables for success
Perceive the real value of the opportunity	Executive summary	Gaps in resources and supplies	Understand major variables for success
Inherent risks and returns on opportunity	Major section: Business description	Plan access to resources	Problem identification Implement strategic control mechanisms
Opportunity versus personal skills objectives	Industry description Plan of technology		Growth strategy development and implementation
General Competitive Environment	Marketing plan Financial plan Business plan Operational plan Summary Appendixes		

Source: Hisrich and Peters (2008:10)

The entrepreneurial process takes into account all the tasks and activities that are required to create an entrepreneurship venture. The process as explained in table 2.6 forms part of the practical entrepreneurial events as defined by researchers (Kuratko & Hodgetts, 2007; Hisrich & Peters, 2008:10).

Figure 2.2 on the following page demonstrates the initial stages of entrepreneurial process; the awareness to perceived business opportunities that drives individuals to become critical of future entrepreneurial prospects (Minniti & Levesque, 2010:306). Minniti and Levesque (2010:306) contend that individuals seek viable opportunities within the environment for exploitation and to establish specific model of relationship between entrepreneurship as well as economic growth during transition

Figure 2.2: The Entrepreneurial Process



Source: Researcher's own compilation

From figure 2.2 above the various phases of the entrepreneurial opportunities are outlined. Throughout the process, the challenges of environmental risk and uncertainty impact on opportunity exploitation. Reasons for these challenges include the lack of decisive skills to predict the prevailing state of the marketing environment taking into account the external variables such as the socio-cultural limitations, economic trends and other challenges of technology (Webb, Kistruck, Ireland & Ketchen, 2010:568).

2.7 DEFINING THE CONCEPT OF OPPORTUNITY

The concept of opportunity is extremely difficult because it lacks consistency with no basis for specific empirical evidence (Davidsson, 2008:208). However, with greater commitment and determination, the entrepreneurs are more likely to overcome key challenges that limit their abilities (Timmons & Spinelli, 2009:46-47). The general idea regarding opportunity has received overwhelming attention; in a way entrepreneurial opportunity can become successful as a result of discovery, recognition and identification (Dimov, 2010:59).

Furthermore, as Schumpeter puts it, every form of opportunity is created through human activity (Buenstorf, 2007:334). Opportunity development emanates from two scientific fronts of empirical and theoretical phases for the discovery whether academic ideas are compatible with individuals experiences in a global context (Gartner, 2008:312). Waves of prior scientific outcomes by Shane (2004:262-270) argue that not enough empirical work has been completed regarding viable business opportunities within the entrepreneurial environment that deserves additional information concerning opportunity. In theory there has been a total failure of the initial time during which an opportunity is spotted and implemented (Dimov, 2007:714).

Individual businesses and the attitudes of diverse groups are responding positively to various decisions made under severe and uncertain clouds to unearth ensuing opportunity (McMullen & Shepherd, 2006:134). As the process unfolds, relevant opportunity is analysed for its feasibility and also to make sure that the opportunity is viable (Cardon, Foo, Shepherd & Wiklund, 2012:2-3). Furthermore, Szimai, Naudé and Goedhuys (2011:4) concur that the study of entrepreneurship focus on why, when and other three insightful phases of opportunity, namely opportunity creation, recognition and utilisation. Metcalfe (2006:77) indicates that entrepreneurship institutes arrays of novelty into the global economic activities.

Business opportunity is the means to make available the marketing needs through resources in order to provide the market with value-added products (Schumpeter, 1934; Kirzner, 1973 in Ardichvili, Cardozo & Ray, 2003:108). Kirzner (1973:74) argued that by all accounts, the entrepreneur gains more knowledge about the future profitability opportunity; thus most of the viable opportunities are likely to be spotted within the general environment by visionary entrepreneurs who are skilful enough to acquire more information in order to attain the market reward for the opportunities. Business discovery mainly centres on a lack of personal surprises with critical reliance on alertness (Shane & Venkataraman, 2000 in Fiet & Patel, 2009:53).

According to Fiet and Patel (2009), the entrepreneurial alertness is an indication that the business opportunity must be incidental. Kirzner (1973) argued that for business opportunity to be made public there must be early recognition through basic knowledge (Companys & McMullen, 2007:304). This further prompted an argument by Ardichvili *et al.* (2003:115) that individuals are not searchers of business opportunities as well as the value of new business information. Supporting the claim, Fiet and Patel (2009:53) argued that “*alertness*” is about a systematic search process because the tasks of opportunity discovery mainly focus on the alertness that is known as “*notice without search*” which simply implies that there is a deliberate search for business opportunities.

Two schools of thoughts such as the mental and the counterfactual skills guide the dearth of entrepreneurial reasoning in identifying the exact processes of business opportunity (Gaglio, 2004:534). While the cognitive school of thought relates to opportunity identification, the school of thought focuses on the decisions to rightfully allocate resources for maximum rewards on investment (Gaglio, 2004). Entrepreneurship literature has been constantly marred by inconsistency regarding the theoretical and operational definitions; hence various scholars echoed the sentiments that entrepreneurial opportunity showed enough theoretical dilemmas (Hansen, Shrader & Monllor, 2011:284; McMullen, Plummer & Acs, 2007:273).

According to Kropp *et al.* (2008:104), the individual entrepreneur makes decisions to establish start-up businesses taking into account various entrepreneurial processes such as the task of market evaluation and research, seek financial assistance and to prepare a viable business plan through the application of various personal attributes that link the entrepreneur to specific market environment (Alvarez & Barney, 2007:129). Due to social and subjective elements, business opportunities cannot be entirely independent; it bears vital linkages with individuals (McMullen *et al.*, 2007:273). It is an on-going and changing event which needs constant evaluation of the entire entrepreneurial process (Dimov, 2010:1124).

In general, entrepreneurship literature focuses on two lines of scholarly thoughts namely opportunity discovery and the establishment of business opportunities that underline the concept of entrepreneurship (Alvarez & Barney, 2007:122). The main assumption of discovery theory outlines individual entrepreneur's skills to form and further exploit the available business opportunities. Thus, this assumption is critical to provide an in depth description of why industry or market related opportunities are not known to the entrepreneur for exploitation (Alvarez & Barney, 2007:133). Thus, the main concern of the entrepreneur is to establish strong presence and to take advantage of opportunities (Shane & Venkataraman, 2002:211).

According to extant literature of entrepreneurship, opportunities are created (Dimov, 2007:561); this implies that within the research environment the opportunities regarding entrepreneurship emerges in stages of iterative that requires to be reshaped and for further developments. As pointed out by Choi, Levesque and Shepherd (2008:334), individual entrepreneurs begin the entrepreneurial process of entrepreneurship with the initial opportunity through the exploitation of business opportunity. Furthermore, the entire process of entrepreneurship becomes applicable for the establishment of basic dynamic processes to acquire maximum wealth and social benefits (Crane & Crane, 2007:14). Entrepreneurial action can either generate enough financial gains or add value to economic activities (Alvarez & Barney, 2007:135). However, the entire processes still remains to be less interrupted due to the awareness of viable business opportunities and exploitation that forms part of the decision-making traits as well as entrepreneurial action (Alvarez & Barney, 2007:135).

Basically, individual entrepreneurs are characterised by the growing desire and the significance of entrepreneurial opportunities that represents a vital recipe for the establishment of start-up businesses which are deeply embedded in the power to spot opportunities (Corbett, 2007:98-99). Corbett (2007:102) argues that in spite of direct association with spotting entrepreneurial opportunities and succeeding in the exploitation of available opportunities, the entrepreneur still lacks the availability of opportunity within the entrepreneurial environment.

Sirmon, Hitt and Ireland (2007:275) advance the notion that the realisation of the perceived business opportunities from the environment triggers the individual to exploit feasible entrepreneurial opportunities and in most instances, such individuals then acquire adequate resources with the aim to add value that are earlier on not perceived as consequences of business opportunity within the environments as such initiate actions to exploit the opportunities. Following on the foregoing researchers, Eckhardt and Shane (2003:335) define entrepreneurship opportunity as the entrepreneurial era in which innovative goods and services, raw materials and other marketing techniques are formed to meet ends. Table 2.7 below displays some of the selected theorists of entrepreneurial opportunities and their contribution to existing literature.

Table 2.7: Selected literature on opportunities

Article/Authors	Article date	Related article	Contributions of article
Gaglio	2004	Social cognition	Mental simulation processes; think facts to identify and develop opportunities.
Corbett	2005	Theory of experiential learning	Learning modes differs and performances differ in terms of opportunities to be identified and to be exploited.
Dutta and Crossan	2005	Organisational learning process	Intuiting, interpreting, integrating and institutionalizing the process; life cycle of the entrepreneurial opportunities.
Oviatt and McDougall	2005	International research	Model of International entrepreneurship commences with opportunities.
Lee and Venkataraman	2006	Various	Instances of disequilibrium, opportunities emerge between individual and labour market.
McMullen and Shepherd	2006	Various	Explore opportunities by individuals during uncertainty for entrepreneurial action.
Alvarez and Barney	2007	Theories of discovery and creation	Theories of discovery and creation provide the formation of entrepreneurial opportunities.
Dimov	2007a	Theory of research on creativity	Generate opportunities as contextual function, social influences not the insights of individual.

Miller	2007	Risk of entrepreneurship	Risk and rationality bears linkages with opportunity recognition, discovery and creation.
Shepherd, McMullen and Jennings	2007	Theory of coherence	Theory of opportunities from third-person to first-person opportunities.
Baron	2008	Study on affect	Affect impact on entrepreneur's cognition, shapes entrepreneurship processes and recognition.
Foss and Foss	2008	Resource-based view and economic property rights	Property rights; transaction costs precursory to opportunity discovery.
Zahra	2008	Various	Climate of technology is conducive to discovering opportunities; encouragement of creation and discovery.
Schindehutte and Morris	2009	The science of Complexity	Strategic entrepreneurship entails exploration and exploitation of opportunities.

Source: Own compilation from extant literature

The table above provides more to the existing conceptual frameworks of entrepreneurial opportunities over the years not only to develop sufficient complex models but to allow for future additions.

2.7.1 Opportunity identification

The identification of business opportunity correlates with certain individual variables including age, education, prior expectation and previous entrepreneurial experience (De Tienne & Chandler, 2007:367). This is further confirming the Annual Review of Small Business in South Africa that the entrepreneurial opportunity is influenced by external factors of small business growth (DTI, 2008:48). External factors including the market environment, access to finance besides various general public perceptions severely impact on entrepreneurial opportunity (DTI, 2008). For the entrepreneur to spot feasible business opportunity, the entrepreneur is expected to be self-confident with efficient entrepreneurial skills (Langowitz & Minniti, 2007:357).

According to the discovery theory it is risky to assume that opportunity is objective; thus entrepreneurs are at liberty to utilise different data gathering and evaluation tools to

comprehend the results of the opportunity. The context within which entrepreneurs' decisions are made becomes very risky not certain (Alvarez & Barney, 2007:129). Consequently it is the entrepreneurs who unearth the agency to viable opportunity (Shane, 2003:7); and through different actions of technological shift, social and demographic changes as well as political and regulatory changes (Shane, 2003). These varying activities create a disruptive climate within the competitive market equilibrium or the industry sectors for the establishment of opportunity (Shane, 2003:23).

Series of academic theories focus on individual levels of excellence that are displayed by entrepreneurs in their quest for allocating and exploiting the opportunity (Baron & Ensley, 2006). According to Saravathy and Venkataraman (2011:118), not every entrepreneurial opportunity can be spotted by means of variables such as the demographic, regulatory and institutional changes; instead, there are other forms of entrepreneurial opportunities achieved as the process of entrepreneurship progresses. Drucker (1985:25) reiterates that opportunity identification concerns human behaviour which focuses on a hands-on approach in search of business opportunities within the general environment and the willingness to accept risk for potential gains.

Key questions arise in terms of the exact nature of relationship that exist between individuals and the business opportunity, the depth of businesses that firmly cement and sustain market competitions and the primary source of economic growth for increased productivity (McMullen *et al.*, 2007:273-274). The growing interest in identification of a business opportunity over the business cycle has been one of the distinctive traits of the entrepreneur (Timmons & Spinelli, 2009:51-52; 111).

Opportunity identification illustrates the unique nature of entrepreneurial behaviour and yet the entire process is still mysterious. At the heart of the entrepreneurial process is the idea to generate opportunity (Timmons & Spinelli, 2009:111). Opportunity is defined by many researchers (Longenecker, Moore, Petty & Palich, 2006:3; Coulter, 2003:15; Rwigema & Venter, 2008:29). Entrepreneurial opportunity is elusive; thus the

opportunity must first exist for the entrepreneur to discover and for the exploitation of such opportunity (Acs & Audretsch, 2005:164).

The availability of entrepreneurial opportunity does not guarantee successful entrepreneurship. Cognitive processes are the major players in necessitating individual attitude that encourages both feasibility and viable opportunities (Acs & Audretsch, 2005:108-109). Existing waves of academic reports disagreed that contemporary theories focus mainly on issues of opportunities such as opportunity discovery, exploitation and the primary source of the opportunity (McMullen *et al.*, 2007:273). According to Acs and Audretsch (2005:164), there must be an opportunity so that entrepreneurs can embark on the exploitation of various processes to discover viable business ideas.

It is significance to be able to identify and properly evaluate an opportunity is another critical part of the entrepreneurial process. According to Hisrich and Peters (1998:39), to identify opportunity in the environment is not an easy task. The mere fact that an opportunity exists within the realm of entrepreneurship does not give the surety of the business success. According to Acs and Audretsch (2005:108-109) and Kuratko and Welsch (2004:171), perceptions regarding opportunity demonstrates a significant process that is intentional and mostly driven by perceptions that are feasible, desirable and lucrative to pursue.

Business opportunity can surface from various sources namely changes in demography due to obsolescence of products and services, from consumers, business associates, within the supply-chain system or from changes due to existing technology (Rwigema & Venter, 2008:29). In this regard, it is vital that careful analyses of both the internal and external environmental factors are properly done (Conway & Steward, 2009:290).

Von Stamm (2008:322) argues that opportunities can emerge unexpectedly from unknown sources for maximum outcomes. Hisrich and Peters (2008:12) opinion that every form of opportunity needs careful screening processes and evaluation against set

standards and values; taking into account specific risk factors and the ultimate returns, the entrepreneurial fit and skills, and advantages within the competitive environment (Hisrich & Peters, 2008).

2.7.2 Opportunity recognition

Opportunity recognition is defined as the ability to be able to identify good and viable ideas to be transformed into sustainable business concept that adds significant value and generates additional revenue; it is closely associated with the entrepreneurial decision-making that lead to spotting a viable business idea for end values (Miao & Liu, 2010:358; Lumpkin & Lichtenstein, 2005:457). Decision-making according to Miao and Liu (2010) centres on a specific choice that is in line with entrepreneurial opportunity; however, the entire process is not as easy as indicated by researchers because of its influential role in entrepreneurial decision-making. According to De Bruin, Brush and Welter (2007:329), an individual's self-perception is largely influenced through the processes of opportunity recognition which continue to reinforce every aspect of the entrepreneurial process within the environment (De Bruin *et al.*, 2007:331).

Opportunity recognition forms part of the unique skills level of the individual entrepreneur. Through opportunity recognition the entrepreneur is positioned well enough to establish new markets by means of informed decision-making (Dew, Read, Sarasvathy & Wiltbank (2008:57). It is argued that prior to the economic downturn entrepreneurial activities have scarcely produced gains due to a lack of opportunity recognition (Dew *et al.*, 2008). Opportunity recognition provides critical stimulus to gain and encouragement. Casson and Wadeson (2007:286) concur that during economic downturn the entrepreneur takes advantage of economic projects that creates a positive economic outlook.

The recognition of opportunity is influenced by various factors. Yet, it consists of a strict cognitive process; reasonably enough, it impacts on entrepreneurship as well as newly established businesses in areas such as the acquisition of resources to execute

business opportunities (Baron, 2008:332). Business opportunities emerge whilst there is a strong market competition because of market imperfection (Alvarez & Barney, 2007:127). From an entrepreneurial perspective growth means activities which allow recognition of businesses and the ultimate exploitation as business growth is about the exploitation thus growth means recognition and the exploitation of business opportunities (Webb *et al.*, 2010:558).

The ability of individuals to recognise and pursue an opportunity is the point where opportunities are exploited. Recent studies on the entrepreneurial opportunities have emerged with lucrative findings that stem from early insight into a fully shaped idea as to how business ventures are established and nurtured (Dimov, 2007:720). It is further proposed that the idea to develop an opportunity is greatly influenced by the immediate social environment within which the individual operates. Individuals experienced uncertainty within the environment on various fronts as a function of basic knowledge; motivation which allows some to act yet others do not (McMullen *et al.*, 2007:279).

The entrepreneurial action is defined as any entrepreneurial activity taken by the entrepreneur to spot any further business opportunity (Shane & Venkataraman, 2002:211). Subsequent formulation of business opportunity provides an adequate description of any form of action taken by the entrepreneur either to discover or create business opportunity; taken into cognisance the entrepreneurial actions and its influence on the role of entrepreneurs to formulate and exploit opportunities (Alvarez & Barney, 2007:126). Once the necessary actions are in place, through multi-disciplinary approaches of scientific and regulatory techniques, a new opportunity by the entrepreneur is created, discovered and exploited which bears closer ties with the entrepreneur's commercialised knowledge that are established (McMullen *et al.*, 2007:276).

Due to challenges such as the complex nature of the business environment and the perceived nature of risks, the entrepreneur can only make long-lasting decisions provided their is low-risk profile within the business environment (Kreiser, Marino,

Dickson & Weaver, 2010:976). Individual entrepreneurs are most likely to observe more opportunities as compared to non-entrepreneurs; most of these opportunities are filtered and processed through the application of relevant perception, knowledge application and presentation, decision-making, cognitive development and learning. The persuasion of opportunity is therefore another vital and informed-decision that both the entrepreneur and non-entrepreneur need to adopt toward the excellent realisation of the desired business objectives (Acs & Audretsch, 2005:105).

The prolonged search for a viable business opportunity is a pre-requisite for entrepreneurship (Kobia & Sikalieh, 2010:111). Searching for a business opportunity as the last resort of discovery and the ultimate decision to pursue opportunity provides an intense process of venture creation (Shook, Priem & McGee, 2003:381). The entrepreneurial opportunity represents the value-creating innovation with a vast amount of market potentials as the entrepreneur is vital in finding the means to create customer value (Longenecker *et al.*, 2006).

2.7.3 Opportunity exploitation

Business formation across different regions illustrate key complementary solutions that require active processes of exploiting entrepreneurial opportunities with positive patterns of TEA activities (Mueller, 2007:360). Generally entrepreneurs are able to exploit more business opportunities provided more knowledge regarding customer demand for variables such as new products about the technological needs in addition to the efficient management team (Choi & Shepherd, 2004:390).

Opportunity exploitation is mainly about specific business activity and investments made with the aim of making sizeable profit margins (Choi & Shepherd, 2004). For instance, most often corporate managers seek to pursue viable business opportunities on behalf of their organisations or even start new business ventures to attain the objectives of the organisation, as “...*entrepreneurship is indispensable for steady economic progress yet*

economic activity is possible only when profit opportunities are available to the entrepreneur” (Holcombe, 2008:1).

2.8 MOTIVATIONAL ELEMENTS OF ENTREPRENEURSHIP

Historically, motivation is associated with the early literature of Freud (1915). In his work Freud referred to motivation as an instinct behaviour. Issues regarding motivation have been widely published in volumes of academic literature (Segal *et al.*, 2005:43). Other theorists Deutsch and Krauss (1965) and Maslow (1946) proposed that motivation is the driver of individual behaviour with the objectives of survival but not with the intention of failure.

There are two main theories that underpin the concept of motivation with no definition; these include the economic and psychological disciplines. Motivational theories differ according to the field of study. Each scientific area of the study is structured to describe specific analysis. For instance, the field of psychology provide sufficient illustrations of the traditional roles of self-regulation, motivation and traits of personality (Steel & Konig, 2006:889). One critical reason or motivational factor of entrepreneurship is for the entrepreneur to make provision to “...*make the world a better place*” (Longenecker *et al.*, 2008:8-9).

Besides, elements of independency add to other motivational tools that drive individuals to pursue entrepreneurship as a career alternative (Tassiopoulos, 2008:39); and also to become successful serves as another outstanding stimulant of motivation (Rotefoss & Kolvereid, 2005:113). According to Rotefoss and Kolvereid (2005), other environmental factors such as urban dwelling motivate individuals for entrepreneurship careers.

According to Hessels, Van Gelderen and Thurik (2008:403), entrepreneurial motivation thus far have determined the objectives and aspirations of business ventures and point to various macro-economic determinants which enable policymakers to infuse its outcomes into their plans. Thus, a common consideration was reached on the theories

of motivation according to economics, psychology and the discipline of management (Carsrud & Brannback, 2011:9-11). Motivation, therefore, entails the behaviour of an individual that drives him to carry out a desired objective.

According to the online business dictionary (2012), motivation stems as a result of “...*an internal or external factor that propels the desire and energy in individuals to seek continuous interest with high commitment and persistent effort to accomplish desired aims*” (Business Dictionary Com., 2012). Wickham (2006:23) advanced the definition of motivation as the individual’s ability to stimulate a precise course of action. This implies that the course of action points to the existence of specific motivation to be taken by an individual entrepreneur.

Motivation, serves as an essential mechanism of performing entrepreneurial tasks which enhances the know-how of the individual entrepreneurs who are viewed as energiser, directing and sustaining individuals (Bennett & Dann, 2005:5; Locke & Latham, 1990:7). Motivation enables the entrepreneur to be self-disciplined for high levels of business efficiency; it serves as a directive behavioural force thus it accords the entrepreneur the prerequisite ability for business sustainability and growth (Chandra & Coviello, 2010:228; Petri & Govern, 2004:16).

Existing literature suggests factors such as financial matters, the creation of values, personal factors and the personal lifestyles as some of the critical drivers that motivate entrepreneurial activity (Segal *et al.*, 2005:42). For example, Morrison (2006:193) describes entrepreneurship as a multidimensional facet which focuses on the individual entrepreneur’s behaviour namely the exploitation and realisation of opportunities, market innovation, the inherent business risk and uncertainty, growth and profit objectives.

Indeed, the exploitation of business opportunity centre on the ability to assemble on to the market very efficient and operational products and services that are the outcomes of business opportunity (Choi *et al.*, 2008:335). Segal *et al.* (2005) concur that motivation

is critical to enhance the existing entrepreneurial activities within the new business establishment. According to Urban (2008:169-170), entrepreneurial motivation represents diverse functions of cultural traits and personality as well as create enough interaction of entrepreneurial performances. Recent entrepreneurship surveys and the concept of motivation mainly centred on the economic perspective as well as the factors of individual personalities. Kaufmann (2009) indicates that there are many driving forces of innovation. Krueger (2002) concurs that individuals are motivated by numerous factors to start their own businesses.

Motivation is viewed as a psychological element in assisting the entrepreneur to be successful. According to Segal *et al.* (2005), the numerous surveys in the field of psychology confirm Maslow's (1987) theory of motivation has been driven by physiological drivers due to a high level of competencies by individuals. Thus, the people who are highly skilful are most likely to drive entrepreneurship as a career option. Baum, Frese and Baron (2007) add that individuals can source entrepreneurial opportunities by using a stronger level of proficiency because the depth of individuals' level of competencies is highly intertwined in various areas of knowledge acquisition and entrepreneurial skills. Motivation, furthermore, has been widely researched to be a multidimensional concept (Story, Hart, Stasson & Mahoney, 2009:391).

Early study into the understanding of what the term motivation entails revealed that the concept is underlined by two streams of thoughts namely the intrinsic and extrinsic motivational factors (Covington & Mueller, 2001:157). While Lambing and Kuehl (2007) believe that motivation entails individuals' desire and entrepreneurial passion, Tyszka, Cieslik, Domurat and Macko (2011:128) strongly favoured the extrinsic form of rewards as vital motivational elements which enhance individuals' performances. Further explanations by Minbaeva (2008:703) posit that employees are motivated by their managers through intrinsic and extrinsic factors to enhance the level of productivity.

Other characteristics including risk-taking propensity, locus of control and the need for achievement, innovativeness and the desire for autonomy are some of the needs for

pursuing entrepreneurship. Apart from other traits, entrepreneurship is further stimulated by self-efficacy and decisiveness (Baum *et al.*, 2007; Mohan & Elangovan, 2006). According to these theorists, individuals with high self-efficacy are more likely to become successful; yet decisive individuals mostly rely on someone at the top to make an informed decision. As such in most instances, these two concepts of self-efficacy and decisiveness bear close similarities (Mohan & Elangovan, 2006).

Schumpeter (1934) indicated that individuals are forced to pursue entrepreneurship as a career option due to economic reasons; the individual's reason to engage in entrepreneurial activity depends on two reasons; either through motivation for economic gains or the reason is backed by social drivers or the lifestyle of the individual. Carsrud and Brannback (2011:19) indicated that groups of individual entrepreneurs are mainly driven to pursue entrepreneurship because of lifestyle; similarly those who are driven as a result of social benefits only emerge to be known in the new field of social entrepreneurship but not for economic gains.

Individuals may vary in what motivates them into entrepreneurial careers; to exploit business opportunities has become a major concern during the entrepreneurial process (Shane & Venkataraman, 2002:217-226). Motivation is perceived as one of the inherent traits of the entrepreneurs who are endowed with "*an intrinsic motivation of self-fulfilment*" (Berthold & Neuman, 2008:238). It is paramount that individual entrepreneurs are seen to be deeply motivated; as such they pursue business growth (Berthold & Neuman, 2008).

2.8.1 Motivational factors of entrepreneurship

There are many compelling reasons that underline entrepreneurship as a career option. The GEM Report (2005) points to various forms of motivational factors in line with available literature; these factors differ from one person to another and may also be due to geographical elements. According to Shane *et al.* (2003:257-279), the "*willingness to pursue opportunity*" prepares the individual to become motivated towards the

entrepreneurial process. At the initial stages, motivation for start-up ventures largely bears no similarities; it is not only for survival, new product development or for financial independence. In emerging economies, therefore, entrepreneurs are mainly viewed as “*survivalists*” only to provide primary household needs (Nieman *et al.*, 2008:261).

Factors such as financial reward and the desire for independence are some of the essential motivational elements that spur entrepreneurial career (Shane *et al.*, 2003; Amit, Mueller & Cock-Burn, 1995). Other elements include relationships and experiences due to ownership of family business, family life-style as well as role-models very close to individuals are perceived as motivational elements (Aldrich & Zimmer, 1986).

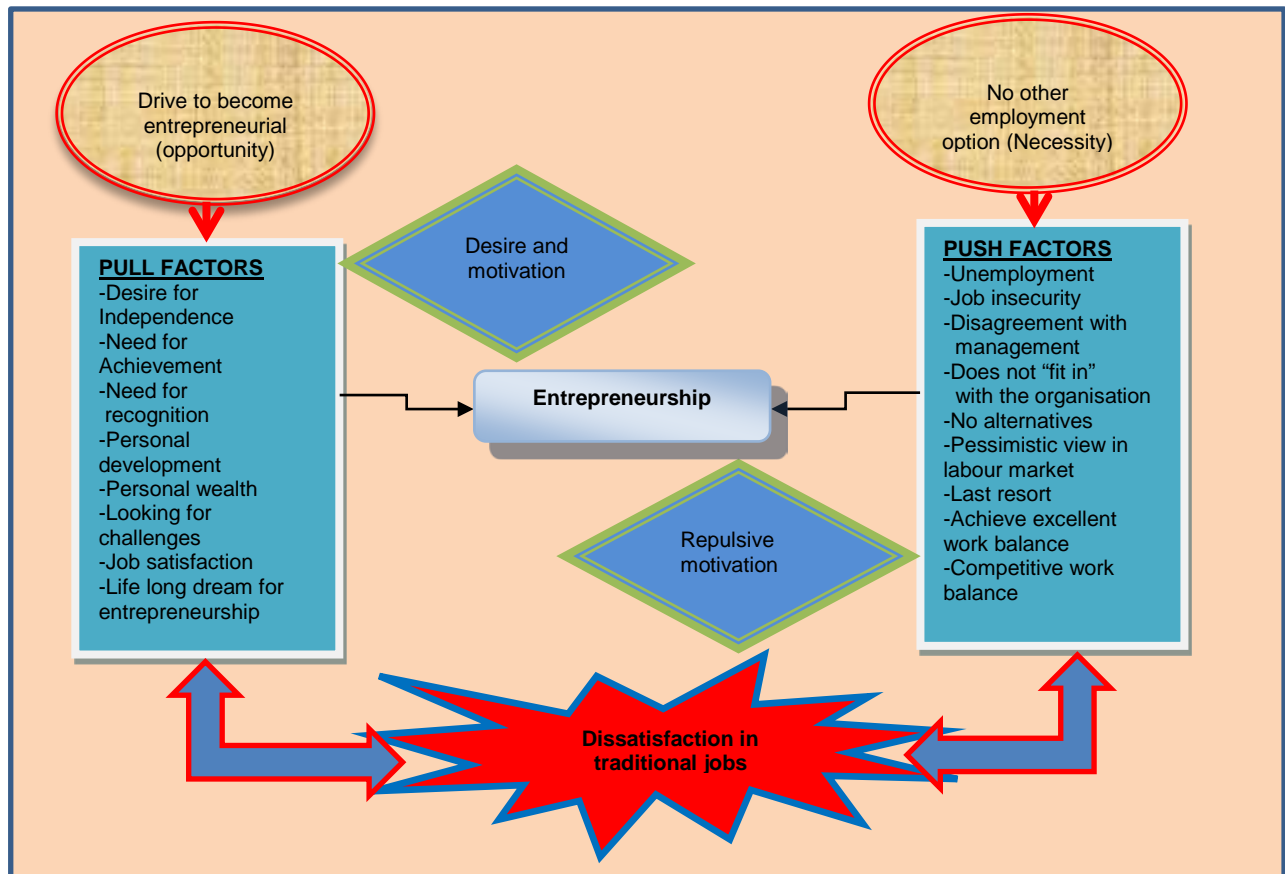
2.8.2 The “*pull*” and “*push*” factors of entrepreneurship

Motivational factors are divided into “*pull*” and “*push*” factors; while the “*pull*” factors depict positive influences as key drivers of individuals to realise their entrepreneurial dreams to create new ideas for the purpose of opportunity exploitation within the environment and hence, the group is referred to as “*opportunity*” or pull entrepreneurs. Whilst the “*pull*” and “*push*” factors induce the general population towards entrepreneurship, the main reason to pursue entrepreneurship still remains the “*push*” factors (Carter & Silva, 2010:19-21).

Presently, the South African labour market is struggling to offer job opportunities to new entrants into the job market; thus, unemployment is seen as the primary factor that underlines the push factors that trigger individuals, especially the younger generation, into entrepreneurial option (Rosa, Kudithuwakku & Bulunywa, 2006:1). According to Graaf (2007:18), other “*pull factors*” such as to become one’s own boss, generate additional income, to gain personal recognition and to take advantage of existing market opportunities trigger economic benefits. Section of entrepreneurs has been classified as “*necessity*” or pushed entrepreneurs who are mostly engaged in entrepreneurship for personal improvement, family resources and to satisfy other life-style ambitions.

Figure 2.3 below illustrates both the ‘pull’ factors commonly known as opportunity entrepreneurship and ‘push’ factors referred to as necessity entrepreneurial activity into proper perspective with several of the motivational factors namely the need for achievement, the desire to create self-employment, autonomy, flexibility of working hours and the desire for entrepreneurship.

Figure 2.3: The “pull” and “push” factors of motivation



Source: Nieman and Nieuwenhuizen (2010:34); Humbert and Drew (2010:173-196); Hakim (1998; 286-297)

From figure 2.3 above, the “pull” factors represent the internal intention of the entrepreneur. The “pull” and the “push” theories are the central focus of entrepreneurship motivation as most South Africans are forced into entrepreneurship due to retrenchment, job losses and frustrations (Nieman & Nieuwenhuizen, 2010:34).

Moreland (2006:6) caution that self-employment serves as the most valuable entrepreneurial motivator which allow individual entrepreneurs to opt for their own business ventures to generate optimal wealth; and yet entrepreneurship is broadly perceived to lack legitimacy or as a desirable career option (Nieman & Niewenhuizen, 2010).

The “*pull*” theory, offers potential attraction and encouragement to respective entrepreneurs to excel and prosper in the entrepreneurial field while pursuing profit-oriented business opportunities (Gilad & Levine, 1986:46-47). This theory is strongly motivational because it enables the entrepreneur to become dependent including other factors such as to create personal wealth, the need for achievement and for personal recognition (Botha, 2006:122). According to Kirkwood (2009:346), there are various motivational factors underlining individuals’ quest to pursue entrepreneurship. Over the years, scientific researchers Kirkwood (2009:346) are unable to determine the degree of gender variances that exist as the “*push*” and “*pull*” motivations to embark on entrepreneurship.

Increasingly the desire for independence is at the heart of the “*pull*” motivational elements of entrepreneurship. The desire for independence forms part of the need of autonomy as well as for control by individual entrepreneurs; thus, the entrepreneur’s responsibility is to actively pursue opportunities; utilise managerial skills and to make personal informed decisions not reliant on others (Shane *et al.*, 2003:257-279).

Empirical studies have revealed that the entrepreneur enjoys the better part of the independence to operate his own business in comparison to others (Shane *et al.*, 2003:257-279). Other motivational factors namely access to resources, the legal system and technological infrastructure, prior work experience, culture and role-models, formal and informal education and other environmental factors contribute to the determination of motive to pursue entrepreneurial activities (Gray, Foster & Howard, 2006:300).

The outcomes of empirical studies indicated that monetary desire is not the fundamental reason why most individuals aspire to become entrepreneurs (Kirkwood, 2009:348). Regarding the lifelong dream of individual entrepreneur, the entrepreneur is due to be free without choice; this is justified because the entrepreneur is at ease to either establish own independence or the motive to create wealth (Hessels *et al.*, 2008:408).

The “*push*” factors of entrepreneurship are mostly found within the small business sector of the economy with the aim of reducing the existing high level of poverty and unemployment, lack of job or career prospects; withstand the high level of competition within the environment as well as rampant dissatisfaction and frustrations at workplaces as employers are not willing to support newly found entrepreneurial ideas (Winn, 2004 cited by Kirkwood, 2009:349).

Shane *et al.* (2003:257:279) stated that regular changes of individual lifestyle continue to urge them into entrepreneurship. A study carried out to access the rate of success within the “*pushed*” entrepreneurial processes to survive the life-style factors indicated that entrepreneurs with entrepreneurship background are most likely to achieve potential success (Shane *et al.*, 2003). Kirkwood (2009:346-348) indicates that some entrepreneurs are pushed to consider the formation of own business because of the negative situation that exist in the job market namely instability in existing salary structures. In another study regarding motivational factors of autonomy factors such as, looking for challenge, gain excitement, marketing gaps and long life dreams were found to be very much motivational and hence, these factors were able to trigger entrepreneurial venture (Humbert & Dew, 2010:173-196).

2.9 SUMMARY

This chapter made some steady progression to understand the twin concepts that underline the theories of the study: entrepreneurship and the entrepreneur. Additionally, the focus was on how these concepts evolved over the years from the early theorists to the 21st century. The chapter explore the theoretical foundations which define the

concept of entrepreneurship and the entrepreneur. From the multitude of literature reviewed thus far, it is evident that entrepreneurship, though very useful in providing job opportunities and improve socio-economic well-being of the general society, entrepreneurship is still a complex global phenomenon to define despite its positive impact on global economies.

For the purpose of this study entrepreneurship is defined as an economic process which seeks to identify viable business opportunities through strategic allocation of available resources. Entrepreneurship involves the management of new business ventures to become successful using the capabilities of individual entrepreneur. The literature review illustrates the notion that entrepreneurship results from a chain of related tasks and processes; the individuals or a team of entrepreneurs who assemble the available resources from the immediate environment for productive purposes.

According to early theorists of the Schumpeterian era, entrepreneurship is founded on profit motives. This piece of theory confirms the earlier work that the views that are the fundamentals of entrepreneurship to be linked to economic activities. Within the existing entrepreneurial context of South Africa, the existing literature is of the view that opportunity entrepreneurs must be prioritised and developed to their full potential in South Africa. The opportunity entrepreneurs are therefore the potential solution to the present socio-economic challenges currently facing South Africa.

Critical characteristics of entrepreneurship as well as the early economic theories were discussed in determination of the economic significance of entrepreneurship. Issues such as insufficient human capital, lack of basic infrastructure, insufficient marketing information and unfavourable legal framework were some of the limiting obstacles the South African entrepreneurs are faced with. Entrepreneurship is globally perceived as very pivotal in creating social mobility in any form of economic setting. Entrepreneurship can be utilised as potential shift in global economic context either in developed or less developed countries.

Key outcomes that emerged from the current literature were that the most successful global economies are on a daily basis showing potential benefits of entrepreneurship. Apart from the global economic surge, the literature further positioned entrepreneurship as a phenomenon that evolved beyond starting new ventures into different stages of the corporate entities.

The individual entrepreneurs are discussed and defined as catalyst and a change agent within the global economic environment. The literature review provides a potential overview of the entrepreneur in the economy of South Africa. The entrepreneur is seen as a bearer of risk, an individual who seeks business opportunities in the environment, assembly every productive resource to create value at the marketplace.

Through innovative means, the entrepreneur is able to provide valuable products and services to satisfy the needs of society in return for profit. From the global economic perspective, the entrepreneur offers strategic changes with sound economic outcomes by means of entrepreneurial processes being opportunity driven mainly by the entrepreneur.

CHAPTER 3

LITERATURE STUDY ON THE IMPACT OF ENTREPRENEURSHIP ON ECONOMIC DEVELOPMENT

3.1 INTRODUCTION

The Global Entrepreneurship Monitor (GEM) research over the years has consistently tied global economic development to entrepreneurship (Herrington *et al.*, 2009:59). Entrepreneurship is broadly recognised as the critical driver of economic growth through innovative means (Salgado-Banda, 2006:3). Bosma and Levie (2009:15) argued that other assessments are needed. For example, opportunities for start-up businesses in specific areas and additional requirements regarding the quality and quantity of the opportunities and the environment including the population growth, the culture and the economic policy are very significant as determinants of better entrepreneurial rate (Bosma & Levie, 2009).

Given the fact that the South African economy is severely engulfed with multiple socio-economic challenges of growing unemployment, economic decline and poorer entrepreneurial activities (Swanepoel *et al.*, 2010), entrepreneurship is critical to initiate major economic tasks of creating new economic opportunities for business benefits, employees and the general society; thus it generates personal income and financial freedom (Arenius-Kovalainen, 2006:32; Arbaugh *et al.*, 2008).

The level of entrepreneurship in South Africa continues to be extremely low (Herrington *et al.*, 2008:4). From the earlier scientific work of Baumol (1990), it was pointed out that rural entrepreneurship focuses mainly on personal wealth; hence, it is not every individual within the environment that is keen to operate successful business activities. To foster greater economic growth, it is critical to involve the entire environment (Salgado-Banda, 2006:7).

Entrepreneurship plays a vital role in creating job opportunities and the establishment of a high level of innovation; thus it provides sufficient regional spill-over in terms of economic growth (Naudé, 2011; Van Praag & Versloot, 2007:352).

A study by Ayyagari, Beck and Demirguc-Kunt (2007:429) confirmed that, on average, the small business sector forms 64% of the economy and 26% account for the GDP of developed and developing countries. Due to inconsistency in data reporting some economists were of the view that entrepreneurship bears no relationship with economic growth (Naudé, 2010:1).

Entrepreneurship is acknowledged as a vital economic force that shapes the global economic performance; yet, the overall understanding of entrepreneurial relationship and the economic development still remains to be seen (Herrington *et al.*, 2010:5). Within the general economy, entrepreneurial activities are perceived as opportunity centred (Timmons & Spinelli, 2009:14). Urban (2008) indicates that the entrepreneurship is about blending available resources for market innovation and to further stimulate market competition. Thus, according to the earlier theory of Cantillon, the entrepreneur takes calculated risk for marketing products at uncertain prices (Urban, 2008).

Over the years, the economy of South Africa has experienced numerous economic, political and social setbacks; key among these challenges is the rising problems of unemployment especially among the youth. Whilst there have been some positive signs of economic growth due to entrepreneurship; still the level of unemployment coupled with the lack of entrepreneurial spirit among the South African population is increasingly high in contrast to the rest of the developing countries (Kingdon & Knight, 2004:392).

Entrepreneurship facilitates national economic growth, creates new businesses, redirects institutional infrastructure and absorbs a significant amount of human and financial resources (Minniti *et al.*, 2005:14). There are true indications that entrepreneurship has a profound influence on economic growth as such; individual

entrepreneurs must establish sustainable businesses with solid entrepreneurial performance (Herrington *et al.*, 2008 & 2009). But, according to Schumpeter's theory of "*creative destruction*", it is also argued that in general the entrepreneurs are faced with acute challenges of finance or human capital needs. In a situation where resources are unavailable, entrepreneurship loses its economic significance due to poor performance (Parker & Van Praag, 2012:416).

Economic development is globally associated with the extent of entrepreneurial activity (Schumpeter 1934; Bird 1989). Over the years, the general economic outlook of South Africa has declined due to poor entrepreneurship performance; it is significant to encourage small business sector entrepreneurs and the corporate entities to create sustainable economic prosperities for high entrepreneurial activity through good leadership and management practices, innovation; research and development effectiveness thus small businesses contribute to small business success (Nieman & Nieuwenhuizen, 2010:20; Kuratko & Hodgetts, 2004:6).

Entrepreneurial activity by far is very important for global market well-being and the economic dynamism which favours the potential entry level of new venture creation that stimulates competition; as such creates economic growth in spite of country differences (Klapper, Laeven & Rajan, 2007:129; Djankov, La Porta, Lopez de Silanes & Shleifer, 2002:1). Entrepreneurial theories suggest that during the early phases of economic development, there are growing forces that drive entrepreneurial activities in most wealthy countries; yet income gaps among societies continue to increase (Galor & Stelios, 2006:1).

This thesis attempts to logically explain the theories behind entrepreneurship and economic growth and fill the knowledge gap regarding the immense contribution of entrepreneurship to the emerging economy of South Africa. This chapter sheds more light on the general economic contributions of entrepreneurial activities and the small business sector. Also the chapter investigates the impact of entrepreneurship on sustainable job creation in South Africa.

3.2 CONTRIBUTIONS OF ENTREPRENEURSHIP TO THE ECONOMY

Entrepreneurship contributes to economic growth (Carree & Thurik, 2000 in Fisher, 2004:4; Carree & Thurik, 2003:465). Besides, numerous academic literature studies have also alluded to the fact that entrepreneurship and small businesses create significant amounts of economic growth (Wennekers & Thurik, 1999 & 2001 in Corbetta, Huse & Ravasi, 2004:27). Birch (1979) stated that small businesses with employment capacity of only 100 employees were able to create about 81% of new employment opportunities in the United States of America (Wingham, 2004:33). Entrepreneurship does not only add to the economic performance but also towards the economic development with the intent to create employment opportunities and provide services (Hussain & Zafar-Yaqub, 2010:23).

By all accounts, entrepreneurial activities are crucial for economic development due to reasons such as creating opportunities for self-employment and innovative entrepreneurs and hence, they are perceived as economic developers as it serves to be the producer of knowledge spill-over across the environment (Van Praag & Versloot, 2007:6; Audretsch, 2007:76). Entrepreneurial environment include variables such as labour legislations, intellectual property rights and levels of educational and training that impact both on national and regional economies (Chepureenko, 2011:4).

Entrepreneurship is the largest contributor and generator of employment opportunities; hence entrepreneurship alleviates growing levels of poverty (Herrington *et al.*, 2009:11). Globally, entrepreneurial activity is a crucial tool for economic development by means of job creation, innovation, welfare and increasingly one of the growing policy interests at national level hence, *“Entrepreneurship has emerged as the engine of economic and social development throughout the world”* (Herrington *et al.*, 2009:7; Audretsch & Thurik, 2004:144). Politicians and policy makers have deeply acknowledged the significance of entrepreneurship.

The creative nature of entrepreneurs received much boost within the European Union in terms of policy formation which allows entrepreneurship to flourish due to the continuous influential roles of providing guidance, advice including measures of grants and tax concessions (European Union, 2004:9). In addition, the individual entrepreneurs perform multiple roles that enhance the general economic development (Acs & Kallas, 2007:31). One of the central contributions of the entrepreneur includes the recognition and the utilisation of low-yielding resources for better yield in return for personal gains (Acs & Storey, 2004:873). Another area of entrepreneurial activity focuses on the major shift of available resources throughout the economy by means of the factors of production for added productivity (Acs & Storey, 2004).

Within the developing countries, there is growing joblessness and high rates of poverty; however, through entrepreneurship, more employment opportunities are made available with more disposable income to be spent in the marketplace (Rwigema & Venter, 2008:9-12; Steinhoff & Burgoss, 1993:4-11). Ho and Wong (2004:198) strongly state that in less developed countries, there is a growing surge in entrepreneurship. This surge in entrepreneurship only takes place within the national context as the critical role-player in development through the combination of resources such as investment in human capital (Lazonick, 2008:2). According to Ncube and Ahwireng-Obeng (2006:35), entrepreneurial activities in developing countries serve as the most powerful tool in decreasing escalating level of poverty.

The small business sector is able to foster localised competition; equally serves as stimulant to the local market which is ready for global competition (OECD, 2005:1). Schumpeter (1934) supports the notion that entrepreneurship represents the central economic activities due to its ability to create innovative techniques as well as to diversify economic development and independence; hence entrepreneurship impacts on society through innovative methods and processes (Bester, Boshoff & Van Wyk, 2003:1; Chepurensko, 2011). Entrepreneurship allows community members to add value to their lives (Marcketti, Niehm & Fuloria, 2006:241-259).

Entrepreneurship is capable of solving socio-economic problems such as to combat the growing poverty rates and to offer employment opportunities; entrepreneurial activity fosters lasting economic growth and development (Minniti, 2008:779; Carree & Thurik, 2002:3). Most entrepreneurial activities are severely hampered by environmental factors (Glaeser, Rosenthal & Strange, 2010:1). In spite of this and other challenges, entrepreneurship still remains very influential at global level especially in developing countries (Kiss, Danis & Cavusgil, 2012:266). Generally entrepreneurial activities allow poor households to earn income through the supply of individual labour and hence impact on the economic growth and alleviate poverty (Fox & Gaal, 2008:1-2).

3.3 THE PRESENT ENTREPRENEURSHIP ENVIRONMENT OF SOUTH AFRICA

The global business environment is characterised by changes due to global events namely technological innovation, better applications of communication tools which influence business operations thus creating many challenges within the small business sector (McLarty, Pichanic & Srpova, 2012:37). As such the present business environment steadily shifts towards the dawn of technological innovations because of the increasing customer demand in the face of heightened global market competition (Ireland & Webb, 2009:1). Thus, there is immense stress on management due to various environmental occurrences (Baucus, Norton, Baucus & Human, 2008:98).

Despite positive signs of growing entrepreneurial activity from 16% to 17% in 2008 in addition to the recent increase from 5.2% in 2006 to 8.9% in 2010 (figure 3.2 on the following pages), the early-stage rate of 8.9% is still below the average of 10.6% for all GEM countries (Herrington *et al.*, 2010). The economic woes of South Africa continue to increase at an alarming rate with unemployment of 25.3% during the third quarter of 2010 (Statistics South Africa, 2010). According to Banerjee, Galian, Levinsohn, McLaren and Woolard (2008:717), the reasons for South Africa's inability to create job opportunities to meet the growing demand are due to persistent lack of entrepreneurial culture country-wide and that the informal sector of the economy is unable to expand as expected to provide employment opportunities.

The small business sector of South Africa is very active; it offers employment to about 47% and further provides approximately 45% to the country's GDP (DTI, 2008). The current entrepreneurship and the small business sector of South Africa is very poor comparable to other developing countries. For instance, the present entrepreneurship and small business development in South Africa is very poor comparable to other developing countries. Worst still the GEM (2011) survey revealed some critical challenges to the level of entrepreneurship performances; however, some degrees of significant progress were made in few areas.

Previous studies have shown signs of positive implications; the start-up or nascent entrepreneurship increased from 3.6% in 2009 to 5.1% in 2010; the prospects of new business increased from 2.5 to 3.9% (Herrington *et al.*, 2010). According to Herrington *et al.* (2010), the key contributory factors that drive these growing trends were mainly due to the recent FIFA 2010 World Cup. Other areas of entrepreneurship where South Africa was unable to perform satisfactorily include:

- The level of South African TEA rates in terms of efficiency driven economies was very poor; below average in comparison to other participatory countries.
- The TEA rates of South Africa as compared to the entrepreneurial activity of Algeria, Pakistan and Poland is significantly low; the economies of these countries are known to perform more unsatisfactorily than South Africa. South Africa's TEA rate stands at 9.1% below the average TEA rate of 14.1% for all the efficiency driven economies in 2011. In spite of this revelation it is important to note that the TEA rating is not the true reflection of entrepreneurship quality of a country (Von Broembsen *et al.*, 2005).
- Established businesses in general provide more sustainable job opportunities, more knowledge and vast wealth of experiences of adequate benefit that enhance the early-stage entrepreneurs. South Africa was unable to perform satisfactorily; in terms of established businesses, South Africa had a rate of 2.3% in contrast to 7.2% for all efficiency-driven economies. The level of established business activities in South Africa is equally rated 52nd out of 54 countries.

The poor performance of South African entrepreneurial activities was further gauged in relation with the BRICS countries of Brazil, Russia, India, China, and South Africa. According to the GEM (2011) survey, the average TEA rate for efficiency driven economies including Brazil, Russia, India, China and South Africa is 14.1%. The TEA rates of only China and Brazil were rated more than the average TEA rate of the BRICS countries. According to TIMM (2011), there is considerable interest in policies and design of small business schemes to support the development of the small business sector in Brazil than in South Africa and India.

Within the parameters of the BRICS countries, South Africa by all indications continues to slip negatively in terms of entrepreneurial performance. For example, in 2008, the GEM (Russia report) survey indicated that the TEA rates of Russia increased due to considerable improvement in areas such as market improvement, more access to physical infrastructure and government support in the financial sector were some of the contributory factors to entrepreneurship improvement. In terms of established businesses and the potentials to job creation, the report indicated that Russia is ahead of South Africa; at present Russia is rated 2.8% for a five year period at an average of 3.2 times the number of jobs created about 32 times that of South Africa (GEM, 2005).

In China, the rate of established businesses has shown a tremendous increase from 8.9% to 12.7% (GEM, 2011). According to Doing Business (2011), China has introduced critical business reforms since 2007 to key areas of the business spheres. These include:

- Easy access to finance through a wide range of assets to serve as collateral security.
- Reduction in tax burden.
- Decrease the existing corporate income tax from 33.3% to 25%.
- Protection by the State to allow creditors to receive part of the proceeds provided the borrowers were rendered insolvent.

The entrepreneurial activity of South Africa has been reported for years as very poor in comparison to other developing countries; despite various strategies by the government to stimulate entrepreneurship and small businesses (Herrington *et al.*, 2009; Urban, 2010). According to Bosma and Levie (2009:21), the entrepreneurial activity of South Africa is below the global standard. The labour market is not capable enough to sustain the current employment needs of the younger generation who struggle to easily transit into the job market which experiences grossly higher labour market turnover (Banerjee *et al.*, 2008:737). Table 3.1 below demonstrates the entrepreneurial rates of South Africa and other developing GEM countries.

Table 3.1: Prevalence rates (%) of entrepreneurial activity of GEM countries
(Efficiency-driven economies or middle-to-low income countries)

Countries	Nascent entrepreneurship (%)	New business entrepreneurship (%)	TEA (%)	Established business ownership (%)
Argentina	11.8	9.2	20.8	11.8
Brazil	4.1	11.0	14.9	12.2
Chile	14.6	9.6	23.7	7.0
Columbia	15.2	6.7	21.4	7.5
Mexico	5.6	4.0	9.6	3.0
Peru	17.9	5.4	22.9	5.7
South Africa	5.2	4.0	9.1	2.3

Source: GEM (2011)

Table 3.1 above summarises the level of entrepreneurial activity of some of the developing countries which participated in the GEM studies over the years. The table further highlights the entrepreneurial activities of the efficiency-driven economies of the respective countries; other areas of entrepreneurial activities name the rate of prevalence of nascent entrepreneurial activity, new business and established business activities across the GEM countries.

The ultimate success of entrepreneurship in South Africa over the years has not been static; there were changes. According to the GEM (2009) survey, in South Africa the entrepreneurial activity still lags behind the other developing countries especially in the area of early-stage entrepreneurial activity (TEA) (Herrington *et al.*, 2009). For years the country's TEA index figures indicated entrepreneurial ratings from 4.3% to 9.4%; these ratings fall short of meeting the average of efficiency-driven participatory countries of 8.3% to 14.9% (Herrington *et al.*, 2009). Given the high level of unemployment in South Africa, the TEA index over the years is still worrying. Table 3.2 below displays the early-stage entrepreneurial activity of South Africa from 2001-2009 (excluding 2007).

Table 3.2: Early-stage entrepreneurial activity rates of South Africa

South Africa	2001	2002	2003	2004	2005	2006	2007	2008	2010
	6.5	4.3	5.4	5.1	5.3	X	7.8	5.9	8.9

Source: Herrington *et al.* (2009)

Table 3.2 above provides the insight into the South African early-stage entrepreneurial activity. No TEA rates are calculated for the periods 2006 and 2009 due to a lack of data; in fact there was no survey during that period. However, despite the severe inconsistencies as shown by the ratings, South African early-stage entrepreneurial activity indicates highly improved performance especially between 2001 and 2010. The Global Entrepreneurship Monitor (GEM) 2011 report indicates some level of improvement in terms of South Africa's TEA activities in spite of the country's ability to perform well in line contrast to the global average expectations (Herrington *et al.*, 2011).

There are reasons for South Africa's low performance of entrepreneurial activity. Nieuwenhuizen and Groenewald (2008) stated that one of the main reasons for the poor entrepreneurial performance of South Africa was due to a lack of skills training. Skill training was problematic within the context of South Africa as compared to teaching entrepreneurship functional and managerial skills. Entrepreneurship training should not only include skills such as planning and managerial but also takes into account

entrepreneurial traits including individuals' background and experience (Nieuwenhuizen & Groenewald, 2008).

In South Africa's low entrepreneurial activity is due to a display of serious deficiency in skills training; equally the present demography of the South African cultural climate is severely heterogeneous thus South Africa's ethnic culture settings impacts greatly on entrepreneurship (Urban, 2006). The GEM (2005) survey indicated that Indians and the white population are likely to establish sustainable business ventures more than the other ethnic groups such as blacks or coloureds (Von Broembsen, Wood & Herrington, 2005). According to GEM (2005) survey outcomes, businesses owned by Indians and the white population are likely to survive during the early stages of business existence and hence, they are able to offer employment opportunities for more people from ethnic population; roughly 3.7% of the white business owner-managers are able to create more than 20 employment opportunities (Von Broembsen *et al.*, 2005).

Subsequently, the owner-managers from the Indian communities are able to create a similar number of jobs; the Indian owner-managers are known to be the creators of more job opportunities than the other ethnic groups in South Africa (Von Broembsen *et al.*, 2005). GEM (2008) survey indicated that owner-managers from the white and Indian population were more likely to sustain their own business activities for longer periods than the other ethnic groups in South Africa (Herrington *et al.*, 2008).

3.4 THE INFORMAL SECTOR OF THE ECONOMY

The informal sector of the economy has for years gained popularity as the main alternative to the formal economic activities regarding employment opportunities besides an income-making operation (Willams & Round, 2008:67). According to OECD (2002:139), the informal sector is defined as the hidden economic operations of legal and productive processes that are intentionally kept from the public domain with the main intention to escape income tax payments and social security contributions.

Historically, the debate on informal sector has been severely contested concept; data has been very difficult to access as such the informal economic sector suffers seriously from lack of government services. As such most of the businesses within the informal economy sector are not registered and thus hidden to avoid tax payments (Williams, Round & Rogers, 2009:62; Williams & Round, 2007:95). According to Woodward, Rolfe, Ligthelm & Gruimaraes (2011:66), the informal sector of the economy is unable to provide job opportunities to increasingly large number of new entrants into the labour market.

The informal sector of the economic activity in South Africa serves as safety net to most South Africans (DTI, 2008:50). The economy of the informal area is severely hampered besides the inability of the sector to make enough gains due to two main challenges: insufficient capitalisation and lack of skills (Woodward *et al.*, 2011:68). The growing level of unemployment is mostly outlined as serious constraints to curb the poverty in less developed countries (Minford & Mahambane, 2005:5). Attempts to decrease unemployment are met with persistent emphasis on forging contributions by the small business sector (Ligthelm, 2008:367).

The informal workforce adds enough contributions to further stimulate economic activities across the developing countries (Azmat & Samaratunge, 2009:437). In particular within the Sub-Saharan countries, the informal workforce is of immense economic significance and a vital fountain of job opportunities (Debrah, 2007:1063). Various African countries are in dire need of job opportunities; the economic activities within the continent are expected to be globally competitive through entrepreneurial activities with utmost support by the micro-enterprises from the informal economic sector (UNDP, 2008:1-12).

The informal economic sector is most capable of contributing enough towards GDP, provides job opportunities to the majority of the impoverished communities especially women (United Nations, 2010). Yet, the sector is faced with severe financial challenges in most developing countries (Chen, 2007). Furthermore, Gerxhani (2004:274) argued

that the informal entrepreneurial activity takes place in the “*second economy*” because the potential entrepreneurs enjoy the privilege of being independent in contrast to the formal economy.

Over the years empirical survey suggests that the informal economy has experienced a decrease in the rate of retail businesses due to a surge in building new shopping malls in South African townships (Ligthelm, 2008:53). One of the main causes of the persistently high rate of unemployment in South African is that the majority of the South African population depends on the labour market for job opportunities (Ligthelm, 2008:367).

Regrettably, the formal economic sector is unable to accommodate new job seekers onto the job market; thus, leaving the vast majority of the population to establish (survivalist) businesses (Ligthelm, 2008). Devey, Skinner and Valodia (2006:4) posit that the term “*informal economy*” includes a large portion of economic activities with clearer demonstrations of relationship between two diverse economies. Baker (2007:49) and Gerxhani (2004:269-276) further revealed other characteristics that describe the informal economy sector by stating the following:

- Unorganised economic activities.
- Tax invasion.
- Lack of social protection.
- Not part of the national accounts.
- Flexible in working hours.
- Nepotistic business network facilities

Through the advent of globalisation the informal economy has increased especially in developing countries where the majority of the world population are self-employed (Kapoor, 2007:554). Informal employment opportunities continue to rapidly expand since the turn of the millennium (Williams *et al.*, 2009; Charmes, 2009). With the present labour absorption rate of 25%, it is certain that within the informal economy, small

businesses are the major contributors of jobs to the global economy (Karpak & Topcu, 2010:60). The rate of unemployment in South Africa stands at 25.3% during the third quarter of 2010 (Statistics South Africa, 2010). The small business sector offer employment to every economically active individual South African and add 45% to the GDP of the country (DTI, 2008). In support, Mather (2005:607) contends that the small business sector has a critical role in South Africa as the sector employed 54.5% of the total workforce and contributed about 35% to the GDP.

As indicated by the International Labour Organisation (ILO), during 2005 about 190 million individuals were unemployed, while 487 million managed to survive only on one-dollar-a-day (Jutting & Laiglesia, 2009:19). Another statistical survey indicated that the rate of self-employment within the informal sector stands as follows in other countries: In North Africa self-employment in the informal sector accounts for 62%, in Sub-Saharan Africa it was 70% and in Asia and Latin America the rate of self-employment was 59% and 60% respectively (Jutting & Laiglesia, 2009:13).

In spite of its well-developed economic infrastructure including a better and efficient economy, South Africa in particular has experienced a high-growth labour force with negative consequences due to increasingly high social grants (Van der Berg, Siebrits & Lekeswa, 2010:33-35). Nonetheless, key characteristics of the informal economy entail two striking components of the working establishment with less than five employees who are not registered for the purposes of income tax earned (Stats SA, 2009:xv). According to Ligthelm (2008:379), the informal economy remains immobile with strict trade limitations due to elements of lack of growth possibilities. Market expansion means only new entrants not the growth of existing marketing opportunities and lastly the informal sector is perceived to operate mainly from home.

Compared to developed countries, the informal sector of the developing economies is perceived by governments as a vital employment arena that must be encouraged to generate employment (Llanes & Barbour, 2007:8). In a recent report by the Labour Force Survey the informal sector of the economy employed approximately 1.9 million

people (Dewar, 2005:1). The informal sector of the economy is significantly small in contrast to other African countries between 25% and 30% of the labour market (Skinner, 2006:127).

South Africa is known for its low rate of economic growth, growing depth of poverty, high disparities of income structures, rising unemployment due to a lack of employment opportunities and wide-spread disadvantaged communities with limited infrastructure (Black, Calitz & Steenekamp, 2008:4). Most of the disadvantaged South African communities are unable to find job opportunities within the formal economic sector. The informal economy serves as the last resort for job opportunities and success (Baker, 2007:49; Blaauw, 2005:5).

In addition to being the primary source of employment, small businesses within the informal economy continue to stimulate not only economic activities but also create employment and growth possibilities (Barnard, Kritzinger & Kruger, 2011:111). Researchers, Rootman and Kruger (2010:107) reiterate that the significance of the small business sector contributes vastly to the economy meaningful job opportunities and economic wealth.

The influence of rural areas cannot be underestimated in South Africa as it is estimated that the rural economy generated about R51.7 billion in 2004 and accounted for 6.3% of the overall household expenditure (Ligthelm, 2006:41). Within the informal economy, it is estimated that roughly between 1 and 2.3 million informal businesses were established with an estimate contribution of 7 and 12% to the GDP of South Africa (Von Broembsen, 2007:11). Entrepreneurship in rural areas is gravely influenced by negative factors such as few marketing environments and lack of skills and lower educational standards as indicated by a number of surveys (Herrington *et al.*, 2009:43; Martins, 2005:36; Smith & Perks, 2006:23).

According to Chen (2007:5), the informal sector is viewed as a critical contributor to job opportunities and an outstanding source of GDP for South Africa. The informal sector of

the country serves as the main reservoir to both the young and the older sections of the population with sub-standard educational qualifications and who were retrenched and are in need of alternative employment opportunities (Perry, Maloney, Arias, Fajnzylber, Mason & Saavedra-Chanduvi, 2007:6). The significance of the informal sector cannot be ignored; the informal sector is housed to individuals for two main reasons: to continue doing business in the informal sector and to avoid paying income tax (Perry *et al.*, 2007:22).

A large section of the informal economic activities is characterised by positive as well as negative contributions to the general economy (Evans, Syrett & Williams, 2007:8). Entrepreneurship serves as a vital catalyst for economic growth and development in developed and less developed countries; through entrepreneurship new businesses are established that create employment opportunities, provide services and users in personal wealth within the localised economies (Spring, 2009:14).

Informal businesses operate outside the government regulatory framework; thus it is impossible for the authorities to include the sector in policies to pursue macro-economic growth. The overall contribution of the informal economy to the GDP has been overwhelming (Nelson & De Bruijn, 2005:576). It is unquestionable that in spite of its enormous growth, the informal sector has experienced various forms of wage competitions as the informal workers are most likely to be unionised in developing countries including South Africa (Chaudhari & Banerjee, 2007:924). In general the informal sector of the economy is recognised for its capacity to increase economic activities that cater for the general society (Evans *et al.*, 2006:6-7).

3.5 ELEMENTS OF JOBLESSNESS IN SOUTH AFRICA

Due to South Africa's strong global trading partnership and sound financial base, the country was hard hit by the global recession which further continued and unearthed severe structural crises in the economy as well as in the labour market and hence South

Africa went into a recession during the fourth quarter of 2008 and suffered economic decline of 1.7% in 2009 (Verick, 2011:23).

In South Africa the challenges of global economic integration are unable to capacitate the labour market to easily find employment as shown by the South African industries' strategic policies of re-engineering and rationalisation techniques were unable to meet the global market demands. As the South African labour market drifted completely to growing skills-based, the formal sector of the economy is privileged to absorb rising labour demand (Verick, 2011:2). Yet, the South African population continues to suffer serious inconsistency because of strict labour legislations (World Bank, 2006).

Within the global community, the South African economy continues to display signs of weaknesses in areas of manufacturing and exporting goods; thus, the country is faced with huge growth challenges and limitations to create job opportunities (Rodrik, 2006:20). In spite of the declining crime rate in South Africa, the scourge of crime still remains a critical challenge. More than 2 million crimes were reported during the 2007/2008 financial period in South Africa (SBP, 2008). Generally, crime statistics depicts an increase in the overall climate of South African small businesses; burglary on small businesses rose by 8%, commercial crime and shoplifting by 6% and 2% respectively (SBP, 2008).

Benjamin (2008) states that more than half of the small businesses in South Africa suffer from increasingly high crime rates. Due to improvement in the high infection rate of HIV/AIDS over the years, existing levels of employment have declined because most of the employees are not productive, household income remains very minimal as poverty increases and widens significantly. Adding to the socio-economic woes, are growing negative effects of the HIV/AIDS epidemic and growing poverty of South African households (Geldenhuys, 2008:27).

In support, Kingdon and Knight (2007) state that the informal employment sector suffers severely due to an increase in crime, easy credit facilities, inadequate infrastructure,

skills and opportunities. Rodrik (2006) proposes three additional structural adjustment issues which contribute to the present low pools of skilled labour that have been experienced over the years; these policies focus on areas such as:

- Any approach to reduce skilful employees within every economic task.
- A capital extensive system of production mostly within the manufacturing sector of the economy.
- A systematic shift towards a more highly skills base from a low-skilled economic base (Rodrik, 2006).

Banerjee *et al.* (2008:717) outlined some of the main reasons for the increasingly higher rate of unemployment in South Africa. Different researchers Kingdon and Knight (2007) cited the problems such as less effective job search, long travelling distances from rural areas to the business centres, lack of transportation, high level of workplace discrimination, a lack of job opportunities within the informal economy which is characterised with stagnant economic growth (Banerjee *et al.*, 2008; Kingdon & Knight, 2007).

According to Statistics South Africa (2008), manufacturing activities have plummeted in 1990 from 1.6 million to 1.2 million in 2008; whilst the agricultural activities equally declined from 1.2 million in 2000 to 871260 during the same period. However, due to the application of the structural adjustment programmes, the level of employment within the mining sector of the economy decreased from 521379 to 474007 (Statistic South Africa, 2008). The mining and the manufacturing sectors have gravely contracted thus their contributions to GDP which stood roughly as the fifth of the South African GDP is likely to follow similar trends during the 2011 period as global and domestic demand showed significant weaknesses (Statistics South Africa, 2008).

One of the vital elements that impact on the economic growth rate of per capita GDP across Sub-Saharan Africa is the high prevalence of HIV (Lovasz & Schipp, 2009). According to Thurlow, Gow and George (2009:115), the incidence of HIV/AIDS created

immediate health issues in South Africa; the epidemic imposes serious socio-economic threats for expanding educational facilities country-wide with huge implications of severe challenges of inequality and high poverty rates. Similarly in 2009 the number of HIV infections was estimated to be 5.21 million (Statistics South Africa, 2009).

A study by the Harvard Group (2008) indicated that the formal sector of the South African economy is richly endowed to create 50% jobs provided there is a significant shift in policy structures. The recent government programme of ASGISA is geared towards the adoption of the “*push plan*” similar to entrepreneurship and closely linked to two key sectors of the economy, the manufacturing and the agricultural sectors to stimulate the small business sectors.

In general, entrepreneurial activities are greatly hampered by issues of sub-standard education and training, lack of financial assistance, stringent government regulations and cultural and social norms (Herrington, 2011). At the same time, the policy environment of South Africa as compared to the rest of the world is not friendly. According to a Doing Business report, South Africa is ranked in position 29th in 2007 out of 34 countries (World Bank, 2009).

In spite of severe dissatisfaction the present government policies through GEM surveys and other distinctive scientific studies, existing regulations continue to institute stumbling blocks within the small business environment. The Global Competitiveness Report (2011-2012) indicated that, on average, it takes 19-22 days to complete documentation regarding business formation in comparison to only six days in Mauritius (Kelly, Singer & Herrington, 2012:44).

3.5.1 Poverty and unemployment in South Africa

Poverty is a complex phenomenon with no exact definition; it is a multifaceted concept that varies across different countries and among family members as well as individuals (Nawaz, 2010:675; Davids, 2006). Supporting this claim, Swanepoel and De Beer

(2011:3) disagreed with the notion that the level of poverty differs according to the state of specific community. Poverty is grossly described to include income and the lack of basic services, health and an inferior education system, insufficient physical security services and the lack of capacity to increase the life quality of every society of various human lives (Haughton & Khandler, 2009:54). Despite the enormous amount of economic funding to curtail growing poverty levels, the only option available for governments is to embark on grassroots and other forms of humanitarian assistance (May, Woolard & Klassen, 2000:48). About 50% of the South African population lives below the poverty line (Oosthuizen, 2009:9).

In South Africa there have been numerous attempts by the government, the private sector and non-profit entities through partnerships who tried to curtail the growing ills of poverty which roughly stands between 40% and 50%. This is due to the growing level of unemployment rate of 25% in comparison to the rest of the developing countries (Statistics South Africa, 2011). Worst of all South Africa continue to lag behind in terms of entrepreneurial activity. According to Bosma and Levie (2009:21), the level of entrepreneurial activities in South Africa is extremely low.

Globally, poverty has become a thorny issue; for example, in Sub-Saharan Africa, poverty among communities continues to raise critical questions and challenges that deserve urgent attention around the globe (World Bank, 2006). In the past there was a significant declining poverty rate of 42% in 1981 to 41% in 2004 (World Bank, 2007). For years, the majority of African countries largely depend on significant amounts of foreign aids for essential services (Ngowi, 2010:1471). In general, the recent global recession has an enormous ripple effect on the level of declining employment opportunities of different factor inputs including household incomes. As a result, the overall standard of living declined leaving individuals more vulnerable to poverty (Ngowi, 2010:1470).

In 1981, roughly 288 million of the entire global population lived in abject poverty; thus by the end of 2001 the number doubled to 576 million (The Chronic Poverty Report,

2005). This situation was unfortunate as South Africa is globally viewed as an upper middle income country, yet the current high level of poverty is “critically” high (Frye, 2006:1). According to Frye (2006:1), poverty and unemployment are structural and therefore very difficult to correct as compared to the short-lived cyclical phases.

About 55% (10 million out of 18 million South Africans) of South African children lived in extreme poverty in 2005 (just under R800 monthly income per household). The General Household Survey (GHS) of 2007 by Statistics South Africa revealed a decrease in trends of individuals who reported of hunger during the 12-month period after the survey. In addition, there was a decline in the number of cases of hunger reported from 6.9% to 2.0% by adults and from 6.7% to 2.0% by children from the total population (Statistic South Africa, 2008:46).

The ownership of assets can help the poorer communities during hardship as the assets can easily be converted into cash for household needs (Statistics South Africa, 2008:44). Frye (2006:2) indicated that individuals use assets to produce adequate income; low risk businesses are known for only lower or few dividends, or returns. Frye (2006:2) further stresses that the existing chronic poverty level is transferred from generation to generation as most South African households without assets are unable to make enough surpluses; thus it is impossible to generate wealth.

In South Africa the government social grants have increased more than four-fold since 1994 (Statistics South Africa, 2008:48). In March 2006, 11 million South Africans were recipients of the state grants yearly totalling an amount of R70 billion. According to Frye (2006:2), the South African social grant is modelled similar to the European models hence unemployment is modelled as short term and cyclical measures.

Presently, the economic outlook of South Africa looks bleak because of growing rates of unemployment (Klassen & Woolard, 2009:2; Banerjee *et al.*, 2008:722). There has been a steady decline in the rate of unemployment between 2002 and 2007 which was further fuelled by the recent economic growth. Yet, the rate of unemployment increased to

25.2% (Statistics South Africa, first quarter report, 2012). Another contributory factor to the rising level of unemployment was due to the 2008 global economic meltdown that has worsened the plight of the global community; as a result the hardship of unemployment and poverty continues to escalate (African Development Bank, 2009).

Statistics South Africa (Statistic South Africa, 2008:5) indicates that the unemployed masses of South Africa increased from 11 million in July 2002 to 12.7 million in July 2007. As a result, the rate of labour absorption increased from 39.2% to 41.9% in the same period. According to Statistic South Africa (2008:5), the unemployment rate decreased to 24.8% in July 2007, 3.8% was recorded lower in July 2006 and 0.7% lesser as compared to the unemployment rate as measured by the Labour Force Survey (Statistic South Africa, 2007) in March 2007. There was a tremendous decline in the 'skilled' number of individuals employed within the manufacturing sector of the economy from 18.9% to 16.6% since 2002 (Statistics South Africa, 2008:6).

Unemployment stretches across the provinces of South Africa as the macro economy shows signs of increasingly poor performance. According to Statistics South Africa (2011), the majority of South African women are the most unemployed; according to estimation, roughly 173000 women were without jobs during the first quarter of 2011 in comparison to their male counterparts with a significant increase of 53000 in the same period. The Labour Force Survey (first quarter, 2011) indicated that at the provincial level, unemployment is a worrying factor; especially in two key provinces of Mpumalanga and the Northern Cape Provinces which recorded one of the highest rates of unemployment of more than 30% during the first quarter of 2011.

3.5.2 Impact of entrepreneurial activity on employment opportunity

Globally, the TEA rates provide practical measurement machinery as utilised by GEM for opportunity entrepreneurship that is responsible for creating job opportunities and the contribution to economic development (Wong, Ho & Autio, 2005). Yet, there is

growing lack of entrepreneurial interest of the poorer community members to seek viable opportunities which is a major cause of concern (Banerjee & Duflo, 2007).

Entrepreneurship has been held in high esteem as the vehicle for a self-development strategy for rural communities that are portrayed specifically as a useful mechanism initiated as both external and internal initiatives for needs recognition (Korsching & Allen, 2004:399). In the global context, the significance of entrepreneurship in economic development cannot be overlooked as the process of entrepreneurship has a positive influence on economic development through new business creating with various innovative-stimulus; through entrepreneurship the rate of poverty is eradicated (OECD, 2009; Naudé, 2008:34).

It is sad to note that in 2009 the economy showed negative growth rate of 1.7% and again in 2008 and 2010 there were a negative average growth rate of 2.8% respectively; subsequently during the 2008 global recession about a million jobs within the private sector of the economy were lost (SARB, 2011c). Prior to the massive job losses, the discouraged individual South Africans rose from 1.1 million to 1.7 million in the fourth quarter of 2009 (SARB, 2010). In South Africa the existing rate of unemployment including “discouraged” work seekers increased to roughly 30% although the “official” rate of unemployment was about 25% in 2011 (SARB, 2011c).

During 1994, the South African economy showed positive signs of economic growth even though the growth was the true reflection within the job market, but employment opportunities remained the same. The economy of South Africa achieved a positive average growth rate of 3%, 5% and 2.8% respectively over the periods ranging from 2004 to 2009 (SARB, 2009). Besides, the present economic landscape regained some confidence soon after the global recession and account for 4.6% growth during the first quarter of 2010 (SARB, 2010).

Despite these positive economic trends, the South African economy experienced increasingly high unemployment and growing poverty levels. Furthermore, about 20%

and 19% of the South African population are below the ages of 20-30 (Statistical release PO 302, 2008). The informal sector of the South African economy is equally ravaged by high poverty rates (Mlatsheni & Rospabe, 2002; Statistics South Africa, 2008).

The present issues of unemployment and rising poverty rates is of utmost significance in changing the negative effect of the increasingly high unemployment (Reynolds, Bosma, Autio, Hunt, De Bono, Servais, Palona, Lopez-Garcia & Chin, 2005:209). Developing countries such as South Africa with high levels of declining GDP per capita also experienced poor TEA ratings in addition to the rising necessity-motivated entrepreneurship.

Thus, due to growing per capita income, more corporate entities turn to become high level participants in the economy; thus, create more stabilised employment opportunities and better alternatives to risk-bearing in terms of self-employment (Herrington *et al.*, 2009:57). The informal sector of the South African economy is capable of generating enormous amounts of income; with the intent to create employment opportunities; however, it is extremely impossible for the developed and developing countries to ascertain some form of economic prosperity without the informal economy (Ligthelm, 2006:41; Morris, Jones & Nel, 2006:111).

The majority of the South African population are disappointed as the level of unemployment continues to swell due to the inability of the labour market to actively engage the growing number of job seekers; hence, the younger generation are forced to establish their own businesses (Nieman *et al.*, 2008:39). The ultimate desire to curb the present rising unemployment is to encourage sustainable entrepreneurial activity as the only option to job creation (Haasje, 2006; Blaau & Pretorius, 2007:65). However, during the February 2011 State of the Nation address by President Zuma he gave South Africans especially the unemployed masses some glitter of hope. Throughout the speech, the President declared 2011 as the “*year of employment opportunities*”. The government voiced its commitment to alleviate poverty and unemployment.

Besides, President Zuma initiated vital economic boosts in job creation and consequently pledged R9-billion for job creation programmes and additional R20-billion in projects of tax relief which are related to investments, expanding existing business ventures as well as to upgrade the manufacturing sector of the economy. At his attempt to offer employment to the South African population, the President outlined some key projects of policy interest namely:

- Infrastructure development.
- Mining and beneficiation.
- Manufacturing.
- Tourism.
- Agricultural sector.
- Green economy.

These sectors of the economy the President emphasised would serve to assist in creating more employment opportunities and help to alleviate poverty.

3.6 AN OVERVIEW OF ECONOMIC GROWTH THEORIES

The focus of this section is mainly about theoretical framework that underpinned the economic growth and development for years; key among the highlights are some features and critical challenges of the developing countries. The section outlines in detail the fundamental theories of economic growth and development. At the centre of the discussion, the concept of entrepreneurship is explained in relation to the determinants of economic growth.

The 18th and 19th century ushered in the European and American economic landscapes, the Industrial Revolution with the socio-economic cultural shift from the agricultural economy to the Industrial Revolution bringing about better living standard of individuals. However, during the early part of the 20th century, most economists were quick to

realise that communities within the developing countries were unable to receive similar levels of quality lives as those in the developed countries or the industrialised countries.

As developing countries were encouraged to shape their policy framework in an attempt to steer economic performances, the level of economic growth still remains more stagnant due to a lack of high-level investment plans (Saab, 2007:153-154). Besides, developing countries are faced with a vicious circle of unskilled employees, poorly imported technology, inefficient economic structures and high dependency on primary production with inadequate basic infrastructure (Saab, 2007).

3.6.1 Types of economic growth theories

It was centuries ago when Schumpeter indicated that the bulk of entrepreneurs are innovators, architects of innovative products for the market, and establish new marketing processes with commercialised and innovative ideas (Szimai, Naudé & Goedhuys, 2011:3). Entrepreneurship differs across countries (Nystrom, 2007:269). However, existing economic growth models are structured on the basic tenet of investments and the exploitation of human knowledge as the primary source of economic development (Braunerhjelm, 2010:27). Despite the variations, Nystrom (2007:270) states that policymakers across various countries are keen to realise the positive impact that exist between entrepreneurship and economic growth provided there is a healthy institutional climate for entrepreneurship.

Economic growth according to the existing literature has been modelled traditionally to include capital and labour (Cornett, 2009:400). However, the Neo Classical and the Classical economists led by Adam Smith were unable to give recognition to the entrepreneurs as critical instrument of economic growth; Smith (1776), on the other hand, continues to track various issues of capital in addition to the division of labour.

The Neo Classical economists are of the idea that the growth model form part of the Solow's (1956) model; and hence, it represents various equations depicting the critical

variables of time, capital, labour, output and the degree of investments. Economic growth according to Solow's theory is driven by two vital exogenous variables of population growth and technological shift (Beinhocker, 2007:41). Yet, Solow's theory is very much consistent with the model of Adam Smith which states that an increased population is most likely to increase the total national wealth with possible improvements in productivity (Beinhocker, 2007).

According to Neo-Classical economists, the primary model of sustainable growth with adequate technology is inclined in comparison to investments. However, Romer (1986) invented another model that incorporated elements of human capital in contrast to Solow's model of investment. In developing countries the gaps between the rich and the poor continue to widen. In fact, most governments around the globe were unable to combat the rising poverty rates; thus, there have been numerous suggestions including models and conditions that explain economic growth.

According to the World Bank Report (2001/2002), economic growth is described as the outcome of conditions within a specific country, the policy statements as well as institutional establishments. Furthermore, the World Bank Report indicated that other elements such as education and the population life expectancy are some of the major role-players in economic growth. Other contributory factors include institutional factors such as the rule of law, incorrupt practices, wars and civil unrest, natural disasters, macroeconomic volatility as well as adverse implications due to trade shocks that lead to further sluggish economic growth.

Adam Smith (1776) theorised that the processes of surplus and the level of wealth accumulation is the central focus of economic growth as indicated in the Classical growth model. According to Adam Smith, sufficient marketing system is most likely to provide and accumulate wealth thereby allow for greater division of labour and raise productivity.

Classical economists further argued that economic growth is attained as a result of opportunity and the forces of free market "*laissez faire*"; economic growth according to Smith (1776) is possible provided there is much stability within the existing legal framework in order to allow sufficient access to marketing functions with open trading processes where the poorer countries freely immerse with the richer ones. David Ricardo (1891) proposes the principle of diminishing returns which further enhances the understanding of economic growth; investment in land which results in lower returns thus creating a much slower economic growth (Ricardo, 1891).

3.6.2.1 The Schumpeterian growth model

Growth as pointed out by Schumpeter's economic growth theory does not progress in a steady format of economic activities but in "*gales of creative destruction*" through the gallant efforts of individual entrepreneurs (Beinhocker, 2007:40). Schumpeter (1934) was a forerunner during the breakaway from the principles of pure economics to other related factors. He indicated that economic growth is associated with the concept of entrepreneurship and that economic growth is not a smooth activity rather it is a process that is characterised by frequent raptures and challenges.

Schumpeter (1934) further indicated that the entrepreneur is responsible for all levels of raptures during the entrepreneurship process; the entrepreneurs take advantage of the opportunities within the system for exploitation that pave the ways for new ideas and economic growth. Schumpeter (1959) concurs that the entrepreneur is an innovator who implements the innovative processes with the resultant effect of producing new products, new raw materials and methods, open new marketing system and reorganise the industry.

The entrepreneur triggers enough developments through innovative approaches; thus there is consistency of innovative approaches which forms the basic condition for development. The entrepreneur stirs market forces within the total economy to be in equilibrium as new opportunities emerged; the entrepreneur perceives opportunities and

continues to exploit the opportunities and as a result promotes disequilibrium in the marketplace and leads to greater productivity and economic growth (Schumpeter, 1959:405). His theory of “*stationary equilibrium*” assumes that the forces within the market environment encourage perfect competition which implies that there is no interest on investment, no savings and no involuntary level of unemployment. Furthermore, he reiterates that the “*stationary equilibrium*” illustrates the characteristics of a circular flow of yearly repetition (Schumpeter, 1959:405).

3.6.2.2 Kirzner’s growth model

Kirzner’s (1973) growth model is a clear departure from the Classical and Neo-classical economists’ theory. He believes that an economy is in the state of equilibrium provided market competitive forces and decisions made are insignificant. According to the Classical economists, marketing information is of utmost essence to make informed decisions; thus, it is needed for the survival of the entire marketing environment. Hence, Kirzner’s growth model demonstrates that there is no perfect knowledge in the marketplace left unexploited as such market gains are not given the recognition it should be afforded.

Economists consider the entrepreneur as provider of productive resources such as labour, materials and a different assortment of added-value materials with the potential to initiate change through innovative ideas (Crane & Crane, 2007:14). In contrast, the psychologist perceived the entrepreneur as propelled by different types of forces such as the forces to experiment, to achieve personal desire without authority. Thus, the entrepreneur has been identified as a class of profession that is found in every professional setting (Crane & Crane, 2007:14).

Consequently, a deepening level of ignorance leads to unexploited gains of error and are unable to take advantage of valuable opportunities leading to the failure of business operations. In addition Kirzner (1979) argues that there are individuals who pursues market gains; instead the entrepreneur is very much alert to business opportunities with

much knowledge to make a profit. Yet, Kirzner (1979) confesses that the inherent knowledge by the entrepreneur only lasts for a few days provided stability exists in the marketplace. In sum, Kirzner's model is not about the introduction of new products and services by the entrepreneur, but rather that the model focuses on entrepreneurship to create more value for consumers and new production methods for feasibility.

3.7 ENTREPRENEURSHIP THEORIES AND ECONOMIC GROWTH

During the 18th century, Jean-Baptiste Say, a French national and a prominent economist, states that human contribution to economic prosperity is divided in three stages namely scientists, workers and entrepreneurs (Scott, 1933). The popularity of specific economic theory that links entrepreneurship and economic growth dates back to the early work of Joseph Schumpeter. According to Joseph Schumpeter, the entrepreneur is very particular in shaping the economic world (Schumpeter, 1934)

By its nature, entrepreneurship does not only originate because newly established businesses have entered the market. Rather entrepreneurship is seen as a vital innovative tool due to market participation (Wong *et al.*, 2005:337). Similarly, new businesses and technological innovation serves as the potential form of entrepreneurship which means that the present linkages of innovation to economic growth (Wong *et al.*, 2005:337). As Schumpeter (1934) explains, the entrepreneur further creates new profit avenues through potential innovative activities or "*creative destruction*". Through the efforts of individual entrepreneurs, product improvement and efficient productive system were developed and quickly became very operational; thus the entrepreneur contributes largely to economic growth and development.

Apart from the theory of Joseph Schumpeter (1934), other economists including Baumol (1968) were of the view that the entrepreneur is an innovator; someone who inspires to create instability, implementer of creative destruction and economic developer (Baumol, 1968). Much has been said and written regarding the concepts of entrepreneurship since the inception of Cantillon theory; thus building on the contribution of Cantillon's

theory of “*risk-bearing*”, Knight (1921) introduced his own version of who is the entrepreneur as the dealer and bearer of uncertainty and risk.

Joseph Schumpeter (1934) in another twist of literature provides another scholarly angle to entrepreneurship; he coined the entrepreneur as a “*change agent*” who applies innovative processes thus provides much of the social change for economic development. According to Schumpeter (1934), the entrepreneurship concept was further distinguished to include “... *a new good, a new method of production, a new market, a new supply outlet of goods and a new organisation*” (Schumpeter, 1934 in Karlsson, Friis & Paulsson, 2005:88-89).

Entrepreneurship is a process of a growing market economy (Kirzner, 1973). However, Kirzner (1973) declined to perceive the entrepreneur as a “*creative destroyer*” who creates disequilibrium within the market environment thus forging significant shift within the market environment. However, as Holcombe (2008:241) suggests, the existing entrepreneurial setting allows individuals to pursue certain entrepreneurial actions namely:

- To utilise entrepreneurship in generating viable business opportunities.
- Successful entrepreneurs are the outcomes of profitable entrepreneurial activities with additional wealth of knowledge and information for decisions on entrepreneurship.
- Utilise every form of advice of the past successful entrepreneurs.

The role of entrepreneurs in economic development is further highlighted in a study that suggested that economic growth emanates from human competencies as the critical role of the entrepreneurship mainly focuses on competitive advantages (Porter, 1990). Similarly, there is a direct link between entrepreneurship and economic growth as demonstrated through frantic contributions of small businesses in modern economies. Acs (2006:101) adds that entrepreneurship entails the necessary change agents, entrepreneurship as well creates and introduces competition into established business

sectors of the economy. In addition Acs (2006:101) further advances that the small businesses are known as change agents; thus the sector plays a critical role in fostering global entrepreneurial activities, provide enough innovative processes to stimulate various industrial growth and job opportunities; and entrepreneurship nurtures the economic landscape for employment opportunities through increased economic growth in addition to motivating individuals to develop new business opportunities (Bosma & Levie, 2009:11-12; Anon., 2010:1; Martinez *et al.*, 2010:9).

Several academic literature studies have in the past indicated the impact of entrepreneurship on economic development (Carree & Thurik, 2000 in Fisher, 2004:4; Carree & Thurik, 2003:465). Consequently, entrepreneurship entails various entrepreneurial tasks with the influences of growth that stimulates and promotes technologies thus the process of entrepreneurship serves a specialised flow of knowledge spill-over (Audretsch *et al.*, 2006).

Furthermore, Naudé (2010:5) states that entrepreneurship is known as the central driving force behind economic growth; by means of structural changes entrepreneurship triggers potentially environmental opportunities which lead to productive wage employment thus reducing the growing poverty rates. Furthermore, sizeable a number of instruments including knowledge spill-over, decentralisation and competition are able to provide comprehensive explanations regarding the economic growth of the small business sectors and corporate entities (Stam, 2008:10).

As stated by Minniti and Levesque (2010:306), higher economic performance is the consequence of two core activities namely growth in entrepreneurship rates and rising imitative entrepreneurs. Besides, there would be substantial economic growth as business costs and other related activities including decline in research and development. Consequently, the economy correlates with vital entrepreneurial activities; as such it is vital that entrepreneurial activity is a critical precursor for economic growth; yet entrepreneurship is dependent on certain characteristics of respective countries (Minniti & Levesque, 2010).

Entrepreneurship through the small business sector contributes immensely to economic growth and add to the economic prosperities of the general economy (Kongolo, 2010:288; Tang, Kacmar, & Busenitz, 2012:79; Roper, Du & Love, 2008:961). Similarly Acs and Varga (2005) detailed the vital relationship between the level of knowledge, the education and economy. According to Brouwer (2002), Schumpeter was one of the earliest theorists to indicate that entrepreneurship is the main engine of economic growth. Furthermore, other researchers have argued that entrepreneurship is likely to undo the economic development provided the sufficient formal and informal institutional climate exists (Powell, 2008). Unfortunately, at present there is no empirical proof that strongly validated the complex nature of an institutional climate that is conducive to entrepreneurial success in developing countries (Manolova, Eunni & Gyosher, 2008:204). However, Manolova *et al.* (2008:204) agreed that the institutional environment serves two critical goals: it does not only impact on the rate of entrepreneurship but also exercises much influence on potential entrepreneurs.

According to Acemoglu, Johnson and Robinson (2004:1), there are various societal institutions such as market perfection and existing structural property rights that are most significant to the present economic challenges. Specifically the economic institutions are influential on economic layout of the various societies; therefore with no form of property rights it is impossible to embark on either physical or human capital investment (Acemoglu *et al.*, 2004:2). For instance, the present economic climate does not only dictate the degree of economic performance but also reflects the institutions that establish different economic outcomes including allocation of resources such as physical and human capital in the form of wealth (Acemoglu *et al.*, 2004).

In most developing countries, structural changes have been of utmost concern in terms of entrepreneurship as it is evidence that growth has been linked to manufacturing sectors of the economy (Rodrik, 2007:6). Moreover, Gries and Naudé (2009:321) advanced the notion that an endogenous model of growth links start-up businesses to economic growth with regional context through self-innovation by entrepreneurs. Key

among some of the basic factors of the model is the limitations to access financial assistance.

Aside growing levels of poverty besides rising unemployment, South African economic performance have been a worrying factor (Rodrik, 2008:770). However, waves of scholarly evidence suggest that there is increasing levels of economic performance at regional level in contrast to national economies (Brenner, 1999, as reported in Cheshire & Malecki, 2004:250).

Economic growth does not necessarily translate into economic development which centres on declining poverty levels; the general well-being and improved health facilities in addition to the provisioning of better systems of quality education; simply put, economic growth is most likely to correct income anomalies (Brennan & Fickett, 2011:11). Todaro and Smith (2006:15-20) argued that in less developed countries, the ultimate growth in economic activities further add to the limitations within the extractive sector of the entire economy yet it is unable to provide comprehensive economic growth.

Islam, Munasinghe and Clarke (2003:150) add that in most countries, economic growth is pursued over the years with the intent to increase and improve the quality and standard of life at community level and to further curb rising poverty. Apolinario (2005) adds that economic growth originates from human and technological capital as well as from other establishments that provide efficient managerial skills for efficiency.

According to Kindleberger and Herrick (1977:40), an economic model represents significant testimony of relationships that exists within every aspect of various economic variables as measured by macro-economic indicators such as the gross domestic product (GDP) data. The growth model is unable to provide accurate measurement to determine the environmental sustainability; in general economic growth is very important; however, adequate considerations must be given to the social and environmental elements (Islam *et al.*, 2003). Nafziger (2006:123) argued that a theory is

very complex hence, a simplified version is not easy to advance every essential elements of the exact world nor that a single theory is able to take into consideration all the factors that influence the economic growth.

Economists are, however, advised to take into cognisance the most crucial and secondary variables during the course of making economic decisions; as the theories that are advanced to explain the real world with further provisioning of better conceptual strands is essential for policy decisions (Nafziger, 2006:123). In simple terms, economic growth is very much focused on increasing quantity of goods and services in an economy; its measurement is by the changes in the GDP of a specific country (Dolan, Frendreis & Tatalovich, 2008:3).

Researchers Arvanitidis, Petrakos and Pavleas (2007:250-251) stated that the key determinants of economic growth include:

- High technology, innovation, and research and design.
- Stability within the political landscape.
- High quality of human capital.
- High degree of openness; the ability to network.

As a result, the majority of determinants can be linked to the entrepreneurial composition that are in support of the notion that economic growth is being sustainable or is promoted by various business at micro or macroeconomic levels (Arvanitidis *et al.*, 2007:250). McCann (2008:681) further suggests that factors such as self-employment, investment and infrastructure in assets such as roads, building ports and investments in fixed capital such as buildings and various forms of equipments creates significant economic growth. Moreover, through public-private sector investment sparks the provision of infrastructure which drives maximum economic growth and impact on job creation (McCann, 2008:681). Human knowledge, on the other hand, serves to increase economic activities; innovation ignites economic prosperity because it has a lengthy knock-on effect on most businesses (McCann, 2008:691).

Islam *et al.* (2003) indicated that economic growth and development need to be sustained; this implies that it is not only the economic indicators that required utmost consideration for economic analysis but also the social and environmental elements must also be taken into account. However, Vargas (2000) argued that more specifically micro businesses act as the main reservoir and key stimulus to the macro-economic legislations that stems to alleviate rising poverty.

On the other hand, economic growth or business development is constrained due to negative conditions including growing number of businesses that generate immense rivalry instead of business alliances (Narula 2004:158). Small businesses enter into alliances with corporate entities for easy access to marketing information and to enter into a specific market segment. Simply put, small businesses are better off outsourcing rather than using alliances because of high costs and risks; alliances call for partnering and serious lack of opportunities (Narula, 2004:160).

3.8 RELATIONSHIP BETWEEN ENTREPRENEURIAL ACTIVITY AND ECONOMIC GROWTH

Entrepreneurial activity is pivotal to developing economies due to key socio-economic issues of curbing rising poverty (Brennan & Fickett, 2011:11). Entrepreneurship is prominence for its private sector economic growth in Africa (McKinsey, 2010:69). Consequently, its significance towards economic prosperity with the African countries is of much focus in solving issues that hamper the socio-economic well-being of the population (Brennan & Fickett, 2011:6).

The work of the early theorist Liebenstein (1968) continues to provide in-depth discussions on serious linkages between entrepreneurship and economic growth, and tried to explain the on-going debate on the theoretical literature as well as the empirical findings of various scholars. According to Liebenstein (1968), the role of entrepreneurs as “*the gap-fillers*” within the economic climate bears much significance to encourage the steady economic growth of the society.

Building on the theory of market imperfection and the contractual commitment of labour as one of the factors of production, it is assumed that the entrepreneurs make sufficient use of their inherent skills to establish bondage and market diversity; as such being able to provide the required market inputs for the establishment of new venture creation and finally fill the gaps that existed at the market environment (Liebenstein, 1968).

Finally, the assumption is that growing innovation and the degree of deepening productivity is crucial to rejuvenate economic growth; hence the argument that individual entrepreneurs act as gap-fillers and input completing capacity is probably the prime mover of the creation part of the growth process” (Liebenstein, 1968:77). As such, individual entrepreneurs must be assisted to invest in domestic economic activities namely the application of new technology, new search for markets and new production techniques which in the end accelerate business expansion (Rodrik, 2007:44-50).

Other theorists including Romer (1994) continue to state the important role of entrepreneurship in economic growth. He further discussed the current rapid changes in technology to advance the theory that sustainable economic growth largely depends on a technologically driven growth that emanate from investment attitudes driven by profit motive (Romer, 1994:71-102). Highlight of the theory portray entrepreneurs as innovators and agents that maximise profit margins; thus, the Romer’s model recommends that the individual entrepreneur creates long-term and sustainable economic growth through innovations and technological changes.

The theory that underlines entrepreneurship and economic growth continues to be at the heart of most academic debates. Sexton (1986) posed the theory that growth represents the process of development that is uneven during the entire growth path but with environmental and management limitations as well as the ability of the entrepreneur to take risks or to be capable of being innovative (Sexton, 1986:28). Central to the theory of Sexton (1986) were three stages of the establishment and subsequent development of businesses. These stages include:

- Traditional idea crafting of a business venture.
- Stages of dynamic business growth.
- Issues of administration.

According to Sexton (1986), the drive throughout the stages of business formation creates severe instability due to the present changes of innovation; hence, the theory of Sexton (1986) posits that during the various phases of transition, the entrepreneurial level of guidance that is received is very critical within the business environment of highly uncertainty. The research and development (R & D) forms one of the critical elements of the endogenous section within the business environment and contributes to economic growth (Aghion & Howitt, 1992:323).

According to the theory of Aghion and Howitt (1992), entrepreneurs by their nature use innovative skills to produce new products and markets; as such, the entrepreneur provides vital growth marketing functions. He further theorised that in the model of endogenous growth that the research and development (R& D) is very crucial in inventing new production processes thus it enables producers to actively modify and apply innovative methods. The entrepreneur generates better rewards in the form of rents that are paid for the products till its periods of obsolescence; as such the research and development (R & D) process establishes sustainable growth of economic significance and value (Aghion & Howitt, 1992:323).

3.9 ECONOMIC GROWTH RATE AND LEVEL OF UNEMPLOYMENT

In South Africa unemployment is increasing; presently the rate of unemployment stands at 25.2% (economically active unemployed individuals) (Statistics South Africa; Quarterly Labour Force Survey, 2011). As such, the government is faced with the challenges of addressing the issue of skills shortages. This is pursued through the additional policy frameworks that are aimed to promote skills development to halt growing poverty, create employment opportunities and to narrow the divide between the rich and the poor (Du Toit & Van Tonder, 2009:20-21). In South Africa finding the

required skills level has become a major cause for concern (Kraak, 2008:9); in fact, skills shortages are characterised as a very critical issue of socio-economic growth and development (Kraak, 2008:22). Skills shortages can only be applicable provided labour quality within work related environment is equipped with more available skills (Trendle, 2008:9).

During the 2003-2010 fiscal periods, the economy of South Africa has recorded an average annual growth rate of 27%. This was further illustrated below in table 3.3 below in addition to the total economy growth rate over the years.

Table 3.3: South Africa's GDP 2003-2010

Year	<i>Real GDP</i>	<i>Real GDP per capita (rand)</i>
2003	3.1	30992
2004	4.9	31946
2005	5.0	33176
2006	5.3	34586
2007	5.1	36073
2008	3.1	36942
2009	-1.7	35936
2010	2.8	36591

Source: SARB Quarterly Bulletins (2003-2010)

From table 3.3 above there is enough evidence that the real GDP per capita in South Africa increased from R30992 in 1994 to R36591 in 2010 (SARB, 2011a). Similarly, the economy recorded, on average, a significant growth rate of 5% ranging from 2004-2007 prior to the 2008/9 global recession. Other economic triggering forces include the FIFA 2010 World Cup activities, the Public Sector Infrastructure Projects, the Gautrain infrastructure project, roads, the airports, building and renovation of stadia are some of the contributing factors to the increments.

Apart from the non-agricultural sector of the economy, all the sectors remained stagnant as a result of economic growth; the non-agricultural sector showed rather a steady

increase in employment figures of rising labour absorbing rate. Table 3.4 on the next page illustrates the general employment figures in a typical high-labour absorption business as at 2008-2010.

Table 3.4: Employment in formal non-agricultural industries (Thousands)

<i>Economic Tasks</i>	<i>Total Employment 2008: (4th Quarter)</i>	<i>Total Employment 2009: (4th Quarter)</i>	<i>Total Employment 2010: (4th Quarter)</i>
Mining and quarrying	518	488	503
Manufacturing	1275	1185	1166
Electricity, gas and water	59	56	58
Construction	474	415	400
Wholesale and retail trade	1747	1665	1683
Transport and communication	366	359	357
Financial and business services	1914	1796	1822
Community, social and personal services	2159	2199	2267
Total	8512	8163	8256

Source: SARB Report (2011)

The table 3.4 above is an illustration of the high labour-absorption industries. The aggregate employments with the non-agricultural sector from the table have shown some improvement from 8.16 million during the fourth quarter of 2009 to 8.25 million in the same quarter of 2010 (SARB, 2011b). The data was in contrast to 2008 figures as the manufacturing, construction, transport and mining sectors have experienced a decrease in employment during 2010 especially the manufacturing sector decline in employment from 1.27 million to 1.16 million during 2008-2010.

Due to the massive job losses from different sectors of the non-agricultural sectors, the rate of unemployment continues to increase from 24.4 in 1997 to 26.7 in 2005. By 2009, unemployment has reached the 20% mark as a result of growing job losses as the average percentage of South Africans with no formal employment opportunities continue to show negative outcomes. The rate of absorption was insignificant; according to Statistics South Africa (2011), the impact of the labour absorption rate of the working population that were employed during the first quarter of 2011 was 40.6%.

South Africa is faced with a widening income disparity of 0.57 in 1992 and again 0.70 in 2008 (Du Toit & Van Tonder, 2009). Besides, according to Statistics South Africa (2011), the present level of unemployment stands at 25.7% with growing job losses of about 366000 in the formal economic sector. In spite of positive economic climate over the recent past, the informal sector of the economy still lack the capabilities to create jobs to meet the market demand (Mahadea, 2012:2). During the fourth quarter of 2010 and the first quarter of 2011, employment within the informal sector diminished from 2.22 million to 2.18 million which account for about 46 000 job losses (Statistics South Africa, 2011).

3.10 THE INFLUENCE OF ENTREPRENEURSHIP ON ECONOMIC DEVELOPMENT AND GROWTH

For years, many researchers including Naudé (2010:2) and High (2009:4) have tried to discuss how influential and indispensable entrepreneurship has been on the economic development of various countries (Wong *et al.*, 2005:2; Naudé, 2010:2; High, 2009:4; Montana & Nenide, 2008:290). For example, Nijkamp (2009:1) posits that the key influential factors of regional growth are the human capital productivity including financial, social capital, entrepreneurial capital, knowledge capital and creative capital. At present the influence of entrepreneurship on the general society has been part of continuous public debate in the fields of economics, geography, management, finance, psychology as well as sociology (Acs & Audretsch, 2005:3).

In sum, the key tenet of economic development is to increase the existing standard of living at individual levels as well as the overall economic growth (Stam & Van Stel, 2009:5). According to Kumar and Liu (2005), the overall benefit from entrepreneurial activity is not only to generate employment opportunities but to also add to GDP of the country. In order for entrepreneurial activities to flourish, all forms of small businesses require significant amounts of favourable conditions including adequate policy framework and well-structured programmes (Richardson, Howarth & Finnegan, 2004:24). Unfortunately, the present environment of South Africa is largely seen not only as poor but also its opportunity in terms of entrepreneurship has declined rapidly in comparison to other emerging economies (Allen, Langowitz & Minniti, 2007:8; Department of Trade and Industry, 2008:48).

Boettke and Coyne (2003:3) theorised with arguments the on-going opinion that entrepreneurship is broadly defined; and hence it cannot create any meaningful economic growth as such; it is very difficult to explain growth rates based on diverse environmental factors. Wong *et al.* (2005) further emphasised that in the context of international economic literature, innovation influences economic growth. Naudé (2008:1) furthered that economic development serves to provide job opportunities and pursue fierce market competition within the market environment. Accordingly, entrepreneurship is not the only worrying factor for the developing countries but also the process to stimulate the general growth level to assist the overall economic growth (Naudé, 2008).

Economic development, on the other hand, depends on a structural adjustment process to a more modernised economy of technological innovation with the focus on manufacturing and services (Glienkienė & Petuskiene, 2011:181). Structural shift involves not only qualitative changes to the economy but also quantitative changes which provide growing welfare and quality of life to individuals; the quantitative changes of the economy create a positive influence to economic development (Glienkienė & Petuskiene, 2011). Entrepreneurship influences the general growth and development activities of various countries (Naudé, 2008; Karlsson, Friis, & Paulsson, 2005; Acs,

2006). Glinskiene and Petuskiene (2011:182) indicate that entrepreneurship is likely to influence economic development in different ways including market competition, self-employment through increased living standards and equitable regional developments.

Schumpeter (1911) indicates that the entrepreneurial process has been very critical in influencing economic development; as a result, entrepreneurs are recognised as major role-players in entrepreneurial success and as mechanism for economic growth and development (Acs *et al.*, 2008:265). Thus, human capital is major force to entrepreneurial success and subsequent growth (Estrin & Mickiewicz, 2011:8). The growing levels of entrepreneurial activities influence human development as much as it involves businesses and the general economic development; yet most entrepreneurial activities are unable to grow as a result of insufficient human development (Macke & Markley, 2006:2).

According to Acs and Varga (2005:332), volumes of academic literature support the notion that entrepreneurial activities impact positively on economic growth through specific changes in technology. For instance, investment activities in areas of innovations, product development and competitive pricing techniques trigger capital investment decisions, especially in domestic entrepreneurial environments (Stam, Hartog, Stel & Thurik, 2010:6) and enhance the entrepreneurship spirit of investment in the local environment (Rodrik, 2007:44-50).

Entrepreneurship bears a direct relationship with entrepreneurial activity (Low, Henderson & Weiler, 2006; Thurik & Grilo, 2008). Despite voluminous academic literature, that support the relationship of entrepreneurship and economic activity, the nature and the relevant path that directly influences economic growth is yet to be known (Low *et al.*, 2006). According to Woolridge (2009), technological innovations in the areas of internet facilities, personal computer appliances as well as the mobile networks serve as very influential in the quest for the enhancement of entrepreneurial activities.

The high level of changes within the business climate, the subsequent decline in general product life cycle, growing trends of globalisation and the fast rate of changing technology stir the environment for competitive advantage which is linked to innovation (Banyte & Salickaite, 2008:48). Adding to Schumpeter's idea of "*creative destruction*" as innovation by the entrepreneurs can easily shift the face of industry dynamics or the possibility to change the economic landscape. Thus innovative activities enable entrepreneurship to provide sufficient economic expansion (Giedraitis & Rasteniene, 2009:11).

For years, the entrepreneur has been documented as an individual who is responsible for promoting technological innovations of products and production techniques (Spulber, 2008:2). Thus, the entrepreneur is tasked to stimulate and influence the rising rate of desire for international trading activities (Spulber, 2008). As such, the overall progression of the economy is associated with several economic tasks; thus, the economic development is unlikely to be seen in isolation as being very critical of economic growth (Glienskiene & Petuskiene, 2011).

However, economists are quick to represent economic growth as an increase at various stages of individual income levels; yet the steady progression of income becomes wider. Streams of academic works suggest that entrepreneurship deeply influences economic growth and further eases the issues of unemployment at the heart of the economy (Thurik, Carree, Van Stel & Audretsch, 2008:683). Besides, during economic downturns, entrepreneurship makes it possible for the majority of the unemployed to become active participants in the economy (Thurik *et al.*, 2008:683).

Generally, the market requires very efficient institutions and existing regulatory frameworks to influence economic normality; institutional establishments are critical to aid market development as very significant to poorer communities (Mair & Marti, 2009:419). Institutional fabrics are the core basic reasons why it is extremely impossible for developing countries to advance towards market economy (Mair & Marti, 2009:419). Similarly, economic improvements due to technological changes further add to the

economic progression; thus the potential of entrepreneurial activities to create employment is further enhanced (Holcombe, 2008).

Advancing the existing knowledge of technology of the 21st century, government policies are geared towards promoting the dearth of entrepreneurial innovation activities in developing countries (Robson, Haugh & Obeng, 2009:331). Taking into account the significance of the various institutions in shaping the society can be very influential in the process of the individual's decision-making to pursue entrepreneurship (Nystrom, 2007:270).

In addition, regional growth theories and economic development mainly centred on entrepreneurship. Thus, start-up businesses are the most vital avenue for job creation (Feser, Renski & Goldstein, 2008:334). The essence of entrepreneurship in modern economy is very critical; hence the promotion of entrepreneurship is widely entrenched in government programmes across the globe (Glienskiene & Petuskiene, 2011:175).

Entrepreneurship is an innovative tool that creates economic prosperity and “a *change agent*”; therefore, it represents the entrepreneur's influence of qualitative shifts within the socio-economic landscape by manufacturing technologically advanced products and services (Glienskiene & Petuskiene, 2011). Furthermore, Schumpeter's popularised “*creative destruction*” which is centred on entrepreneurial innovation besides the rightful skills level are most likely to quickly alter inactive businesses or the overall economy (Giedraitis & Rastenienė, 2009:11).

According to Schumpeter's theory, innovation and entrepreneurship are mechanisms for economic expansion (Giedraitis & Rastenienė, 2009). Globally, policy-makers are concerned about economic development; as such all the available tools including trading activities and other means of accelerating the economic development at various sectors of the economy have been fully analysed (Saab, 2007:153).

In developing countries, the level of economy wealth strictly depends on the general development of goods and services and growing GDP per capita (Robinson, 2011:7). There is no market limitation in such economy without the limitations of twisting the general market for speedy solutions (Robinson, 2011:9). Most developing countries are unable to actively forge towards a market economy due to dysfunctional institutional settings (Mair & Marti, 2009:420). According to Minniti and Levesque (2010:306), innovation is another task of entrepreneurship; entrepreneurs use innovative techniques to try and occupy a section of the market environment. Easterly (2006) argues that in developing countries there is total lack of supportive networks to offer maximum assistance to the developing countries.

Furthermore, Minniti and Levesque (2010:307) disagreed with the notion that innovation drives the economy through the innovative nature of the entrepreneur. For example, the individual entrepreneur serves as an “*agent*” who provides the overall market with technological innovations. In advancing the notion further, Audretsch and Keilbach (2005) reiterate that entrepreneurship serves as an essential stimulus that drives the innovation process and hence establishes a strong knowledge base which have a “*knock-on-effect*” on the individual.

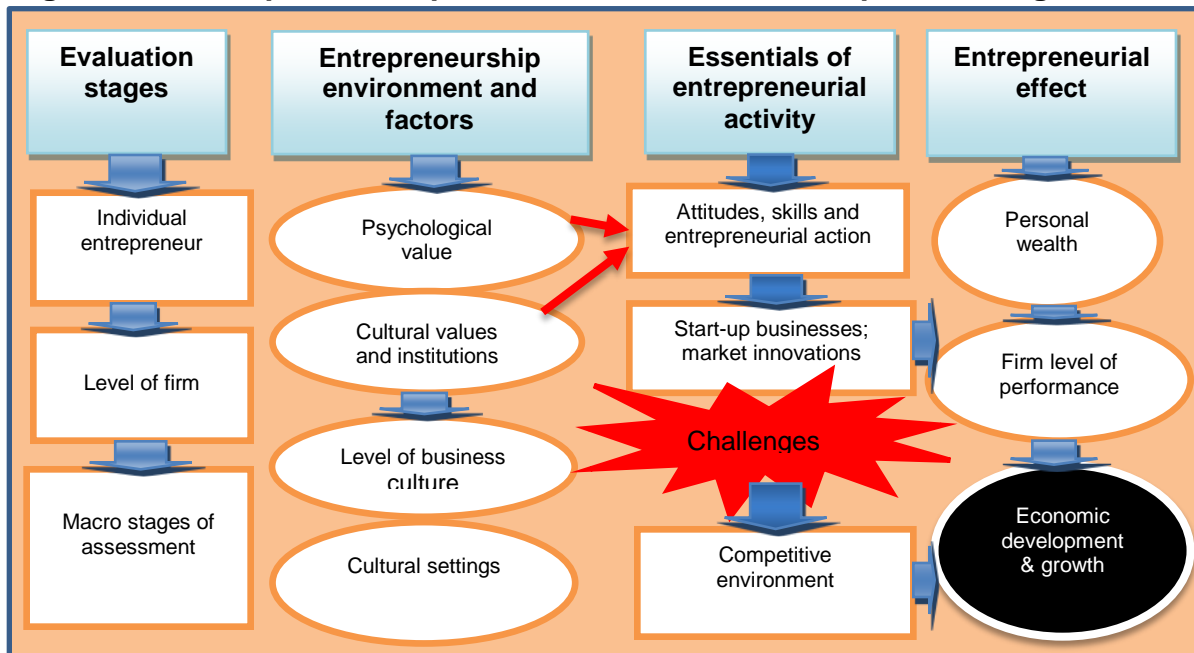
The entrepreneurial environment of South Africa is very complex thus there is much concern regarding the level of economic growth. Entrepreneurship is imperative for economic improvement especially in the field of business management where the entrepreneurs attract more economic significance through different levels of individual activities of personal and household incomes (Naudé, 2010:2; Acs & Virgill, 2009).

Netshitenzhe and Chikane (2006) further state that to better understand the extent of rural community empowerment through entrepreneurship, it is vital to understand the triggering forces of entrepreneurship. In spite of the fact that the concept of entrepreneurship is the least studied phenomenon in developing countries, the concept is vital for economic growth (Lingelbach *et al.*, 2005:1). However, Naudé (2008:1) indicates that globally governments were keen to steer entrepreneurship to become a

more sustainable income generating economic venture for economic prosperity and a subsequent engine of development.

Figure 3.1 on the next page depicts the level of connectivity between the various stages of entrepreneurial activities and the subsequent economic development and growth

Figure 3.1: Entrepreneurship model of economic development and growth



Source: Audretsch, Carree, Stel and Thurik (2002)

From the model (figure 3.1) above, it is clear therefore that economic development and growth are mainly concerned with different variables which serve as the primary precursory tool for the development of entrepreneurship (Audretsch, Carree, Van Stel & Thurik, 2002). Economic growth according to the academic literature is mainly centred on key conditions to develop entrepreneurship. These conditions include the level of entrepreneurial activities in the areas of innovation, individual attitudes, start-up businesses, new marketing tasks and the nature of competition; the study further suggests that through mutual understanding, the entrepreneur is able to attain potential self-realisation in addition to personal prosperity, innovativeness, competitiveness and economic growth.

Economic growth is mostly the outcome of three levels of active performances; these include the individual entrepreneur, cultural and institutional stages of the business. Audretsch *et al.* (2002) indicate that at institutional level, it is key that any form of support by the institution needs outright reflection at a level that encourages potential entrepreneurs to achieve set dreams of entrepreneurship taking into account all the challenges throughout the entire entrepreneurial process; thus, the institutional role in economic development is very significant (Audretsch *et al.*, 2002).

3.11 SUMMARY

This chapter focused on entrepreneurship and its impact on economic growth and development in less developed countries including South Africa. Volumes of national and international literature were reviewed to fully understand the concept of entrepreneurship and its contribution to the macro economy of South Africa and elsewhere. While it is generally agreed that entrepreneurship influences positively on economic development and growth, it is of utmost significance that this chapter explained how the economy is to develop through entrepreneurship. From the literature so far reviewed, it was evident that entrepreneurship can be a stimulant to the global economy provided it is sustainable to create long-term job opportunities thus reducing unemployment within communities and creating wealth as well as institute better living standards among disadvantaged communities.

The chapter reviewed relevant entrepreneurship theories that are linked to economic development by the early theorists during the 18th century including Joseph Schumpeter, Jean-Baptiste Say and Scott to discover various linkages of entrepreneurial activities and economic growth and development. In addition, the theories have proven that although entrepreneurship does indeed contribute to economic growth and generate employment, it is only possible provided entrepreneurial activities are sustainable.

The chapter further highlights some important outcomes concerning a series of GEM surveys which are relevant to the current study. This was done to understand the implications of these outcomes and how the studies relate to economic growth and development elsewhere. The focus areas were to try and determine various obstacles that impact on entrepreneurship. In discussing entrepreneurship and the obstacles, it was clear from the GEM surveys that education and skills training are the most basic obstacles that limit entrepreneurship in developing countries. Other obstacles as stated in the survey include access to finance, poor business regulatory environment and lack of proper infrastructure.

In brief this chapter discusses the entrepreneurial environment of South Africa and concluded that the general business environment is highly conducive for successful entrepreneurial activities yet it lacks some key variables including that current state of infrastructure and the regulatory framework. However, the study falls short because of the present bureaucratic system that dominates and influences business operations regarding documentations and registration procedures. Simply, South Africa's entrepreneurial environment is very poor compared to other developing countries. The chapter laid more emphasis on the sub-standard entrepreneurial environment of South Africa thus it implies that the impact of entrepreneurship on economic growth lags behind the government economic development and job creation objectives.

In spite of South Africa's poor entrepreneurial environment the chapter discussed key factors that contributed to the success of entrepreneurial activities and economic growth. It came to light that creating an enabling business environment was, however, not the only solution to curb the high rate of entrepreneurial failures. Most contributory factors to success or failure emanate from traditional and human capital aspects which are embedded in financial and entrepreneurial skills.

Finally this chapter discusses the informal sector of the entrepreneurial economy and pointed to some of the constraints within the sector; among other factors such as a lack of market limitations, inadequate infrastructure and poor skills. Consequently, the

government of South Africa needs to act decisively to create a conducive entrepreneurial environment for rural small businesses to be successful and actively address the current socio-economic challenges.

The next chapter will explore small businesses as defined in South Africa taking into account, the policy framework within which the small businesses operate, the establishment of the small business sector within the economy of South Africa, challenges that limit the small business potential to grow in addition to the socio-economic benefits that the small businesses provide to the broader rural communities. The literature review of this study in particular is the focus of the small business sectors of the SMME as defined by the National Small Business Act 1996, No. 102 of 1996.

CHAPTER 4

LITERATURE STUDY ON THE CRITICAL CHALLENGES AND CONSTRAINTS OF SMALL BUSINESSES

4.1 INTRODUCTION

As indicated by North (in Greyling, 2007:14) entrepreneurial activity in less developed countries acts as a vital stimulant in the development and growth prospects every country. Entrepreneurship provides immeasurable economic contributions to the global economies in the areas of job creation and potential for creating wealth thus promoting entrepreneurial businesses (Bell, Callaghan, Denmick & Scharf, 2004:1). These entrepreneurial businesses are vital in alleviating the socio-economic challenges of crime and growing unemployment (Maas & Herrington, 2006:59).

In other to establish additional stimuli of global entrepreneurial businesses, it is imperative to sustain the small business sector (Rwigema & Venter, 2008:315). The small business sector is heavily challenged due to minimal levels of assistance that are offered by the government (Rogerson, 2006(a):782). It is therefore critical to heighten government interventions towards the small business operations to address the various business challenges (Smorfitt, 2008:20). Orford, Herrington and Wood (2004:4) add that the small business sector is not informed of available government services; subsequently, the sector is unable to access such services. However, Chen (2007:5) indicates that the sector is composed of about 50-75% of non-agricultural employment in less developed countries.

In general, small businesses represent the mainstay of global economic growth (Mbonyane & Ladzani, 2011:550). As rightfully indicated by Bjerke (2007:20-21), every entrepreneurial society entails the small business sector that is sustainable to be transformed into a critical tool that is utilised throughout the market environment. At the initial stages of small business operations, the government is unable to offer the

necessary assistance to the small business sector; instead the focus is on assisting large businesses (Mbonyane & Ladzani, 2011). According to Tshabalala and Rankhumise (2011:108), over 80% of all businesses in South Africa comprise the small business sector.

The advent of small businesses starts with entrepreneurial activity due to profit motives. Known as the process that initiates changes within the economic system, entrepreneurship is severely aided by individuals' attitudes towards innovative calls to market opportunities and create economic values to society (Nieman & Nieuwenhuizen, 2010:9). Furthermore, entrepreneurial activity leads to new business creation that bears enormous relationships to the small business sector (Rwigema & Venter, 2008:6-7).

Small businesses are held in high esteem as job providers and immense contributors towards decreasing the surge in unemployment and as an outstanding economic force in developing countries (Ligthelm, 2006:41; Morris *et al.*, 2006; Dockel & Ligthelm, 2005:54). This is in line with the objectives of The White Paper on the National Strategy for the Development and Promotion of small businesses with its key focus to offer support and development to small businesses to eradicate unemployment (Mahadea & Pillay, 2008:341).

On the global front, the small business is known to contribute to job opportunities (Pranter & Ghosh, 2005:155; Banhegyi, Bates, Booysen, Bosch, Botha, Botha, Botha, Cunningham, De Vries, De Vries, Goodman, Krause, Ladzani, Lotz, Musengi, Stewart, Visser, Williams, November & Southey, 2009:83). However, given the decline in entrepreneurial activity in South Africa over these years due to lower skills level, there have been a growing number of informal businesses as the only means to create job opportunities (Shafeek, 2006:25).

South Africa is presently faced with serious socio-economic challenges of joblessness for the population especially among the youth (Klasen & Woolard, 2009:2; Kingdon & Knight, 2007:815). Drawing from the chronic job losses mainly from the formal sector of

the economy, the government has given small businesses and entrepreneurship key priorities in diverse ways to be able to absorb the growing unemployment levels (Herrington *et al.*, 2010). Unfortunately, the South African entrepreneurial activity for years have not been very satisfactory (Maas & Herrington, 2007:8; Herrington *et al.*, 2008:4; Herrington *et al.*, 2010).

In spite of the differences in their definitions, small businesses have become the greatest economic force throughout the developing world including South Africa where there is rising unemployment (IFC, 2009:9). As such, individuals are forced into the establishment of small businesses within the formal and informal sectors of the economy to earn a living (Duddek, 2005:12). Aside from these credible commitments, the small business sector and entrepreneurship continue to experience high failure rates due to challenges such as:

- Insufficient capital.
- Lack of efficient planning.
- Unable to access appropriate websites.
- Inadequate skills.
- Inadequate support systems.
- Limitation to tax regulations and information.
- Lack of general information.
- Lack of quality infrastructure within the informal sector.
- Lack of access to markets and technology (South Africa Information, 2010:1; Schaefer, 2006; Investment Climate Survey, 2004:12).

Elsewhere, in developing country such as Ghana, the small business sector equally experiences similar challenges including inappropriate technology, limitations to global market, strict regulatory frameworks, lack of managerial and training skills and dysfunctional institutions (Abor & Quartey, 2010:218). To fully understand the entire business operations and also the entrepreneurial activity, it is therefore important to identify all business related challenges. This chapter discusses the challenges of small

businesses and other common obstacles that hinder their growth possibilities. The chapter continues to discuss small businesses as defined by the National Small Business Act No. 102 of 1996 and the National Small Business Amendment Bill of (29) 2004:2) within the context of the SMMEs structures.

4.2 DEFINING SMALL BUSINESSES

Globally there is no agreement yet regarding the definition of small businesses; defining the small business sector is very complex; there is no single definition of what constitutes small businesses (Schaper & Volery, 2004:89). However, the small business sector is defined based on the quantitative and qualitative criteria of the various industry sectors (Badenhorst *et al.*, 2010:52-53; STATSSA, 2005:4). Again the small business sector can equally be defined based on criteria such as sales revenue, total value of business assets owned and owner's equity (Hatten, 2003:5).

4.2.1 Global definitions of small business

The Companies Act of 1989 defines small business in the United Kingdom (UK) as the business entity that satisfies certain quantitative and qualitative requirements. According to the Company Act of 1989, the quantitative requirements state that business turnover should not exceed twenty-two million eight hundred thousand (22.8m) British Pounds Sterling with a balance sheet total of not more than eleven million four hundred thousand (11.4m) British Pound Sterling; the number of employed individuals must not exceed two hundred and fifty.

Regarding qualitative requirements, the small business is required to have only a small share of the market; it has to be independent and be of no subsidiary to any large organisations with closer supervision by management in decision-making (Parliament of the United Kingdom, 1989). The European Union (EU) defines small business as the business with individual employees fewer than 250, with a maximum annual turnover of fifty (50) million Euros; a balance sheet total of forty three (43) million Euros. However,

the total turnover and the balance sheet figures were increased as productivity increased since 1996 (European Union, 2004).

The Small Business Act of 2002 defines small business in the United States of America (USA) as a business entity that is independently owned and operated, and not dominant in its field of business operation. The definition therefore clearly distinguished management skills of small businesses from the requirements of the medium and large companies. Thus, business size and management responsibility is used as core criteria to define small businesses.

From these definitions so far, it is therefore clear that small businesses are highly vulnerable to factors that could influence their success or failure rates. The fragile nature of small businesses needs urgent attention by creating enabling business environments that allow small businesses to quickly adapt to changes in market conditions (Durand, 2005). Small businesses in South Africa are known to be labour intensive and their success depends on human capital and behaviour. Yet, the bulk of the population who established start-up businesses within the informal economy are mostly unskilled (Ligthelm, 2008:367). Unfortunately, due to high failure rates, they are unable to create job opportunities that are sustainable for long periods (Ligthelm & Cant, 2003).

4.2.2 Defining small business in the South African context

In South Africa, there are many organisations that are involved in the small business sector; thus different classifications are applied to define small businesses. The National Small Business Act No. 102 (SA, 1996:2) as amended in 2003 classified SMMEs according to the South African context into different groupings such as the survivalist, micro, very small, small and medium-sized enterprises. According to the National Small Business Act No. 102 (SA, 1996) as amended in 2003, a small business is defined as *“...a separate and distinct business entity, including co-operative enterprises and non-*

governmental, organizations, managed by one owner or more including its branches or subsidiaries”.

However, there are certain elements that are similar in classifying small businesses. These include the number of employees and enterprise turnover. For the purpose of this study the small business sector is defined in accordance to the stipulations of the South African National Small Business Act (No. 102 of 1996) and the National Small Business Amendment Act (2004:2). Below are some of the global definitions of the small businesses.

The definition as stated by the National Small Business (NSB) Act as amended (Act 26 of 2003/2004) makes sufficient provision for the following five classifications of the small business sector regarding the acquisition of assets values, rate of turnover and the number of employees as follows:

4.2.2.1 Survivalist business

Defined as various economic activities by individuals to generate paid jobs or to get access on to the economic stage, the survivalist sectors are largely made up of women (DTI, 2008). As explained by the Free Dictionary (2012), the survivalist is defined as an individual who attempts to safeguard their personal, group, or the well-being of the general population. The survivalist enterprise broadly entails the general population that are unable to secure employment with minimal skills and training in various fields (Naicker, 2006:13). Although the survivalist enterprise does not form part of the Small Business Act (No. 106 of 1996) as defined, it is as well operated by the owner-managers (entrepreneurs) with the main objective of survival (Free Dictionary, 2012).

Stipulations by the Department of Trade and Industry (1995) indicate that the survivalist businesses entail various start-up operations that are unable to acquire employment opportunities. Income from these activities is for the survivalist with capital limitations, fewer skills for business operations with the objectives of reducing poverty. Abor and

Quartey (2010:5) defined the survivalist sector to entail the small business sector; thus the small business sector become operational in designated industrial or business locations.

The survivalists are enterprises where individual business activities are unable to easily form part of the mainstream economy. Any form of income that is generated through the survivalist activities is broadly characterised by little capital; individuals who pursue the survivalist form of enterprise do not require formal skills training. The survivalists' business activities are scaled on the pre-entrepreneurial stage; they are able to pursue the least business opportunities. Mostly established in the informal sector of the economy, the survivalist enterprises are the only means of generating income below the poverty line; thus the survivalist enterprises provide minimal income for the survival of the unemployed family unit. The survivalist enterprises comprise hawkers, vendors as well as subsistence farmers and not paid employees; its total asset value is limited (The South African National Small Business Act, 1996; National Small Business Amendment Act, 2004: 2).

4.2.2.2 Micro businesses

This form of the small business sector often involves the owner, family members and one to five paid employees; micro enterprises are very limited in terms of business capital investment, the micro-enterprises are unable to secure business premises, limitations in the areas of business licences, value-added tax (VAT) registration, provide basic accounting procedures and a licence to operate business activities. Even though most of the micro-enterprises are limited in terms of capital, the enterprise can easily advance into a viable small business venture. The rate of turnover is lesser in comparison to the value-added tax limitation of R1500 every year (The South African National Small Business Act, 1996; National Small Business Amendment Act, 2004: 2).

4.2.2.3 Very small businesses

Ntsika (2001:13) describes very small businesses as businesses that operates mainly by self-employed individuals with limited number of employees fewer than ten paid individuals except in the mining, electricity, manufacturing and the construction industries can employ 20 individuals because these industries operate in the formal market environment with dependent on the bare minimum of technology (The South African National Small Business Act No. 1996; National Small Business Amendment Act No. 2004: 2).

4.2.2.4 Small businesses

The small business sector is seen as a major economic player in most countries (Olawale & Garwe, 2010:729). As such the sector continues to employ over 70% of the South African population (Bowler, Dawood & Page, 2006). These small enterprises are required to meet all formal registration formalities and to register for tax and in most instances, meet all forms of business registrations. The annual small business turnover ranges between R150 000 and R2 million with very complex business operations (The South African National Small Business Act No. 1996; National Small Business Amendment Act No. 2004: 2).

4.2.2.5 Medium-sized businesses

Medium-sized businesses offer employment opportunities for 100 to 200 employees with capital asset (excluding property) amounting to at least R5 million; this form of enterprise must be registered with all the business formalities and managed by the entrepreneur. Its business turnover ranges between R6 million and R25 million within the mining, construction, electricity and manufacturing sectors. The organisational structure of the medium enterprises is mostly characterised by decentralisation of power and additions to management structures (The South African National Small Business Act, 1996; National Small Business Amendment Act, 2004: 2).

Having classified small businesses into different segments, it is significant to note that what is termed “small” differs within the economic environment with varying activities. The general classification by the Annual Review of Small Business (ARSMSA) report of 2005-2007 (2008:4), embrace as comprehensive the definition of small businesses provided on-going economic activities remain below the threshold of the corporate entities.

4.3 NATURE OF THE SMALL BUSINESS

The key constituents of businesses are the availability of a flexible network that enables steady flow of material supplies, finance, technology and skilled labour of entrepreneurs (Von Tunzelmann & Wang, 2007:209). Despite the global difficulties to reach consensus on small business definition, at least certain characteristics are identified for small businesses (Cronjé, Du Toit & Motlatla, 2001:492). As stated by the World Bank Institute (1978:5) and cited by several authors, small businesses are characterized as follows:

- Small businesses are labour intensive as compared to corporate entities.
- On average, the small business sector creates direct employment opportunities per unit of capital invested comparable to the corporate entities.
- Small businesses are potential instruments for entrepreneurial skills such as talents and energy of individuals who are unable to reach their full potential in large organisations.
- Small businesses create social stability, within the general physical environments as compared to large organisations; stimulate personal savings; broadly increase propensity within rural communities thus the sector enhance communities' general level of economic participation.

The SME survey by Rogerson (2004) and the SMME Confidence Index data revealed that the small business sector continue to contribute approximately 50% to the GDP of South Africa while offering employment opportunities for about 60% of the labour force

country-wide; despite the potential gradual increase in profit margin and the enhancement of economic activities, the sector is unable to translate into large-scale employment options (Rogerson, 2004). The World Bank (2007) estimated that the small businesses sector contributes roughly 39% of the job requirements of the South African economy; and thus the sector plays a critical role in providing solutions to income inequality and stimulate investment capabilities (Amini, 2004:371).

4.3.1 Global outlook of the small business sector

The Small Business sector is known for its strategic development. Across the world there has been growing interest in small businesses with the main objective to expand small business operations for socio-economic gains (Nieman & Niewenhuizen, 2010:12; Craig, Jackson & Thomson, 2007:117; Wickham, 2006:39). In the United States of America (USA), the Small Business Administration (SBA) showed a record high of 22.9 million businesses that operate in the United States of America since 2002. Developed countries such as Japan, Germany, Scotland and the United States of America through the Small Business Act of 1953 identified the significance of small businesses as vital for economic development.

The Small Business Act of America is authorised to administer the establishment of small business operations country-wide. In the United States of America, about 23 million small businesses are the main drivers of economic prosperity (Longenecker *et al.*, 2006). Indeed most of the world's largest corporate entities started as small business and expand their activities over the years through innovative processes (Barkoczy & Sandler, 2007:31).

Additionally, the small business sector contributes 51% to gross domestic product (GDP) and again it absorbs roughly 52% of the labour force of the United States of America (Longenecker *et al.*, 2006). According to Longenecker *et al.* (2006), the small business sector accounted for almost half of the newly established innovative processes

in the United States of America. In China, small businesses are recognised as vital contributors of about 78% of the aggregate job opportunities (Longenecker *et al.*, 2006).

Most developed countries utilise different approaches to enhance the operations of small businesses. Small businesses have gained tremendous recognition in the United Kingdom because the small business sector is able to offer employment opportunities to about 62% of the labour force in the country and a further contribution of 25% to the GDP (Burns, 2001).

The small business sector is known to contribute over 99% of the 3.2 million of the total business establishments in the United Kingdom and also over more than two thirds of the country's business turnover (SENET, 2004). About 16 million small businesses in Brazil are able to generate employment opportunities of roughly 56% of the labour force and contribute approximately 20% to the GDP of the country (Global Competitiveness Report, 2010/2011).

Since the late 1960s, small businesses in most advanced countries especially in North America, Asia and Western Europe have increased small business activities (Burns, 2001). According to Calvin (2002:1), North America, Asia and Western Europe were '*undergoing an entrepreneurial renaissance*'. According to Dobson (2002:4), South Africa over the past years have formulated a micro-economic strategy known as *Vision 2014* with the primary focus of growing the South African economy through creating employment opportunities, increase equity funds to sustain entrepreneurial activities country-wide. '*Vision 2014*' have identified many key factors of economic development; the small business development feature prominently as the core of government strategy.

4.3.2 Small business and economic development

The small business sector has been at the forefront of economic development and growth in developed and developing countries. According to Ladzani and Netswera

(2009:225) and Maes, Sels and Roodhooft (2005:138), contributions by the small business sector to the overall economy include employment opportunity, alleviate rising poverty among community members, reduce the growing unemployment rates and decrease the present dependency on social grants through income generating activities (Levy & Powell, 2005:373). In developing countries such as South Africa, the small business sector creates over 90% of employment opportunities, and account for 50% contributions to the national economy (Pranter & Ghosh, 2005:115; Banhegyi *et al.*, 2009:83).

During the early 20th century various theorists have shed more light on how economic development evolved over the years. For instance, Huntington (1924:411) indicated that climatic conditions constrained economic growth; with maximum economic growth mostly in temperate regions with moderate and seasonal variations. In another study, Markham (1947:29) argues that the ideal climate to promote continuous growth in the economy depends on policies. According to (Naudé, 2010:3), the entrepreneur stimulates the growing structural shift from a very traditional economic environment to a modern economy through various approaches of activities such as the establishment of start-up businesses high surplus labour absorption rates within the formal economic sector, add-values to existing products and services through innovative processes thus increasing productivity.

The small business sector creates employment opportunities and stimulates innovation (Kirsten & Rogerson, 2002:29) and it's potential to accelerate economic growth (Deakins & Freel, 2006:35). According to Rogerson (2006b:54), the small business sector serves as critical innovative tool in driving the economy. Joy (2004:214) further reiterates that the small business sector needs to be innovative with new ideas that are of paramount significance to the marketplace. The sector is recognised for enhancement of economic activities, reduce high levels of unemployment and poverty through job creation programmes (Smulders & Oberholzer, 2006 (b):1).

Schumpeter (1934) linked economic growth to small business activities. According to his study, development and innovation triggers economic growth; as such the general economic development becomes deeply rooted in innovation. Schumpeter continues to state that entrepreneurs are vital ingredients to economic growth; government needs to play a critical supportive role in stimulating relevant innovative ideas. As such, the small business sector's economic contribution of roughly 40% country-wide besides creating employment opportunities of over 50% cannot be ignored (Rankhumise, 2009:8; Ladzani, 2010:68).

Klapper and Delgado (2007) during an empirical study of 84 industrialised countries, it came to light that a strong correlation exists between business density and gross domestic product. In Sub-Saharan Africa for instance, about 80% of businesses are classified as small (IFC, 2006). It is clear that not only the proliferations of small businesses are responsible for growth in the economy. However, according to Spencer and Gomez (2004), there are negative relationships between per capita income, the GDP as well as tenure periods of small business in the country.

According to the above study, the proliferations of small businesses are typical characteristics of developing countries with minimal economic growth as against considerable large-scale businesses (Spencer & Gomez, 2004). Across the continent of Africa most small businesses made little gains as a result, employees are paid less wages, while the key goals of the small business sector is to alleviate poverty, contribution to improve productivity and poverty stricken households. Small businesses are able to contribute to economic growth provided an enabling economic condition is established.

Van Stel, Carree & Thurik (2005) discovered that entrepreneurship influences negatively on GDP growth of developing and emerging economies. The study therefore postulated that in most developing countries, the owner-managers of small businesses are faced with the problems of an unskilled labour force, less profitability and lower

innovative levels. All these constraints therefore impact on small business across the developing countries into a “*poverty trap*” (Sachs, 2005).

Globally, the small business sector continues to play a significant role in finding solutions to issues of employment, negative economic trends and rising poverty rates (Harris, Grubb III & Herbert, 2005:223). According to Botha *et al.* (2007:163), small businesses in general contribute to every sector of the economy. Advancing this sentiment, Van Scheers and Radipere (2007:85) concur that small businesses are the essential drivers of economic growth and job creators across the entire globe.

Furthermore, Leutkenhorst (2004:159) emphasises that the small business sector accounts for about 90% of the aggregate businesses, and provide between 50-60% of employment opportunities in developing countries. The small business sector is globally known to be the employer of more labour intensive establishments in contrast to the corporate entities; it contributes to productive employment, curtails poverty and creates substantial wealth (Leutkenhorst, 2004:159).

4.4 THE ESTABLISHMENT AND DEVELOPMENT OF THE SMALL BUSINESS SECTOR

The government of South Africa play a very active role in establishing and aiding the small business sector (Nasser *et al.*, 2003:394). In order for the small business sector to operate and become sustainable, there is the need for a favourable environment with key factors such as an enabling policy framework that enhances and supports initiatives (Richardson *et al.*, 2004:24).

During the past, the government of South Africa was not in favour of assisting small businesses; but through policy changes the small business sector began to receive the maximum attention it deserves (Bowler & Dawood, 1996:2). In 1995, the government unveiled The White Paper on the National Strategy for the Development and Promotion of Small Businesses in South Africa as stipulated by the National Small Business Act

No. 102 of 1996 as amended. It is believed that the establishment of small businesses is the only remedy to the problem (Shafeek, 2006:25). Unfortunately, most of the small business sector is unable to reach the expectations; they fail at early stages of formation (Parker, 2004:24).

Policy makers are concerned about the surge in unemployment rates, lack of job opportunities and economic decline. In developing countries including South Africa, there is growing levels of poverty; statistically in 2006 and 2008, the rate of poverty surged to an alarming proportion from 16% to 17% respectively thus roughly 55 million to 90 million people are poverty stricken (UN, 2009:4). In South Africa roughly 80% of households are poor (Department of Agriculture, 2006:1).

Moreover, it is extremely difficult to access resources for production; hence most households continue to live below the poverty line in South Africa (Kabeer, 2005:4710; Karlan & Morduch, 2009:5). Elsewhere in Africa, the small business sector comprises more than 90% of the African business activities with over 50% of generating jobs and GDP contributions to the African economies (Van Scheers, 2011:5048). Equally in South Africa, the small business sector cannot be ignored as part of the broader economic framework as the small business sector adds 55% of all forms of employment opportunities (Van Scheers, 2011).

Small businesses can assist the economy of South Africa to address the increasing unemployment and the challenges of poverty. The small sector alone contributes over 80% of the South African businesses (Rwigema & Venter, 2008:475). Given the present rate of unemployment and poverty levels at 25.3% and 53.9% respectively, the small business sector is highly recognised as the creator of rural and urban job opportunities within the emerging market environments (Chitiga, Decalwe, Mabugu, Maisonnave, Robichaud, Shepherd, Berg & Fintel, 2010:7; Statistics South Africa, 2010:2; Rogerson, 2008:72).

Small businesses offer employment to rural communities mostly in rural areas which are unable to secure employment offers due to inadequate skills training and the challenges of illiteracy to alleviate poverty especially within the black population where poverty is on the increase (Von Broembsen, 2008). Small businesses address the problems of unemployment; create job opportunities, innovation and sustainable economic development (Molopo, 2007:1; Baard & Van den Berg, 2004:2). The small business sector provides so much business opportunities – it attracts potential entrepreneurs (IFC, 2008:4; DTI, 2006:12). Besides, the owner-managers display individual traits that either promotes sustainability or the failure of the small businesses (Murphy, 2006:14).

4.5 SOCIO-ECONOMIC CONTRIBUTIONS OF SMALL BUSINESSES

Generally, the contribution of the small business sector is very complex. However, the small business largely caters for the poor members of communities (Von Broembsen, 2008:12). In economic terms, small businesses contribute to the growing household income; as such, the sector provides stability (Chu, Benzing & McGee, 2007:295). Small businesses contribute towards the economy of developing countries.

In most developing countries such as South Africa and Ghana, the small business sector contributes about 85% to the manufacturing sector of the economy; account for roughly 92% of all the Ghanaian businesses with an additional contribution of 70% to GDP (Abor & Quartey, 2010:218). Small businesses are vital to economic growth as most countries begin to plough their resources towards the increasing entrepreneurial activities (Gries & Naudé, 2012:310).

For years the small business sector has continued to attain a level of tremendous recognition not only for its potential to generate immense employment opportunities but also for triggering competition within the economic climate (Stokes & Wilson, 2010:152). Due to these and other achievements, the South African government has shown significant commitments in encouraging small businesses since 1994 with the central

objective of alleviating the critical challenges of job opportunities, economic expansion and to create sufficient wealth to curb rising poverty (Rogerson, 2004:765).

According to the DTI (2005), the new democratic government of South Africa supports the socio-economic significance of the small business development because:

- The small business sector is recognised for greater economic growth.
- The small business sector forms part of the general significant asset in the development of black economic prosperity.
- The small business sector assists in distributing wealth and the general economic growth.
- The small business sector is acknowledged as an important vehicle for innovation.

The small business sector is a major role-player in various economies world-wide; thus throughout the globe government attention is drawn on the development of small businesses (Olawale & Garwe; 2010:3). In South Africa, the National Small Business Act 102 of 2004 (SA, 2004) has identified potential entrepreneurs as the most significant stimulants of economic prosperity; at policy level, entrepreneurship and small business development is highly recognised as a possible vehicle for job creation, poverty alleviation and to develop economies (South Africa, 1996).

At the hub of these immeasurable contributions, small businesses are strategically positioned to alleviate the challenges of unemployment and to close the widening wealth disparities (Kesper, 2004:13); create wealth for every country in relation to the GDP and to boost various economies (Cant, Strydom, Jooste & Du Plessis, 2006:50; Du Toit, Erasmus & Strydom, 2007:106). By their nature, the small business sector caters for the poorer and disadvantaged communities and contributes about 30% to 40% employment opportunities in rural communities of South Africa (Naidoo & Hilton, 2006:12). Furthermore, the sector is recognised for its significant role in economic development and structural transformation in South Africa (Kotelnikov, 2007:3). Through

these contributions, the small business sector attracts potential entrepreneurs who add more socio-economic and environmental benefits to various communities (Taylor & Newcomer, 2005:24; Macqueen; 2005:7).

Similarly, because the survivalist businesses operate mainly in rural areas, the owner-managers have difficulties to generate enough employment opportunities (Stephens & Mark, 2010). Van Praag and Versloot (2007) indicate that the small business sector is rather known to have uneven increments in terms of job opportunities across the economic landscape of many countries. Thus, the sector adds immensely to employment opportunities due to a higher rate of entrepreneurs (Van Praag & Versloot, 2007:359).

In 2004 the micro and very small business sectors of the SMMEs contributed about 24% to the GDP of South Africa; the small business sector, on the other hand, contributed 15% whilst the large businesses added to the country's GDP 59% in contribution (DTI, 2005:81-83). There is an overwhelming recognition across the economic spectrum of South Africa; the small businesses add 36.1% to the GDP of South Africa and contribute 68.2% to the employment of the private sector job needs. In addition, the small business sector contributes 80% of the general workforce to the agricultural, the construction and the retail industries of the economy (Killian, Karlinsky, Payne & Arendse, 2007:17).

From 1997 to 2004, the micro business contributions to the GDP surged while the share of the medium and large organisation steadily declined. According to the Annual Review of Small Business in South Africa (2008), the micro and small enterprises created 74% permanent job opportunities in sharp contrast to 26% of permanent jobs created by the medium-sized and large businesses; the contributions of small businesses and entrepreneurship are commendable (SEDA, 2007:11-12).

Schumpeter (1911), in his book *"Theory of economic development"* has identified the entrepreneur as an economic developer through new patterns of product processes and

techniques as well as the provision of modern resources (Schumpeter, 1934, 1939, 1942 in High 2004:46). There is a strong relationship between entrepreneurship and economic prosperity (Wennekers & Thurik, 2001 in Corbetta, Huse & Ravasi, 2004:27; Von Broembsen, Wood & Herrington, 2006:15).

Furthermore, a subsequent research study by Van Stel *et al.* (2005:1) indicated that entrepreneurial activity influences economic growth with a significant rise in per capita income. According to the researchers, the poorer countries are unable to benefit from entrepreneurial activity. In support, the World Bank (2006:1) survey “*Voices of the poor*” conducted interviews with 600 000 people in over 50 poor countries. From the study, most of the participants stated that through the ownership of small businesses or entrepreneurial activity, they were better positioned to escape the terror of poverty (World Bank, 2006:1).

Wingham (2004:33) states in a survey outcome that smaller businesses created 81% of newly employment opportunities in the United States of America (USA). Through the survey it was revealed that entrepreneurial activity, new business ventures and small business development creates potential job opportunities (Birtch 1979, 1987 in Stevenson 2004:3; Landstrom, 2008:159-172). Furthermore, Landstrom (2008:168) asserts that fast-growing entrepreneurial ventures contribute more to new job creation than the corporate entities.

Ntsika Annual Review indicates that in South Africa the small sector constitutes 97.5% of all the businesses; the small business sector generates 34.8% of GDP with a further contribution of 42.7% to the overall salaries and wages payable in South Africa. There are several small businesses in South Africa than in Europe; however, the contribution of small businesses in Europe is on a larger scale than in South Africa. According to Dube (2007:3), the small business sector needs to be sustainable through increased employment opportunities but sadly enough the expected contributions to GDP are severely constrained due to a lack of management skills.

4.5.1 Global economic importance of small businesses

The small business sector is not only recognised for generating employment opportunities; the sector also triggers economic growth (Dobbs & Hamilton, 2007:296). In global context, policy making bodies including government agencies have acknowledged the enormous influences of small businesses on various sectors of the economy in areas of job creation and raising the standard of living and narrow the income disparities (Tambunan, 2009:1). Fuller (2003:297) reiterates that “... *to develop the South African economy things need to be done at the smallest scale in every township*”.

According to the DTI (2004:63), the small business sector creates most job opportunities; hence, this sector is acknowledged as one of the vital tools energising the economy of South Africa. Approximately in about 130 countries, there are about 140 million small businesses which are known to contribute to job opportunities (World Bank, 2006). However, in spite of these remarkable performances by small businesses, only a limited number of the small business sector experience long-term success; in general large numbers of small businesses are faced with high failure instances (Jocumsen, 2004:659).

According to UNIDO (2003), across the emerging economies small businesses are perceived as critical machineries for economic development. Within these economies, therefore, the small business sectors largely fuelled active economic participation through competitive means not only by triggering economic processes but also eliminating and further reshaping the economic landscapes (Bharati & Chaudbury, 2006:8). Most global employment successes are directly linked to the competitive nature of small businesses; thus creating enough economic participation and growth (Caniels & Romijn, 2005:539; Stokes & Wilson, 2010:152). Besides, it is argued that the small business sector remains the primary system of restructuring communities and still a reservoir for national economic growth (Acs, 2008:xvi; Timmons, 2002:16).

The significance of the small business sector has been given wide literature coverage in government policy frameworks and other localised reports; the small business sector has been spearheading the socio-economic well-being for many economies by providing economic growth and income redistribution (SEDA, 2007:358-36; Lee, 2004:10). Globally each economy turns to the small business sector to sustain its operations; the small business sector contributes to GDP, creates employment options, level the poverty platform and uplift the socio-economic climate of the community members (SEDA, 2007:6; Pandey, 2007:3).

Contributions by small businesses in South Africa cannot be ignored. Since 2007 the growth of the small business sector swelled to over 2.8 million which constitutes 30 to 40% of the jobs created; each sector contributed between 27 and 34% to the GDP of the country (SEDA, 2007:12). Unfortunately, the majority of SMMEs are micro and survivalist enterprises with insignificant potential for growth; as a result only minor numbers of owner-managers are able to employ more staff due to South Africa's decline in entrepreneurial activities (Maas & Herrington, 2007).

The small business sector contributes to specific countries' GDP by means of product manufacturing and through delivery services to consumer markets (Berry *et al.*, 2002:4). According to the World Bank Group the small business sector is a critical role-player in sustained regional and global economic recovery (Ayyagari *et al.*, 2007:415). The World Bank Group therefore considers small business development as key strategic initiatives aiming at fostering economic growth, poverty reduction and to create employment opportunities (Ayyagari *et al.*, 2007).

Globally, small businesses create employment opportunities; approximately 60% of the available jobs are generated through the small business sector (Kongolo, 2010:2288; Van Praag & Versloot, 2007:351). For example, Kongolo (2010) confirms the global significance of small businesses. The small business sector contributes roughly 91% to the formal economy and account between 51 to 57% of the world's GDP in addition to providing 60% of job opportunities (Kongolo, 2010:2288).

In South Africa and other less developed countries, contributions by the small business sector are further recognized through statistics information. Ayyagari *et al.* (2007:419) provide statistical evidence that the small business sector in South Africa provides 82% of the overall total labour force within the manufacturing sector of the economy. Similarly, Berry *et al.* (2002:4) strongly believe that small businesses in South Africa are capable of generating more employment opportunities in addition to enhance the existing human capital development. Ladzani and Van Vuuren (2004:154) agree that the existing proliferation of the small business sector contributes significantly to job creation, social stability and global economic welfare of communities.

The small business sectors have shown positive economic prosperity in several African countries such as Mauritius, South Africa and North Africa (Central Statistics Services, 2002). However, in spite of their global contributions towards the general business environment and job creation in developed countries, the small business sector continues to suffer from a lack of financial assistance (Bennett, 2008:375; Kirby & Watson, 2003). According to Bennett (2008), the small business sector accounts for roughly 99% of the total form of business establishments in South Africa and provide for approximately half of the unemployed population in developed countries.

For instance, in Pakistan, about 90% of businesses are categorized as the small business sector that create more employment opportunities; with roughly 80% employment capacity of the non-agricultural labour force that contributes 40% to GDP (Neumark, Wall & Zhang, 2008:24). Regarding economic development, small businesses are known for creating more jobs and very innovative opportunities within the informal sector (Edmiston, 2007:74).

According to Edmiston (2007:74), the entrepreneur is very innovative throughout the entrepreneurial activities and small business operations. Thus, it is important to establish a favourable business environment within which the entrepreneur can establish start-up businesses to increase employment at local areas. For instance, in South Africa small businesses are reported to provide over 24% of the present job

losses. However, large businesses were able to provide about 40% of the gross newly established businesses but lost 43.5% of gross jobs (Edmiston, 2007:78).

The small business sector is a major force in the Asian and Chinese large-scale export markets. Within the industrialized economies, countries such as Japan and South Korea small businesses are highly known for creating productive employment, poverty alleviation and creation of social welfare in communities by absorbing excess labour (Pang, 2008). Luiz (2002:18) agrees that small businesses are pivotal in economic development. Recently in Taiwan there was competition within the small businesses across China and Vietnam.

This event posed serious economic threats to small businesses in China and Vietnam because their low product costs are eroded; thus to be competitive, the small business sector must resort to using technology as key competitive advantage. The International Finance Corporation (IFC, 2006) revealed that there is a positive correlation between any country's level of income and the number of small businesses per 1000 people. Accordingly, the World Bank (2007) *Doing business* reports that small businesses are potential sources of reducing informal or "*black market*" operations.

The small business sector contributes to employment creation, economic growth and equity in South Africa. In 1999, small businesses employed 16.3% of the South African economically active population as part of its contributions to decrease the unemployment rate of 23.3% as indicated in the 2002 Household Survey (CSS, 2002:17). As indicated by Business Partners Limited (2011), there are five-point plans that are likely to address the development of small businesses in South Africa. These five-point plans include:

- Create an enabling environment to encourage and develop SMMEs.
- Mobilise financial assistance and resources to promote SMMEs.
- Provide low-cost and affordable business sites in areas that lack infrastructure development.

- Upgrade managerial skills and entrepreneurial knowledge in SMMEs.
- Initiate appropriate professional programmes to assist SMMEs.

The small business sectors are known to be very innovative and can generate more innovations per worker than the large businesses (CSS, 2002:18). Small businesses, unlike the large businesses are very flexible and not over burdened in terms of organisational structures, therefore are able to adapt to market conditions and improve productivity. Put differently, the ownership structures of small businesses can quickly implement critical and lucrative business decisions regarding operational efficiency (Longenecker *et al.*, 2006:131).

4.6 FRAMEWORK FOR SMALL BUSINESS DEVELOPMENT IN SOUTH AFRICA

Since the introduction of the White Paper of 1995, the South African government have established various institutional organs such as the Small Enterprises and Development Agency (SEDA) and Khula Enterprises Limited programmes through the Department of Trade and Industry (DTI) to assist and offer developmental assistance to small businesses in South Africa.

Through these institutions, the government established various programmes as stimulants to small business creation and to further strengthen all forms of existing small businesses. Besides the above, there are other non-governmental organisations (NGOs) that participated in assisting small businesses with programmes such as giving the small business sector financial assistance, provide relevant business information and professional advice. Assisting the small business sector is vital to the government of South Africa (DTI, 2005:3).

In 2009, during his state of address on June 3, President Zuma asked promised to assist the small business sector. Advancing the call of the President, Minister of Finance, Pravin Gordhan, through his 2010 budget speech outlined the significance of the small business sector and further provided tax incentives to assist small businesses.

However, the small business sector continues to experiencing tax challenges as well as lack of infrastructure (Sieberhagen, 2008:1-101). A study by Smulders (2007:1-2) confirms that small businesses suffer from serious tax burdens.

The Department of Trade and Industry in 2005 released the Integrated Small Enterprise Development Strategy (ISEDs) with the objective of accounting for the successes and failures of the implementations of the directives as stated in the White Paper (1995) on small businesses (DTI, 2008).

According to the ISEDs, the core fundamental issues to be addressed focus mainly on:

- Increasing the financial assistance as well as non-financial assistance services.
- Create demand for the small enterprise products and services.
- Reduce the existing small enterprise regulatory barriers (DTI, 2008:26).

The South Africa Micro-Credit Apex Fund (SAMAF) in 2004 was established with Khula Enterprises Limited. The main objective was to provide financing support to SMMEs in South Africa. Table 4.1 illustrates established government institutions and various forms of activities these institutions render to small businesses.

Table 4.1 shows various community development organs which provide different business activities to small business owner-managers. Within Khula, there are other government organs which provide financial and non-financial.

Table 4.1: Government establishments and other mandatory activities

INSTITUTIONS	ACTIVITIES
SEDA	Renders different forms of business developmental services. These include provision of non-financial services using an integrated support with other information centres in South Africa.
Khula Enterprises	Provision and facilitate finance or “seed-capital” to small businesses; offer various financing products; liaison with financial institutions including Business Partners. Khula offers financial support by means of loans, guaranteed credit facilities for small business sectors through Banks and mentoring programmes.
National Empowerment Fund (NEF)	Provide funding ranging from R250 000 to R10m. The focus is on rural and disadvantaged communities; provide funds for small businesses in rural communities.
Industrial Development Corporation (IDC)	Generates its fund independent from South African government. Key areas are provision of sector-focused financial products for R1million with focus on small business development.
The South Africa Micro Finance Apex Fund (SAMAF)	Provide funding up to R10 000 to micro and survivalist enterprise in disadvantaged areas. It is the same and modelled on the concept similar to Grameen Bank of Bangladesh. The objective of SAMAF is poverty reduction among the rural poor South Africans (South Africa Yearbook 2006/2007:178).
The Enterprise Information Centre (EIC)	To increase the support base of SEDA through partnership and outsource to various public organisations for support to small businesses (Nordejee, Hofmeyr, Gunda & Van Ouheusden (2007:4). National contributions include: Wealth creation, transformation and empowerment.
Umsobomvu Youth Fund	Established in 2001; to facilitate and promote the creation of jobs and develop skills for the youth. Programmes to focus on providing information and counselling and entrepreneurship support. Business developments include activities such as develop business plans, market research and develop marketing plan.

Source: Department of Trade and Industry (2010)

4.7 REASONS FOR STARTING SMALL BUSINESSES

Various empirical studies were carried out to investigate the reasons behind the establishment of small businesses (Alstete, 2002:234; De Pillis & Reardon, 2007:396; Wilson, Marlino & Kickul, 2004:184; Shane *et al.*, 2003:258). The most fundamental reason to start any form of business venture is deeply rooted in acquiring personal wealth (Goffee & Scase, 1995:3). Barrow (2006:3) highlights some of the main reasons

for starting and operating an own small businesses to be in-charge of their own destiny. Other reasons include:

- Make personal decisions.
- Establish family employment.
- Take advantage of specialised skills.
- Earn own salaries.
- Business continuity through generations (Barrow, 2006).

According to De Groot, Nijkamp and Stough (2004:256-257), people begin to operate small businesses because of personal independence. Therefore, to become an entrepreneur or business owner one must be an entrepreneur with absolute independence and engage in business opportunities for the best outcomes (Scarborough & Zimmerer, 2003:11). Entrepreneurs' independence involves various actions that are relevant to yield possible outcomes. Entrepreneurial motives regarding opportunity recognition and material prosperity is ranked very low compared to personal achievement (De Groot *et al.*, 2004:257).

Many people have decided to take up entrepreneurial activities as career options to do away with taking orders from someone else; besides, it sounds well enough to make individual strategic plans for immediate implementations as compared to existing bureaucratic organisational system that is impossible to control one's destiny (Goffee & Scase, 1995; Clark & Louw, 1995:6). Entrepreneurship is an attractive and rewarding career option for most people. Because it offers most people various options including strict financial control, the freedom to be with families and colleagues, to choose own place of residence and a specific working environment as well as the number of hours spent daily at work (Scarborough & Zimmerer, 2003:15).

Furthermore, the Business Journal Staff (2005:47) states that many people start businesses not for the reason of making money, but for the love of doing business. According to Buera (2005:52), individuals who pursue business opportunities with the

idea to acquire wealth above certain amount are safe to become active entrepreneurs. Individuals who start entrepreneurial ventures below the threshold are likely to fall into a 'poverty trap' and consequently remain wage earners.

4.7.1 What is business success?

According to the Glessen-Amsterdam model of entrepreneurial success, the concept of "success" falls within various multidisciplinary fields of study with the assumption that actions trigger success (Rauch & Frese, 2000:101). However, other similar studies have revealed that business success can be measured by taking into account the level of customer satisfaction (De Brentani, 2003:169; Fabling & Grimes, 2007:383). Timmons and Spinelli (2009:54-55) posit that the individual entrepreneur is successful due to adequate display of integrity, reliability and solid managerial skills.

Many researchers tried to define "success"; for instance (Fielden, Davidsson & Makin, 2000:295), estimate the yearly growth rate as the measurement guide for success. Other researchers were of the view that business net profit can equally be used as a measurement tool (Davidsson, Steffens & Fitzsimmons, 2009:373). Yet, Unger, Rauch, Frese and Rosenbusch (2009:563) argued that mostly, growth within the business workforce is rather the essential tool to determine the success of a business venture. Pena (2002:80) agrees to the sentiment by Unger *et al.* (2009) that employment of a new workforce means there is a growing level of demand as the business begins to record success.

4.7.2 Contributory factors to small business success

Globally the small business sector is recognised as the pioneer machinery in shaping the economy by penetrating new marketing environments with various market expanding activities such as creativity and processes of innovation (Ndlovu & Thwala, 2007:1); the sector is equally known to encourage and strive for greater economic development (Lewis, Massey, Ashby, Coetzer & Harris, 2007:551-552). Through the

small business sector, job opportunities are established, more income is generated for households and general output increases; thus, the sector accounts for about 60% of the South African employment requirement in addition to 40% in terms of growth in general output (Ndlovu & Thwala, 2007).

Small businesses would forever remain the backbone of virtually the global economy and hence, in South Africa, small businesses contribute to the economy growth, create jobs and address the disparities to curb the growing poverty rates (Broembsen, 2003:4). The basic formalisation of the available information system is very critical to the small business sector as it improves both the endogenous and exogenous business processes and adds to the positive impact to the business's growth (Duncombe, 2004:1).

Since 2005, the small business sector plays a very significant role in solving societal challenges of creating employment opportunities (Entrepreneur South Africa, 2005:3). Fakude (2007:198) opine that within the global environment, small businesses create jobs and provide immense support towards economic growth. Whilst it is not easy to define small business success, it is however believed that the ultimate objective of every business activity is to attain success (Durand, 2005).

Another crucial element for business success is its potential for expansion in terms of job opportunities. Business growth is very important given the challenges of unemployment and to absorb the surplus of labour in the market; business growth and profitability secures long-term and sustainable business survival (Durand, 2005). The small businesses need to be sustained and create employment opportunities. According to a study by Walker and Brown (2004:576), both financial and non-financial measures such as personal wealth creation and better lifestyle are seen as the most determinants of small business success.

In South Africa it is not easy to determine small business success. However, the failure of business in general can easily be recognized in all sectors of the economy. According

to Lussier and Pfeifer (2001:228), business success can simply be defined as *“its ability to survive”*. For instance, in order for small businesses to become successful, the general business environment requires favourable conditions in terms of experience and to display vast amounts of business knowledge that enrich the indigenous marketing environment (Hussain & Windsperger, 2010).

Besides, business success can be attributed to other factors of psychological, personal skills, management training as well as the external business environment (Benzing, Chu & Kara, 2009). Entrepreneurial training is perceived as the most critical and effective means to stimulate entrepreneurial activities and curtail small business failure (De Faoite, Henry, Johnston & Van der Sijde, 2003:440).

4.7.3 Small business contributions to the developed economies

Academics and researchers have on several occasions noted with credible attractions significant contributions of the small business sector world-wide (Krasniqi, 2007:71). The small business sectors by their nature are known to contribute largely to the global economies including the developed world. Nevertheless contributions by the small business sector are met with mixed findings. A study in the United States of America (USA) indicates that the small business contributions have been overstated. However, other empirical studies in different countries proved that small businesses contribute to socio-economic benefits of job creation and increase in wealth (Sikhakhane, 2005:1). Furthermore, in Australia small businesses contribute more to the economy than in the UK and the USA (Ergas & Orr, 2007).

As such, the contribution to the Australian economy by small businesses account for 73% of the total businesses; besides, the sector adds about 46% to the GDP in 2006; moreover, in 2004 and 2006, the small business-sector added an amount of \$23.8 billion to the GDP figure of the Australian economy (Ergas & Orr, 2007:3). Elsewhere in the developed world, small businesses contribute roughly 99.8% of the total private

business establishments, generates over half of the total turnover and employ approximately 53% of the workforce (Reijonen & Komppula, 2007:689).

The number of small businesses grew between 1995 and 2003 by 11.6%, an increase that is linked to several supporting programmes of expansion by the Australian government. The growth in small businesses' rate of sustainability with 72% of new start-up businesses is operational after the crucial five years mark (Dana, 2006; OECD, 2005). Within the European Union (EU), the small business contributions are enormous; its overall contributions are 99.9% (United Nations Economic Commission for Europe, 2010).

Similarly, the economy of the UK received an enormous boost due to the small business contributions; in 2007 the small businesses contributed 99.9% to the total business country-wide (Anon., 2009). Statistics revealed that in 2008, 270 000 new businesses were established; however, 219 000 were closed. According to the National Statistics (2009), the survival rate of small businesses in the United Kingdom was relatively high; 80.7% of new businesses were able to survive after two years; then after four years of operations, only 54.7% were able to survive.

In the United States of America (USA), 99.7% of the total businesses were classified as small businesses with contributions of more than 50% contributions to the private sector employees; thus the small businesses' contributions to job opportunities accounted for 60 and 80% new job opportunities. On a yearly basis, the economy of USA had an average of over half a million small business establishments; sadly only 66% of these small businesses survived for two years, 50% lasted for more than four years. Without doubt, the positive impact of small businesses on the USA economy is highly noticed; on average, only 50% of small businesses are declared insolvent every year (OU, 2006).

4.8 EXPLAINING THE HIGH FAILURE RATE OF SMALL BUSINESSES

In general, the South African population unlike other developing countries demonstrate harsh attitudes towards business failure; as such, the majority of the population are reluctant to pursue entrepreneurship (Maas & Herrington, 2006:12). Small business failure is the result of steady deviation from planned objectives and a further decline in existing business-values that has been rated below the opportunity costs (Cannon & Edmondson, 2005:300; Cressy, 2006:108). Within most emerging economic environments, "*business failure*" has not been properly defined in research circles (Pretorius, 2008:408). Steyn, Bruwer and Hamman (2006:8) echoed similar sentiment that it is not easy to put into perspective what business failure entails.

Some of the key factors that challenge the small business sector are most often ranked as exogenous including the extent of financial commitment, communication, the state regulatory machineries, marketing and infrastructure (Funchall, Herselman & Van Greunen, 2009:181). Besides these factors, small businesses can as well fail due to other endogenous elements of inadequate management skills, lack of training and development in addition to technology (Snyman, Saayman & Alie, 2008:4).

Business failure demonstrates the critical theoretical challenges and is very complex to be understood (Cybinski, 2001:39; Shepherd, 2005:126). However, current studies regarding business failures were unable to reach a conclusive definition about the concept and what failure entails (De Castro, Alvarez, Blasick & Ortiz, 1997; Crutzen & Van Caillie, 2007:8). Evaluating the main causes of small business sector failure is bound to provide sufficient insight into the available enhancement tools to curtail the existing high failure rates (Knott & Posen, 2005:19; Alstete, 2008:584).

According to Singh, Corner and Pavlovich (2007:331), business failure can be due to final level of business expectations lacking the provision of the intended results. Thus, failure of business serves as an important contributor to business success as there is more to failure than bankruptcy; in the event of business failure conflicting ideas are

likely to activate the ultimate venture cessation (Singh *et al.*, 2007:332). Shepherd (2003:17) posits that most businesses fail due to either a decline in revenue or growing expenditure. Benson, Bugnitz and Walton (2004:8) cite various challenges such as weakness in producing the rightful technology, unable to create proper planning climate, the inability to assign the correct and exact resources and lack of budgetary control measures.

Similarly, the failure of any form of business can as well be equated with the exit stage of businesses because entrepreneurs are most likely to exit businesses not only due to business failure but also of the businesses' poor level of individual performances (Wenneberg, Wiklund, DeTienne & Cardon, 2010:363). For example, business failure gravely impacts on the social cost of isolating the entrepreneur from the immediate environment. According to Bell (2006:127), factors of ill-management style, lack of strong and efficient leadership, lack of organisational vision and the lack of definite organisational values result in small business failure.

The small business sector influences economic growth. According to Fakude (2007:200), in order for small businesses to be viable for economic development and growth, it is significant that skills shortages are reduced. He further suggests that other skills such as project management, engineering as well as technical skills are critical to the economy. Resources and other social reparations that are critical must be earmarked and shift towards skills enhancement techniques (Fakude, 2007; Cope, 2011:605).

Stemming therefore from two scientific approaches, business failure can be defined as when there is a substantial decline in either revenue or increasing expenditure; as such, the business is declared insolvent and not financially strong enough to attract funding (Shepherd, 2003:318). Factors such as bankruptcy, receivership or venture liquidation are not the only contributory elements of business failure (Ucbasaran, Westhead, Wright & Flores, 2010:543). According to Charitou, Neophytou and Charalambous (2004:465), there are various factors that cause small business failure. Key among

these factors includes financial limitations as a result of acute cash flow issues (Ooghe & de Prijcker, 2008:223).

Ucbasaran *et al.* (2010:544) contend that business failure serves to allow the owner-managers of the failed ventures to perform a post-mortem to dictate the main reasons for failure; it opens a new learning experience and subsequent encouragement and paves the way for in-depth evaluation of the existing skills. Advancing further the institutional theory, increased financial cost to potential businesses can establish the extent of business failure. Business failures, on the other hand, add to significant amounts of wealth. According to Coelho and McClure (2005:13), it is argued that early signs of unwanted businesses factor into additional growth potentials. Thus, the failure or termination of poor performing business ventures creates additional wealth.

Within each country the institutional framework requires reforms to enable the surge in entrepreneurial activities as well as to reduce business costs in others to curtail the high rate of business failure (Lee, Yamakawa, Peng & Barney, 2011:506). In addition, Armour and Cumming (2008:306) posit that the global decision to pursue entrepreneurship is marred by an institutional framework of taxation, lower returns of investment, property rights as well as legislation on bankruptcy which are tied to be favourable entrepreneurial constraints. Armour and Cumming (2008:307) further contend that current regulations about the activities of bankruptcy is very much unfriendly as such, it can easily lead to business failure.

In spite of the immense economic benefits, the small business sector in South Africa is on record as less sustainable. To fully understand the negative trends that engulfed this sector, the word '*failure*' must be understood within a context. The concept of failure is not only about negative events as such, the corporate organisations can also close its doors because the shareholders have decided to pursue other lucrative business alternatives. Other reasons for business failure may be due to legal changes in the business status or family decisions to close the business entity, under capitalisation, poor management skills, and poor cash flow (Ateljevic, 2007:308).

Small business failure in most instances result from issues such as continuous deviation from expected set objectives and decline in business-value rating that is below the opportunity costs (Cannon & Edmondson, 2005:300; Cressy, 2006:108). According to Van Eeden *et al.*, (2003:15), issues such as a lack of managerial skills, inadequate level of training and inexperience, inability to identify lucrative business and marketing opportunities, lack of quality control, low productivity and the lack of professionalism; for example, human resource problems greatly influence small business success or failure.

Business failure can either be compulsory or a voluntary liquidation. According to Gitman (2009:18), compulsory liquidation is defined as legal proceedings in any court of law against a company by creditors. The majority of small businesses fail yearly due to one or a combination of some constraints. In South Africa approximately 90% of small businesses failed during their first year of business operations because of inadequate resources (Rogerson, 2007:61; Fernandez, 2008:113). In support, Townsend, Busenitz and Arthurs (2010:193) indicate that resources are pivotal to small business survival; and hence, lack of resources therefore result in business failure.

Again the business is likely to fail as the environment continues to change quicker than expected; events that may easily render available resources obsolete (Thwala & Mvubu, 2009:361). Put simply, Fernandez (2008) states that most businesses failed due to a lack of enough resources; as soon as the available resources are depleted as a result of changes within the environment which result to shortages of productive resources (Mellahi & Wilkinson, 2004:21).

Small business failure is a major global concern. Beaver (2003:117) alluded to the fact that business entities whether at corporate level or small at some stage during inception experience failure with serious consequences. This section outlined the root causes of small business failure as well as the review of some central fundamental theories to bring into focus the key challenges which according to the current literature marred the small business sector. Simply stated, Beaver and Jennings (2005:9) were of the view

that the present high level of failure rate by small businesses is due to lack of severe ignorance of business management principles or lack of adherence to theories of vital business management by owner-managers or start-ups (Fleetwood & Ackroyd, 2004:11; Danermark, Esktrom & Jacobsen, 2006:54). Thus, an in-depth interpretation of business management theories is a prerequisite for small business success to avoid failure (McKenzie & Sud, 2008:123).

According to the resource-based views, small businesses largely depend on resources and the exploitation of opportunities to trigger market competition within the environment (Runyan, Huddleston & Swinney, 2007:392). Furthermore, the resource-based theory continues to emphasise that the younger businesses are most vulnerable to the environment as such and are not able to acquire enough resources (Thornhill & Amit, 2003:500). Consequently, without sufficient resources and opportunities, small businesses are bound to experience a significant rate of failure (Ahmad & Seet, 2008). At the same time, as indicated by the theories of multiple sources, small businesses are most likely to fail due to the convergence of various managerial challenges including inadequacy at managerial levels, organisational inadequacy and the level of mounting environmental uncertainties (Barker, 111, 2005:44).

Defining the small business sector as part of entrepreneurial failure cannot be easily generalised in rural and urban settings because of stringent and varying environmental factors (Cardon, Stevens & Potter, 2009:1). As such neither the concept of *“business failure”* nor *“business success”* is described in existing literature with agreed definitions (Gitman, 2009:784; Rogoff, Lee & Suh, 2004:365).

Nevertheless, various criteria such as discontinuance of business ownership due to financial challenges, cost-cutting measures to avoid huge losses that trigger bankruptcy due to insufficient revenue to offset expenses are used (Liao, 2004:124). Wickham (2006:255-256) contends that business failure can be rooted and identified taking into account a number of business performing areas. Pretorius (2006:145) adds that

“...each declining venture is preceded by a set of unique preconditions that requires specific associated processes and strategies to recover”.

Table 4.2 on the next page demonstrates various arguments from opposing ends of business assets against business liabilities, revenue and costs incurred regarding the organisational inputs and outputs that account for business failure. From the table, other striking points that define business failure stem from issues of performance to involuntary closure of business premises are highlighted.

Table 4.2: Schema definitions of small business failure

WHAT FAILURE MEANS	KEY HYPOTHESIS/CONSTRUCT	AUTHOURS
Venture unable to satisfy creditors; lack of resources to proceed with economic activities.	Not able to settle debt equity	Honjo (2000:559)
Involuntary shift of ownership and management positions due to declining performance.	Poor entrepreneurial performance	Shepherd (2003:319)
Company liabilities exceed the market assets value.	Liable to business assets	Koksal and Ardit (2004:2)
Poor financial measure and performance due to bankruptcy and decline in market value	Poor financial activities	Probst and Raisch (2005:90)
Failure due to inability of businesses to stand “market test” where total revenue does not adequately exceed costs	Greater revenue as compared to total costs	Coelho and McClure (2005:15)
Revenue decline while there is rising level of expenditure	Unable to raise sufficient assets to pay credits (issues of insolvency)	Shepherd <i>et al.</i> (2009b:134)
Rising debt levels more expenditure lesser assets volume	More expenses for businesses to settle(insolvent)	Seswhadri (2007:68)
Under performing business operations	Decline in performance due to business failure	Sheppard and Chowdhury (2005:241)
Eminent business failure as a result of no business activities	Close trading operations	Medway and Byrom (2006:518)

Source: Own compilation from literature study

The table above exposes two opposing factors of assets and revenue against costs that are applied to explain business failure in general. Moreover, the high rate of small business failure can either be explained using different approaches. This is possible because business failure as demonstrated throughout the available extant literature, lack uniformity (Dobbs & Hamilton, 2007). From these definitions thus far, the subsequent failure of small businesses according to the current study depicts business situation where the owner-manager (entrepreneurs) can no longer take control of the business or the business is no longer feasible in commercial context.

Economic factors impact negatively on small business failure. According to a survey by Dun and Brudstreet, there are various economic factors that contribute to the failure of businesses in America (Corman & Lussier, 2001:1-15). Table 4.3 below illustrate seven economic factors that are the main causes of business failures and key limitations to the operations of small businesses (Corman & Lussier, 2001:1-16; Herrington *et al.*, 2010:31-35). The key contributory factor of the small business sector is the lack of business knowledge. For example, owner-managers (entrepreneurs) of small businesses lack sufficient knowledge and according to existing statistics about 90% of the small business sector are faced with increasing rate of failure due to insufficient knowledge and poorer skills including knowledge regarding leases (Holmes, 2006:1; Crosby, Hughes & Murdoch, 2006:183).

Table 4.3: Seven contributory factors to business failure

Rate of failures	Cause of failure	Reasons
63.5%	Economic	High interest rates, inadequate sales, insufficient profit margin, industry weakness, poor growth prospects, poor business location, not competitive
24.1%	Financial	Burdensome institutional debt, heavy operating expenses, insufficient capital
3.9%	Neglect	Family problems, lack of commitment, business conflicts, poor working habits
2.2%	Fraud	
1.0%	Experience	Lack of business knowledge, lack of line experience, lack of managerial experience
.0%	Strategy	Excessive fixed assets, over expansion, receivables difficulties

Source: Adapted from Corman and Lussier (2001:1-16); Herrington *et al.* (2010:31-35).

Table 4.3 above depicts various economic factors such as sales turnover, industry competitiveness, interest rates, business profit, growth prospects and business location as some of the factors that contribute to business failure.

4.9 CHALLENGES AND LIMITATIONS OF SMALL BUSINESSES

Given the immense socio-economic contributions of entrepreneurship, the small business sector is highly recognised as increasingly the main profitable source of all financial houses (Agyapong, Agyapong & Darfor, 2011:132). This sector is still faced with complex challenges in South Africa and elsewhere. For years, the Global Entrepreneurship Monitor (GEM) reports of 2001–2010 have documented that the small business sector in South Africa is faced with challenges of inadequate managerial skills due to insufficient systems of education and skills training. Key among these challenges includes financing small businesses.

Small businesses and entrepreneurship mostly suffer from lack of sufficient social networkings which can assist the owner-managers of small businesses to easily access

financial aid and to acquire relevant business information (Barton & Zhang, 2007:1). For decades, several constraints including a lack of organisational knowledge by the entrepreneurs have challenged the depth of survival of entrepreneurship and new venture establishments (Aldrich & Fiol, 1994:645). In support Lau and Busenitz, 2001:7) indicate other limitations including unpreparedness by the entrepreneur and the lack of network utilisation and technical skills as some of the outstanding challenges that limit the rate of business performance.

Van Eeden *et al.* (2003:14-17) opine that an excessive tax policy and persistent economic uncertainties present challenges to small businesses as this sector continues to struggle for sustainability due to factors such as a lack of enough accounting and financial skills (Herrington *et al.*, 2008:47). Mohr and Fourie (2004:11-12) cited other external factors that directly influence small business operations. Furthermore, other micro-economic factors such as a lack of managerial skills, insufficient business and managerial skills and weak financial knowledge adversely impact on small business performance (Venter *et al.*, 2003:17).

Put simply, poor social networks equally poses serious challenges to successful small business operations (Brand, Du Preez & Schutte, 2007:190). Aside from providing the necessary funds, the small business sector requires a continuous flow of information throughout its operations to remain competitive (Ramsey, Ibbotson, Bell & Gray, 2003). The small business sector continues to be challenged by various issues of weaker macro-economic activities that reduce financial aid due to the imposition of more stringent budgetary measures, increased global competition, high crime rates and competitive technological shifts (SME survey, 2010; Janse van Rensburg, 2011).

A recent survey by the Centre for Development Enterprise (CDE) in 2007 revealed that factors such as high crime levels, inadequate infrastructure, regulatory framework, issues regarding labour, growing rates of corrupt practices, increase in the nature of competition and the negative perception towards entrepreneurial attitude are some of the key challenges to small businesses (DTI, 2008:49). In addition, a lack of sufficient

knowledge makes it impossible for the owner-managers to make informed decisions and to be able to use the latest technology appliances (Jorosi, 2006:105). For instance, owner-managers of small businesses are unaware of specific places to access specific services (Department of Trade and Industry, 2004:3).

In support Herrington *et al.* (2010:49) state that owner-managers of small businesses are not conversant of government services that are available. On the other hand, constant display of high level of networking by owner-managers (entrepreneurs) provides additional skills which contribute not only to the social, financial and technical skills but also serves as human asset which pave the way for successful entrepreneurship (Jack, Dodd & Anderson, 2008). According to Uzor (2004:29), through partnership initiatives between the state, private sector and various institutions, capacity and infrastructure can be built to enhance economic development.

According to Turner, Varghese and Walker (2008:15), the owner-managers of small businesses in South Africa are of the views that access to business financing still remains one of the most critical challenges. Besides, it is believed that individual entrepreneurs only acquire “seed capital” in the form of equity not only from venture capitalists businesses but also from friends and family members (Berlin, Doherty, Garmise, Ghosh, Moorman, Sowders & Texter, 2010:10). Thus, the small business sector is rendered practically ineffective to introduce new innovative products and services onto the market (Abor & Biekpe, 2006:17). Yet, in both the developed and developing countries, small businesses are faced with recurring challenges that hamper their growth. In general, individual entrepreneurs are unable to grow their businesses because they cannot save money to fund the business objectives; the business is only for survival (Amoros & Cristi, 2010:6). As indicated by Badenhorst, Cant, Cronjé, Du Toit, Du Erasmus, Grobler, Kruger, Machado, Marais, Marx, Strydom and Ampofu (2003:120-121), one of the most common challenges of small businesses is poor management style.

Besides, other challenges such as inadequate management skills, lack of experience, knowledge and training impact negatively on small business performance (Shejavali, 2007:7). Streams of academic literature indicate that a lack of a business plan or the inability of the owner-manager (entrepreneurs) to prepare strategic planning poses huge challenges to small businesses (Ehlers & Lazenby, 2007:12; Rwigema, 2004:250-253). A further report by Trade Industrial Policy Strategy (TIPS) highlights that for small business policy framework to be comprehensive, there must be enough information regarding factors such as numbers, the size, the structure, state of existing economy and small business contributions to the economy (Mbonyane & Ladzani, 2011:552).

One of the central challenges of small business is the option of not borrowing from financial houses but to use own capital, borrow from family members or from friends for business operations (Shafeek, 2006:8). This unfortunate occurrence is prevalent because financial houses are not willing to lend to small businesses due to a high level of risk; hence, the financial houses require more collateral with high interest rates for funds borrowed (Mutezo, 2005:31-35). Small businesses and entrepreneurship are highly associated with risk; thus it is extremely difficult for financiers to offer financial support as they are risk-averse by nature (Van Vuuren & Groenewald, 2007; Brand *et al.*, 2007:188).

However, financial decision-making is of utmost significance to small businesses (Marx, De Swardt, Beaumont-Smith & Erasmus, 2010:10). At the same time, empirical research outcomes indicate that roughly 30% of the owner-managers lack skills including business skills (Roodt, 2005:20). According to Ligthelm and Van Wyk (2004:1), study continues to state that owner-managers of small businesses lack relevant skills such as financial acumen and accounting, information technology and business skills.

There are several factors that limit the performance and success of small businesses. These factors are interdependent and on most occasions, are equally related to each other. The business environment of South Africa is recognised as favourable for

business operations as compared to other developed and developing countries. A recent report by the World Bank (2006) and the International Finance Corporation “*Doing business*” that involved 155 countries globally ranked South Africa as 28th out of the 30 global economies as one of the most favourable business environments. New Zealand is ranked the friendliest country with best business regulations in the world.

The choice of wrongful selection of a business establishment further hampers business growth (Badenhorst *et al.*, 2003:79). Other challenges include a lack of proper leadership skills and a lack of effective business control (Co *et al.*, 2007:274; Badenhorst *et al.*, 2003:124). A survey in Mauritius by Hookimsing and Essoo (2003:16) indicates that, in general, entrepreneurs are further challenged in areas of difficulties in acquiring relevant permits, inadequate market information and issues of financial difficulties. In emerging economies, the frequent changes of the political landscape, the complex tax environment, ill-defined regulatory structures and growing corrupt practices are some of the challenges that are faced by the entrepreneurs (Benzing *et al.*, 2009). Small businesses continue to experience increasingly high entry barriers with lower levels of private sector development (Klinger & Lederman, 2011:77).

4.9.1 Theoretical framework of the challenges

In most developing countries including South Africa, entrepreneurial (small business) activity is insignificant; mostly it consists of only individuals, the owner-managers. Since most of the enterprises in developing countries operate as a one-man ownership, the “*largest employment category is working proprietors*” (Mead & Liedholm, 1998:62). Developing countries especially in Africa are likely to emerge from abject poverty and dwindling employment provided there is increased emphasis to sustain the rate of small business survival (Moss, 2007:233).

These businesses receive much family support in addition to trainees and apprentice programmes. According to Mead and Liedholm (1998:64), another critical characteristic of the small business sector is that most of the businesses are established in rural

environments. Mostly, in rural areas, small businesses are involved in the manufacturing activities such as textiles industries, food and beverages, wood and forest products. Small businesses are known to be the larger contributors of economic prosperity in less developed countries in addition to raising the standard of living (World Bank, 2007).

There is a significant relationship between the possibility of expanding rural small businesses and business location; in contrast, to *“urban businesses”* rural small businesses are *“less likely to create growth opportunities and to become successful”* (Mead & Liedholm, 1998:68). Factors such as a lack of access and proximity to markets are limitations to business success. Some of these factors impact negatively on rural business activities hence limits business success and sustainability (Mead & Liedholm, 1998:68).

According to Fry, Stoner and Hattwick (2001:13), business, in general, cannot operate in isolation or outside the internal and external business environments. By their nature, business environments include the external and internal environments that holds the *“rules of the game”* to stimulate more entrepreneurial activities. Within the confines of the business environments there are socio-economic and political sectors. The business environment changes in terms of conditions that influence business development and growth (Moss, 2007:235; World Bank, 2006). Small businesses are faced with critical challenges that limit economic development as well as their potential for growth possibilities. According to Ligthelm and Cant (2002:121) and Dobson (2002:23), some of the key challenging areas of small businesses are discussed below.

4.9.1.1 Demographic characteristics

Different demographics such as individuals' age, income, education, gender and ethnicity are proven to be fruitful in research environments because individual demographics are used to differentiate potential entrepreneurs from non-entrepreneurs (Bolton & Thompson, 2004; Shane, 2003; Rwigema & Venter, 2004).

According to Bindi and Parker (2010), the gender of an individual depicts common determinants of self-employment; yet in terms of ethnic foundation, the study outcome displays mixed pictures. This sentiment is further confirmed by a recent study in Brazil, China and Russia where it was proven that demographic and sociological profiles influence entrepreneurial activity in developing countries (Djankov, Qian, Roland & Zhuravskaya, 2008:2).

Demographic traits in particular, gender have in recent years received growing focus in entrepreneurial surveys among women and men in entrepreneurship (Shane, 2008; Acs *et al.*, 2004). Globally, at the ages of 25 and 34 there is sufficient engagement of entrepreneurial activities by individuals for start-up businesses. Unfortunately, studies have shown that there are no correlations between entrepreneurial attitude and the age of individuals (Levesque & Minniti, 2006).

However, there is serious disagreement regarding the rates of entrepreneurial activity in South Africa. Maas and Herrington (2006) stated that the rates of entrepreneurship are very high among the Indian, the white and the black population groups more than the coloured population. Educational qualifications by individuals bear strong and positive relationship to higher entrepreneurship only in highly structured income countries as returns on education are mostly high for the self-employed (Acs *et al.*, 2004; Robinson & Sexton, 1994). According to Wang and Wong (2004), factors such as gender, family business experiences and educational attainment impact rather negatively on entrepreneurship.

4.9.1.2 Family influence

Entrepreneurship entails the recognition of business opportunities which are explored through the creation of start-up businesses. According to extant literature there is a lack of enough family attention regarding family entrepreneurship (Aldrich & Cliff, 2003:573-576). Family structure deeply impacts on entrepreneurial activity; within the entrepreneurship framework, smaller family size businesses facilitate entrepreneurship

and at the same time, limit the creation of nascent entrepreneurship. As indicated by Shane and Cable (2002:367) family assistance and social networking cannot be ignored; various economies have encouraged sustainable entrepreneurial activities in particular opportunity entrepreneurship that are most likely to grow.

Besides, to be raised in an entrepreneurial family greatly impacts on the entrepreneurial ability of an individual, offers learning opportunities and skills from self-employed parents (Chlosta, Patzelt, Klein & Dormann, 2012:121). Smaller-sized families view the establishment start-up businesses to be less risky (Aldrich & Cliff, 2003:581). Advancing further the immense positive influence of work and family on entrepreneurship, it is argued that a family offers assistance to entrepreneurship success (Powel & Eddleston, 2010:1). Simply, the parents of individuals who are self-employed greatly influence their children to pursue start-up businesses; however, this may be short-lived (Sorensen, 2007b). Family influence is highly associated with entrepreneurial success. For instance, a recent empirical survey indicates that Asian family traders record a great deal of success due to family traditions (Kristiansen & Ryen, 2002:173).

Active networking by entrepreneurs institutes structural development and provide greater insight to the regional process of growth; thus creating a positive entrepreneurial climate that is necessary to foster entrepreneurial growth (Berglund & Johansson, 2007:501-502). Besides, the social networks also echo the benefits of education and its associated financial capital (Schindehutte, Morris & Brennan, 2003; Steier, 2003:259). The inherent attitude to acquire a desirable family work balance has been highlighted as another motivational factor for the individual to embark on their own successful entrepreneurship over long periods of time (Jennings & McDougald, 2007:748). Entrepreneurship success can be associated with individuals with an entrepreneurial family background (Shane *et al.*, 2003:257-279).

4.9.1.3 Workplace experience

Besides social capital, educational standard and work experience are some of the outstanding factors of new business start-ups (Urban, Van Vuuren & Barreira, 2008:61). Employees with existing experience in an industry can be an added advantage in terms of skills, personal networking and knowledge. Furthermore, Wagner (2005) indicates that vast amount of evidence exist experience bears correlation with successful transition from nascent to infant entrepreneurial activity. However, Samuelsson and Davidsson (2009) argue that no evidence exists regarding industry experience with business operations.

The previous employment opportunity prior to the establishment of new business ventures is perceived as the depth of personal experience (Shane, 2008). Consequently, personal experience does not only provide critical foundation to entrepreneurial success but it also enables the individual to acquire the wealth of the business management skills that is critical to run the business; it also provides the individual with the potential to identify viable business opportunities for successful exploitation (Crosa, Aldrich & Keister, 2003).

4.9.1.4 Resource-gathering

The primary resources of an organisation include individuals and the level of requisite information to start business operations as the small business sector is challenged by insufficient management of inventory which constrain small business growth (Anesta, Caceda & Michalka, 2004:15; Busuttil, 2007:4). According to Alvarez (2005), the entrepreneur is able to access information in order to deploy resources for the exploitation of business opportunities.

Burns (2007:331) emphasises that a lack of information creates a bad omen for decision-making and contributions to poorer financial measures that contribute to business failure. In addition, small businesses are unable to properly analyse

information in order to sustain operations (Arrieta, Ricondo & Aranguren, 2007:147; Levy & Powell, 2005:36). Small businesses find it very difficult to effectively control, monitor, plan and to make informed business decisions due to challenges (Burns, 2007:182). According to Ngassam, Kandie, Nkaelang and Modibe (2009:2), small businesses are hampered as critical resources such as finance, location of business premises and access to technology become limited. It is therefore vital for the business survival provided the small business sector acquires enough skills in areas of accounting as well as in management (Sane & Traore, 2009:114).

In developing countries access to information has been one of the best resources for entrepreneurial success (Lingelbach *et al.*, 2005). Shane (2008) states that most entrepreneurs use personal funds, family savings or funds from friends to start their business operations; thus, the establishment of a new business venture is full of risks because the founders rely heavily on their personal perceptions for investment options in the new business ventures (Nieuwenhuizen & Kroon, 2003).

4.9.1.5 Economic environment

Entrepreneurship and small businesses are known to flourish well in a stabilised and low-rate inflationary environment and creates wealth by putting together newer production methods (Audretsch, 2007). Within the economic environment entrepreneurship and small businesses continue to create opportunities to stimulate entrepreneurial activities (Stevenson & Lundstrom, 2002, 23). The small business sector is weakening due to lack of skills and capital; as such it is unable to face market competition of the economy (Makatiani, 2006:1). According to Bennett (2008:377), intervention policy measures by government to support small businesses in the economy rather create bureaucratic issues which harm small business operations.

4.9.1.6 Access to finance

Streams of scholarly empirical evidence point to the significance of financial limitations of start-up businesses. However, the evidence thus far is inconclusive (Kim, Aldrich & Keister, 2006:7). Small businesses are challenged by preventive elements (Wickham, 2006:167) due to different funding issues of inability to obtain maximum funding for start-up businesses due to a lack of sufficient information about available financial institutions (Kiyosaki & Lechter, 2003:109; Casparie, 2008:112). Besides, the small business sector is perceived to be an investment risk; thus the small business sector is unable to attract requisite skilful labour for business operations (Zimmerer, Scarborough & Wilson, 2008:12-15).

According to Estrin, Meyer and Bychkova (2006:702), the issues of financial limitations are not better for the expansion of start-up businesses. Yet, through the developed countries only a minimal amount of capital is required as such family members also provide financial support (Hurst & Lusardi, 2004:321). South Africa, as the rest of the developing countries is equally faced with challenges of limited financial support, difficulties to engage a reliable workforce and widening the competitive market environment (Benzing *et al.*, 2009:64).

Access to finance has been one of the critical inhibitors to entrepreneurship and small businesses (Pretorius & Shaw, 2004:223). According to Von Broembsen (2005), the small business sector experiences three of the most inhibiting factors of access to financial support, the regulatory climate and a poor education system. Financial support is paramount to small business survival (Naudé *et al.*, 2009). Generally, financial institutions in South Africa are not prepared to offer the necessary financial assistance to business operating in black areas because of the fierce competition (Woodward *et al.*, 2011:72). Chan (2008) states that a lack of financial assistance largely curtails entrepreneurial activities and fuel a high failure rate of start-up businesses.

Lack of financial assistance has widely been researched; small businesses are mostly hampered due to unavailability of credit facilities (World Bank, 2001; Skinner, 2006). The small business sector is faced with critical challenges of insufficient start-up capital and exorbitant financial charges (Groenewald, Mitchell, Nayager, Van Zyl & Visser, 2006). Motsa and Associates (2004:14) further explained that most disadvantaged communities with no form of collateral securities are unable to access financial assistance because small businesses are perceived to be of higher risk than the *“big businesses”*.

In contrast, the study indicated that challenges of a lack of financial support become milder provided there is evidence of best financial practices and efficient management systems (Motsa & Associates, 2004:16). Small businesses are recognised globally as creators of employment. However, the development of small businesses is always faced with numerous limitations including capital funding due to the inability of owner-managers to provide sufficient collateral requirements (Thitapha, 2003:5; CDE, 2007:5).

Schoombee (2003) adds that in South Africa, Nigeria and in Tunisia the small business sector is unable to access formal banking facilities; also the small businesses within the informal sector are faced with challenges of growth. According to Ishengoma and Kappel (2006), in most developing countries, the majority of small businesses find it difficult to acquire financial assistance. For instance, between 1995 and 2004 only 9% of informal small businesses in Jamaica were privileged enough to obtain financial assistance as compared to Uganda where only 4% of small businesses acquired credit facilities. According to the study, it was very costly to obtain credit facilities in Tanzania; the small business sector is constrained in Nigeria due to high transaction costs which erode profit margins.

Naudé (2003) states other challenges that are faced by owner-managers of small businesses include property rights, influencing tax policies, shortages of physical infrastructure, finance and capital illiteracy, lack of managerial skills and uncertainty within the political environment. Small businesses are unable to obtain capital to

continue business operations; thus it is impossible to embark on expansion programmes in order to create employment opportunities (Aryeetey & Ahene, 2004:5).

A study by the World Bank (2006:29) indicates that most financial constraints between large and micro-enterprises “...were in access to finance”. The study further discovered that several issues relating to a lack of collateral, high financial costs, a lack of education, inexperienced managers and a high level of bureaucratic systems were some of the causes for small business failures (World Bank, 2006:32). The owner-managers find it very difficult to access much needed capital to finance business activities; furthermore, increasingly concern is raised because of the high financial costs to small businesses; in South Africa small business development is largely constrained because of inadequate financial support (Murphy, 1996:22; Van der Merwe, 2003:32).

Access to finance is rated as one of the most critical challenges to small businesses in South Africa. According to Nieuwenhuizen and Kroon (2002:22), small businesses are regarded as a high risk area of viable business investment. Reasons given are that small businesses are unable to provide collateral securities as needed by commercial banks. Similarly, a survey by Orford *et al.* (2003:14), selected participating South African experts and other participating countries that indicated that a lack of financial assistance is the number one limitation to small business growth.

The GEM (2003) report further states that, globally, small businesses find it extremely difficult to obtain formal financial support to embark on new business formation provided collateral securities or other forms of good credit ratings are available (Orford *et al.*, 2003:12). In another study, Nieuwenhuizen and Groenewald (2004:29) state that a lack of sufficient funding inhibits new business creation. According to Naudé and Havenga (2004:112), small business experiences problems to acquire both short-and long-term financial support due to a lack of security as pre-conditions for financial support from banks. Over the years, the small business sector is constrained due to skills shortages. However, in general, the inability of owner-managers of small businesses to access

enough funding is another compiling reason for high small business failure (Strydom & Tustin, 2004:1; Lotz & Marais, 2007:694).

4.9.1.7 Personal experience

Much has been documented in terms of lack of experience and insufficient management training programmes to assist the owner-managers of small businesses (Thornhill & Amit, 2003:498; Cheung, 2008:50). Supporting this claim, Ahmad (2009:98) emphasises that factors such as poor skills levels hamper small businesses. According to Ihua (2009:199), the lack of managerial skills culminates into poor management of resources by the owner-managers (entrepreneurs) of small businesses which continue to fuel the challenges of business growth.

One of the major elements to become a successful entrepreneur is the individual ability to assimilate practical experience and endeavour to form experience (Deakins & Freel, 1998 cited by Kunene, 2008). The degree of personal or professional experience in similar industries with the same entrepreneurial activity is more likely to increase the success and the rate of entrepreneurship performance (Dahiqvist, Davidsson & Wiklund, 2000 cited by Kunene, 2008). Nieman and Nieuwenhuizen (2009) state that the entrepreneur is likely to see lucrative entrepreneurial opportunities thus become successful provided the entrepreneur had acquired rich work-related experiences.

A study indicates that individuals with previous entrepreneurial experience are said to become successful (MacMillan, Siegel & Harasimha, 1985). According to the study some of the reasons are because these individuals have access to established networks of information and resource-gathering processes; also the individuals have on so many occasions observed their family members or friends operating their own businesses; as such, these individuals are better placed to operate a successful entrepreneurial venture (Smith & Lohrke, 2008:318). For example, an empirical survey in Brazil indicated that family background and social networks strongly impact on individuals' desire to pursue entrepreneurship. The ability of entrepreneurs to operate

entrepreneurial activities successfully is determined by the level of educational standard within the family unit (Djankov *et al.*, 2008:1).

4.9.1.8 Market penetration

There is a minimal amount of market information that is available to be utilised by the small business sector. This is in line with the argument that the market for the corporate entities cannot be used by small businesses due to a lack of resources within the small business structures (Adams, Khoja & Kauffman, 2012:20).

The majority of small businesses in South Africa find it impossible to access market information and intelligence for opportunities. Lack of access to local and foreign financial support is vital constraints that are faced by the small businesses (Rankhumise, 2010:9). The small business sector is further constrained due to serious delays in costs and more export complications. According to Cant and Ligthelm (2002), these prolong delays, impact negatively on small business growth, thus resulting in serious financial predicaments.

Due to a lack of capital and skills, small businesses are restrained to expand into the export markets. Consequently, most local markets still remain with cheap, low quality products and services rendered by most of the survivalist micro-businesses (Jones & Tilley, 2003:8). Naudé and Havenga (2004:112) state that the small business sector experienced high marketing risks due to the limited product range the sector offers to the market. This, according to the study, is due to problems of incompetency in the areas of financial assistance.

4.9.1.9 Technology and state of infrastructure

In most developing countries including South Africa, small businesses lack adequate knowledge, skills and limited access to public facilities or infrastructure hence they are unable to identify relevant sources of technologies that are beneficial for business

operations (Darroch & Clover, 2005:327). According to Modiba, Ngassam and Eloff (2009:161), lack of adequate skills, knowledge and a lack of information, poor quality of infrastructure development within the small business sector especially in the area of information technology gravely impair the growth and expansion programmes of small businesses as a result of rising production costs which limits small business viability (Ejembi & Ogiji, 2007:7; Chong, 2008:469).

Small businesses within the informal sector are not registered (SEDA, 2007:20). The small business sector depends severely on infrastructure for its basic survival (UN, 2007:3). Small businesses within the informal economy are faced with challenges of inadequate infrastructural issues (UNDP, 2003:14). In addition, the sector continue to suffers from inadequate infrastructure namely insufficient water supplies, poor road networks, continuous disruption of energy supplies (Anesta *et al.*, 2004:14); inadequate infrastructure, shortages of water and energy (Bowen, Morara & Mureithi, 2009:16). Also, small businesses lack sufficient time, the resources and technological expertise in research and development; therefore, creating serious limitations for business growth and sustainability (Jones & Tilley, 2003:8). Most of the corporate entities in South Africa are comfortable in using the latest technology to enhance productivity.

In a similar study, Naudé (2004:10) confirms that poor educational systems, lack of capital, government regulations and inadequate business knowledge and experience impact negatively on small businesses. Owner-managers of small businesses are unable to charge their mobile phones due to poor electricity supply; users of technology are unable to network in order to access marketing opportunities (Kew & Herrington, 2009:40; Macueve, Mandlate, Ginger, Gaster & Macome, 2009:40).

According to Mobility (2006), small businesses in South Africa are currently unable to apply the latest technologies to enhance their business operations despite the enormous benefits. The study continued to emphasise that the small business sector is reluctant to change thus need relevant educational assistance to instil the culture of technology applications in the sector (World Wide Worx, 2006).

4.9.1.10 Legal and regulatory environment

Government is the sole custodian of rules and regulations which governs entrepreneurship; for entrepreneurship to flourish well, government must provide an environment that is conducive enough for marketing activities and to eradicate marketing barriers (Acs & Kallas, 2007). At the same time, the depth of competitiveness and the success of any form of business are rooted in both situational and contextual factors (Tilley & Tonge, 2003:4). Sadly, start-up businesses are met with internal and external barriers such as a harsh legislative framework (Tilley & Tonge, 2003).

The present regulatory system of South Africa needs a complete overhaul; this is because the present regulatory system of the country is rated very high due to its unwieldy processes (Chandra, Moorthy, Nganou, Rajaratnam & Schaefer, 2001:43); thus most entrepreneurs spent 8.4 hours on a daily basis every month to complete paperwork (Kitching, 2006:17). Small business growth is therefore retarded and job opportunities within the small business sector is severely compromised (Christianson, 2003:1). For instance, a recent survey by the Centre for Development of Enterprise (CDE) (2007) reinforces the opinion that small businesses are hampered by high levels of crime, infrastructure, corruption, informality and a strict regulatory system, increasing competitive climate, labour laws and negative entrepreneurial perceptions (CDE, 2007 (b):5-7).

The high costs of compliance to government regulations and the absolute lack of capacity to stand such costs pose severe threats to small business operations and survival; thus it is detrimental with negative consequences to business survival and growth (Ligthelm & Cant, 2002:5; Rwigema & Venter, 2008; Bannock, 2005 cited in Mason 2006; Shane, 2003). Equally, the present regulatory environment of South Africa is complex and too complicated. In particular, the labour market is inflexible as the market in general works against the acquisition of resources (Rogerson, 2008:74-77). According to Rogerson (2004:772; 2008:70), most existing support mechanisms by the government is relatively extensive but rather for its intended marketplace. Policy

frameworks by governments pose severe challenges to small businesses (Chiloane & Mayhew, 2010:2595).

Government is duty bound to provide an enabling business environment that allows easy access to the market, not strict policies that create unnecessary trade restrictions to small business operations as bureaucratic systems hinder start-up operations, lucrative private investment opportunities, fuel corrupt practices and raise consumer prices (Acs & Kallas, 2007;World Bank, 2008). The small business sector lacks efficiency as general information regarding business registration become scarce. According to Simpson and Docherty (2004:321), Jonas and Tilley (2003:4), it is the sole responsibility of the government to provide the necessary information to the owner-managers of the small business sector.

Kitching (2006:4) argue that regulations maintain and enhance various conditions that enable the functioning of an advanced market economy. Within the regulatory framework, there are administrative challenges such as the costs of business transactions, entrepreneurs' need to be knowledgeable on how to use the regulatory environment and the legal aspects in the export market (IFC, 2008:18; Hassanin, 2009:59). In South Africa the legislative framework on labour is harsher in contrast to prevailing labour laws in OECD countries; hence employers are not at ease in hiring potential employees due to the daily difficulties in processing labour related issues (World Bank, 2007:19; Maier & Nair-Reichert, 2007:50). As a result, there is unfair marketing competition among corporate entities and small businesses (World Bank, 2007).

The owner-managers (entrepreneurs) of small businesses in Kenya, Tanzania and Uganda operate in severely overregulated business settings with duplications of local and national laws. As such, small businesses become heavily subjected to high costs and long hours of delays due to lengthy and complex processes, strict and too excessive regulatory environments which need serious attitude changes and techniques to manage existing regulatory costs (Duvenhage, 2005:11; Dagut, 2007:37). According

to the World Bank (2008:13), due to these unfavourable conditions, the small business sector is unable to dismiss employees.

The legal environment of South Africa is overly burdened with several complex regulations on commerce and trade; hence very difficult to understand and to apply by small businesses. The existing complex documentation processes create severe barriers to small business operations. According to Nieuwenhuizen and Groenewald (2004:27), small businesses continued to experience several constraints in areas such as land and property ownership, trade, access to finance, labour law and taxation.

The regulatory and policy environment in some African countries have shown some improvements. For example, in Morocco and in Kenya corrective measures are taken to simplify legal and accounting procedures. Kirby and Watson (2003) state that in South Africa the regulatory environment is hostile to small business development; as a result small business are unable to grow; a recent study indicated that South Africa is ranked 35th out of 178 countries in the “*ease of doing business*” index yet small businesses require eight procedures for the purposes of registration for 31 days (World Bank, 2008).

4.9.1.11 Lack of training and skills

The general perception regarding entrepreneurship becomes abundantly clearer with positive signs as a result of training and education (Martinez *et al.*, 2010:11). Through education and training, individual entrepreneurs begin to reap the fruits of entrepreneurship and the essence of entrepreneurial opportunities within the business environment as knowledgeable individuals with relevant skills pursue start-up businesses (Martinez *et al.*, 2010:15). Botha, Nieman and Van Vuuren (2007:163) stressed that training and continuous development of the entrepreneur is critical to the general significance of every economic development.

It is critically important that individuals who intend to pursue entrepreneurship as a career option acquire the requisite skills and training and the necessary support (DTI, 2010:14). Unfortunately, small businesses are faced with challenges of managerial skills such as lack of relevant skills training and poor education for business operations (Groenewald *et al.*, 2006; Rogerson, 2008:72). The skills and training accorded the owner-managers (entrepreneurs) of small businesses fall short of expectations (Anon, 2010:1).

Besides, the owner-managers (entrepreneurs) of small businesses lack skills of business planning, accounting and production skills (Jain, 2008:3). However, owner-managers with adequate management and leadership skills in addition to a well-documented and viable business plan are able to acquire financial support from banks (Mahadea, 1997). Orford *et al.*(2003:34) state that entrepreneurs need to acquire good management skills in order to properly keep relevant financial records; thus entrepreneurs' ability to keep good and efficient financial records serves as prerequisite for growth and business expansion (Orford *et al.*, 2003:46).

Luiz (2002:27) states that inadequate managerial skills within the small business sector further constrained small business growth in South Africa. Ladzani and Van Vuuren (2004:157-158) strongly indicates that skills training alone is not the solution; other limitations including a lack of adequate financial resources, unavailability of marketing information, poor level of literacy and the general lack of support services are some of the contributory factors that challenge small businesses' survival (Ladzani & Van Vuuren, 2004). Rogerson (2008:72-74) emphasises that various existing SETA training initiatives that have been instituted by the South African Qualifications Authority (SAQA) to serve as enhancement tools of existing entrepreneurial skills fall short of expected objectives.

In essence, the majority of the entrepreneurs were unaware of the numerous support services namely service providers and specific centres where such services can be accessed (Fatoki & Gawe, 2010:732; Rogerson, 2006 (a):75-77). Aside from these

challenges, most of the owner-managers of small businesses are illiterate; hence, they are unable to understand business plans and other financial statements including budgets and the cash flow statements (Rogerson, 2008:72).

Ladzani and Van Vuuren (2004:155) reiterated that adequate training is required by owner-managers of small businesses to better manage the constant changes within the business environments; to actively respond to various innovations and initiative programmes. Through adequate training, the owner-managers (entrepreneurs) of small businesses are able to reduce business operation costs (Ladzani & Van Vuuren, 2004:155).

According to Storey (2003:19), small business owner-manager (entrepreneurs) need enough training to replace the poor educational background as compared to their corporate rivals. Rogerson (2008:70-71) affirms that in South Africa a large section of the small businesses are operated by individuals with limited skills due to relatively high educational standard and skills training. Longenecker *et al.* (2006:364) add that the lack of managerial skills limit small business survival and sustainability. Table 4.4 on the next page further highlights some of the key challenges that are faced by small businesses from different countries.

Table 4.4: Country level challenges and problems of small businesses

Country	Unique challenges and problems
Sub-Saharan Africa	Corruption, high tax, tax regulations, inadequate infrastructure, inflation, crime, theft and financing
East Africa: Tanzania, Kenya and Uganda	Overly regulated private sector, lengthy, costly and approval processes
Ghana	Inadequate access to credit facilities, lack of financial assistance (due to lack of collateral backup), a lack of formal education and training in entrepreneurial skill and business practices
Nigeria	Frequent extortion of money by government officials, poor infrastructure, overly disruptions of electricity supply, poor telecommunication system, lack of bank credit, lack of State interest in supporting the small business sector
Latin America	Corruption, inadequate infrastructure, crime, theft, financial issues, high tax, tax regulations
South Asia and South East Asia	High tax, tax regulations, inadequate infrastructure, inflation, labour regulations, regulations governing starting business
Middle East and North Africa	Lack of infrastructure, corruption, high tax, tax regulations, financial problems
Central and Eastern Europe	High tax, tax regulations, financial issues, corruption, inflation

Source: Chu, Kara and Benzing (2007)

From table 4.4 above it is clear that there is a common thread of challenges and problems that is faced within the small business sector. The state of infrastructure and the critical issues of finance featured mostly including the general system of taxation.

4.9.1.12 Age profile

Existing waves of business literature concur that the age of the owner-manager has a pessimistic impact in terms of supply and demand. Accordingly, the older generation, are not willing to invest more funding into businesses (Slavec & Prodan, 2012:113). Bosma and Levie (2010) stated that the age of the entrepreneur show positive signs as

well as negative influences of uncertainties in order to start entrepreneurship and start-up businesses.

Regarding the theories of entrepreneurship, a similar positive impact on individual entrepreneurs is discovered (De Jong, Parker, Wennekers & Wu, 2011). Consequently, there are adequate capabilities of entrepreneurs to increase the exploitation of business opportunities that conform to the individual's age cohort, being the acquisition of the requisite experiences and scores of relevant knowledge and skills (Bosma, Stam & Wennekers, 2010a). In developing countries such as Brazil and Greece the rate of business ownership has shown significant increase; over 10% of the adult population in those countries are owners and managers of existing business ventures (Von Broembsen *et al.*, 2005).

The entrepreneur's age is not only essential for business operations, it also provides adequate indications of the depths of experience and the ability of the entrepreneur to properly manage the level of work related stress; older entrepreneurs are able to experience lesser stress levels despite the fact that individuals' age cannot be controlled (Bluedorn & Martin, 2008:2). Moreover, as indicated by Bluedorn and Martin (2008) the older the entrepreneur the lesser life stress and the greater the individual experiences and capacity for work; flexibility and the ability to pursue other changing activities are some of the greatest recipes for the engagement into entrepreneurial activity (Haber & Reichel, 2007:122).

The GEM 2010 (Herrington *et al.*, 2010:23) survey indicates that the age of the entrepreneur can assist entrepreneurial growth and hence, some of the national moderators including age, gender, fear of failure, education and household income bear direct relationships with entrepreneurial growth and aspirations (Autio & Acs, 2009; Herrington *et al.*, 2010:24). According to the study, individuals' age and gender have been statistically linked to the high-growth rates that have been associated with the younger entrepreneurs in comparison to the older population (Herrington *et al.*, 2010:23).

The age of the individual entrepreneur plays a very significant role in successful small businesses. Kropp *et al.* (2008:103) discovered that the older generation of entrepreneurs are most likely to begin to establish start-ups of global standard as compared to the younger generation. The implications are that policy makers are expected to consider the older age group to be more promising than the younger ones (Kropp *et al.*, 2008:103).

Giacomin, Guyot, Janssen and Lohest (2007) indicate that the age of individuals impact positively on start-ups of any business venture due to “*exist from unemployment*” in relation to the fact that unemployment amongst the older generation is not severe. According to the researchers Giacomin *et al.* (2007), the age of an individual impacts very negatively in “*search of the profit*” and “*social development*” motivated by business opportunities (Giacomin *et al.*, 2007).

The exact significance of the entrepreneur's age cannot be ignored throughout the entrepreneurial activity. This is further confirmed by Block and Sandner (2009:118) that opportunity entrepreneurs are said to be much older as compared to the necessity entrepreneurs. Existing views on how the age of the entrepreneur influences the entrepreneurial propensity varies; yet other factors such as the individual expertise, the level of professional experience as well as the level of self-confidence and the availability of capital increases with the entrepreneur's age (Bergmann & Sternberg, 2007:207).

On the other hand, the younger generation are expected to display a minimal level of experience because of their age and other business operations. Empirical survey outcomes indicate that the older entrepreneurs are most likely to need support because of the level of personal experiences and the dearth of individual knowledge of personal proficiency (Klyver, 2008:188). These findings bear similarities with the GEM surveys over the years; entrepreneurial activity, according to the GEM surveys, increases from the ages between 25-34 years cohort then decline as the individual becomes older (Bosma *et al.*, 2009). Between the ages between 25 and 44 years is very significant

among South African entrepreneurs; an increase of about 50% of all the early-stage entrepreneurship activities occur (Herrington *et al.*, 2009:42; 2008:22-23).

In South Africa, the youth represents a high percentage of the total population of the country. According to the Labour Force Survey (2008), there is large-scale unemployment among the youth between the ages of 15 and 34 who are unemployed. Despite the positive impact of the age cohort on the youth entrepreneurship, there are severe limitations due to a lack of finance and high unemployment; even the youth who were able to secure or become self-employed lack the requisite depth of managerial skills and experience (Herrington *et al.*, 2008:23). In sum, the age of the entrepreneurs' increases from 25 to 44 years old; however, entrepreneurial activity declines during the older age of 44 years (Orford, Herrington & Wood, 2004).

4.9.1.13 Educational qualification

Human capital is vital to business formation (Bosma *et al.*, 2004:234). Successful business performance depends on the degree of investment in human capital (Bosma *et al.*, 2004:234; Van Praag, 2003:9). For instance, Van Praag (2003:9) affirms that businesses of younger entrepreneurs were unsuccessful due to a lack of sufficient knowledge and leadership skills. A study by Taylor (1999:153) further advance the notion that individual entrepreneurs lack experience due to unemployment but those who had acquired prior work experience are most likely to survive and sustain entrepreneurial activity.

Tidd, Bessant and Pavitt (2006:538) confirm that human capital plays a central role in accessing financial aid. Equally, social capital is critical essential ingredients to a business's success (Liao & Welsch, 2005:346). As such, its importance is embedded within individual networks among societies and the entire communities (Liao & Welsch, 2005). Similarly, even though social networks add value to personal networking, it is, however, disputed that a lack of human or social capital factors can be enriched through unceasing networking (Bruderl & Preisendorfer, 1998:224). In a dispute Botha *et al.*

(2007:163) indicate that education is not the only path to successful start-up creation; besides, education enables individuals to acquire the rightful skills (Botha *et al.*, 2007:163). Although it is impossible to accurately measure and evaluate the influence of education on entrepreneurship, well-qualified employees are expected to add value to business growth (Minniti *et al.*, 2005:34).

Darling, Gabrielsson and Seristo (2007:8) argued that factors such as intelligence, education, lifestyle and the background of the entrepreneur do not establish successful entrepreneurial activity, but rather the ability of owner-managers of small businesses enable the entrepreneurs to succeed. Van Aardt *et al.* (2008:4) confirm the general perception that sub-standard educational standards are largely to be blamed for a lack of entrepreneurial spirit among South Africans.

However, in contrast, prior surveys especially within the developed world disclosed that education is very influential in the decision to embark on start-up ventures (Kropp *et al.*, 2008:106). By utilising social networks, entrepreneurial activities are identified and exploited (Holt, 2008:53). As such, delving into the insight of entrepreneurship, it is significant to know the level of the entrepreneur's personal experience and the relevant negotiation process of the business (Holt, 2008:53).

Entrepreneurship in the developing countries is mostly to be influenced by the level of education acquired by individual entrepreneurs. However, in the developed countries; entrepreneurs are more likely to be better educated. A study conducted in South Africa shows that there was greater inverse; in practically, there was no correlation between start-up businesses and the level of education by the entrepreneur (Kropp *et al.*, 2008:111).

Furthermore, it is assumed that education enhances entrepreneurial and managerial skills (Dickson, Solomon & Weaver, 2008:241). For instance, empirical research study during the 1980s concluded that in the developed world and transitional countries, it was evident that there is a significant correlation between the overall educational

systems and entrepreneurial success (Dickson *et al.*, 2008:242). It is therefore, important that entrepreneurs are skilful enough to strengthen social capital as one of the most vital tools to entrepreneurial success (Groenewald & Van Vuuren, 2007:272).

Supporting this view, Unger, Rauch, Frese and Rosenbusch (2011:343-344) reiterate that a very high standard of education increases individuals' potential to spot and exploit business opportunities and provide the necessary capacities to further receive better prior knowledge and to accumulate new skills and knowledge. Individuals with more investment in human capital strive for business growth in contrast to others with minimal human capital intake (Cassar, 2006:613).

Entrepreneurship is accredited with innovating new products; new market discoveries and shifting of out-dated processes (Parker & Van Praag, 2012:416). However, it is argued that limitations of human capital and a lack of financial aid hamper economic benefits that are to be enjoyed as a result of entrepreneurship (Parker & Van Praag, 2012). In contrast, adequate educational capabilities increase the rate of entrepreneurial success (Parker & Van Praag, 2012). Advancing this statement, Maas and Herrington (2007:15) add that a sufficient level of educational achievement impacts positively on the entrepreneur, especially technological skills and enhance entrepreneurial activities (Isaacs, Visser, Friedrich & Brijlal, 2007:613); thus the lack of sufficient educational achievement poses a serious threat to entrepreneurial success (Horn, 2006:113).

Researchers, Schroeder and Rodermund (2006) pointed out the other capacity building factors that contribute to entrepreneurial success. These factors include personality traits, learning, experience and socio-cultural. In addition, demographic factors of individual's educational level, parental educational background and the entrepreneurial desire of parents, family background depicts positive entrepreneurial success (Zampetakis & Moustakis, 2006; Schroeder & Rodermund, 2006).

4.9.1.14 Role Models

Researchers Giannetti and Simonov (2004:242) argued that it is possible to increase entrepreneurial activity through continuous growth in entrepreneurship as well as to further encourage entrepreneurs' role modelling. The focus of role modelling is about the values that individuals identify with other people; and hence it involves the psychology that matches human cognition with behaviour patterns. According to Lockwood (2006:36), role models are generally seen as individuals who are exemplary of success that is similar to be achieved with practical behaviour patterns with a behavioural template for success. This implies, therefore, that individuals become very attractive to specific behaviours patterns or objectives through which certain skills and capabilities are learnt (Gibson, 2004:136).

According to De Clerq and Arenius (2006), role models enhance the skill level of individuals to actively engage in entrepreneurial occupation; to encourage individuals to change and accept entrepreneurial ambitions (Koellinger *et al.*, 2007). For instance, positive entrepreneurship enhances entrepreneurial activity (Fornahl, 2003:50). As such, role models are acknowledged as providers of knowledge, motivation and inspire individuals to reach personal ambitions (Gibson, 2004:149).

Advancing the theory of Gibson (2004), it is argued that role models can offer additional functions such as increasing self-efficiency, prepare the confidence level of individuals to attain their personal goals, create and add to the level of individual inspirations in order to enable individuals to establish start-up businesses (Bosma, Hessels, Schutjens, Van Praag & Verheul, 2012:5). Human capital and role models are highly correlated. As suggested by Hartog, Van Praag and Van der Sluis (2010:5), knowledge and the experience of individuals stem from high levels of human capital that enables people to establish their own business.

An entrepreneurial role model is perceived as the key influential source that bears a close connection to the human or social capital (Bosma *et al.*, 2012:411). Nieman and

Nieuwenhuizen (2009:33) indicate that role models influence most career options of individuals mostly from the family circles, relatives, parents and even entrepreneurs. The majority of successful business individuals relied on role models for issues of mentorship for experience and to develop sound business practices and entrepreneurial ethics; role models are very inspirational as they provide advice and contacts (Maas & Herrington, 2006:15; Rwigema & Venter, 2008:70). Sadly, most entrepreneurs in South Africa do not acknowledge the significance of role models (Ligthelm & Cant, 2002:6).

Van Vuuren and Groenewald (2007:278) stated that minimal attention is paid to role models for advice on success; however, the masses are very keen to hear of the business failures of role models but not the level of success achieved. The researchers continued to state that role models must be accorded recognition as others economic factors such as education and training, inflationary figures, tax rates, labour legislations, crime, uncertainty as well as rising interest rates (Van Vuuren & Groenewald, 2007). Thus, role models are involved in sharing knowledge with owner-managers of start-up businesses (Auken, Fry & Stephens, 2006).

Parker (2009:134-138) posits that the ultimate decision to establish start-up businesses correlates strongly with individuals whose parents had prior entrepreneurial experience. Such parents serve as role models to their children. Networks and peer groups are likely to influence entrepreneurial decisions and activities (Koellinger *et al.*, 2007; Falck, Heblich & Luedemann, 2009:8). By their nature, role models are very influential towards entrepreneurial activities and continue to act as mentors during entrepreneurial careers. Thus role models allow aspiring and inspiring individual entrepreneurs to share ideas (Bosma *et al.*, 2012:422). Again, role models are known to influence children but children are greatly exposed to their parents and their behaviour; as such parents are equally role models (Chlosta *et al.*, 2012:123).

4.9.1.15 Fear of business failure

The GEM (2009) report states that the fear of business failure is a serious challenge to most South Africans; the harsh attitude regarding business failures hinders entrepreneurial candidates' success (Herrington *et al.*, 2010:49-50). Within the business environment of factor-driven and efficiency-driven economies, individuals with increasingly high fear levels of failure experience growing poor start-up rankings; in general, individuals with potential for feasible business opportunities have significantly the lowest intentions for start-up businesses (Herrington *et al.*, 2010).

One of the major limitations to business success is unwillingness of potential entrepreneurs to accept risk. According to Kazela (2009), the majority of the South African population are unable to accept failure due to social stigma; therefore lack the ability to become more competitive. However, the GEM (2010) survey indicates that it is highly possible to show critical improvement of individuals' perceptions in terms of business opportunities to encourage the formation of business entities to lessen the level of fear among the entire South African population (Herrington *et al.*, 2010:49-50; Groenewald *et al.*, 2006).

Individual entrepreneurs suffer from psychological trauma due to the high failure rate of start-ups. The entrepreneur suffers from a set of symptoms including a lack of personal confidence, personal trust and a lack of personal esteem (Bizri, Kojok, Dani, Mokahal & Bakri, 2012:83). The formation of any form of business venture is without risks of uncertainty; as a result, there is an additional high attitude to fear which further stimulates more limitations of entrepreneurship development; a positive entrepreneurial culture is the only desirable alternative (Herrington *et al.*, 2008).

4.9.1.16 Training and skills development

In developing countries, there can be much improvement in entrepreneurship through adequate training and skills development (Crane & Crane, 2007). Currently, the dearth

of entrepreneurship training in South Africa is meant to incite the cultural of entrepreneurship at community level not on a very large scale to influence economic prosperity; it is argued that variations in the marketplace expects the owner-managers to acquire regular skills training in order to curtail the escalating failure rates within the small business environment (Ladzani, 2004:154-156). For example, entrepreneurial training initiatives are geared towards the older members of the communities with minimal educational achievements. Most of the training initiatives are organised through government-private owned companies (Kropp *et al.*, 2008:112). The small business sector finds it very difficult to operate business activities without much skill (Lotz & Marais, 2007:694).

4.9.1.17 Financial assistance

As Bowen *et al.* (2009:16) indicate that operating a small business without adequate financial assistance promotes significant challenges to start-up businesses (Pretorius & Shaw, 2004:223; Atieno, 2009:33). The small business sector is further incapacitated due to a lack of sufficient financial support and inefficient management systems (Thornhill & Amit, 2003:498). The owner-managers (entrepreneurs) of small businesses lack enough financial skills to plan; thus are unable to differentiating between public relations and relevant marketing tasks (Perks & Mazibuko, 2009:18). The majority of businesses utilised banking facilities to access funding; equally, the bulk of the owner-managers of small businesses rely heavily on family or friends for financial support (Namibia Economic Policy Research Unit, NEPRU, 2005:28).

The owner-managers of small businesses in remote areas as well as in the townships continue to struggle for financial assistance due to alack of guarantees in terms of collateral. In supporting this claim, FinScope Small Business Survey (2010) points to financial impediments as one of the severe limitations to small business growth (DTI, 2008). The owner-managers (entrepreneurs) of small businesses suffer from poor credit records and inadequate cash flow (Drodskie, 2002:19-20). As a result, therefore, there

is a continuous decrease in cash flow and a lack of collateral to enhance the level of credit facilities which limits small business development (Bowen *et al.*, 2009:16).

The majority of South Africans are engaged in small business operations. The Global Entrepreneurship Monitor (GEM) 2002 estimated approximately two million individuals started entrepreneurial activity. Unfortunately, the government is unable to provide the necessary financial resources that are needed to sustain these businesses. It was not viable to provide financial assistance to owner-managers (entrepreneurs) who lack sufficient management training skills (Smith &Perks, 2006:23). In addition inadequate funding and access to credit facilities hampers small business growth; hence, in most emerging countries, roughly 95% of the owner-managers of small businesses use their personal investments to operates their business activities (Anon., 2005c:22-23).

In South Africa, inadequate financial assistance is widely reported as critical challenges that are faced by owner-managers. According to GEM (2003) survey the South African financial environment is in favour of rendering the bare minimum financial assistance to owner-managers of small businesses in comparison to other developing countries (IE, 2009; Kunene, 2008).

Internationally, the Global Entrepreneurship Monitor (GEM) report of 2003 indicated that the majority of owner-managers are able to finance start-up businesses through personal savings, informal investments from friends, family members and colleagues (Shafeek, 2006:8). The report further stated that proper cash management is crucial for long-term small business growth. This is in support of the findings by the Global Entrepreneurship Monitor (GEM) report of 2002; it was indicated that most entrepreneurs from disadvantaged areas are not able to keep proper financial records; at the same time, the entrepreneurs are unable to provide the necessary documentations for acquiring the loan (Mutezo, 2005:31-34; Mafu, 2006; Herrington *et al.*, 2010:32).

4.9.1.18 The rate of crime

Globally, small businesses struggle to create meaningful growth due to high crime rates including break-ins, robberies, vandalism as well as employees' injuries are a major cause of concern (Asa, Casteel, Kraus & Whitten, 2006:1867; Bowes, 2005:16).

The growing crime rates and the costs of acquiring business security services are roughly estimated at 1.1% of the total sales, higher than the middle-income groups; security checks on crime are significantly low, the high level of crime affects potential investments and business success (Investment Climate Survey, 2004:12; Strydom & Tustin, 2004:4). Most small businesses are victims of high crime levels thus, the small business sector experiences difficulties to venture into emerging markets (Fatoki & Chindoga, 2011:163). A survey by Nedcor has estimated that in 1995 the cost of crime was estimated at R31 billion. According to the survey, crime and corruption is fast increasing; about 19 000 and 55 000 murders and rape cases have been reported in 2004 as one of the highest rankings world-wide (The Economist, 2005:42).

According to recent crime statistics during 2008, between April 2007 and March 2008 the level of general crime committed in terms of murder was significantly high. Brown (2001:270) contends that small businesses represent the single organised sector that experiences the severity of crime and violence. The South African Police Crime Statistics (2009) revealed a slight decrease in crime levels but insisted that other areas of crime have increased. Especially crimes such as burglary of business rose by 6.8% whilst commercial crime increased by 4.8% and shoplifting by 1.3%. According to the statistics, business robberies increased significantly by 47.4%. These figures translate into an exceptionally high level of business crimes committed between the periods 2006 and 2008; thus the level of business related crimes in South Africa surged from 6689 to a record high of 9862 (South African Police Service Crime Statistics, 2009).

Crime statistics in South Africa is on the increase resulting to the fact that crime is ranked as the second most problematic factor for doing business in South Africa

(Herrington *et al.*, 2009). According to the Global Competitiveness Report 2010-2011, the crime record in South Africa is a worrying factor in doing business country-wide (Herrington *et al.*, 2010:20). Regarding the cost of doing business, the growing crime and violence related behaviour in South Africa is ranked 137th out of 139 countries (Herrington *et al.*, 2010:20). In 2009, the crime statistics indicated that over 70% of small businesses suffered various forms of robberies (Herrington *et al.*, 2009).

A high crime rate impacts negatively on small business operations; the general perceptions regarding crime as well as the businesses' real level of experiencing crime provide the potential for opportunity costs to be utilised by individual enterprises which are established within the borders of a specific economy (SBP, 2008:4-11). According to the study, the high level of crime generally creates some psychological influence both at work and at home; drawing from the research outcomes, it is therefore evident that an incidence of a single serious crime could easily result in a complete closure and loss of business sustainability and growth (SBP, 2008).

Similarly, research by the Small Business Project (SBP, 2008:5) further highlights the cost of regulating various forms of crime has amounted to R79 billion in 2004; strict and harsh regulatory and '*red tape*' activities were discovered to impact negatively on employment and economic growth. The influence of crime on business cannot be ignored. A recent study by SBP (2008:4) indicates some of the critical outcomes are:

- 54% of businesses in the study had experienced at least one severe incident of crime during the previous years.
- 70% of respondents indicated that they had been attacked whilst on duty as a result of crime.
- 31% of businesses had suffered twice or more and almost 20% of businesses suffered three or several times.
- Small businesses, according to the study, lose at least 20% of turnover to crime.
- Roughly, a quarter of all the respondents were neither willing to expand nor invest in their business venture due to threats of crime.

- Approximately 20% of businesses are unlikely to increase their employment potential.

4.9.1.19 Influence of gender on small businesses

Entrepreneurial activity is motivated through personal independence especially in countries where independence forms the most critical part of the national cultural norm as compared to countries that are largely governed by the culture of collectivism (Frederick & Chittock, 2005:11-12). It is extremely difficult to manage businesses in countries where collective cultural norms are adhered to; such practices are serious limitations to business success and growth. Cultural differences are most likely to impact on entrepreneurial processes (Frederick & Chittock, 2005:9-11).

Similarly, the need for independence plays a vital role in motivating both sexes into pursuing entrepreneurship (Frederick & Chittock, 2005). According to Kirkwood (2009:349), besides cultural traits, “*push*” factors create huge gender discrepancies. Some of the critical factors or disparities are:

- The growing workforce within the women population.
- Managerial skills of women employees had declined significantly.
- Declining levels of networks and social capital (Kirkwood, 2009:349).

Whilst it is true that the influence of gender on entrepreneurship bears similarities in most entrepreneurial countries but with minimal variations, the population of men in South Africa is 1.4 times more than the women who pursue entrepreneurial activity (GEM, 2004:16). According to Humbert and Dew (2010:173-196), volumes of motivational elements restrict gender in the work environment because of social issues such as family push factors. One of the determinants of the available opportunity is the race group of each person. Specific race group determines the level of entrepreneurship in South Africa. The GEM (2004) survey indicates that the TEA rates of black South

Africans are ranked very low; however, the TEA rates of the white South Africans are twice than the black population (GEM, 2004:16).

Black South Africans are known to pursue necessity-motivated entrepreneurship more than white South Africans; but the difference is very minimal. In contrast, the white South Africans pursue opportunity-motivated entrepreneurship with much higher outcomes than the black population; in fact the opportunity-motivated entrepreneurial activities for the whites were three times higher than the blacks (GEM, 2004:13). In another study, it was revealed that white South Africans are able to sustain their businesses into maturity in contrast to blacks or the coloured counterparts. The study continues to emphasise that, in general, individual South Africans who reside in urban areas are more likely to engage in entrepreneurial activity than the rural dwellers (Herrington *et al.*, 2010:42-70).

4.9.1.20 Cultural influence on entrepreneurship

In spite of the low entrepreneurial activity in South Africa (Herrington *et al.*, 2008:4), small business failure is a major concern within the global economies due to a minimal growth rate of small businesses at about 3.6% (Bosma & Harding, 2007:7). However, a large amount of attention has been placed on encouraging and stimulating the small business sector in South Africa by providing resources such as financial aid, infrastructure and to regulate all forms of restrictive rules to alleviate the high failure rate (Mitchell, 2003:724). In general, entrepreneurship is greatly influenced by culture and in particular, racial ethnicity (Herrington *et al.*, 2008:4). This supports general notion that entrepreneurial behaviour is deeply embedded in social structures and value norms of the general society (Weber, 1958; Schumpeter, 1934).

Entrepreneurial orientation (EO) is further strengthened by cultural and social norms (Minniti & Bygrave, 2003). According to Hayton, George and Zahra (2002:23), cultural norms and values such as risk-taking and personal decision-making determine the exact level of entrepreneurial attitude. As stated by Lindsay (2005:3), cultural norms and

values impact on entrepreneurial behaviour in creating and establishing start-up businesses. Unfortunately, the majority of South Africans perceived themselves as inexperienced in terms of business knowledge and innovation (Co & Mitchell, 2006:349).

Large section of the South African population prefers to be employed as full-time employees rather than to be self-employed (Co, 2003:40); it is therefore critical to consider the cultural needs prior to the establishment of entrepreneurship (Minniti & Bygrave, 2003:20). South Africa is a culturally diverse society; as such, cultural norms and values are some of the elements to be taken into account for potential entrepreneurial activity (Visser, de Coning & Smit, 2005:51).

4.9.1.21 Government regulatory and policy environment

The South African entrepreneurial environment is severely marred with excessive bureaucracy and long registration procedures. The Government regulatory environment was investigated by the World Bank and the International Finance Corporation report “*Doing Business*” (World Bank, 2006; DTI, 2006) lead to several quantitative indicators being applied to analyse the economic outcomes (Herrington *et al.*, 2010:32). A survey by the World Bank (2004) revealed that the strict government regulatory framework influences entrepreneurial activities because of bureaucratic conditions and complex regulations.

Business regulatory environment is highly favourable in contrast to other less developed countries where entrepreneurial indicators are limited. Bosma and Levie (2009) indicate that strict employment protective laws are perceived as critical drawback factor to entrepreneurship; thus these laws reduce the attractiveness of entrepreneurship (Herrington *et al.*, 2009:89). Besides, South Africa has much lower than expected Total Entrepreneurial Activity (TEA) taking into consideration the country’s per capita income (Orford *et al.*, 2004:50; DTI, 2006).

Generally, strict business regulations hamper small business formation. For example, the GEM (2010) survey made practical references to strict government policies as critical limitation to entrepreneurship. There is too much inefficiency due to bureaucracy including “*red tape*” regarding compliance and very strict labour laws that are inflexible; yet, it offers some protection individual employees (Herrington *et al.*, 2010:33). However, this negative perception has changed. In 2007, nine business procedures were required for small business registration in 35 days; this has improved since 2009; the procedures were reduced to only six processes in a period of 22 days (Herrington *et al.*, 2009).

Most of the policies enacted by the government on many occasions were misdirected within the small business environment. According to Herrington *et al.* (2008), the majority of government policies are designed to curb the high rate of crime within the business sector. Unfortunately the policies were less effective and poorly applied. The Global Entrepreneurship Monitor (GEM) studies over the years have indicated that South African entrepreneurial activity is severely compromised due to the following factors:

- Sub-standard of the secondary educational systems especially in mathematics and science.
- Social and cultural factors that make it impossible for stepping up entrepreneurial activity.
- Lack of financial support to assist small businesses.
- South African regulatory environment is overly burdened (Herrington *et al.*, 2009).

Entrepreneurship in South Africa declined further due to the global recession as millions of consumers were indebted to financial institutions. A survey in 2009 have also identified other challenges such as a lack of financial and business infrastructure, limited cash flow, high interest rates and inadequate capital to develop small businesses in South Africa (Herrington & Wood, 2003:13; Herrington *et al.*, 2009).

4.10 THE INFLUENCE OF OPERATING EXPENSES

Given the present state of the global economy, operating costs such as fixed and variable costs by management is presently of a critical concern to the owner-managers of small businesses are limited to growth because of high costs that are known to influence operating profit margins. Expenses such as salaries and wages of employees, escalating energy costs as well as rising petrol prices, stationery, telephone and interest costs impact negatively on earnings of small businesses.

4.10.1 Cost of fuel

The dependency of the South African economy on minerals alone without crude oil is another worrying factor; much of the crude oil used in the South African industries and the economy at large is exported from Saudi Arabia, Iran and Nigeria (Sartorius, Eltzen & Hart, 2007:218).

4.10.2 Electricity tariffs

Developing countries are faced with poor electricity supplies (Sahlfeld, 2007:23; Macueve *et al.*, 2009:41; Kew & Herrington, 2009:44). The World Energy Outlook (2010) survey indicates that energy usage alone is inadequate for creating favourable economic growth but also very difficult for the formation of start-up businesses or to operate sustainable businesses in order to deliver value-added products and services to customers (Herrington *et al.*, 2010:34). The present government of South Africa is privileged enough to inherit one of the best electricity and infrastructure in Africa with a relatively excellent electrification rate as compared to other countries namely Mauritius and Latin America (Herrington *et al.*, 2010:34-35).

The lack of electricity supply and reliability has been indicated as the second most significant limitations to small businesses (Herrington *et al.*, 2010:35). For instance, South African electrification facilities are unable to sufficiently provide a quarter of the

South African population with adequate and reliable electricity; this impacts negatively not only on households but also business operations (Herrington *et al.*, 2010:32).

According to the UNDP (2003:14), the lack of electricity hampers service delivery; moreover, the lack of energy supply deprives the developing world from some key benefits of the modern world. The Doing Business (2010/11) report demonstrates that it is not only expensive to use electricity in South Africa but also the time and the procedures of connectivity are additional limitations to small businesses (Herrington *et al.*, 2010:35). Leuvennink (2007:5) concurs that the rising electricity tariffs and intermittent power outages throughout the country impacts negatively on the economy. In May 2008, Eskom increased the electricity tariffs by 53.4%; as a result an additional burden is placed on small business survival (De Lange, 2008:1).

4.10.3 Labour legislations

Labour laws in South Africa are very strict in comparison to OECD countries; in South Africa it is not easy for employers to “*hire and fire*” employees (World Bank, 2007:19). Small businesses are limited due to their inability to attract skilful employees for productivity (Ngassam *et al.*, 2009:11). The owner-managers of small businesses are unable to determine customer demand in order to supply the correct product quantity. Labour practices are harsh to the employers. Labour practices are not friendly and worst of all it is not flexible; employers are therefore unable to allowed layoff unproductive employees who unproductive (World Bank, 2008:13; Radebe, 2009:2).

Table 4.5 on the following page further outlines some of the socio-economic factors that severely impact on entrepreneurship and small businesses.

Table 4.5: Impact of socio-economic factors on entrepreneurship and small businesses

Socio-economic factors	Research outcomes	Sources/Researchers
Family contextual	<ul style="list-style-type: none"> Entrepreneurs tend to have fathers who are entrepreneurs. Grown-up children with family business background acquire more knowledge in entrepreneurship through parental mentorship. Expertise in business activities not as family unit 	<p>Hisrich and Peters (1998); Lordkipanidze, Brezet and Backman (2005:789).</p> <p>Co (2003:39).</p> <p>Nair and Panday (2006:60)</p>
State of finance	<ul style="list-style-type: none"> Economically balanced family members can easily succeed with entrepreneurial businesses 	Nair and Pandey (2006); Mitchel (2003:728).
Family assistance	<ul style="list-style-type: none"> Family assist in acquiring markets for products and funding add to long-term success of entrepreneurial development. Type of education by family, early age upbringing and family life enhance long-term entrepreneurial behaviour. Factors such as family values and experiences play critical roles in entrepreneurial success. 	<p>Morrison (2000).</p> <p>Schindehutte, Morris and Breman (2003:94).</p> <p>Breslin (2000:9).</p>
Relevant skills	<ul style="list-style-type: none"> Work experience, technical and educational training add positive influences to entrepreneurial success. 	Nair and Panday (2006:60); Hisrich and Peters (1995).
Level of education	<ul style="list-style-type: none"> Highly qualified individuals are capable of exploiting business opportunities for success. 	Co, Mitchell (2006:349-350), Brink, Cant and Ligthelm (2003:19), Bogan and Darity Jnr. (2008:200).
Age	<ul style="list-style-type: none"> Most successful entrepreneurs are mature. Entrepreneurs between the ages of 25 and 41 pursue entrepreneurial activity. 	<p>Nair and Panday (2006:60).</p> <p>Jonker, Saayman and De Klerk (2009).</p>
Gender	<ul style="list-style-type: none"> Dominance of entrepreneurship by men. 	Saffu (2003:70); Botha (2006:28); Chitsike (2000:72).
Religion	<ul style="list-style-type: none"> No influence as a result of religious affiliation. 	Nair and Panday (2006:60).
Race/Business venture	<ul style="list-style-type: none"> The whites and Indian population are most likely to pursue entrepreneurship as compared to the coloured and the black communities. Majority of the white population engage in entrepreneurial ventures at early age in contrast to the black population. 	<p>Herrington, Kew and Kew (2008:23).</p> <p>Herrington <i>et al.</i> (2008:23).</p>

Source: Engelbrecht, Kruger and Saayman (2011:251)

From table 4.5 above, some of the influential factors of entrepreneurship and small business have been clearly outlined. These factors are very unique to various activities of entrepreneurship; in most instances these add to the success of entrepreneurship. However, cultural values fall short to positively impact on entrepreneurial activities or entrepreneurship intentions within the general society of South Africa (Urban, 2006:182). According to Mitchel (2004:167), within most rural settings, entrepreneurship and small businesses are influenced by different cultural traits such as personal recognition, the desire of independence, personal development and personal wealth.

4.11 SUMMARY

In this chapter a comprehensive literature study on small business contributions, challenges and the enabling business environment were discussed. In-depth understandings of issues regarding small businesses that are fundamental to creating sustainable employment opportunities in South Africa have also been discussed. Recently, there has been immense recognition of the role that small businesses in the South African economy continue to play. Governments across the globe become interested in the roles of the small business sector as such; they include the small business sector in their national and district developmental plans. The chapter examined the socio-economic roles of small businesses in South Africa.

The chapter provides evident that the small business sector has to withstand various complex challenges which bear no similarities to a specific country. These challenges could severely influence small business sustainability in most developing countries including South Africa; hence these challenges threaten the small business survival as well as the economic prosperity of several countries.

The chapter outlines the structure of the small business sector by taking into account the general classifications of the small business sector into different categories. Definitions of the small businesses are globally contextualized taking into account the

South Africa National Small Business Act No. 106 of 1996 and the National Small Business Amendment Bill (29/2004:2).

Contributions by small businesses to the employment opportunities and to the South Africa economy were also highlighted in this study. The small business sector is recognised for its capacity to absorb labour and create jobs as well as alleviate poverty. Discussions focused on the socio-economic significance of small businesses in reducing the high rate of unemployment within local communities of South Africa and other less developed countries world-wide.

In brief, this chapter focuses on global contributions of small businesses in developed countries such as the United States of America and Great Britain. Small businesses are faced with persistent global competition due to globalisation which ushered into the market fierce competition. Inadequate resources including finance are critical challenges to the small business sector. The sector therefore needs skills training in appropriate technology and other related skills need to become very competitive not only in the South African market but by competing globally. The chapter also identified various variables which contribute to success and failure of small businesses. These contributory factors stem from both the traditional methods and human capital aspects. One of the major reasons for small business failure is a lack of sufficient capital and stream of cash flow problem which represents major impediments to the small business sector; thus the sector is unable to compete globally.

Put differently, most contributory factors to business failures in developing countries are noted as challenges of financial management; skills training, teamwork and entrepreneurial skills. These factors are known to contribute to effective business management and business success. Entrepreneurship is the basic component for small business success thus large-scale encouragement is required to enhance other successful factors especially in less developed countries.

CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

This section of the study describes the methodology and procedures used to implement the study's data collection, the procedures used in analysing the data, the research findings and results. In this chapter, the study made use of empirical research that entails discussions of the seven research processes that have been identified (Bryman & Bell, 2007:28-66; Zikmund, 2003:59-73).

All the steps in the research processes are discussed including problem identification, the primary and secondary objectives, research design, sampling techniques, research population, data gathering, data processing and the research analysis.

5.2 RESEARCH DEFINITION

Scientific research entails seeking for the unknown and to understand the world and its purpose in a systematic process of collecting, analysing and to interpret data to increase the existing level of understanding a phenomenon. Through the research activities, incomplete knowledge and issues of importance can be resolved by asking questions that seek solutions through a systematic research process (Leedy & Ormrod, 2005:1; Wisker, 2001:114; Makore-Rukuni, 2001:15).

Research entails filling the incomplete knowledge gap in areas such as in the business environment, market, within the general economy or other spheres of much uncertainty that are applicable in order to make informed decisions (Zikmund, 2003:7). Scientific research on the other hand is about the understanding of the complex nature of business and attempts to solve related problems (Bryman & Bell, 2007:5). Researchers are encouraged to use new research techniques that are based mainly on empirical

ideals with maximum evidence. Newly found knowledge can easily be accessed through research as knowledge cannot remain static.

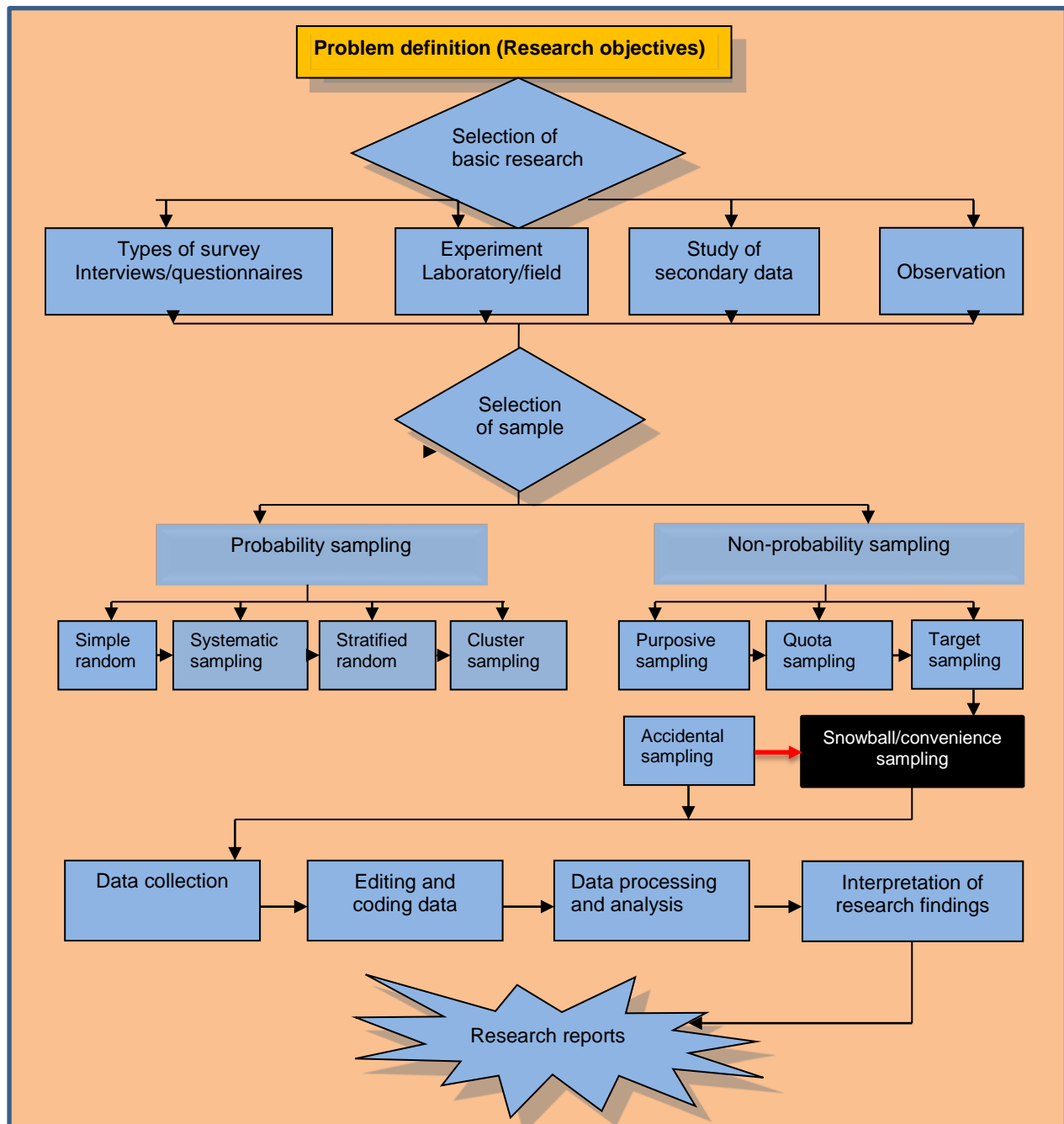
The current study is conducted with the view of building on existing literature concerning the challenges of small businesses in rural areas. Thus it is hoped that it might incite sufficient debate regarding the challenges of small businesses in rural areas as experienced by the owner-managers of small businesses.

5.3 THE BUSINESS RESEARCH PROCESS

The business research process involves patterns of clearly defined steps within a research environment. Some of the sequences of the research fall short of similar patterns; there are omissions during the research processes. Cooper and Schindler (2008:11) suggest that in spite of the ongoing variations, the sequence of business research is largely useful in order to develop a research study in an orderly manner. Within the existing scientific literature, there are numerous steps of business research processes that can be identified; as such this study will combine all the steps as indicated by Zikmund (2003:59-73) and Bryman and Bell (2007:28-66).

Figure 5.1 on the next page depicts comprehensive phases of the business research processes that are used in this study. The entire process will be discussed in detail and continue to demonstrate how the process is applied in this study.

Figure 5.1: The various phases of business research processes



Source: Zikmund (2003:61)

5.3.1 Phase 1: The problem statement and research objective

5.3.1.1 Identification of problem statement

Cooper and Schindler (2008:83, 968) propose that it is very useful to begin the research process by stating clearly the basic problem that underlines the study. Zikmund and Babin (2007:104) add that more often the identification of the research problem forms one of the vital phases in the research process. The research problem must be well stated and be relevant to the reasons for conducting the study. The level of the research quality starts from a clearly defined research problem. Thus, the identification of the research problem statement is vital to the study because many sections of the study including the research questions, the methodology, and research design depends on the problem statement (Makore-Rukuni, 2001:58).

5.3.1.2 Research objectives

The research objective emanates from a well defined research problem statement (Riley *et al.*, 2007:460). The research objective must be clearly stated because the research outcomes must achieve the set objectives. Zikmund (2003:99) adds that the research objective must be measurable.

The primary objective of this study is to investigate the challenges of rural entrepreneurship in selected areas and based on that, to develop an integrated framework to ensure the sustainability of small businesses in rural areas in South Africa. In order to achieve the primary objective, the following secondary objectives are formulated:

- To gain an understanding of entrepreneurship by means of a literature study.
- To identify the challenges facing small businesses by means of a literature study.
- To gain an understanding of rural entrepreneurship and evaluate the impact of key constraining factors by means of a literature study.

- To gain an understanding of the research process by means of a literature study.
- To assess the challenges facing small businesses in the research area.
- To assess the perceived success of the participating rural small businesses.
- To assess the challenges facing and perceived success of the participating rural small businesses.
- To investigate the relationship between the challenges facing participating small businesses and the perceived success of these businesses.
- To use the results of the empirical research to draw conclusions and make recommendations.
- To propose an integrated framework to ensure the sustainability of small businesses in rural areas in South Africa.

5.3.2 Phase 2: Research design

Research design is about creating a research structure to be followed regarding the data to be collected and for the purposes of analysis (Leedy & Ormrod, 2005:85). Glatthorn and Joyner (2005:97) further add that research design is a plan that enables the research problem to be understood. Prior to conducting the research study, it is significant to craft the appropriate research design that constitutes the blueprint to be used to gather, measure, provide data analysis and to set up the entire investigation in order to find solutions to all the research questions (Cooper & Schindler, 2008:156).

5.3.2.1 Various types of research designs

Research design is about the specific research strategy that the researcher adopts to solve the research problem (Bryman & Bell, 2007:28). There are two types of research designs. These include the qualitative and the quantitative designs (Glatthorn & Joyner, 2005:39). Qualitative design is a research strategy that emphasizes words not in quantifying the data collected for analysis (Bryman & Bell, 2007:28); in terms of quantitative strategy, there is more reliance on the research skills of individuals (Riley *et al.*, 2000:40).

Qualitative research strategy is to examine and interpret all forms of observations in order to find meanings and trends of relationships hence, in qualitative research, the aim is to study the research settings in their normal environment with the view of making some sense from the data and to carry out the interpretation of the research phenomena for the real meanings (Abawi, 2008:5). Qualitative research strategy focuses on the attainment of an in-depth understanding of a specific situation; it is very suitable for answering questions concerning very complex phenomena, very ideal in extracting specific feelings, emotions, perceptions, attitudes and the various forms of experiences (Leedy & Ormrod, 2005:94-95; Sanchez, 2006:1; Abawi, 2008:10). During the qualitative research strategy, content analysis is used by means of recorded materials through personal experiences of the research respondents, observations using the techniques of debriefing research observers and can easily be used to trace evidence from the physical research environment (Cooper & Schindler, 2008:162).

The quantitative research strategy entails very sharp focus on the quantification of data to be analysed (Bryman & Bell, 2007:28). However, Abawi (2008:10) argued that quantification does not only allow for precision in terms of data analysis but also provide the research with easy tasks in data summaries and to provide sufficient research inferences. The quantitative research strategy is about the exact measurement; yet, within the context of business research strategy, the quantitative research measures opinions, attitudes as well as consumer behaviour (Cooper & Schindler, 2008:164).

According to Sanchez (2006:1), a quantitative study allows for the means to generate more statistics through the utilisation of volumes of research techniques such as questionnaires as well as structured interviews. In view of its numerous benefits, the quantitative research design is utilised in this study. Responses from the owner-managers of small businesses were carefully grouped into different categories and later reduced to manageable numbers. Through the assistance of two trained field workers, the researcher was able to collect specific research data from most of the respondents. Research data was mainly analysed through the appropriate statistical software of SPSS.

The following sections discuss three types of research strategies that can either be used with qualitative or quantitative research strategies.

- **Exploratory research**

This type of research strategy is applicable when the researcher seeks new knowledge or the quest for certain specific behaviour patterns that requires definite symptoms, actions or events to be presented. Exploratory research is a research strategy that attracts very rigorous research approaches and further clarifies into details the ambiguous problems (Davis, 2005:146). The exploratory research asks questions of “*what*” and “*why*” using the different procedures to determine the legitimacy of the questions (Cooper & Schindler, 2008:157).

- **Descriptive research**

The descriptive research strategy is used for the descriptions of objects, people, groups and the environments and to discover more phenomena (Zikmund & Babin, 2007:51; Wisker, 2001:118; Cooper & Schindler, 2008:151). More often a descriptive research strategy is aimed at determining the disparities in the needs as well as the perceptions, attitudes and the characteristics of the various subgroups. Furthermore, a descriptive research strategy also makes use of surveys, interviews with additional research data using frequencies, averages and percentages (Zikmund, 2003:57; Glatthorn & Joyner, 2005:43, 101).

This study used the descriptive research strategy to determine the different challenges that are the limitations to small businesses and entrepreneurship growth. Using the quantitative research strategy, this study applied percentages and other descriptive statistics including the means and the standard deviation to analyse the data.

- **Casual research strategy**

The main aim of the casual research strategy is to determine the cause and effect relationship; thus it seeks to determine the effect of some key variables or other related variables (Glatthorn & Joyner, 2005:100; Cooper & Schindler, 2008:157). The casual research strategy is also referred to as correlational research; it also discusses the relationship that certain events may have on others (Salkind, 2006:11). Leedy and Ormrod (2005:181-182) argued that the fact that two variables are correlated, the cause-and-effect relationship inferences cannot be made based mainly on correlation.

Zikmund (2003:57-58) states that there are three main criteria that researchers can utilise at the time of making research inferences. These criteria include:

- The establishment of the correct casual order in addition to research events that must be put in correct sequence.
- The measurement of concomitant variation that exists between the presumed cause and its effect.
- Recognition of the presence or absence of reasonable options that require explanations of casual factors. The researcher needs to be careful in making inferences because the explanations of casualty may be inadequate (Zikmund, 2003:57-58).

5.3.3 Phase 3: Selecting a research method

This section of the study is to discuss the different methods of collecting research data; questionnaire design and the instrument that is used in collecting data in this study.

5.3.3.1 Primary data collection method

The statistical analysis of scientific studies necessitates three approaches to gather the research data for statistical analysis. These approaches include observation,

experimentation and surveys (Glatthorn & Joyner, 2005:193). Zikmund (2003:65) adds that there are four basic methods of research strategies that are suitable for descriptive and casual research strategies namely, secondary data studies, observation, experiments and surveys.

- **Observation**

The observation method is used in gathering primary data during a research process. Salkind (2006:203) states that by using the observation method, the researcher also becomes one of the active participants in the research environment where the study takes place. The researcher must avoid any form of involvement in all the activities that are directly linked to the study. The observation method of survey allows the researcher to get closer and to take note of the various behavioural patterns of people, events and objects in action (Zikmund, 2003:235). Through the observation method, there are varieties of options that are available to be used by the researcher.

These include the observation of people and objects taking part in physical actions, expressive behaviour, verbal behaviour and temporal behaviour patterns. Through the observational method, it is not easy to observe issues that relate to cognitive processes or phenomena namely; motivations, attitudes of research respondents; also individual intentions and preferences cannot be observed.

One of the vital benefits of the observation method is that the research respondents are not aware that their actions are under observation, thus the method offers the researcher a more natural behavioural pattern displayed by the research respondents; as a result, the method reduces a significant amount of research bias that may corrupt the data to be analysed. Wisker (2001:178-183) and Makore-Rukuni (2001:113-122) indicated that observation did not allow the researcher to probe for reasons of continued investigating behavioural patterns of respondents.

- **Secondary data studies**

Secondary data forms part of the scientific data that have been gathered in the past. Zikmund and Babin (2007:160) agree that secondary data have been assembled for use. Some of the benefits of using secondary data include:

- The opportunity it offers for longitudinal research analysis.
- It allows the researcher to get an insight into the research issues.
- It enables the researcher to perform cross-cultural analysis.
- Data sets that are employed for secondary studies are of high quality.
- Secondary data sets are less expensive.

In this study, through an extensive literature study, the researcher was able to gather secondary data sets to be analysed. As a result, relevant global and national literature on the research topic was reviewed for two reasons, to enhance the quality of questions to be included in the questionnaires and to gather highly credible primary data for analysis.

- **Surveys**

A survey is defined as a primary data collection tool that is based primarily on communication sample representatives of the research respondents; the survey methods mostly gather primary data by means of questioning research respondents directly (Wegner, 2007:28). It is suitable for the research questions to include individual beliefs, personal opinions, the general characteristics and the past and present behavioural patterns of the research respondents (Neuman, 2006:273).

Research questionnaires are vital tools in collecting survey data. Research data on personal attitudes including opinions, knowledge, awareness, perceptions, preferences and intentions can easily be gathered by means of research surveys. The main objective of the survey is to obtain data sets that are easily compared across subsets of

a specific sample in order to determine possible similarities and any form of differences in the research outcomes (Cooper & Schindler, 2008:215).

- **Experiments**

Through the experimental research strategy, primary data can be generated (Glatthorn & Joyner, 2005:41). Research experiments are the best potential tool that establishes a cause-and-effect relationship (Salkind, 2006:217). Zikmund and Babin (2007:56) indicated that the experiment's research strategy entails a carefully controlled study environment where the researcher severely manipulates a potential cause and thereafter observe a possible corresponding shift.

There are two subtypes of experiments namely the field and the laboratory experiments. Zikmund and Babin (2007:270) state that the field experiment involves a research project that applies experiments within the natural research settings. Key benefits of the field experiments are that it is highly realistic and also it allows for the independent variables' effect to be valued with precision (Davis, 2005:147).

The laboratory experiments are carried out within an artificial or laboratory environment; thus it gives the researcher more freedom of control over the research environment in addition to controlling other extraneous variables during the research process (Zikmund & Babin, 2007:269). Davis (2005:149-150) suggests that the laboratory experiments have the advantage of having the strongest form of drawing the research conclusions because the researcher was able to decrease the rate of possibility that the different casual factors had the potential to operate.

Through the experiments research strategy, the researcher can monitor and record the primary variables that are being studied; also the researcher attempts to control the effects of many influential factors. Through the experiment's strategy, the research data that is collected is proven to be of high quality provided the experiment is designed and

executed with precision. Consequently, the research outcomes are generally more objective and valid as compared to other research strategies.

Given the research settings of the experiment's strategy, it is important to note that the strategy is more costly and time consuming; certain extraneous factors are uncontrollable.

- **Interviews**

In conducting a research interviews, the researcher is required to communicate with the respondents. The researcher either communicates with the potential respondents in person or meets them at the shopping malls or the interviews can take place telephonically.

Direct communication with the research respondents forms part of the personal interviewing process; the interviewer poses questions to the respondents in a face-to-face interviewing process. Zikmund and Babin (2007:211) add that the face-to-face interviewing process increases the percentage rates of individuals who are willing to take part in the study. During the interview process, the interviewer is in full control of the entire procedures; where the interviewee are evasive, the researcher or the interviewer attempts to quickly gain control and restore confidence of the respondents (Welman, Kruger & Mitchell, 2005:164). Flexibility is possible as the skilful interviewer endeavours to pose more complex and probing questions (Neuman, 2006:301).

According to Welman *et al.* (2005:164), some of the drawbacks of the research interviews include high travelling costs and long hours of training the interviewers, the interviewer in most instances is very skilful; the appearance of the interviewer, the tone of his/her voice and the manner in which questions are worded and posed may severely influence responses from the respondents; again probing and prompting questions need to be carefully carried out using different approaches. Kent (2007:187) adds that researchers are aware of these problems thus they are expected to provide training,

briefing, provide quality control measures and other forms of guidance and guidelines to reduce the high rate of impact on the overall procedure.

Interviewing in the shopping malls; at a central point in the mall or even at the mall entrance is perceived to be less costly as the respondents come to the interviewer. One of the problems associated with interviews at shopping malls is that the individuals around the shopping malls are in a hurry; as such, there is a high incidence of non-participation in the interview process (Zikmund & Babin, 2007:213).

The research interview process can be done telephonically; for instance, by means of landlines and or by cell phones (Tustin, Ligthelm, Martins & Van Wyk, 2005:155). The telephonic interview process is with added benefits to the research process such as offering absolute anonymity to the interviewees, provide easy control and adequate supervision, faster outcomes and very convenient with lesser costs.

Telephonic interviews are without some vital drawbacks namely:

- Very limited only to verbal exchange; impossible to show evidence of visual materials of the interview procedures.
 - Increase in telesales by individuals to be more suspicious of strange telephone calls.
 - Lack of observational data; only facial expressions.
 - Difficulties in monitoring of telephonic proceedings due to answering machines and caller-ids.
-
- **Mail surveys**

The mail survey is of much focus to the researcher by sending either structured or unstructured questionnaires to potential research respondents who are asked to complete the questionnaires in the comfort of their homes and return them to the researcher (Tustin *et al.*, 2005:185). Mail surveys are applicable in various research

settings which are geographically scattered across wide research environments; mail surveys are broadly applied in business research at very minimal costs. Interviewees are privileged to enjoy the benefits of anonymity, a high level of confidentiality and the leisureliness in terms of a high response rate (Davis, 2005:279).

There are disadvantages associated with mail surveys. These include lesser control of the research respondents by the researcher; the researcher is unable to oversee and control the conditions under which the research questionnaires are completed by the respondents. There is the likelihood that some of the questions in the questionnaires may be omitted or completed by non-respondents as described in the study; mail surveys are known for their poor response ratings as compared to other forms of survey procedures (Welman *et al.*, 2005:187).

5.3.4 Phase 4: sample design

In the context of conducting surveys or gathering data, sampling entails the selection of a subset of a large population to survey. This section of the chapter provides a comprehensive overview of the sampling methods with specific reference to rural research strategies. The section reviews the different types of sampling methods of non-probability and probability and further examines their applicability to the current study. The advantages, disadvantages, the non-response rate as well as the selection bias during the survey process are also highlighted.

Selecting the right sample plan is another critical planning phase of the research process; a sample theory states that smaller observations are likely to provide the potential idea of expectations concerning the overall research population (Royse, 2004:189-190). Both quantitative and qualitative research strategies use sampling techniques. The focus of quantitative research is randomisation, generalisability, representative, probability and non-probability sampling techniques (Alston & Bowles, 2003:66).

Sampling is one of the quantitative research processes of selecting some elements as the representative of the total population; through sampling, conclusions are drawn about the total research population (Cooper & Schindler, 2008:374-5). The need to sample is viewed as one of the most consistent tasks that encountered in quantitative research strategy (Bryman & Bell, 2007:180). A research sample is a “*subset from a larger population*”, thus, it refers to the individuals’ who complete the research questionnaires as respondents (McDaniels & Gates, 2003:64).

A research sample must represent the true target population in order to produce the precise statistical inferences of the population. In sum, the research sample must be valid depending on two critical variables of accuracy and precision. In sampling it is important to note that a very large sample size decreases the level of standard error thus a narrower confidence interval is obtained. Conversely, smaller sample size means that the level of standard error increases with wider confidence intervals with lesser estimates of the total population parameter. Therefore, a small sample size will result in invalid data hence the research outcomes will be greatly affected because of a skewed sample size (Wisker, 2001:139).

It may be appropriate for the researcher to measure the various population elements due to the completeness of the research data; however, due to some vital considerations sampling is the most suitable option (Davis, 2005:231). Kent (2007:229) indicates that due to limitations of resources such as time and money, it is optional to rely on sampling. Wegner (2007:213) further adds that it is difficult to gather data from every member of the research population due to time and cost constraints.

5.3.4.1 Defining the study population

According to Wegner (2007:6), a population is a representative of every possible item that contains a data value of random variable under the study. A population is the elements about which we wish to make some inferences and a target population as people, events and records or elements that contain the desired information and can

provide answers to the measurement question, and thereafter determine whether a sample or a census is desired (Cooper & Schindler, 2008:90-707).

The population of this study comprises all the owner-managers of small businesses residing in the John Taolo Gaetsewe and Frances Baard District Municipalities of the Northern Cape Province. Small businesses in this study are classified as having both full-time and part-time employees (National Small Business Act No. 102 of 1996; National Small Business Amendment Bill, 2004:2).

The targeted population of this study is the owner-managers of small businesses who reside in the remote part of the Northern Cape Province. Most of the owner-managers of small businesses were drawn from all the small business sectors from the local economy namely the services, mining, manufacturing, agricultural, retail, wholesale and the construction sectors. From the informal economy such as the research areas, it was extremely difficult to locate the owner-managers of small businesses to participate in the study hence, the only practical option was to utilise the snowball sampling and convenience method to try and gain access to most of the respondents.

5.3.4.2 Defining the research sample

The research sample encompasses various elements of a population subset that is considered to be included in a scientific study; a sample can be seen as a subset of measurement that is drawn from a population of interested parties for a study (Unrau, Gabor & Grinnell, 2007:279). Barker (2003:380) states that a sample represents a small portion of the total set of objects, events or individuals of a selected representative.

5.3.4.3 Reasons for sampling

Research surveys are undertaken to gather in-depth information about a specific target population. More often, the survey is conducted in the form of a census where the objective is to survey the entire population unit; it is impractical to use the entire

population during a survey due to time and financial constraints or other forms of constraints including transportation and basic infrastructure.

It is not an easy task to quickly identify all the members of the survey population and get their consent regarding their voluntarily participation in the study; the only option to conduct a census is to select a sample from the target population and use only the unit during the research. The research outcomes will only be based on inferences.

The research population in most instances is very large and tedious to be studied due to a lack of adequate time and other forms of resources to aid early completion of the study according to schedule. The main reason for sampling is the feasibility of the research output (Sarantakos, 2000:139). It is impossible to reach all members of the research population; thus sampling is a more accurate approach in terms of delivering information as compared to study the entire population. It is time consuming to attempt to study the research phenomena by using the entire population in a research practice that is wasteful in terms of money, time and other resources. The entire population therefore generates more data thus the researcher will find it impossible to process, analyse and to interpret the data in order to prepare a research report. The financial resources, time and other skilful resources can be better deployed for maximum productivity.

5.3.4.4 Types of sampling techniques

There are two major sampling techniques; the non-probability and probability sampling techniques. These sampling techniques are discussed on the next page.

5.3.4.5 Non-probability sampling

Non-probability sampling is suitable for exploratory study that is intended to generate fresh scientific knowledge that will be tested in the future. In most instances where the research objective is to test a large population sample, then it is not the best sampling

technique. The non-probability sampling is defined as a random and subjective process in which every population element that is being chosen is unknown; there is no attempt to generate a statistical sample that is representative (Cooper & Schindler, 2008:707). The non-probability sampling technique uses the only criteria of random selection of the individual in order to choose a sample member from the total research population (Wegner, 2007:214).

With the non-probability sampling, there are various ways to select individuals to form part of the research sample. Most often the field workers are authorised to choose individuals; this process breeds maximum bias in the selected sample size and further interfere with the research outcomes. Gravetter and Forzano (2003:118) and Salkind (2000:87) concur that in non-probability sampling, the researcher is unaware of the population size or the members of the study population.

The non-probability sampling technique is used provided it meets the sampling objectives; it is also used when there is no need to generalise the research findings to include the total population. The non-probability sampling technique is used due to cost and time factors; it is cheaper as compared to the probability sampling technique. In sum, non-probability sampling is a feasible option in cases where the overall research population is not available.

There are four types of non-probability sampling techniques namely convenience, judgement, quota and snowball sampling techniques.

- **Convenience sampling**

According to Kent (2007:235), the convenience sampling method entails obtaining people or units of people that are readily available to participate in a research process. Convenience sampling technique is very easy to use yet it is unable to produce a sample which is truly representative of its population; thus the research outcomes cannot be projected more than the applicable sample (Salkind, 2006:93). Convenience

sampling is best used to gain an insight into exploratory study and to allow for additional research through the application of the probability sampling technique (Davis, 2005:251).

- **Judgement sampling**

Judgement sampling is a non-probability sampling technique where the researcher uses personal judgement and experience to choose the research respondents (Zikmund & Babin, 2007:412; Cooper & Schindler, 2008:379-395). The respondents that are selected are therefore considered to be most representative of the population under study. It is critical to mention that all of the research population are not accorded an equal chance of participating, thus the researcher choose participants that may not be relevant for the ensuing study. The judgement sampling is highly recognised by researchers when there is no time to perform proper study. One of the critical drawbacks of the judgement sampling is that the technique is highly liable for research bias and errors because the researcher makes inexpert judgement of selecting the respondents.

- **Quota sampling**

Quota sampling refers to a research sampling technique where the total population is divided into segments and a quota sampling unit is selected to represent each subgroup. The selection method is done in a non-random manner; with the quota sampling method the researcher is tasked to achieve a specific quota (Cooper & Schindler, 2008:379-395; Zikmund & Babin, 2007:412).

- **Snowball sampling**

The snowball sampling is also known as “*chain referral sampling*”; it is a method where the research participants of the informants with whom the necessary initial contact is made use the social networks to refer the researcher to other potential participants.

Additional respondents are allocated due to the initial information received (Zikmund & Babin, 2007:414). Snowball sampling is often applied to find and recruit a “*Hidden*” research population. Kent (2007:235) indicates that the snowball sampling method is applied in research areas where it is not easy to reach respondents; initial respondents are asked to suggest only potential research participants who meet the research criteria of being similar to the same target population (Wegner, 2007:214-215).

5.3.4.6 Probability sampling

Probability sampling focuses on randomisation where the individual sample members selected from the target population based on purely random or on equal chance of being selected. Researchers DePoy and Gilson (2008:234) shared the sentiments that probability sampling also known as random sampling is a research technique which allows every individual in the population has similar known probability to be selected in order to compute accurate estimation (DePoy & Gilson, 2008:234; Grinnell & Unrau, 2008:143; Druckman, 2005:141-142; Unrau *et al.*, 2007:280). Wegner (2007:215) and Zikmund and Babin (2007:411) further echoed that every member of the target population has a nonzero chance of being selected for the research sample.

The probability sampling technique is mostly applied because the selection of the respondents is strictly determined by chance yet it is important that every member of the population is known (Grinnelli & Unran, 2005:155). Cooper and Schindler (2008:380) state that the probability sampling technique has the advantage of providing precision estimates and research outcomes that can be generalised to the entire population. The probability sampling is fully controlled by the researcher; it is further argued that the probability sampling technique can easily become flawed due to the increasing human element (Cooper & Schindler, 2008:397).

There are four techniques of the probability sampling method. These are simple random sampling, systematic random sampling, stratified random sampling and cluster random sampling (Salkind, 2006:86-92; Wegner, 2007:215).

- **Simple random sampling**

The simple random sampling technique is seen as the easiest method; it allows for a unique number to be assigned to each participating individual from the target population (Jackson, 2003:15; Grinnell & Unrau, 2005:210).

The simple random sampling technique is basic and it is used for the research population that is relatively homogeneous; each individual has an equal and independent chance to be included in the sample (Bryman & Bell, 2007:186, Wegner, 2007, 213-220). Newman (2006:227) states that with the simple random sampling, the researcher develops accurate sampling frame, selects specific elements from the sampling frame using mathematical calculations to determine the exact element that must form part of the research sample.

- **Systematic sampling**

The systematic sampling technique involves the selection of an element of the research population from the start at random; subsequent sampling units are selected at uniform intervals relative to the first sample unit (Cooper & Schindler, 2008:388-392). Bryman and Bell (2007:187) concur that the systematic sampling varies from the simple random sampling technique. Systematic sampling is a sampling technique that involves every i th name stated on the list to be selected; the i th on the list therefore represents a number between zero and the size of the research sample (Zikmund & Babin, 2007:2150).

- **Stratified sampling**

Strata are different variables (age, race, geographical region and gender) that are likely to be applied within a research setting to divide the research population into segments. Stratified sampling is another form of random sample where the researcher initially identifies a set of mutually exclusive subgroups divides the sample frame by the

subgroup; it further applies random selection techniques in order to select the appropriate research respondents from every subgroup (Newman, 2006:231).

Salkind (2006:91) points out that the stratified sampling technique is used to differentiate members of a specific population from one another by using variables such as race, gender, social class or the degree of intelligence. Research errors due to random sampling technique can be minimised by the application of stratified sampling assumed to be homogeneous and sufficiently represented when the various strata are put together.

- **Cluster sampling**

The cluster sampling technique is also known as “area or multistage sampling”. Most often cluster sampling is used in studies with a very large population size (Monette, Sullivan & Dejong, 2005:137-141; Jackson, 2003:60). The cluster sampling technique is used where the sampling frame or the list of names are impossible to locate; also it is employed in studies that involves economic considerations (Sarantakos, 2000:146).

With the cluster sampling technique, the research population is divided into an internally homogeneous subgroup (Cooper & Schindler, 2008). Cluster sampling selects units of individuals not the individuals themselves; it is based primarily on the initial sample and a second sample is done from within the cluster that has been sampled (Neuman, 2006:234; Zikmund & Babin, 2007:417).

This method is applicable where the researcher lacks the correct sample frame; also it is used in research environments where the population is dispersed with very high costs (Neuman, 2006:234). The cluster sampling technique is cost effective and saves time; but care must be taken to make sure that the research units are homogeneous to avoid bias (Salkind, 2006:92). Some of the drawbacks of the cluster sampling techniques include cost saving tactics of working with smaller clusters which impact on the research outcomes. It is impossible to maintain balanced clusters to get sample sizes that are

even; not too small or too large a research sample. The more clusters that are drawn into the research there is minimal error but higher costs.

Having discussed the relevant sampling methods above and given the rural nature and geographically dispersed environment of the study, the snowball sampling and convenience approach was employed to collect data. The snowball and convenience approaches are justified because it is impractical to easily access reliable database on small businesses in most rural areas. To date, there is no reliable information on small businesses country-wide – a situation that is worst in the rural areas. The snowball sampling and convenience method involves the continuous referrals by the original respondents to other respondents to take part in the study.

The application of the snowball sampling and a convenience approach is credible as other researchers (Farrington, 2009; Venter, 2003; Van der Merwe & Ellis, 2007) have in the past used the snowball sampling and a convenience approach due to a lack of reliable and inadequate databases.

By means of the snowball sampling method and a convenience approach, the study earmarked 570 owner-managers of small businesses from the research areas to participate in the study. The Northern Cape Province of South Africa is vast yet sparsely populated with multiple socio-economic problems. The rate of illiteracy is very poor as most of the citizens are either not educated or have acquired a sub-standard system of education, increasing level of poverty, growing rates of unemployment, a lack of efficient transportation systems and out-dated systems of basic infrastructure are some of the main issues of concern. In order to facilitate quick administration of research questionnaires to owner-managers of small businesses and to avoid unduly late responses, two field workers were employed and trained to assist not only in distributing the questionnaires but also to provide the necessary guidance to the respondents.

The field workers assisted the owner-managers (entrepreneurs) with translating some of the statements and also explain some of the questions to the respondents while always

in close contact with the researcher for more clarity on difficult statements and questions. More seriously personal collection of the completed questionnaires by fieldworkers offered immense opportunities for a brief check to ensure that the owner-managers of small businesses understood every section of the questionnaires.

5.3.5 Phase 5: Gathering the research data

There are no specific guidelines and rules for selecting the type of questionnaires; individual researchers need to assess their research environments in order to design a suitable questionnaire. The selection must be based on the type of investigation and the objective of the study. Other areas of concern include the choice of method based on the personal experiences of the researcher; factors such as time constraints, financial incapacibilities, and inadequate human capital in determining the choice of the appropriate questionnaire. Grinnell and Unrau (2008:300) disagreed that the risk of response rate is likely to influence decisions regarding the choice of questionnaire design and methods.

This section of the study focuses on the research questionnaire design, the various categories of questions included in the questionnaire and the different items that form part of the research questionnaire. This section also takes into account the reliability and validity of the questionnaire.

Data gathering involves two key components of the research strategy – the literature and empirical studies. The empirical study focuses on the basic fundamentals of collecting research data to be applied in this study. On the other hand, the literature study as another data gathering tool focuses on specific scientific journals and internet sources to further augment and enrich the study outcomes. In contrast, the empirical data is collected with the key emphasis on the owner-managers of small businesses in John Taolo Gaetsewe and Frances Baard District Municipalities in the Northern Cape Province.

One of the outstanding features of research is the decision around who to collect the research data from and in what ways the research data should be gathered. In this study, the tasks have been accomplished by developing structured questionnaires to be administered to the owner-managers of small businesses. The aim was to collect the history of the owner-managers in order to determine the individual challenges that inhibit business and entrepreneurship growth and development.

5.3.5.1 Defining research questionnaire and design

This study used a questionnaire as the main tool for gathering data for analysis (refer to Appendix A). Questionnaires are defined as *“a document containing questions and or other types of items designed to solicit information for appropriate analysis”* (Babbie, 2007:246). Additionally, the term *“questionnaire”* suggests a collection of questions or statements that allow the researcher to understand the attitudes or their perceptions on certain issues (Babbie & Mouton, 2001:233).

A research questionnaire is a data collection tool that is used to gather data in a survey study (Wegner, 2007:31). Kent (2007:151) describes a research questionnaire as any document that is utilised to capture data that is generated by asking individuals questions on the research phenomena. According to Wisker (2001:147-151) indicates that a questionnaire is a research instrument that is used to gather sizeable amounts of data.

The designing of a research questionnaire is one of the fundamental steps in the business research process (Zikmund, 2003:330), because researchers must look for previous research work on the related topic prior to designing a questionnaire similar to the current study as this is most likely to contribute to the process of designing the questionnaires (Welman *et al.*, 2005:174). Questionnaire design is therefore critical in making sure that the questions included in questionnaires are relevant to the problem under study. Also, that utmost accuracy is adhered to during the design process taking

into consideration unbiased and irrelevant collection of research data for statistical analysis.

Through the application of research questionnaires, respondents remain anonymous and the questionnaires make it possible for large amounts of raw data to be collected from respondents. The application of questionnaires during the research process also increases the speed and the level of accuracy in data recording; very economical taking into account time and money; and also that the research questionnaires are the greatest facilitators of the speed at which research data is processed and refined.

During the research process, the research questionnaires need severe refinement or to be validated in order to meet its objective of obtaining facts and opinions regarding a phenomenon from the respondents.

- **Advantages of a questionnaire**

Globally the advantages of questionnaires as key measuring research instrument. Some of the advantages include:

- Using questionnaires for empirical research are considered to be very quick, less costly and therefore requires minimal skills in contrast to interviews (Sekaron, 1992).
- There are lesser chances of influence or subjective bias by the researcher as the impact of the interviewer is totally eliminated (Bryman, 2004).
- Research questionnaires play significant role in social science by collecting relevant data for analysis and for the presentation of research outcomes (Henning, Van Rensburg & Smit, 2005:36)
- Questionnaires allow for a straight forward study approach; it can easily be used to study attitudes, values, beliefs and motives; it allows for greater anonymity, therefore the questionnaire encourages truthful answers in terms of sensitive research topics (Robson, 2000).

- Very easy to collect standard data thus it allows easy coding of responses, easy to be duplicated to assist future research applications (Sekaran, 1992). However, it will not be easy during this study due to number of problems and challenges that are expected in the research environments.
- **Drawbacks of questionnaire**

Research questionnaires are without drawbacks; therefore, directly administered self-completion questionnaires are no exception (Robson, 2000). The following are some of the drawbacks that are experienced by the interviewers.

- Low rate of responses.
- Very difficult to ascertain in-depth information.
- Various forms of ambiguities arise from the questionnaires in terms of filling out the questionnaires; not very easy to address during the period of analysing data due to a lack of contact of respondents.
- Most often respondents supply inaccurate information.
- Lack of response on personal beliefs, attitudes and opinions.
- Biased information as the respondents is not easily controlled.

Taking into account the benefits and drawbacks of the research questionnaire as outlined above, the questionnaire method was still deemed the most suitable and appropriate tool to use in the current study. Questionnaires as research tools enable scientific study to be conducted in a logical manner in order to provide answers to the research phenomena to meet the research objectives. Thus the questionnaires for the current study were designed with utmost precision to reduce biases and limitations as stated above.

Questionnaires can be administered through four main ways in conducting research namely:

- **Mailed questionnaires**

Grinnell and Unrau (2008:288-291) defined mailed questionnaires as questionnaires sent through the postal systems to the research respondents with certain expectations; with instructions and guidelines for the respondents to follow in answering the questions (Rossouw, 2003:129). Mostly the mailed questionnaires enjoy a poor response rate; more often the researcher puts together clearly-worded questions with full instructions at the level of understanding of the specific target population.

The mailed questionnaires offer some benefits such as:

- Minimal costs; respondents enjoy a higher degree of freedom.
- More information from large numbers of respondents over largely dispersed research population.
- Information supplied by the respondents is free from possible “contamination” by the fieldworkers.
- Potential anonymity is guaranteed.

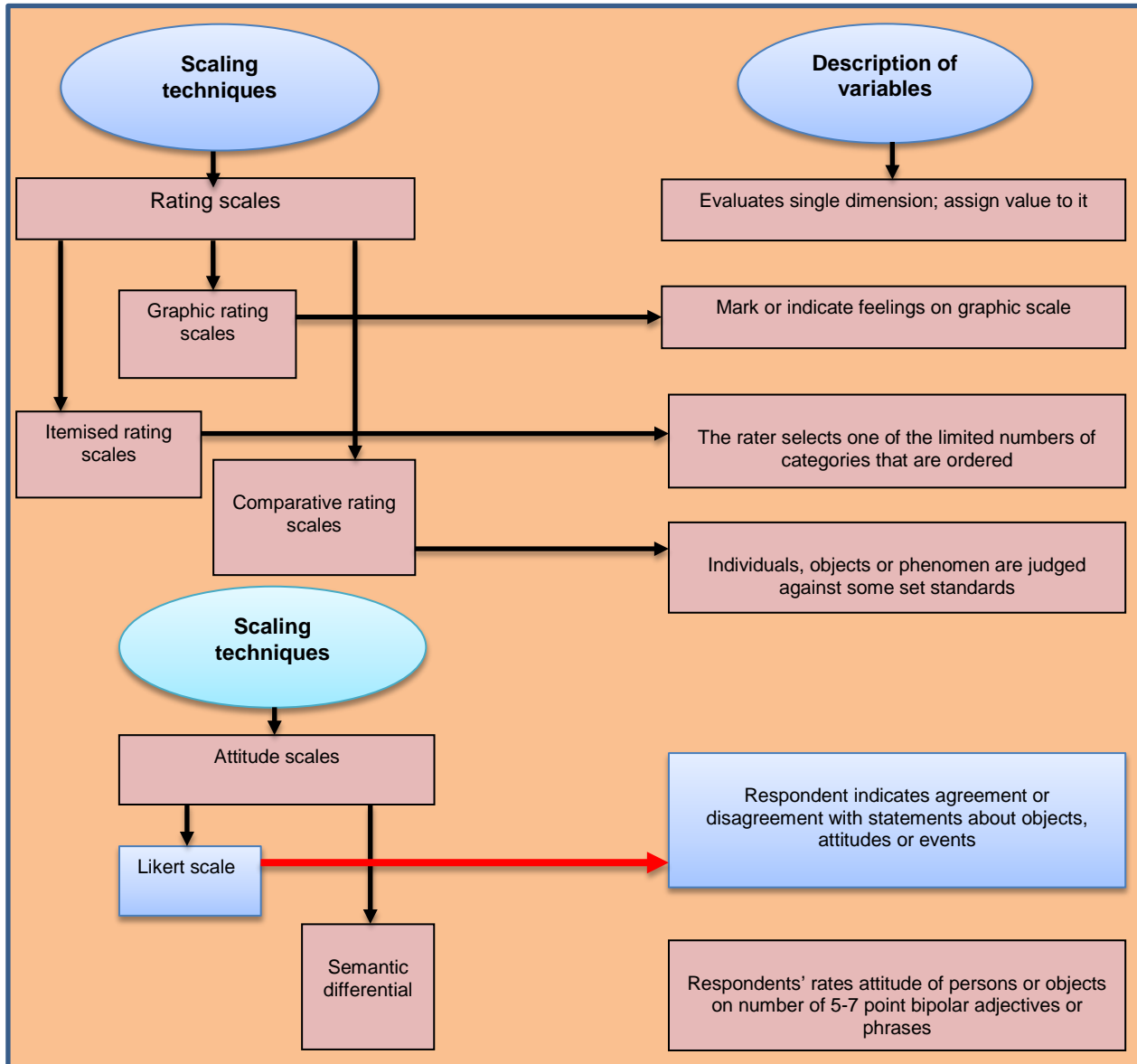
According to Rossouw (2003:129), some of the primary drawbacks of the mailed questionnaires are two-fold; firstly the researcher and the respondents are physically separated from one another; the mailed questionnaire is the only source of communication. Other drawbacks for using mailed questionnaires include:

- Higher non-response rate due to unclear open ended questions.
- Complexity of questionnaires in terms of deep thoughts; generate low rate of response.
- Lack of control to determine questionnaires were attended by rightful individuals according to the research criteria.
- High rate of illiteracy among respondents lead to lower response rate.
- Higher costs due to continued reminders; self-addressed envelopes included and other administrative costs (Rossouw, 2003:129).

- **Scaled responses**

There are numerous scaling methods that are employed in a research strategy; the two main types of scale responses that are mostly in business research are the rating and attitude scales. Table 5.1 on the following page describes the two scales.

Table 6.3: Most used scaling methods



In any rating scale, an evaluation is done on a single dimension of an individual, object or more common to rate a specific phenomenon at a particular point with a category.

Davis (2005:210) indicates that during the measurement, a value is then allocated to a specific point or category.

Similarly, an attitude scale is a measurement of respondents' attitudes or a preference toward any object or phenomenon the research intends to measure (Davis, 2005:210; Zikmund & Babin, 2007:332). Davis (2005:210) continues to emphasise that attitude scales are a combination of rating scales; however, they are very complicated and features as multi-item scales.

- **Telephonic questionnaires**

The telephonic questionnaires allow the interviewers to phone the research respondents with questions and even record answers (Maree & Pietersen, 2007:157). The telephonic questionnaire is another form of a research questionnaire which features more in the form of structured interviews because the interviewer or the researcher poses questions telephonically by means of person-to-person interviews.

Advantages of the telephonic questionnaires include:

- Field workers are well positioned to explain to the research respondents any form of ambiguities that are likely to arise.
- The response rate is high; illiteracy is not a problem because answers are provided telephonically.
- Quick data is collected thus the results of investigations are quick.
- Mailed questionnaires cost less than the field interviews.
- Information is easily collected from a widely dispersed research environment.

However, the telephonic questionnaires experience some disadvantages namely:

- High costs due to long call distances.

- There is the likelihood that bias may be experienced; not all potential respondents have access to telephones especially in rural areas; only few respondents with telephonic facilities can be reached.
- Higher costs and longer duration due to further extension of local telephone zones.
- Sensitive and complex issues cannot be discussed over the telephone.
- Long questions or more contentious utterances may force respondents to end the process (Rossouw, 2003:130; Gravetter & Forzano, 2003:172).
- High costs due to constant follow-up calls, using well trained and skilful personnel (Maree & Pietersen, 2007:157).
- **Questionnaires delivered by hand**

Research questionnaires can also be hand delivered by fieldworkers. The justification for hand delivered questionnaires ensures sufficient personal control and enhances the collection of the questionnaires. The adoption of this method saves much time and increases the overall rate of response. A high degree of freedom is enjoyed by the research respondents through completing the questionnaires which are collected at a later date by appointment. Research questionnaires that are delivered by hand has the advantages of collecting greater share of information because of personal contact between the fieldworkers and the research respondents and again any form of uncertainties relating to questions can be sorted out without much delay.

Hand delivered questionnaires are without limitations; the researcher is mostly disadvantaged due to problems such as:

- Excessively higher costs as the fieldworkers have to return to individuals to collect the questionnaires
- Increased travelling costs as most research areas are geographically dispersed
- At times it is not easy to locate the residency of the research respondents

- Rampant misplacement of research questionnaires by respondents or the inability to successfully complete the questionnaires
- More problems of illiteracy; a lack of writing and reading skills and to understand the questions among the rural community members.
- **Electronic questionnaires**

There are three main types of electronic surveys; the e-mailed survey where an e-mail is sent with the questionnaires to be completed by the respondents; secondly the web-based survey that informs the research respondents to complete the questionnaires online using a specific website and finally the computerised interactive voice response (IVR) systems which relies on automated telephone calls (Grinnell & Unrau, 2008:298). In principle, the electronic survey does not use paper; in effect, it is not generally a paper-based questionnaire. Research data is directly entered into an electronic computerised database. As a result, it eliminates the process of transferring the raw data from each paper questionnaire into a database. Key benefits of using the electronic questionnaires are that the system encourages data to be directly transferred into a database; thus the possibilities of unnecessary mistakes and material wastage are completely eliminated (Grinnell & Unrau, 2008:298).

Unfortunately, the cultural value of a paper trail for the purposes of justification is no longer possible; illiterate respondents in rural areas with inadequate communication facilities may not be familiar with the ongoing research procedures; thus the response rate may be insignificant or very poor. The web-based questionnaires at times may be because the process is so long and very complicated; as such most computers are unable to satisfactorily process complex questionnaires (Grinnell & Unrau, 2008:298).

5.3.5.2 Development and construction of questionnaire used in this research

Much has been said about the research instrument to be used throughout the study in chapter one. Due to the nature of the study, a practicable research approach of a

quantitative nature is used in the study with the intention to determine the challenges of small businesses and entrepreneurship in rural areas. Key underlying criteria for using the quantitative approach is *“...testing a theory composed of variables, measured with numbers and analysed with statistical procedures with the views of determining the predictive generalizations of the theory”* (Leedy & Ormrod, 2005:89).

In order to ascertain both the primary and secondary objectives, a standardized quantitative questionnaire was developed by the Potchefstroom Business School (Lebakeng, 2008; Kock, 2008; Meyer, 2009); the development and layout of the questionnaire was kept very simple to encourage meaningful participation by the owner-managers of small businesses. The question formats were kept very concise with maximum care taken to word and phrase each question and statements with care because the layout and appearance of the questionnaire are of great significance (Loubser, 1999:287). The questionnaire was based on the literature study of small businesses and entrepreneurship taking into account the research problems and the study objectives. Included in the questionnaire are some specific literature on the National Small Business Act No. 102 of 1996 and the National Small Business Amendment Bill, 2004:2).

The questionnaire consisted of seven sections of varying open and close-ended questions and statements; in total over 90 statements of different degrees of understanding formed part of the questionnaire. A 7-point Likert-type interval scale was used to collect data for this study. In response to statements in the questionnaire, different levels of responses such as strongly disagree, disagree, slightly disagree, neutral view, slightly agree, agree and strongly agree statements. Apart from the challenges that limit small business growth and rural entrepreneurial activities, this study is also structured to provide insightful meanings regarding the impact of small businesses and entrepreneurship on the socio-economic lives of the rural communities. Thus, the questionnaire incorporated biographical statements with more focus on the benefits of small businesses and entrepreneurship.

Every statement of the questionnaire expects the owner-managers (entrepreneurs) to indicate specific degree of agreement or disagreement with the relevant content. At the same time, the questionnaire also includes options that allow the owner-managers to make suggestions on certain statements and to provide their own contributory statements to clarify issues. On the standardized questionnaire, the owner-managers of small businesses are provided with a designated block where applicable answers to specific statements are marked with a cross.

The owner-managers of small businesses were also allowed to mark more than one block depending on a specific statement. Sections A, B, C, D and E are designed in the form of a 7-point Likert-type interval scale to measure the degree of responses ranging from “*strongly disagree*” with a value of one to “*strongly agree*” with seven as its value. One of the most benefits of using the Likert scale is its reliability in measuring the exact position on the specified continuum. In contrast, sections G and H on the questionnaire allow the owner-managers to mark with a cross only the correct answers as required by the items.

In summary, the questionnaire development followed strict investigative approaches that are applicable to the study hence the relevant literature is combined in the following analytical order as used in the structured questionnaire.

The questionnaire was structured as follows:

- **Section A: Business and operational challenges**
- **Section B: Specific challenges of small businesses in the district municipality**
- **Section C: Typical challenges of rural small business**

- **Section D: Personal challenges of the owner-managers of small businesses**

- **Section E: Perceived success of the businesses**

- **Section F: Personal information**
 - Age group
 - Marital status
 - Highest academic qualification
 - Past experience prior to self-employment
 - Number of years self-employed
 - Gender
 - Race
 - Ethnic group

- **Section G: Business and operational information**
 - Location of your business in municipality
 - Daily average hours per week of business operations
 - Number of full/part-time employees
 - Market location of products/services
 - Industry sector of small businesses
 - Age classification of small businesses
 - Legal status of small businesses
 - Path to small business ownership
 - Source of start-up funding
 - Location of business premises
 - Total number of permanent employees
 - Business turnover
 - Childhood experience

- First time business ownership
- Reasons for business failure

In designing the research questionnaire, utmost care was taken to ensure that guidelines and strict criteria were followed in order for the questionnaire to enhance the processes of data collection for analysis.

In designing the research questionnaire, utmost care was taken to ensure that guidelines and strict criteria were followed in order for the questionnaire to enhance the processes of data collection for analysis.

5.3.5.3 Criteria for a good questionnaire

A good questionnaire must meet certain criteria. Cooper and Schindler (2008:293) posit that a good data gathering tool needs to possess three critical criteria namely reliability, validity and practicality.

- **Reliability of the questionnaire**

Whenever the data collection approach is employed in a research study, the intention of the researcher must be the high level of accuracy and the utmost reliability of the research instruments. Reliability is described as the consistency, stability and repeatability of an instrument that is used in collecting data (Brink & Wood, 2001:184).

Any form of measure is deemed to be reliable to a certain degree in order to provide utmost consistency of results; reliability concerns the estimates of depth which is provided by the measurement with consistent outcomes thus it is free of unstable errors. Reliability is described as the consistency, stability and repeatability of a data collection tool (Brink & Wood, 2001:184). Babbie (2007:143) and Gravetter and Forzano (2003:91) indicate that for an instrument to be reliable, it does not fluctuate even if the same variables are measured; fluctuation can only occur unless the variables differ.

A data collection instrument that is reliable is not likely to respond to chance factors or to any environmental forces; instead, the instrument will be consistent with results even if it is repeatedly applied to the same person or objects or even employed by different researchers. This view is supported by Best and Kahn (1993:208) who indicated that reliability is very important. Yet, not the best condition for validity is a test must be more reliable to become valid but a test can be reliable and not be valid.

According to Neuman and Kreuger (2003:179-180), the following measures increase the reliability of a measuring instrument:

- Eliminate the number of items that are ambiguous.
- Reduce the impact of external events.
- Instructions relating to the instrument must be standardised.
- Test conditions must be standardised.
- The existing levels of measurement must be increased.
- Possible moderation of difficulties relating to the instrument.
- Scoring procedures must be consistent.

The reliability of an instrument demonstrates the notion that using similar instruments at different times to different subjects from the same population will yield definite research outcomes (Maree, 2007:215). There are several procedures that are followed to determine the reliability of an instrument. Key among these instruments is the Cronbach's Alpha coefficient with ranges of measurement between 0 and 1 and figures that are closer to 1 (0.8-0.9) which depicts signs of a highly reliable scale.

- **Validity of the questionnaire**

The validity of a research instrument entails the extent to which an empirical measure reflects the real understanding of a concept in question (Babbie, 2007:146). Attributes such as truthfulness, accuracy, genuineness and soundness are some of the words that are used to express the instrument of validity (Salkind, 2006:113). Leedy and Ormord

(2005:28) indicated that *“the validity of a measurement instrument is the extent to which the instrument measures what it is intended to measure”*.

Two types of validity exist in the literature: the internal and external validity. Whereas the internal validity focuses on the exact measurement of the instrument, the external validity is concern with the generalisation of the research outcomes (Glatthorn & Joyner, 2005:100). The ability to generalise any form of a research finding contributes to higher research levels; thus it is significant that future researchers are comfortable to build on what the study entails or to further develop the findings.

Cooper and Schindler (2008:290-292) indicated that validity consists of two major forms; these include the content and construct validity. Content validity stresses the need for good judgement depending on the researcher's ability to determine whether the measure covers the entire research universe (Rubin & Babin, 2001:194). Again, content validity is about the representativeness of the content and the instrument. Its main focus therefore is on whether the entire instrument regarding the definition of the concept has been represented in the measure (Punch, 2005:97).

The content validity of any measuring instrument is the extent to which any form of instrument provides sufficient coverage of the research question that triggers the study. Content validity, therefore, is about instances where the data collection instruments sufficiently covers the topic that is defined and provides the exact basis, and then the desired instrument can be described to be of sufficient validity (Punch, 2005:97).

- **Practicality of the questionnaires**

A good instrument is expected to meet the requirements of practicality; the practical value of the research instrument largely depends on the following criteria:

- The research instrument must be interpretable.
- The research instrument must be economical.

- The instrument must be convenient.

Cooper and Schindler (2008:285) stated that an instrument such as the questionnaire with very clear instructions in addition to relevant examples become a self-explanatory instrument and very easy to be completed by respondents. However, other research instruments without very clear guidelines and directives are extremely difficult to complete. The questionnaire that is designed to collect data in this study meets the requirements of better interpretations (Cooper & Schindler, 2008:295).

5.3.6 Phase 6 & 7: Data processing, analysis and interpretation

To date analysing quantitative data has become a complex task; however, due to technological innovations, data analysis has become relatively easier with guidelines and step-by-step procedures and the use of computerised data analysis software. The gist of data analysis is for the researcher to establish valuable and meaningful information from the raw data; the end result needs to address the objectives that underline the study. Kent (2007:261) indicates that the raw data is valueless until it is structured, summarised and provide scientific conclusions.

Rubin and Babbie (2005:552) described data analysis as the mechanism by which the researchers change raw data to represent a numerical form and subject to statistical analysis. The focus of data analysis is to reduce raw data to a manageable size, prepare summaries and search for patterns in order to apply suitable statistical methods (Cooper & Schindler, 2008:93). Data analysis in itself does not provide definite solutions to the research phenomena; the only means of finding solutions is by data interpretation.

Prior to analysing the raw data, the researcher needs to perform a rigorous literature review, decide on the relevant theoretical method and then decide on the appropriate method for gathering the data. Other ethical principles of voluntarily participation, confidentiality, anonymity and feedback of critical research outcomes to the sample

groups are issues to be pursued with the parties involved in the study. The deal process is for the researcher to draw a plan for data analysis before gathering the data for analysis. Monette, Sullivan and De Jong (2008:364) reiterated that in spite of research problems, data analysis mostly surfaced at the end of the research process as vital issues which will have been settled before any form of data is collected. The kind of raw data that is collected in relation to the research objectives that need addressing is the vital determinant of the appropriate choice of the statistical procedures to be adopted during the course of the study (Wegner, 2007:18).

Data analysis is the research procedures that are used by researchers to make sense of the raw data. Prior to analysing research data, the data must be edited and coded; data for analysis needs to be edited and to check for completeness, consistency and the level of accuracy of responses from the respondents (Wegner, 2007:33).

5.3.6.1 Data preparation

Data preparation involves cleaning and editing the raw data and to further check for missing values and errors. Preparing data entails checking and editing the raw data collected from the field (Sarantakos, 2005:364). Through editing the data errors will be detected as well as possible omissions for corrections; edited data is finally structured into a form that enhances the process of data analysis.

5.3.6.2 Types of statistics

Descriptive and inferential statistics are the two most significant methods that are used in quantitative research strategy with questionnaires as the key data collection tool. According to Fouche and De Vos (2005b:137), quantitative or descriptive designs require questions that gather data that are mostly used with surveys for needs assessment research. Descriptive statistics mainly focus on the description of data summaries that are obtained from the research respondents (Welman *et al.*, 2005:231). Descriptive statistics is known as univariate statistics where the research study employs

only one variable; whereas in a research strategy with two or more variables, the descriptive statistics is commonly referred to as bivariate statistics (Salkind, 2006:165).

- **Factor analysis**

Factor analysis is described as a prototypical multivariate inter-dependent method that identifies using statistical formulas to reduced varieties of factors from a sizeable number of measured variables (Zikmund & Babin, 2007:608).

Basically, the purpose of the factor analysis is to define the fundamental structure in a set of different variables that bear similarities to themes or topics. The application of factor analysis can be widely categorised into either exploratory or confirmatory research themes. Kent (2007:421) states that the exploratory factor analysis is a method that is used for exploratory purposes in other to replace many variables with few factors.

In a research strategy where many variables are measured, the use of the factor analysis has acknowledged that most of the variables are likely to measure the aspects that bear similarities with the research phenomenon thus are very much interrelated. Factor analysis reviews the exact correlation that exists between variables and others groups; the groups that identify the factors are known as latent variables which assist in the decrease of redundancy where two or more variables are most likely to be measuring the same research construct (Kent, 2007:420). In some instances where the variables are heavily loaded on other factors, as a result, it is not clear which factor the variable describes. The only means to solve this problem is to apply the factor rotation technique which involves the creating of new references axes (Zikmund & Babin, 2007:610-611).

- **Descriptive statistics**

According to Blaikie (2000:236-237), the statistics of a descriptive nature falls into four categories namely descriptive, association, causation and inference. The early procedures to conduct data analysis involve the description or summaries of the research data (Gay, 1992:388). Furthermore, descriptive methods are used during the research strategy to report distributions of the research samples or population over a wide range of variables. The objective is to ensure that it produces a scope of different categories of distributions using frequencies, measures of central tendency and the measure of dispersion (Gay, 1992; 390).

In general, the descriptive analysis is potential procedure of quantitative strategy that describes the numerical data by organisation, summarising and to interpret the sample of the research data (Monette *et al.*, 2008:414). The measure of central tendency enables the researcher to freely describe the data set with only a single number.

- **The arithmetic mean**

The arithmetical mean is defined as a measure of central tendency which is calculated by adding all the values in distributing and divide the outcomes by the number of values in the distribution. Mostly, the mean takes into consideration each the scores thus the mean is valued as the best form of representation and stable description index in contrast to the most preferable measure of central tendency in this study. This is because it is very precise and gives the most accurate description of research (Salkind, 2012:163).

In this study, descriptive statistics were employed to present data on personal experiences of the owner-managers of small businesses, educational qualifications, legal state of the businesses, socio-economic issues and business and personal challenges. Also the descriptive statistics was used to determine the general perceptions regarding the background of the owner-managers of small businesses'

mean values experiences and various forms of perceptions were based on a 7-point Likert-type interval scale.

- **Standard deviation**

Zikmund and Babin (2007:436) indicated that standard deviation is the most valuable index of spread of dispersion; the standard deviation is the average amount of deviation of the mean (Bryman & Bell, 2007:361). The standard deviation therefore enables a measure of variability that indicates a quantitative index of the dispersion of distribution (Zikmund & Babin, 2007:437); this is calculated by taking the differences in each value in the distribution as well as the mean and divide the overall differences by the number of the values (Bryman & Bell, 2007:360). Deviations thus far ascertained are then calculated and standardised to provide the standard deviation; it further summarises the variability in a set of data meaning the more spread out the scores, the larger the standard deviation.

Standard deviation therefore involved the deviations of the respective measurements starting from the mean of distribution; to allow for deviations, the standard deviations depict variances as the square of the standard deviation. The variance provides numerical estimated of the amount of spread in the data; in sum, the standard deviation is mostly used in descriptive statistics whereas the variance is used in statistical inferences.

- **Frequency distribution**

In addition to the mean, standard deviation, and variances, the researchers can utilise simple frequency distributions as another option to summarise the raw data. Frequency distribution can quickly inform the researchers about the distribution shape in order to determine other alternatives in data analysis. Researchers benefit by staying closer to the research data; there is the privilege of getting a “hands-on feel” of raw data especially due to the availability of software programs.

Welman *et al.* (2005:230) stated that the frequency distribution enables the researchers to determine the level of responses from respondents; to check whether the individual responses are skewed toward one end of the scale. Frequency distribution refers to an orderly array of all the available values for a variable (Cooper & Schindler, 2008:704). Wegner (2007:65) further suggests that when the frequency distribution is expressed as a percentage of the total sample, the category frequencies are known as percentage counts or percentage frequencies. Because percentages can easily be understood, it is significant and more useful to express the counts as a percentage of the total sample.

5.3.7 Phase 8: Research report

The final stage of the business research process is to report the empirical findings of the study and its analysis. The research analysis will be described in details. At this stage of the research process, the researcher reports on the conclusions of the study and makes recommendations (Zikmund & Babin, 2007:68).

5.4 ETHICAL CONSIDERATIONS

One of the major concerns during the study was the diversity of the population residing in the research areas of John Taolo Gaetsewe and Francis Baard District Municipalities of the Northern Cape Province. Cultural issues regarding the research population was of utmost important. Isaac (2007) remarks, *“...the cultural diversity of the participants should be acknowledged and actively addressed so that cultural differences can be caught up in an upward spiral of constructive engagement. Working across cultures enables one to recognise commonalities and differences in a much clearer way.”*

Research ethics is a major issue that governs research activities (Wisker, 2001:125). It is about specific principles that make provision for a generalised framework and policies about how research should be done (Makore-Rukuni, 2001:29). Cooper and Schindler (2008:35) indicated that the research design must be free of physical harm, discomfort,

pain, embarrassments and the loss of individual privacy; also there are specific procedures and behaviour patterns to adhere to during the research process.

Throughout the research process, the highest ethical standard and accepted level of sensitivity was employed at the time of interacting with the research respondents. Critical measures were instituted to *“...provide them with adequate information about the project, what were expected of them ... how their anonymity will be assured, as well as assuring them that the information they provide will be treated in confidence, and that they have the right to withdraw from the process at any stage”* (Blaihie, 2000).

5.5 SUMMARY

This section of the chapter gives an in-depth description of the methodology that is used in the empirical study to determine the challenges of rural small businesses and entrepreneurship. Throughout the chapter, the research objective and the research processes were defined in detail; the problem statement that guides the study was also presented. The various forms of quantitative research strategies namely the exploratory, causal and descriptive research methods were discussed in addition to selecting a descriptive study as the best option for the study. The observation, experimentation and the survey methods were also discussed as the primary data collection tools for the study; this was followed by the justification for choosing the structured questionnaires as the primary data collection techniques against other similar techniques as explained in this chapter.

The structured questionnaire was utilised as the only primary data collection instrument and deeply explored; the structured questionnaire was divided into sections of different business and personal challenges with open and closed-ended questions and statements. The reasons for using the structured questionnaires as the only option were presented. The majority of the statements that were included in the structured questionnaires were based on 7-point Likert-type questions with options ranging from 1-7 in the form of statements and questions included in the questionnaires. Some of the

questions are open and closed-ended to allow the owner-managers of small businesses to share their views on some of the issues. In order to access the structured questionnaires, the researcher applied the Cronbach alpha coefficient as a measure of reliability.

Two types of sampling methods namely the non-probability and the probability sampling techniques were discussed. The non-probability sampling method of convenience was chosen as the most suitable alternative for the study. The reasons for this option were discussed. The structured research questionnaires were administered throughout the research areas of John Taolo Gaetsewe and Francis Baard District Municipalities of the Northern Cape Province of South Africa by two trained fieldworkers. The findings regarding the factor analysis, reliability test and statistical analysis are described in details in chapter 6 on the following page.

CHAPTER 6

RESULTS AND DISCUSSION OF THE EMPIRICAL STUDY

6.1 INTRODUCTION

Drawing from the literature study, the empirical section of this study was designed to assess the challenges of small businesses from two district municipalities in the Northern Cape, i.e. the John Taolo Gaetsewe and Frances Baard District Municipalities. These two municipalities represent typical rural areas in South Africa. This chapter aims to build on the methodology that is applied throughout the study by presenting and discussing the raw data from the empirical study. Finally the chapter interprets the raw data into meaningful information.

The empirical study that was conducted aims to determine the challenges of small businesses and entrepreneurship in the rural areas of John Taolo Gaetsewe and Frances Baard District Municipalities. This was a quantitative study and the owner-managers of the participative small businesses were requested to complete a self-administered questionnaire (refer to Appendix A).

Discussion on the research findings initially centre on the demographic profile of owner-managers of small businesses in terms of their age, gender, race, and highest academic qualifications. The business structure of the small businesses that participated in this study, were also investigated. That was followed by assessing the dependent variable, perceived business success, and the independent variables, the personal and business challenges of the owner-managers of participating small businesses.

To determine the validity and reliability of the measuring instrument, exploratory factor analyses were performed and Cronbach alpha coefficients were calculated respectively.

Multiple linear regression analyses were furthermore used to determine the relationships between the dependent and independent variables.

The findings of the empirical study will therefore be discussed in the following sections.

6.2 RESPONSE RATE TO THE SURVEY

When studies are based on individual responses it is most likely that some individuals who were approached with the requests to provide information will not be willing to comply as expected. The response rate of this study is showed in table 6.1.

Table 6.1: Response rate of the study

Research areas	Target sample		Usable questionnaires		Questionnaires discarded	
	n	%	N	%	n	%
John Taolo Gaetsewe District Municipality	300	52.63	158	52.66	21	12.65
Frances Baard District Municipality	270	47.36	124	45.92	3	2.29
Total	570	100	282	98.58	24	14.94

A total of 570 owner-managers of small businesses were targeted in this study. This represents 300 and 270 questionnaires of the John Taolo Gaetsewe and Frances Baard District Municipalities in the Northern Cape Province respectively. Table 6.1 indicated further that, in total, 282 fully completed questionnaires were collected that were statistically analysed, representing 158 and 124 questionnaires from John Taolo Gaetsewe and Frances Baard District Municipalities respectively. A response rate of 52.66% from John Taolo Gaetsewe district municipality and 45.92% from the Frances Baard District Municipality was realised.

6.3 BIOGRAPHICAL INFORMATION OF THE RESPONDENTS

6.3.1 Age group classification of respondents

- **Purpose of question**

The purpose of question F1 in Section F of the questionnaire (refer to Appendix A) was to determine the age group distributions of the owner-managers of the participating small businesses.

- **Results obtained**

Table 6.2 illustrates the age categories of the owner-managers of small businesses that participated in this study.

Table 6.2: Age group classification of respondents

Age category	Frequency	Percentage
20 to 29 years old	29	10.28%
30 to 39 years old	113	40.07%
40 to 49 years old	94	33.33%
50 to 59 years old	36	12.76%
60+ years old	8	2.83%
Not indicated	2	0.70%
Total	282	100%

- **Analysis of the results**

Most of the participating owner-managers were between 30 to 39 years old (40.07%). This is followed by the second highest group (33.33%) in the age group of 40 to 49 years old and the third highest group of 12.76% between the ages of 50 to 59 years old. From the table therefore, these three groups account for 86.16% of the total

respondents who participated in the study. The age groups between 20 to 29 years and 60 years and older represent only 10.28% and 2.83% of the owner-managers of the participating small businesses respectively. During the study, two of the owner-managers of small businesses did not indicate their age group category.

6.3.2 Marital status of the respondents

- **Purpose of the question**

The purpose of the question F2 as stated in Section F of the questionnaire (refer to Appendix A) was to define the marital status of the owner-managers of small businesses. Marriage is known to impact on business support structure and the flexible nature of the owner-managers of business establishments in general. The owner-managers who took part in the study had to choose between five options; i.e. single, married, divorced, widowed or living together.

- **Results obtained**

The marital statuses of the owner-managers of small businesses that participated in the study are stated in table 6.3 below.

Table 6.3: Marital status of respondents

Marital status	Frequency	Percentage
Single	109	38.65%
Married	146	51.77%
Divorced	16	5.67%
Widowed	2	0.70%
Living together	5	1.77%
Not indicated	4	1.41%
Total	282	100%

- **Analysis of the results**

Table 6.3 indicates that the majority (146; 51.77%) of the participating owner-managers are married. This is preceded by 109 (38.65%) of the owner-managers who were single. The remaining 16 (5.67%) and two (0.7%) of the owner-managers of small businesses were divorced and widowed respectively. Four (1.41%) of the owner-managers did not indicate their respective marital status.

6.3.3 Highest level of academic qualification of the respondents

- **Purpose of question**

The rationale of question F3 of Section F of the questionnaire (refer to Appendix A) was not only to ascertain the highest level of the academic qualification of owner-managers of small businesses but to also determine excellence in critical challenges such as trade skills of the owner-managers of small businesses. More specifically the results of the analysis can be used to define the impact of educational achievements on small business operations and entrepreneurship in the Northern Cape Province. Furthermore, the overall outcomes of the study can be used to provide developmental needs of the owner-managers of small businesses across the districts of John Taolo Gaetsewe and Francis Baard District Municipalities of the Northern Cape Province. Respondents were allowed to choose from six different educational qualifications such as lower than matric, matric, certificate, trade skills, and diploma as well as university degree.

- **Results obtained**

Table 6.4 presents the highest academic qualifications of the participating owner-managers (entrepreneurs) in this study.

Table 6.4: Highest academic qualification of respondents

Highest level of academic qualification	Frequency	Percentage
Lower than matric	64	22.70%
Matric	65	23.05%
Certificate	50	17.73%
Trade skills	27	9.57%
Diploma	51	18.09%
University degree	20	7.09%
Not indicated	5	1.77%
Total	282	100%

- **Analysis of the results**

From table 6.4 above, 65 (23.05%) of the small business owner-managers have successfully obtained a matriculation certificate as their highest academic achievement. The table indicated that 64 (22.70%) respondents were unable to obtain a matric (lower than matric) qualification. This was preceded by 51 (18.09%) owner-managers who have completed diploma qualifications in contrast to 50 (17.73%) of the owner-managers of whom obtained a certificate as their highest academic qualifications. The owner-managers of small businesses who received trade skills accounted for 27 (9.57%) whereas only a few of the owner-managers (20; 7.09%) completed their degree qualifications. Five (1.77%) of the participating owner-managers did not indicate their highest academic qualification.

6.3.4 Prior experience before self-employed

- **Purpose of the question**

The purpose of question F4, Section F of the questionnaire (refer to Appendix A) was to establish the dearth of past experience by the owner-managers of small businesses. The outcomes of this analysis can be used to determine to what extent individuals' past experiences impact on the choice of business ownership in John Taolo Gaetsewe and

Frances Baard District Municipalities of the Northern Cape Province. The owner-managers were given the option to choose from six different categories of experiences as stated in table 6.5 below.

- **Results obtained**

Table 6.5 below presents the experiences of the participating owner-managers prior to self-employment.

Table 6.5: Past experience before self-employment

Past experience	Frequency	Percentage
Unemployed	70	24.82%
Self-employed	109	38.65%
Employed (admin. clerk, secretary, cashier, teacher	73	25.88%
Farm worker	2	0.70%
Government employee	14	4.96%
Top management employee	3	1.06%
Not indicated	11	3.90%
Total	282	100%

- **Analysis of the results**

With regard to the level of past experiences of the participating owner-managers, table 6.5 shows that the majority (109; 38.65%) of the owner-managers were exposed to entrepreneurship before venturing in their current venture, while 73 (25.88%) had some level of past experience whilst working in various government sectors. A large number of the owner-managers (70; 24.82%) were unemployed.

6.3.5 Number of years being self-employed

- **Purpose of the question**

The purpose of question F5, Section F as stated in the questionnaire (refer to Appendix A) was not only to establish the duration of self-employment but it is also significant to know whether the majority of the small businesses are stable and hence, display adequate levels of business sustainability to enhance job creation and poverty alleviation. Respondents were allowed to choose from five different categories of years as indicated in the questionnaires.

- **Results obtained**

Table 6.6 below presents the number of years being self-employed by the owner-managers in the participating small businesses.

Table 6.6: Number of years being self-employed

Years of self-employment	Frequency	Percentage
<1 years	41	14.5%
1-3 years	91	32.26%
4-5 years	85	30.14%
6-10 years	46	16.31%
10+ years	13	4.60%
Not indicated	6	2.12%
Total	282	100%

- **Analysis of the results**

Table 6.6 above depicted that the majority (91; 32.26%) of the participating owner-managers operate their businesses for periods ranging from one to two years; while 85 (30.14%) of the owner-managers operate their businesses for more than four years. A total of 46 (16.31%) operate their businesses between 6 to 10 years. Table 6.6 further demonstrates that 41 (14.5%) of the owner-managers (entrepreneurs) operate their small businesses for less than a year. Only 13 (4.60%) of the owner-managers of small businesses were able to sustain their business operations for just over 10 years. There

were six (2.12%) of the owner-managers (entrepreneurs) who did not disclose the number of years they have been self-employed.

6.3.6 Gender classification of respondents

- **Purpose of the question**

The main purpose of question F6, Section F as stated in the questionnaire (refer to Appendix A) was to determine the split in business ownership between the male and female owner-managers of small businesses within the research areas.

- **Results obtained**

Table 6.7 illustrates the gender of the participating owner-managers.

Table 6.7: Gender classification of respondents

Gender	Frequency	Percentage
Male	179	63.47%
Female	100	35.46%
Not indicated	3	1.06%
Total	282	100%

- **Analysis of the results**

The results highlight that in general males were the dominant sex which participated in the study with the score of 179 (63.47%) in comparison to female owner-managers who account for 100 (35.46%). Out of the total number of the owner-managers of small businesses who participated in the study, three (1.06%) preferred not to disclose their gender as required by the questionnaire.

6.3.7 Race classification of respondents

- **Purpose of the question**

Question F 7, Section F from the questionnaire (refer to Appendix A) was designed to determine to what extent did race influence business ownership in general. The owner-managers of small business who participated in the study were given the option to choose from five different races as stated in table 6.8 below.

- **Results obtained**

Table 6.8 demonstrates the various race classifications of the owner-managers of small businesses who participated in the study.

Table 6.8: Race classification of respondents

Race classification	Frequency	Percentage
Black	152	53.90%
White	15	5.31%
Coloured	31	10.99%
Indian	28	9.92%
Others	51	18.08%
Not indicated	5	1.77%
Total	282	100%

- **Analysis of the results**

The majority of the participating owner-managers (152; 53.90%) were from the black race group whereas 31 (10.99%) were of the coloured population. The Indian population account for 28 (9.92%) of the participating owner-managers with 15 (5.31%) whites. A

sizeable number, 51 (18.08%), of the owner-managers indicated the option of other race groups, while five (1.77%) owner-managers preferred not to indicate their races.

6.4 BUSINESS AND OPERATIONAL INFORMATION

In this section the structure of the participating small businesses and other operational information will be discussed.

6.4.1 Small business classifications according to district municipality

- **Purpose of the question**

The rationale of question G1, Section G of the questionnaire (refer to Appendix A) was aimed to determine in which district the businesses were operated in. The owner-managers who participated in the study were presented with two options to choose from as indicated in table 6.9 below.

- **Results obtained**

Table 6.9 outlines the location of the businesses in terms of the two research areas, i.e. the John Taolo Gaetsewe and Frances Baard District Municipalities in the Northern Cape Province.

Table 6.9: Classification of district municipality

District municipality	Frequency	Percentage
John Taolo Gaetsewe District Municipality	180	63.82%
Frances Baard District Municipality	95	33.68%
Not indicated	7	2.48%
Total	282	100%

- **Analysis of the results**

As indicated in table 6.9 the majority of the participating owner-managers (180; 63.82%) operate their small businesses within the John Taolo Gaetsewe District Municipality in contrast to only 95 (33.68%) in the Frances Baard District Municipality. Furthermore, a total of seven (2.48%) of the owner-managers did not indicate their actual location. It should, however, be noted that all the businesses investigated in this study were operating in the two districts.

6.4.2 Daily average working hours

- **Purpose of the question**

The purpose of question G 2, Section G of the questionnaire (refer to Appendix A) was to determine the number of hours that the participating owner-managers work per week (Refer to table 6.10.)

- **Results obtained**

Table 6.10 below shows the number of hours per week the owner-managers of small businesses put into the business activities.

Table 6.10: Daily average working hours per week

Working hours per week	Frequency	Percentage
<7 hours	18	6.38%
7-10 hours	83	29.43%
10 hours	88	31.20%
10+ hours	90	31.91%
Not indicated	3	1.06%
Total	282	100%

- **Analysis of the results**

Having considered the weekly hours invested into the business, the table outlined that 18 (6.38%) owner-managers currently continue to invest less than 7 hours per week into their business operations, while 83 (29.43%) spend between a minimum of eight to ten hours weekly in the business operations, 88 (31.20%) spend at least 10 hours every week in the business operations while 90 (31.91%) spend over 10 hours in the small business activities. Only three (1.06%) owner-managers did not indicate the amount of time spent to operate their respected small businesses.

6.4.3 Number of full/part-time employees

- **Purpose of the question**

The rationale of question G 3, Section G of the questionnaire (refer to Appendix A) was to determine the size of the participating businesses in terms of the number of employees employed. According to the Amended National Small Business Act 102 of 2004, the number of permanent employees serves as one of the critical factors in knowing whether a business is small, medium or large. Thus, business growth and sustainability can be determined on employee size apart from other contributory factors. Drawing from literature, the owner-managers of small businesses were presented with seven categories to choose from (refer to Table 6.11).

- **Results obtained**

Table 6.11 on the next page illustrates the results of the categories of employment options that were available to the respondents.

Table 6.11: Number of full/part time employees

Number of full/part-time employees	Frequency	Percentage
1-3 part-time employees	61	21.63%
4-6 part-time employees	25	8.86%
1-3 full-time employees	50	17.73%
4-6 full-time employees	65	23.04%
Myself and two	17	6.02%
Myself and spouse	12	4.25%
Others	46	16.31%
Not indicated	6	2.12%
Total	282	100%

- **Analysis of the results**

The responses from the participating owner-managers indicated that more than four individuals (65; 23.04%) and less than four (50; 17.73%) were employed on a full-time basis. Part-time employees of more than four (25; 8.86%) and less than four (61; 21.63%) were also indicated. Further indications were that the owner-managers and their spouses accounted for 12 (4.25%) of the participating businesses. A total of 17 (6.2%) businesses were operated with the help of two employees. The results further indicate that 46 (16.31%) owner-managers were unable to disclose the employment option of either part or full-time business operations; while six (2.12%) owner-managers did not indicate the number of employees.

6.4.4 Product distribution and marketing

- **Purpose of the question**

The purpose of question G 4, Section G as indicated in the questionnaire (refer to Appendix A) was to determine the sources of marketing and distributing of products by the participating small businesses. As such, the owner-managers were asked to choose from five means of distribution of products and services as shown in table 6.12 below.

- **Results obtained**

Table 6.12 below illustrates specifics regarding the distribution and marketing of products.

Table 6.12: Marketing of products

Marketing and distribution of products	Frequency	Percentage
Local market	226	80.14%
Provincial distribution only	32	11.34%
National and International	1	0.35%
All the above	2	0.70%
Others	11	3.90%
Not indicated	10	3.54%
Total	282	100%

- **Analysis of the results**

Most of the participating businesses market or distribute their products or services locally (226; 80.14% or in the Northern Cape Province (32; 11.34%). Only 3 businesses operate on a national or international level.

6.4.5 Small business classification into industry sectors

- **Purpose of the question**

The purpose of question G5, Section G of the questionnaire (refer to Appendix A) was to classify the small businesses into different industries. Drawing from the literature study, the owner-managers of small businesses were asked to choose from 17 options to determine the industry in which their respected businesses operate in.

- **Results obtained**

Table 6.13 illustrates the industry in which the participating businesses operate.

Table 6.13: Classification of industry sector

Industry sector of small business	Frequency	Percentage
Retail trade	62	21.98%
Wholesale trade	26	9.21%
Manufacturing	15	5.31%
Construction	14	4.96%
Transport	11	3.90%
Accommodation	10	3.54%
Food	31	10.99%
Agriculture	1	0.35%
Garden services	2	0.70%
Home appliance repairs	8	2.83%
Internet services	8	2.83%
Wedding planner	2	0.70%
Funeral services	6	2.12%
Beauty salon	39	13.82%
Computer repairs	6	2.12%
Cell phone repairs	13	4.60%
Other	9	3.19%
Not indicated	19	6.73%
Total	282	100%

- **Analysis of the results**

It was evident that the majority – 62 (21.98%) – of small businesses operate within the retail sector followed by the service sector with 39 (13.82%) businesses. The food industry account for 31 (10.99%) businesses, while the wholesale industry account for

26 (9.21%) businesses. The manufacturing, construction, transport and accommodation industries account for 15 (5.31%), 14 (4.96%), 11 (3.90%) and 10 (3.54%) businesses respectively.

The present study took place in the rural areas where the rate of poverty and unemployment is rife; as such it was not surprising that the cell phone repairs sector accounts for 13 (4.60%), more than the agricultural industry of 1 (0.35%), the internet services of 8 (2.83%) as well as computer repairs of 6 (2.12%) businesses respectively. The garden and the wedding planner services each accounts for 2 (0.70%) businesses with 9 (3.19%) businesses operating in other industries, while 19 (6.73%) owner-managers did not indicate the industry that their businesses operate in.

6.4.6 Age of the small business

- **Purpose of the question**

The age of the business have long-term implications for every business. The purpose of question G 6, Section G of the questionnaire (refer to Appendix A) was to determine the age of the business as an indication of long-term survival and the business sustainability which is likely to increase job creation. Given the nature of small business literature, the owner-managers were provided with various small business age categories to choose from to determine how long the business survived.

- **Results obtained**

Table 6.14 below illustrates the results of the age of the participating businesses.

Table 6.14 Age of participating small business

Small business age	Frequency	Percentage
1 year	19	6.73%
2 years	40	14.18%
3 years	36	12.76%
4 years	48	17.02%
5 years	32	11.34%
6 years	36	12.76%
7 years	14	4.96%
8 years	10	3.54%
9 years	4	1.41%
10 years	13	4.60%
11 years	5	1.77%
12 years	3	1.06%
14 years	2	0.70%
15 years	3	1.06%
16 years	2	0.70%
18 years	1	0.35%
32 years	1	0.35%
Not indicated	13	4.60%
Total	282	100%

- **Analysis of the results**

From a total of 282 small businesses, 50% of the businesses operate for less than five years. A total of 34% of the businesses operate between 5 and 9 years. Only 10.6% of the businesses operate for 10 years and longer.

6.4.7 Legal status of the business

- **Purpose of question**

Business ventures are established with varying legal ownership statuses. The rationale behind question G 7, Section G (refer to Appendix A) of the questionnaire was to determine the legal ownership status of the small businesses for planning purposes as well as to make an informed policy decision suitable for the business operations. For instance, businesses which are registered as private ownership are to be audited yearly which influence both the sound managerial and accountable decisions of the business establishment. Given the nature of small business establishments, the respondents were presented with various legal statuses to choose from in determining ownership.

- **Results obtained**

Table 6.15 below describes the owner-managers' (entrepreneurs') legal ownership status.

Table 6.15: Legal status of the businesses

Legal status of the business	Frequency	Percentage
Sole proprietorship.	164	58.15%
Partnership	41	14.53%
Close Corporation	45	15.95%
Company (private)	8	2.83%
Company (public)	1	0.35%
Not registered	21	7.44%
Not indicated	2	0.70%
Total	282	100%

- **Analysis of the results**

The structure of small businesses that were covered by the study indicated that the majority, in total 164 (58.15) of the businesses were operated as sole proprietorship; close corporation is the second highest legal business ownership with a representation of 45 (15.95%) whereas registered partnership businesses account for 41 (14.53%) of the businesses that participated in the study. Out of the total businesses, 21 (7.44%) were not registered whereas private and public companies represent 8 (2.83%) and one (0.35%) businesses respectively. Two (0.70%) owner-managers did not indicate their business ownership.

6.4.8 Path to business ownership

- **Purpose of question**

The purpose of question G 8, Section G of the questionnaire (refer to Appendix A) was to determine the owner-managers' path to business ownership. The owner-managers were requested to choose from five categories regarding their path to business ownership.

- **Results obtained**

Table 6.16 illustrates the path to business ownership indicated by the respondents.

Table 6.16: Path to business ownership

Path to business ownership	Frequency	Percentage
Started own business	171	60.63%
Buy existing business	66	23.40%
Join family business	29	10.28%
Take over existing business	13	4.60%
Others	1	0.35%
Not indicated	2	0.70%
Total	282	100%

- **Analysis of the results**

Considering the data on how the owner-managers commenced their respective business ventures, Table 6.16 indicates that 171 (60.63%) have established their own businesses while 66 (23.40%) bought an existing business. According to the data, 29 (10.28%) of the owner-managers joined family business while 13 (4.60%) took over existing business ventures. One (0.35%) of the owner-managers were not sure on how their business started while two (0.70%) of the owner-managers did not indicate their choice.

6.4.9 Source of start-up funding

- **Purpose of question**

The purpose of question G 9, Section G of the questionnaire (refer to Appendix A) was to determine the initial source of start-up funds of the owner-managers of small businesses. Six sources of funding the small businesses were presented to the owner-manager (entrepreneurs) to choose from as indicated in table 6.17 below.

- **Results obtained**

The various sources of start-up funding of small businesses are presented in table 6.17.

Table 6.17: Source of start-up funding

Start-up funding	Frequency	Percentage
Personal savings	161	57.09%
Borrowed or gifted from relative or friend	23	8.15%
Household/spouse	27	9.57%
Sold previous business	4	1.41%
Bank loan	54	19.14%
Other	2	0.70%
Not indicated	11	3.90%
Total	282	100%

- **Analysis of the results**

More than half (161; 57.09%) of the owner-managers who participated in the study indicated that they utilized their personal savings to start their own businesses. A total of 54 (19.14%) of the owner-managers were assisted by the banks to acquire loans. It further emerged that households and spouse financial assistance accounted for 27 (9.57%) followed by borrowed funds (23; 8.15%). Only four (1.41%) owner-managers acquired their funding as a result of selling their previous businesses. Two (0.70%) of the owner-managers were able to raise start-up funds through other unspecified means; while 11 (3.90%) did not indicate their option.

6.4.10 Business location

- **Purpose of question**

The purpose of question G 10, Section G of the questionnaire (refer to Appendix A) was to determine the business premises from where the businesses are operated. The

owner-managers of small businesses had four categories of business location from which to choose from as shown in table 6.18 below.

- **Results obtained**

Table 6.18 depicts the business premises of the small businesses that participated in the study.

Table 6.18: Business location

Business premises	Frequency	Percentage
Work from home (Home-based)	97	34.39%
Central Business District (CBD)	130	46.09%
Outlying business areas	48	17.02%
Agricultural land	3	1.06%
Not indicated	4	1.41%
Total	282	100%

- **Analysis of the results**

Almost half of the respondents which represents 130 (46.09%) of the owner-managers of small businesses indicated that their businesses operate from the Central Business District (CBD), followed by 97 (34.39%) of the owner-managers who indicated that their business operations take place from individual homes. A total of 48 (17.02%) of the owner-managers operate their businesses from outlying business areas whereas three (1.06%) of the owner-managers operate their businesses on established agricultural land. Four (1.41%) owner-managers (entrepreneurs) of small businesses preferred not to provide answers to the question.

6.4.11 The size of business (in employees)

- **Purpose of the question**

The rationale behind question G 11, Section G (refer to Appendix G) of the questionnaire was to obtain the necessary information regarding the level of employment of small businesses within the study areas and to further determine whether the small businesses in the study can be classified as small businesses as defined. The owner-managers of small businesses were provided with five categories of employees ranging from “myself” to between 25-50 employees to choose from as depicted in table 6.19 below.

- **Results obtained**

The number of individuals employed by the small businesses is presented in table 6.19 below.

Table 6.19: Number of employees

Number of employees	Frequency	Percentage
Myself	93	32.97%
2-5 employees	123	43.61%
6-10 employees	42	14.89%
11-25 employees	17	6.02%
26-50 employees	2	0.70%
Not indicated	5	1.77%
Total	282	100%

- **Analysis of the results**

The evidence was that the majority (123; 43.61%) of the owner-managers indicated that they employed between two to five employees while 93 (32.97%) of the owner-

managers pronounced that their businesses were managed and operated by themselves.

On the other hand, 42 (14.89%) of the owner-managers employed in the range of 6 to 10 employees in operating their businesses; another indication of increased small business size whereas 17 (6.02%) of the owner-managers pointed out that they have offered employment opportunities to between 11 to 25 individuals. Two (0.70%) of the owner-managers have employed between 26 to 50 persons while 5 (1.77%) of the owner-managers were unable to provide answers to the questions.

6.4.12 Turnover of the business

- **Purpose of question**

The rationale of this question G 12, Section G (refer to Appendix A) of the questionnaire was to determine the annual turnover of the participating businesses. Business annual turnover in general is one of the critical business characteristics as stated in the National Small Business Act No. 102 of 1996 as amended. Increase in annual business is a vital form of business growth measurement; as such it is seen as business success or the sustainability of the business. The owner-managers had five different categories of business annual turnover to choose from as depicted in table 6.20 below.

- **Results obtained**

Table 6.20 portrays the annual turnover of small businesses that were included in the study.

Table 6.20: Annual turnover of the business

Annual turnover	Frequency	Percentage
Less than R30 000	121	42.90%
R30 000 to R50 000	72	25.53%
R50 000 to R100 000	45	15.95%
R100 000 to R500 000	28	9.92%
R500 000+	14	4.96%
Not indicated	2	0.70%
Total	282	100%

- **Analysis of the results**

A total of 121 (42.90%) owner-managers of small businesses have suggested that their annual turnover falls within the range that was lesser than R30 000; in contrast, 72 (25.53%) of the owner-managers indicated that their annual turnover falls in the range of R30 000 to R50 000. Throughout the study, it came to light that 45 (15.95%) of the annual small business turnover is within the ranges between R50 000 to R100 000 while 9.92% of the owner-managers indicated that their annual turnover falls in the range of R100 000 to R500 000. A small portion of the owner-managers, 14 (4.96%), indicated an annual turnover of over R500 000 while 2 (0.70%) of the owner-managers did not state the range in which their annual turnover falls.

6.4.13 Owner-manager (entrepreneur) childhood experience

- **Purpose of the question**

The purpose of question G 13, Section G of the questionnaire (refer to Appendix A) was to determine how the childhood experience of the owner-managers influence small business and entrepreneurship activity in rural settings. The owner-managers were asked to choose between “yes” or “no” to determine their individual level of childhood experiences as indicated in table 6.21 below.

Results obtained

Table 6.21 shows the owner-managers' response to their childhood experience with regard to entrepreneurship.

Table 6.21: Level of response to childhood experience

Childhood experience	Frequency	Percentage
Yes	137	48.58%
No	137	48.58%
Not indicated	8	2.84%
Total	282	100%

- **Analysis of the results**

From the table above, there was a strong split decision regarding owner-managers of small businesses who had childhood experience of entrepreneurship and those who embarked on small business operations without the requisite experience. The owner-managers of 137 (48.58%) businesses indicated that they had acquired some childhood experience prior to starting their own businesses. In contrast, 137 (48.58%) of the owner-managers stated that they acquired no form of childhood experience of entrepreneurship. About 8 (2.84%) of the owner-managers (entrepreneurs) did not indicate their level of childhood experience.

6.4.14 First-time business ownership

- **Purpose of the question**

The purpose of question G 14, Section G of the questionnaire (refer to Appendix A) was to determine whether the owner-managers were first-time business owners or not. As stated in table 6.22 below, the owner-managers of small businesses were presented with the options of "yes" or "no" to determine the duration of business ownership.

- **Results obtained**

Table 6.22 illustrates the responses of the business owner-managers in terms of whether they are first-time business owners or not.

Table 6.22: Responses to first-time business owner

First time business ownership	Frequency	Percentage
Yes	171	60.64%
No	65	23.05%
Not indicated	46	16.31%
Total	282	100%

- **Analysis of the results**

The data gathered for this study specify that the majority of the owner-managers, 171 (60.64%), were first-time business owners while 65 (23.05%) indicated that they have not owned any business before. A total of 46 (16.31%) did not indicate whether they were first-time owners or not.

6.4.15 Reasons for business failure

- **Purpose of the question**

The purpose of question G15, Section G (refer to Appendix A) was to determine the reasons for the high failure rate of the small business sector. One of the main objectives of the establishment of the small business sector is to create employment and alleviate poverty. Due to rampant business failure and a lack of sustainable business operations, it is impossible to realise the stated objective. From table 6.23 below, five categories of options were presented to the owner-managers from which to choose the reasons for business failure.

- **Results obtained**

Table 6.23 illustrates the reasons for business failure of the owner-managers who took part in the study.

Table 6.23: Reasons for business failure

Reasons for business failure	Frequency	Percentage
No form of assistance	133	47.16%
Unfriendly regulatory environment	4	1.41%
Lack of collateral	5	1.77%
All of the above	33	11.70%
Other	18	6.38%
Not indicated	89	31.56%
Total	282	100%

- **Analysis of the results**

The majority (133, 47.16%) of the owner-managers pointed to no form of assistance; while 4 (1.41%) mentioned the unfriendly regulatory environment as one of the reasons. Out of the total number who took part in the study, 33 (11.70%) owner-managers of small businesses indicated that reasons such as no form of assistance, unfriendly regulatory environment and a lack of collateral as contributory factors to business failure. A total of 89 (31.56%) of the participants did not provide the reasons for business failure.

6.5 DESCRIPTIVE STATISTICS OF MEASURING THE VARIABLES

The owner-managers of the participating small businesses were requested to indicate their individual responses on selected independent (challenges) and dependent (perceived business success) variables. Responses by the owner-managers were measured by a 7-point Likert-type interval scale questionnaire to measure the degree of responses ranging from 1 = “*strongly disagree*” and 7 = “*strongly agree*”. Lower

numbers assigned to each statement on the scale is a representation of disagreement with the statements. In contrast, higher numbers on the scale stand for agreement with the various statements.

In this section the results of the responses of the owner-managers are indicated by means of the average or the mean (\bar{x}) and the standard deviation (s) (variation around the mean) of each of the items that were measured (refer to Tables 6.24 to 6.28). Furthermore, the items measuring the variables were ranked from the highest to the lowest mean score obtained.

6.5.1 Business and operational challenges

- **Purpose of the question**

The main purpose of questions A1 to A17 in Section A of the questionnaire (refer to Appendix A) was to indicate the extent to which the independent variable, **Operational and business challenges** are influencing small businesses.

- **Results obtained**

The average or the mean (\bar{x}) and the standard deviation (s) (variation around the mean) of each of the 15 items that measures the business and operational challenges are indicated in Table 6.24 below. The challenges were ranked from the highest to the lowest mean score obtained.

Table 6.24: Business and operational challenges

No.	Challenges	<i>n</i>	\bar{x}	<i>s</i>
A17	Lack of sufficient training in the Northern Cape Province for small businesses	280	6.29	0.92
A13	Lack of small business assistance	279	6.15	0.93
A11	No resources to assist small businesses	279	6.14	0.88
A16	No support to assist small businesses for long-term survival	280	6.13	0.89
A8	Not able to obtain enough state support	277	6.13	1.03
A3	Lack of sufficient financial resources	281	6.00	1.13
A12	Fewer opportunities for small businesses	279	5.91	1.23
A7	Lack of suitable business location/premises	281	5.71	1.41
A2	Lack of resources and basic infrastructure	280	5.71	1.40
A15	Insufficient provision of basic infrastructure (electricity, water and road networks) constraints	281	5.63	1.41
A4	Inadequate accounting and management skills	279	5.50	1.40
A10	Lack of marketing information	280	5.49	1.43
A6	Scarce marketing information	280	5.45	1.46
A5	Not able to use technology	281	5.28	1.74
A1	Unable to employ skilful employees	277	4.59	2.13
A9	Too much competition with large businesses	277	4.52	2.11

- **Analysis of the results**

Table 6.24 indicated that the owner-managers of small businesses that participated in this study rated a **lack of sufficient training in the Northern Cape Province for small businesses** ($\bar{x} = 6.29$) as the most important operational challenge. Other challenges were also rated high, i.e. a **lack of small business assistance** ($\bar{x} = 6.15$), **no resources to assist small businesses** ($\bar{x} = 6.14$), **no support to assist small business for the long term** ($\bar{x} = 6.13$), **not able to get enough state support** ($\bar{x} = 6.13$) and a **lack of sufficient financial resources** ($\bar{x} = 6.00$).

Furthermore, according to the owner-managers that participated in this study, rural communities are faced with other business and operational challenges including **fewer opportunities for small businesses** ($\bar{x} = 5.91$), a **lack of sustainable business location/premises** ($\bar{x} = 5.71$), a **lack of resources and basic infrastructure** ($\bar{x} = 5.71$)

and **insufficient provision of basic infrastructure (electricity, water and road networks)** ($\bar{x} = 5.63$).

6.5.2 Specific challenges of small businesses

- **Purpose of the question**

The purpose of questions B1 to B15 as stated in Section B of the questionnaire (refer to Appendix A) was to indicate the specific challenges of small businesses in the district municipalities. As was the case in terms of measuring section 1, owner managers were asked to rate 15 specific challenges to their respective businesses based on a 7-point Likert type interval scale where 1= “*strongly disagree*” to 7= “*strongly agree*”. Lower numbers (mean values) represent disagreement with the statements measured and high numbers represent agreement with the statements.

- **Results obtained**

The average or mean (\bar{x}) and the standard deviation (s) of each of the 15 items measuring the specific challenges are indicated in Table 6.25 below. The challenges were ranked from the highest to the lowest mean score obtained.

Table 6.25: Specific challenges of small businesses in the district municipality

Nr.	Specific challenges	<i>n</i>	\bar{x}	<i>S</i>
B11	Lack of support from the local district municipality	276	6.46	0.97
B9	Lack of general small business support by government	279	6.43	0.81
B3	Problem of start-up capital	276	6.38	0.86
B8	Absence of small business education in rural areas	279	6.36	0.89
B10	Too much costs of doing business	279	6.34	0.89
B7	Local economic development does not focus on small businesses	278	6.33	1.09
B1	Poor education system	280	6.01	1.57
B2	Lack of skilled employees	277	5.88	1.46
B6	Insufficient marketing information and business opportunities	279	5.64	1.53
B12	High crime rates	279	5.58	1.74
B15	Inability to prepare credible business plans for bank loans	279	5.44	1.61
B5	Difficult regulatory and policy measures	277	5.01	1.58
B4	Inadequate basic infrastructure (roads, transportation, electricity)	279	4.03	2.21
B14	Problems with suppliers	276	4.00	2.32
B13	Lack of competition	278	3.47	2.28

- **Analysis of the results**

Table 6.25 indicated that the respondents had the perception that most of the challenges measured were important or relevant to their respective businesses. Hence, the owner-managers of small businesses rated the **lack of support from the local municipalities** ($\bar{x} = 6.46$) and the **lack of general small business support by government** ($\bar{x} = 6.43$) as the most important challenges. Four other specific challenges which were also ranked high ($\bar{x} > 6.00$) on the Likert-scale include the **problem of start-up capital** ($\bar{x} = 6.38$), **absence of small business education in rural areas** ($\bar{x} = 6.36$); **too much costs of doing business** ($\bar{x} = 6.34$) and **local economic development does not focus on small businesses** ($\bar{x} = 6.33$). **Poor education system** also featured as one of the specific challenges ($\bar{x} = 6.00$).

The participating owner-managers also ranked the following challenges high (meaning agreement with the statements): **lack of skilled employees** ($\bar{x} = 5.88$), **insufficient marketing information and business opportunities** ($\bar{x} = 5.64$), **high crime rates** ($\bar{x} =$

5.58), **inability to prepare credible business plans for bank loans** ($\bar{x} = 5.44$), **difficult regulatory and policy measures** ($\bar{x} = 5.01$), **inadequate basic infrastructure (roads, transportation and electricity)** ($\bar{x} = 4.03$) and **problems with suppliers** ($\bar{x} = 4.00$). The statement **lack of competition** with a mean score of 3.47 was ranked very low. The respondents were of the opinion that the lack of competition is not important to them.

6.5.3 Typical challenges of rural small businesses

- **Purpose of the question**

Questions C1 to C16 in Section C of the questionnaire (refer to Appendix A) was designed to assess the typical rural challenges that constrain small business operations in rural areas. The outcomes of the study can be utilized to provide rural small businesses the edge to become more sustainable and to further enhance their rate of success.

- **Results obtained**

The average or mean (\bar{x}) and the standard deviation (s) of each of the 16 items measuring the challenges are indicated in Table 6.26 below. The challenges were again ranked from the highest to the lowest mean score obtained.

Table 6.26: Typical challenges of rural small businesses

Nr.	Challenges	<i>n</i>	\bar{x}	<i>S</i>
C5	No support from district municipality	279	6.42	0.89
C8	Cash flow problems	278	6.35	0.98
C4	Too much costs of doing business	280	6.20	0.87
C11	Lack of start-up capital	277	6.15	1.10
C6	Very difficult to employ skilled labour	278	6.00	1.21
C7	Not easy to keep younger employees	279	5.73	1.51
C10	High crime rates	279	5.71	1.54
C2	No access to internet services	278	5.68	1.70
C15	Limited skills to prepare credible business plans for bank loans	280	5.59	1.54
C12	Lack of security (collateral) for bank loans	280	5.47	1.71
C14	Lack of reliable and competent employees	275	5.28	1.74
C9	Ageing workforce	277	5.24	1.77
C1	Long distance travel to market products or services	280	3.98	2.27
C3	Lack of basic infrastructure (roads, water, transportation and electricity)	280	3.92	2.34
C13	Problems with suppliers	278	3.73	2.30
C16	Lack of competition	279	3.22	2.35

- **Analysis of the results**

Table 6.26 indicated that most of the 16 optional typical challenges were rated relatively high by the respondents which were a reflection of agreement to most of the typical challenges. Five of the challenges were rated above the mean of six while seven of the challenges also obtained high levels of agreement to the challenges ($\bar{x} > 5.00$). However, four challenges were rated very low meaning an indication of disagreement to the challenges ($\bar{x} < 4.00$).

The owner-managers of small businesses rated the statement, **no support from district municipality** as the biggest challenges that inhibit small business operations with a very high mean of 6.42, while four other challenges also showed very high levels of agreement, i.e. **cash flow problems** ($\bar{x} = 6.35$), **too much costs of doing business** ($\bar{x} = 6.20$), **lack of start-up capital** ($\bar{x} = 5.58$), **very difficult to employ skilled labour** ($\bar{x} = 6.00$).

Other highly rated challenges including the statements **not easy to keep younger employees** ($\bar{x} = 5.73$), **high crime rates** ($\bar{x} = 5.71$), **no access to internet services** ($\bar{x} = 5.68$) and **limited skills to prepare credible business plans for bank loans** ($\bar{x} = 5.59$). The owner-managers of the participating small businesses indicated that a **lack of security (collateral) for bank loans** was also one of the factors that constrain small business success ($\bar{x} = 5.47$), followed by the statement **lack of reliable competent employees** ($\bar{x} = 5.28$) and **ageing workforce** ($\bar{x} = 5.24$).

Four of the remaining typical challenges showed relative low levels of agreement with mean values lower than the mean of four. The typical challenges that were rated very low include **long distance travel to market products and services** ($\bar{x} = 3.98$), **lack of basic infrastructure (roads, water, transportation and electricity)** ($\bar{x} = 3.92$), **problems with suppliers** ($\bar{x} = 3.73$). The challenge **lack of competition** was the lowest rated challenges with a mean calculation of 3.22.

6.5.4 Personal challenges of the participating owner-managers

- **Purpose of the question**

The purpose of questions D1 to D10 in Section D of the questionnaire (refer to Appendix A) was to identify personal challenges of owner-managers that inhibit rural small businesses. The study outcomes can be utilized to provide the necessary training, skills and other infrastructural needs.

- **Results obtained**

The average or mean (\bar{x}) and the standard deviation (s) of each of the 10 personal challenges are indicated in Table 6.27 below. The challenges were ranked from the highest to the lowest mean score.

Table 6.27: Personal challenges of the owner-managers of small businesses

Nr.	Personal challenges	<i>n</i>	\bar{x}	<i>S</i>
D4	Lack of education and general training	280	5.87	1.43
D10	Not able to use internet services for marketing opportunities	282	5.63	1.76
D9	Unable to understand existing tax policies	281	4.94	2.20
D5	Lack of small business success stories and role-models	281	4.85	1.93
D2	Great fear of business failure	282	4.72	2.22
D7	Lack of permanent business office	281	4.58	2.23
D6	Time pressures because of work and family issues	282	4.55	2.03
D8	Problem of running the business alone (no family support)	280	4.26	2.23
D3	Pressure due to extended family responsibility	280	4.23	2.14
D1	Lack of self-confidence	282	2.80	2.13

- **Analysis of the results**

All the ten personal challenges in table 6.27 did not display very high numbers in terms of ratings ($\bar{x} < 6.00$). Yet, the statements illustrate an acceptable agreement with only one statement that was rated very low on the 7-point Likert scale ($\bar{x} = 2.80$). While there was no statement that is rated above six, it was essential to acknowledge that all the ten statements was perceived by the respondents as a good representation of their specific situation.

The respondents rated the challenge **lack of education and general training** as the most important personal challenge with a mean of 5.87. The statement **not able to use the internet services for marketing opportunities** was also rated relatively high ($\bar{x} = 5.63$), indicating that respondents were, in general, in agreement the statement was an important challenge.

A total of six statements were rated below five ($\bar{x} < 5.00$): **unable to understand the existing tax policies** ($\bar{x} = 4.94$), **lack of small businesses success stories and role models** ($\bar{x} = 4.85$), **great fear of business failure** ($\bar{x} = 4.72$), **lack of permanent business office** ($\bar{x} = 4.58$), **time pressure because of work and family issues** ($\bar{x} = 4.55$), and **problem of running the business alone** ($\bar{x} = 4.26$).

4.55), **problem of running the business alone (no family support)** ($\bar{x} = 4.26$) and **pressure due to extended family responsibility** ($\bar{x} = 4.23$).

The statement, **lack of self-confidence** was rated the lowest by the participating respondents ($\bar{x} = 2.80$).

6.5.5 Perceived success of the business

- **Purpose of the question**

The purpose of questions E1 to E12 in Section E of the questionnaire (refer to Appendix A) was to measure the dependent variable, **Perceived business success**. The study outcomes can be utilized to further enhance job creation opportunities and to decrease the growing poverty levels in rural communities. In sum, small business success can broadly have a significant ripple effect on the macro economy country-wide.

- **Results obtained**

The average or mean (\bar{x}) and the standard deviation (s) of each of the 12 items measuring the indicators of successful businesses are presented in Table 6.28 below. The indicators were ranked from the highest to the lowest mean score obtained.

Table 6.28: Indicators of successful small businesses

Nr.	Statements	<i>n</i>	\bar{x}	<i>s</i>
E8	Employees of the business including the owner-manager are highly committed to make the business successful	278	5.68	1.49
E9	The employees are highly viewed as the most valuable asset of the business	278	5.30	1.81
E10	The morale (job satisfaction) of our employees including the owner-manager has improved over the past few years	280	4.91	1.96
E6	The business has experienced growth in customers (more customers/bigger contracts/extended services) over the past few years	280	4.37	1.98
E5	The image of the business (how people see us), relative to our competitors, has grown over the past few years	281	4.36	1.88
E12	Employees do not want to leave the business and work for another business	280	4.17	2.12
E1	The business has experienced growth in turnover (more sales) over the past few years	281	4.16	1.99
E2	The business has experienced growth in profits (more money in my pocket) over the past few years	282	4.15	1.95
E11	The business keeps most of the employees over the years (they are working many years for the business)	279	4.09	2.05
E4	The business has experienced growth in stock items (more items on the shelves) or extended services, over the past few years	282	4.05	2.02
E3	The business has experienced growth in employees (we employed more people) over the past few years	280	3.58	2.02
E7	The business has experienced growth in terms of expansion (more branches, bigger building, new improved location) over the past few years	282	3.55	1.99

- Analysis of the results**

The statement, **employees of the business including the owner-managers are highly committed to make the business successful**, was rated the most relevant by the participating owner-managers ($\bar{x} = 5.68$). This was followed by the following indicators: **the employees are highly viewed as the most valuable assets of the business** ($\bar{x} = 5.30$). **the morale (job satisfaction) of our employees including the owner-managers has improved over the past few years** ($\bar{x} = 4.91$), **the small business sector experienced growth in customer bases (more customers/bigger contracts/extended services) over the past few years** ($\bar{x} = 4.37$), **the image of the business (how people see us) relative to our competitors, has grown over the past few years** ($\bar{x} = 4.36$), and **the employees do not want to leave the business and work for another business** ($\bar{x} = 4.17$).

Other statements which received almost similar level of ratings include **the business has experienced growth in turnover (more sales) over the past few years** ($\bar{x} = 4.16$), **the business has experienced growth in profits (more money in my pocket) over the past few years** ($\bar{x} = 4.15$) **the business keeps most of the employees over the years (they have been working many years for the business** ($\bar{x} = 4.09$), **the business has experienced growth in stock items (more items on the shelves) or extended services, over the past few years** ($\bar{x} = 4.05$).

However, the participating owner-managers have rated two perceived indicators very low; these were indications of disagreement or false statements. Statements such as **the business has experienced growth in employees (we employed more people) over the past few years** ($\bar{x} = 3.58$) and **the business has experienced growth in terms of expansion (more branches, bigger building, new improved location) over the past few years** ($\bar{x} = 3.55$). It is assumed therefore that low mean scores mean that there was to a certain degree, disagreement to the statements or that the statements are not the true indicators of the perceived small business success.

6.6 CONSTRUCT VALIDITY OF THE MEASURING INSTRUMENT

Before conducting a multiple regression analysis to determine the relationships between the variables, the number of factors and the items loading onto each factor must be known (Hair, Black, Babin, Anderson & Tatham, 2006). For this reason, an exploratory factor analysis was conducted to identify the unique factors present in the data before implementing multiple regression analysis. In order to conduct the exploratory factor analysis, the data was divided into different models. The first model related to the dependent variable, whereas the rest of the models related to the independent variables. In identifying the factors to extract for each model, the percentage of variance explained and the individual factor loadings were considered.

6.6.1 Dependent variable: Perceived business success

With regard to the first model concerning the dependent variable, an Oblimin oblique rotation was performed on the principal components of the exploratory factor analysis, since there was theoretical justification to believe that the factors measuring perceived success would correlate with each other (Field, 2009: 643). Two tests, namely Bartlett's test of sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy were considered important in determining the appropriateness of the data for factor analysis (Gürbüz & Aykol, 2009: 327).

The data measuring the perceived business success yielded a sampling adequacy of 0.926 and the Bartlett's test of sphericity yielded a *p*-value of smaller than 0.001, indicating that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009: 647).

To determine the number of factors to be extracted, Kaiser's criterion was used, namely to retain factors with eigen-values greater than one (Field, 2009: 647). All of the 11 items demonstrated sufficient discriminant validity by loading to a sufficient extent.

During the study factor loadings with equivalent greater than 0.35 were considered significant (Field, 2009: 637). The factor matrix of the 12 items is provided in Table 6.29.

Table 6.29: Oblimin rotated factor matrix: Dependent variable ⁽¹⁾

Item ⁽²⁾	Factor 1: Business growth	Factor 2: Existence of human capital
Success1	0.923	-0.115
Success2	0.910	-0.114
Success4	0.847	0.013
Success3	0.769	0.058
Success7	0.719	0.126
Success6	0.702	-0.047
Success5	0.694	0.144
Success11	0.513	0.428
Success12	0.495	0.323
Success9	-0.098	0.887
Success10	0.350	0.587
Success8	0.036	0.378
Cronbach Alpha	0.936	0.712

(1) Loadings greater than 0.35 were considered significant

(2) The items included in the factor analysis are provided in Appendix 1

Table 6.29 shows that the items expected to measure *Perceived business success* split into two separate factors that were named *Business growth* and *Existence of human capital*. Two items (Success10; Success11) loaded significantly onto both the factors (values greater than 0.35). Rather than deleting the items, it was decided to classify them under the factor that has the highest loading (Success10) or that makes more practical sense (Success11) respectively. The correlation matrix for the two dependent variables indicated a correlation of 0.568 between the variables confirming that an oblique rotation should have been used (Field, 2009: 643; Ellis & Steyn, 2006: 53).

Eight of the 12 items measuring the *Perceived business success* loaded on the first factor [Table 1: Success1, Success2, Success3, Success4, Success5, Success6, Success7, Success12]. This factor was labelled *Business growth* and refers to growth in

profits, turnover, market share and the competitive position of the business over the past few years.

Factor two, labelled *Existence of human capital* comprised four items [Success8, Success9, Success10, Success11] and refers to highly committed employees with a high morale, employees viewed as the most valued resource, and a low employee turnover.

To assess the internal consistency of the items measuring the various factors under investigation, Cronbach alpha coefficients were calculated (Bryman & Bell, 2007: 164). Coefficient alpha measures internal consistency by computing the average of all split-half reliabilities for a multiple-item scale (Zikmund & Babin, 2007: 322). The coefficient varies between 0 for no reliability, and 1 for maximum reliability (Kent, 2007: 142) and values of above 0.7 are considered to have acceptable reliability. The results in Table 6.29 suggest that the proposed instrument used in this study to measure the dependent variable, *Perceived business success*, is reliable with both factors yielding Cronbach alpha coefficient values of higher than 0.7.

6.6.2 Independent variable: Business and operational challenges

To assess the discriminant validity of the items measuring the first independent variable, *Business and operational challenges* (refer to Section A of the questionnaire), an exploratory factor analysis was conducted. Two tests, namely Bartlett's test of sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy were considered important in determining the appropriateness of the data for factor analysis (Gürbüz & Aykol, 2009: 327). The data measuring the independent variable yielded a sampling adequacy of 0.697 and the Bartlett's test of sphericity yielded a p-value of smaller than 0.001, indicating that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009: 647).

An Oblimin oblique rotation was performed on the principal components of the exploratory factor analysis. Principal axis factoring was used as the extraction method. To determine the number of factors to be extracted, Kaiser's criterion was used, namely to retain factors with eigen-values greater than one (Field, 2009: 647). A total of 15 items demonstrated sufficient discriminant validity by loading to a sufficient extent. The loadings of two items (qa5 and qa14) were not significant (below the value of 0.35) and were therefore deleted. The factor matrix of the remaining 15 items is provided in Table 6.30.

Table 6.30: Oblimin rotated factor matrix: *Business and operational challenges* ⁽¹⁾

Item ⁽²⁾	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
qa11	0.721	-0.194	0.205	0.100	0.419
qa8	0.632	-0.280	0.115	0.152	0.209
qa1	0.259	-0.647	-0.012	-0.096	-0.004
qa9	0.013	-0.496	0.035	-0.134	-0.111
qa4	0.203	-0.489	0.341	0.038	-0.071
qa3	0.355	-0.455	0.251	0.217	0.224
qa10	0.325	-0.116	0.768	0.127	0.125
qa6	-0.061	-0.120	0.640	0.173	0.251
qa2	0.197	-0.310	0.225	0.624	0.123
qa7	0.188	0.105	0.257	0.608	0.027
qa15	-0.068	0.253	-0.122	0.439	-0.015
qa16	0.240	0.041	-0.034	0.022	0.581
qa13	0.387	-0.096	0.153	0.035	0.522
qa17	0.274	0.058	0.043	0.249	0.447
qa12	-0.003	0.023	0.239	-0.005	0.405
Cronbach alpha	0.642	0.576	0.600	0.522	0.523

(1) Loadings greater than 0.35 were considered significant

(2) The items included in the factor analysis are provided in Appendix 1

Applying the factor extraction criterion that the eigen-values must be greater than one (Davis, 2005: 446), five factors were extracted in the exploratory factor analysis explaining 39.69% of the variance before rotation. The factors were labelled as Factor 1, Factor 2, Factor 3, Factor 4 and Factor 5 respectively. By examining the results of the factor matrix, it was difficult to label the extracted factors. The Cronbach Alpha coefficients calculated also yielded values below the normal cut-off value of 0.70 (refer to Table 6.30).

The conclusion is that the measuring instrument used to measure the business and operational challenges does not have acceptable validity and reliability. The independent variable, *Business and operational challenges*, will not be further analysed (multiple linear regression analysis).

6.6.3 Specific challenges of small business in the district municipality

With regard to the second independent variable, **Specific challenges of small business in the district municipality** (refer to Section B of the questionnaire), a Varimax rotation with Kaiser Normalisation was performed on the principal components of the exploratory factor analysis. To determine the number of factors to be extracted, Kaiser's criterion was again used, namely to retain factors with eigen-values greater than one (Field, 2009: 647). The data measuring the independent variable yielded a sampling adequacy of 0.776 and the Bartlett's test of sphericity yielded a p-value of smaller than 0.001, indicating that patterns of correlations are compact and that factor analysis should yield reliable factors (Field, 2009: 647).

A total of 12 items demonstrated sufficient discriminant validity by loading to a sufficient extent. The loadings of three items (qb3, qb6 and qb10) were not significant (below the value of 0.35) and were deleted. The factor matrix of the remaining 12 items is provided in Table 6.31.

Table 6.31: Varimax rotated factor matrix: *Specific challenges of small business in the district municipality*⁽¹⁾

Item	Factor 1: Difficult business Environment	Factor 2: Lack of support	Factor 3: Lack of skills
qb4	0.837	0.126	-0.051
qb14	0.703	0.203	0.083
qb13	0.691	0.108	-0.089
qb5	0.631	0.139	-0.044
qb15	0.547	0.225	0.013
qb12	0.390	0.186	-0.061
qb9	-0.287	0.573	-0.018
Qb7	-0.348	0.546	-0.155
Qb11	-0.148	0.536	-0.220
qb8	-0.344	0.468	-0.114
Qb1	-0.081	0.172	0.553
Qb2	0.008	0.371	0.498
Cronbach alpha	0.815	0.695	0.509

(1) Loadings greater than 0.35 were considered significant

(2) The items included in the factor analysis are provided in Appendix 1

Applying the factor extraction criterion that the eigen-values must be greater than one (Davis, 2005: 446), three factors were extracted in the exploratory factor analysis explaining 41.73% of the variance before rotation. After rotation, these factors could be identified as the theoretical dimensions of *Difficult business environment*, *Lack of support* and *Lack of skills*.

One item loaded onto more than one factor (values greater than 0.35). The item, Qb2, loaded significantly on both the factors, namely *Lack of support* and *Lack of skills*. Rather than deleting the above-mentioned item, it was decided to classify it under the factor that yielded the highest factor loading, *Lack of skills*.

The exploratory factor analysis, together with the interpretability of the factors provides some evidence of construct validity.

Cronbach's alpha coefficients were calculated to assess the internal consistency between the 12 items of the measuring instrument. The Cronbach Alpha coefficients calculated for Factor 1 yielded a value of 0.815 indicating that the items measuring the variable are reliable. The Cronbach Alpha coefficients of the remaining two extracted factors, yielded values of 0.695 (can be rounded off to 0.70) and 0.509 respectively. Field (2009: 688) notes that questionnaires designed to measure 'knowledge' and 'intelligence' should have Cronbach alphas above the customary cut-off value of 0.70, but concedes that instruments designed to measure 'attitudes' may have lower alphas ($\alpha < 0.70$) and still have acceptable levels of reliability. Based on the concession by Field (2005: 688), it can be concluded that the measuring instrument used to measure the **Specific challenges of small business in the district municipality** have acceptable reliability and all three factors will be included in further statistical analyses.

6.6.4 Typical challenges of rural small businesses

With regard to the second independent variable, **Specific challenges of small business in the district municipality** (refer to Section C of the questionnaire), an Oblimin oblique rotation with Kaiser Normalisation was performed on the principal components of the exploratory factor analysis. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy of 0.779 indicated that patterns of correlations were compact and that factor analysis should yield reliable factors (Field, 2005: 640). Bartlett's test of sphericity yielded a p -value smaller than 0.001, indicating that correlation between variables was sufficient for factor analysis.

To determine the number of factors to be extracted, Kaiser's criterion was again used, namely to retain factors with eigen-values greater than one (Field, 2009: 647). A total of 14 items demonstrated sufficient discriminant validity by loading to a sufficient extent.

The loadings of two items (qc4 and qc10) were not significant (below the value of 0.35) and were deleted. The factor matrix of the remaining 14 items is provided in Table 6.32.

Table 6.32 Oblimin rotated factor matrix: *Typical challenges of rural small businesses*⁽¹⁾

Item	Factor 1	Factor 2	Factor 3
qc1	0.807	-0.005	-0.026
qc3	0.788	-0.158	0.089
qc16	0.750	-0.072	-0.141
qc13	0.741	0.152	-0.057
qc15	0.471	0.152	0.361
qc7	-0.024	0.739	-0.031
qc9	-0.033	0.686	-0.098
qc6	-0.241	0.483	0.142
qc14	0.251	0.408	0.104
qc8	0.185	0.374	0.259
qc11	-0.018	0.007	0.584
qc12	0.495	-0.097	0.521
qc5	-0.179	0.027	0.403
qc2	0.129	0.066	0.359
Cronbach alpha	0.839	0.684	0.522

(1) Loadings greater than 0.35 were considered significant

(2) The items included in the factor analysis are provided in Appendix 1

Applying the factor extraction criterion that the eigen-values must be greater than one (Davis, 2005: 446), three factors were extracted in the exploratory factor analysis explaining 43.72% of the variance before rotation. The factors were labelled as Factor 1, Factor 2 and Factor 3 respectively. By examining the results of the factor matrix, it was difficult to label the extracted factors. The Cronbach Alpha coefficients calculated also yielded relative low values (two of the three factors yielded values lower than the normal cut-off of 0.70). Based on the fact that the items loaded in a pattern that does not make sense to fully operationalise the extracted factors, the conclusion is, that the

measuring instrument used to measure the typical challenges of rural small businesses business and operational challenges does not have acceptable validity and reliability.

6.6.5 Personal challenges of the owner-managers of small businesses

For the model assessing the independent variable, *Personal challenges of the owner-managers of small businesses*, an exploratory factor analysis were individually performed. The Principal Axis Factoring extraction method was used. The reason for this was to investigate whether the variable has a uni-dimensional or multi-dimensional structure. Kaiser's criterion was used to determine the number of factors to be extracted, namely to retain factors with eigen-values greater than one (Field, 2009: 647). As recommended by Field (2009: 644), factor loadings greater than 0.35 were considered significant. The factor matrix of the exploratory factor analysis with principal axis factoring extraction investigating the independent variable is presented in Table 6.33.

Table 6.33: Principal Axis Factoring factor matrix: *Personal challenges of the owner-managers of small businesses*⁽¹⁾

Item	Factor 1: Personal challenges
qd9	0.789
qd7	0.768
qd2	0.753
qd3	0.676
qd8	0.672
qd6	0.661
qd5	0.631
qd1	0.465
Cronbach alpha	0.815

(1) Loadings greater than 0.35 were considered significant

(2) The items included in the factor analysis are provided in Appendix 1

The factor analysis yielded the following results: Variance explained: 46.76%; Kaiser-Meyer-Olkin value: 0.833; Bartlett's test of sphericity < 0.001. Eight of the ten items originally intended to measure the original latent variable loaded onto the factor *Personal challenges of the owner-managers of small businesses*, as expected. Two items (qd4 and qd10) did not load to a sufficient extent and was deleted.

6.7 MODIFIED HYPOTHESES

As a result of the exploratory factor analyses, it was deemed necessary to reformulate the original hypotheses (refer to par. 1.5), which are summarised below:

H¹: There is a significant relationship between the *Business and operational challenges* and the *Perceived business success* of the participating small businesses

(Due to a lack of construct validity and reliability it will not be further analysed.)

H²: There is a significant relationship between the *Specific challenges of small businesses in the district municipality* and the *Perceived business success* of the participating small businesses.

After the exploratory factor analyses, Hypotheses H² were reformulated to:

H^{2a}: There is a significant relationship between a *Difficult business environment* in the district municipality and the *Business growth* of the participating small businesses.

H^{2b}: There is a significant relationship between a *Difficult business environment* in the district municipality and the *Existence of human capital* in the participating small businesses.

H^{2c}: There is a significant relationship between a *Lack of support* in the district municipality and the *Business growth* of the participating small businesses.

H^{2d}: There is a significant relationship between a *Lack of support* in the district municipality and the *Existence of human capital* in the participating small businesses.

H^{2e}: There is a significant relationship between a *Lack of skills* in the district municipality and the *Business growth* of the participating small businesses.

H^{2f}: There is a significant relationship between a *Lack of skills* in the district municipality and the *Existence of human capital* in the participating small businesses.

H³: There is a positive relationship between the *Typical challenges of rural small businesses* and the *Perceived business success* of the participating small businesses.

(Due to a lack of construct validity and reliability it will not be further analysed.)

H⁴: There is a positive relationship between the *Personal challenges of the owner-managers* and the *Perceived business success* of the participating small businesses.

After the exploratory factor analyses, Hypotheses H² were reformulated to:

H^{4a}: There is a positive relationship between the *Personal challenges of the owner-managers* and the *Business growth* of the participating small businesses.

H^{4b}: There is a positive relationship between the *Personal challenges of the owner-managers* and the *Existence of human capital in* the participating small businesses.

6.8 RELATIONSHIP BETWEEN THE CONSTRUCTS

Multiple linear regression analysis is used to identify relationships between several independent variables and a dependent variable (Wilson, 2010: 248; Rubin, 2009: 231), and can be used to predict a dependent variable based on several independent or explanatory variables (Cooper & Schindler, 2007). Factor scores for each participant were computed as the average of all items contributing to the relevant factor, automatically replacing missing values by means of substitution. Multiple linear regression analysis was performed to assess whether the independent variables, as identified in this study, exert a significant influence on the dependent variables, namely various business and personal challenges on the two variables measuring Perceived business success, namely *Business growth* and the *Existence of human capital* in the participating small businesses. As such, separate regression models were used and the results thereof are discussed in the paragraphs below.

As discussed in the previous section, only two independent variables yielded acceptable validity and reliability, those being **Specific challenges of small business in the district municipality** and **Personal challenges of the participating owner-managers**. The impact of these two independent variables on the dependent variable will now be discussed.

6.8.1 Specific challenges of small business in the district municipality

The results of the multiple regression analysis for the influence of the independent variables on the dependent variable Business growth are presented in Table 6.34.

Table 6.34: Impact of *Specific challenges of small businesses in the district municipality* on the dependent variable *Business growth*

Model	Non-standardised coefficients		Standardised coefficients	t-value	p-level
	B	Std. Error	Beta		
(Constant)	7.703	0.949		8.115	0.000
Difficult business environment	-0.530	0.061	-0.467	-8.725	0.000**
Lack of support	-0.397	0.129	-0.167	-3.086	0.002**
Lack of skills	0.222	0.070	0.170	3.183	0.002**

$R^2 = 0.236$ (** $p < 0.05$)

Table 6.34 indicates that, in practice, a significant percentage (23.6%) of the variation in the dependent variable, *Business growth* in the participating small businesses is explained by the three variables measuring the specific challenges of small businesses in the district municipality, namely a *Difficult business environment*, *Lack of support* and *Lack of skills*.

The multiple regression analysis indicates significant negative relationships between the independent variables *Difficult business environment* (-8.725; $p < 0.001$) and *Lack of support* (-3.086; $p = 0.002$) experienced by the participating owner-managers and the dependent variable *Business growth* of the participating small businesses. A significant positive relationship was found between the variables *Lack of skills* and *Business growth* (3.183; $p = 0.002$).

The hypothesis that there is a significant relationship between the independent variables, *Difficult business environment* (H^{2a}), *Lack of support* (H^{2c}) and *Lack of skills* (H^{2e}) in the participating small businesses, and the dependent variable, *Business growth*, in the participating businesses, respectively was therefore accepted.

The significant regression coefficients indicate that *Business growth* of the participating small businesses is related to a *Difficult business environment*, *Lack of support* and *Lack of skills*.

The results of the multiple regression analysis for the influence of the independent variables on the dependent variable *Existence of human capital* are presented in Table 6.35.

Table 6.35: Impact of *Specific challenges of small businesses in the district municipality* on the dependent variable *Existence of human capital*

Model	Non-standardised coefficients		Standardised coefficients	t-value	p-level
	B	Std. Error	Beta		
(Constant)	8.193	0.897		9.132	0.000
Difficult business environment	-0.274	0.058	-0.276	-4.767	0.000**
Lack of support	-0.429	0.122	-0.206	-3.521	0.001**
Lack of skills	0.138	0.066	0.121	2.095	0.037**

$R^2 = 0.105$ (** $p < 0.05$)

Table 6.35 indicates that, in practice, a percentage of 10.5% of the variation in the dependent variable, *Existence of human capital* in the participating small businesses is explained by the three variables measuring the specific challenges of small businesses in the district municipality, namely a *Difficult business environment*, *Lack of support* and *Lack of skills*.

The multiple regression analysis indicates significant negative relationships between the independent variables *Difficult business environment* (-4.767; $p < 0.001$) and *Lack of support* (-3.521; $p = 0.001$) experienced by the participating owner-managers and the dependent variable *Existence of human capital* in the participating small businesses. A significant positive relationship was found between the variable *Lack of skills* and *Business growth* (2.095; $p = 0.002$).

The hypothesis that there is a significant relationship between the independent variables, *Difficult business environment* (H^{2b}), *Lack of support* (H^{2d}) and *Lack of skills* (H^{2f}) in the participating small businesses, and the dependent variable, *Existence of human capital* in the participating businesses, respectively was therefore accepted.

The significant regression coefficients indicate that *Existence of human capital* of the participating small businesses is related to a *Difficult business environment*, *Lack of support* and *Lack of skills*.

6.8.2 Personal challenges of the participating owner-managers

The results of the multiple regression analysis for the influence of the independent variables, *Personal challenges of the participating owner-managers*, on the dependent variable *Business growth* are presented in Table 6.36.

Table 6.36: Impact of the *Personal challenges of participating owner-managers* on the dependent variable *Business growth*

Model	Non-standardised coefficients		Standardised coefficients	t-value	p-level
	B	Std. Error	Beta		
(Constant)	5.857	0.268		21.867	0.000
Personal challenges	-0.415	0.058	-0.395	-7.192	0.000

$R^2 = 0.156$ (** $p < 0.05$)

Table 6.36 indicates that, in practice, a percentage of 15.6% of the variation in the dependent variable, *Business growth* in the participating small businesses is explained by the independent variable, *Personal challenges of the participating owner-managers*. The multiple regression analysis indicates a significant negative relationship between the independent variable *Personal challenges of the participating owner-managers* (-7.192; $p < 0.001$) and the dependent variable *Business growth* of the participating small businesses. The hypothesis that there is a significant relationship between the

independent variable, *Personal challenges of the participating owner-managers*, and the dependent variable, *Business growth* in the participating businesses (H^{4a}), was therefore accepted.

The results of the multiple regression analysis for the influence of the independent variables, *Personal challenges of the participating owner-managers*, on the dependent variable *Existence of human capital* are presented in Table 6.37.

Table 6.37: Impact of the *Personal challenges of participating owner-managers* on the dependent variable *Existence of human capital*

Model	Non-standardised coefficients		Standardised coefficients	t-value	p-level
	B	Std. Error	Beta		
(Constant)	6.098	0.244		24.974	0.000
Personal challenges	-0.249	0.053	-0.272	-4.724	0.000**

$R^2 = 0.074$ (** $p < 0.05$)

Table 6.36 indicates that, in practice, a percentage of 7.4% of the variation in the dependent variable, *Existence of human capital* in the participating small businesses is explained by the independent variable, *Personal challenges of the participating owner-managers*. The multiple regression analysis indicates a significant negative relationship between the independent variable *Personal challenges of the participating owner-managers* (-4.724; $p < 0.001$) and the dependent variable *Existence of human capital* of the participating small businesses.

The hypothesis that there is a significant relationship between the independent variable, *Personal challenges of the participating owner-managers* (H^{4b}) and the dependent variable, *Existence of human capital* in the participating businesses, was accepted.

6.9 SUMMARY

This section of the study explores and examined in details the empirical research outcomes in context with the primary, secondary and the research design that were outlined in the form of frequency tables. In sum, the chapter described the survey data that was collected under three areas namely the personal demographics, business information demographics as well as specific personal factors of owner-managers of small businesses in the study areas.

Information that was collected in line with the survey includes biographical data of the owner-managers of small businesses' structures. The majority of the survey data on biographical information related to the age groups of individual owner-managers, marital status, educational achievements and the years of self-employed. Regarding data on the small business structure, the survey took into account the industry operation, the legal status of the business, the path to business ownership, role models and the annual turnover of respective businesses, the place of business establishment and the source of business funding.

Research data was gathered through quantitative study and determined by 282 questionnaires that were distributed across the research areas. Most of the owner-managers who participated in the study were male. Most of the owner-managers received 22.70% education that was lower than matric as compared to 23.05% who had received matric education. The bulk (58.15%) of the small businesses was registered as sole proprietorship. According to the empirical study, most of the owner-mangers were aged between 30 and 39 years old whilst most of the businesses which participated in the study were in business for over the periods ranging from 12 to 17 years. About 42.90% of the small businesses within the research areas were able to earn turnover of less than R30000 with employment capacity of between five to 200 employees.

Other sections were designed to measure the various challenges that limit business operations of the owner-managers and questions on the demographic factors. The

chapter also focussed on the individual entrepreneurial skill levels and also test through questions whether the owner-managers are aware of potential entrepreneurship support are available to be used to enhance business operations.

The next chapter highlight the general profile of the owner-managers in the research areas of John Taolo Gaetsewe and Frances Baard District Municipalities.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

Entrepreneurship serves as the key driver of economic growth and development, therefore, providing employment opportunities (Powell, 2008:68; Baumol, Litan & Schtamm, 2007:221). Kelly *et al.* (2011) posited that entrepreneurship is very crucial not only to the general society but also to the growth of the economy. This chapter presents the research conclusions of both the theoretical and empirical outcomes of the study which are based on the premise of the challenges facing rural entrepreneurship in selected areas of South Africa. Some critical challenges of rural entrepreneurship and small businesses were thus taken from the relevant entrepreneurship literature. In order to contribute to the evidence, literature studies were conducted on entrepreneurship, the small business sector, followed by the challenges to be successful facing small businesses.

Entrepreneurial activity impacts on the general economy including the local economy (Glaeser *et al.*, 2010:1). As stated earlier on in Chapter 1, this study focuses on the challenges facing rural entrepreneurship in selected areas of John Taolo Gaetsewe and Frances Baard District Municipalities. At the same time, Gore and Fal (2009:7) add that entrepreneurial activity is complex with many challenges to survive facing especially small businesses. These challenges include a lack of managerial skills of the owner-manager, bad business location, and insufficient funds, among others, that are contributory factors to the failure rates of 63% within the first two years of its formation (Thom & Van der Merwe, 2012:1).

The purpose of this chapter is first of all, to provide conclusions on both the literature and empirical studies, taking into account the challenges that are faced by rural small businesses in the John Taolo Gaetsewe and Frances Baard District Municipalities of the

Northern Cape Province. Thereafter, the chapter will provide practical recommendations to facilitate the survival of small businesses. An integrated framework will be presented as a guideline to ensure a successful and sustainable small business sector in rural areas in South Africa. The achievement of the study objectives will be assessed, followed by suggestions for future research.

7.2 CONCLUSIONS

All the businesses that participated in this study (282 in total) can be classified as small businesses based on the South African classification. All the businesses were operating in either the John Taolo Gaetsewe or the Frances Baard District Municipalities in the Northern Cape Province. It can, be concluded that the study sample represented the size of the businesses as well as the geographical demarcation as was intended to investigate in this study.

This section draws conclusions of the study mainly based on the various extant literature studies and the empirical findings that emerged from the quantitative study, through the gathering of data by means of completing questionnaires. The research conclusions will then be outlined with specific emphasis on the literature study and the research findings.

7.2.1 Biographical information of owner-managers

In this section, conclusions based on the age group classification, marital status, highest level of academic qualification, past experience before self-employment, the number of years self-employed, gender and race classification based on the South African classification of the owner-managers that participated in this study, will be discussed.

7.2.1.1 Age group classifications of owner-managers

The results of the study indicated that the majority (74%) of the owner-managers of small businesses that participated in the study were aged between 30 and 49 years. Out of the total owner-managers who took part in the study, 12.76% were aged between 50 to 59 years. These findings could indicate that, in the two district municipalities investigated, the mature part of the population was economic active. The data revealed that 10.28% of owner-managers from the two research areas were younger than 29 years. This is disturbing because of the high unemployment under youth. Given the correct training and entrepreneurial education; entrepreneurship is likely to flourish among the youth with vibrant economic activity.

7.2.1.2 Marital status of the owner-managers

The majority of the owner-managers of the small business sector who took part in the study were in a stable relationship. Research data showed that 51.77% of the owner-managers (entrepreneurs) were married. One expects a conducive and sustainable entrepreneurial activity. This is because some of the critical challenges including lack of funding and lack of the general level of support mechanisms no longer pose a threat to business operations. Marital status provides significant positive influence on the financial health of the business. The level of spousal involvement has a positive influence on financial, business growth and active business skills as compared to single individuals.

However, 38.65% of the owner-managers were not married or single, which further confirmed the lack of general supporting mechanisms to these groups of owner-managers; thus they were faced with challenges of business funding, skills in management and finance. It is crucial to offer training and to provide owner-managers with the basic form of education.

7.2.1.3 Highest level of academic qualification of owner-managers

Educational achievement by the owner-managers of small businesses had been generally favourable throughout the study areas of John Taolo Gaetsewe and Frances Baard District Municipalities. Most of the owner-managers, 23%, achieved matric certification. This was preceded by 22% educational qualifications that were below matric certification. Regarding higher educational qualifications, only seven per cent of the owner-managers were able to achieve a university degree; whereas 18% obtained certificates in national diplomas. Only nine per cent of the owner-managers of small businesses throughout the research areas had trade skills. This implies therefore that entrepreneurial activities and small business operations can be driven by individuals at any level of educational achievement. Botha, Nieman and Van Vuuren (2006:2) caution that education is not mandatory to entrepreneurial success.

From these responses it was encouraging to note that at least the owner-managers of small businesses attained not only educational qualifications, but also received critical basic trade skills. Thus, small businesses that operate in the John Taolo Gaetsewe and Frances Baard District Municipalities are at least equipped with the basic fundamentals of business process knowledge which are core indicators of small business and entrepreneurial success. It can therefore, be strongly inferred that small businesses are mostly dominated by individuals with relatively low levels of educational achievements across the research areas in the Northern Cape Province. In summary, available data have shown that individuals with various forms of educational qualifications can pursue entrepreneurship as a possible successful career path.

7.2.1.4 Past experience before self-employment

Working in an establishment for a longer period of years offers significant work related experience that is very crucial for small businesses' success (Groenewald *et al.*, 2009). According to Zaleski (2011:44), entrepreneurial level of experience is very critical to

either the business's success or growth. Analysed data in Table 6.5 revealed that the bulk of the owner-managers were either employed or self-employed.

Individuals who are self-employed accounted for 38.65% of the respondents, whereas 25.88% were employed in various fields with diverse levels of work experience before engaging in self-employment. In general, prior work experience depicts an outstanding factor of new business establishment (Urban, Van Vuuren & Barreira, 2008:61). This implies that more than half of the participating owner-managers who participated in the study are better experienced; thus able to add positive influence on entrepreneurship (Powel & Eddeston, 2010:1).

It is very clear that owner-managers with less entrepreneurial experience prior to business ownership are not only regarded as failures but are also unable to access funding, with negative consequences regarding the lack of small business's rate of success (Zaleski, 2011).

Again it is assumed that in spite of past level of experiences, large sections of the employees were employed by the Government. Fielden, Davidson, Dawe and Makin (2003:54) argued that the small business's success is possible provided that the existing business operates in the similar field of entrepreneurship. These owner-managers employed by the public sector could therefore lack the entrepreneurial skills to become successful entrepreneurs with sustainable businesses. The high failure rate of small businesses can strongly be linked to the challenge of lack of prior experience. According to Wagner (2005), prior experience strongly correlates with business success.

7.2.1.5 Number of years being self-employed

It is clear from the data (refer to Table 6.6) that the majority of the owner-managers were self-employed for less than 5 years (approximately 70%). That is a warning sign,

but at least the owner-managers are gaining work experience that could result in more successful and sustainable small businesses.

7.2.1.6 Gender classification of owner-managers

In general, small business operations and entrepreneurship within the study areas of John Taolo Gaetsewe and Frances Baard District Municipalities are largely dominated by male (63.47%) in contrast to their female (35.46%) counterparts. These findings support the finding of the 2009 GEM (South African Gem) report that in South Africa, men are 1.5 times more likely to pursue entrepreneurial activity than their female counterparts (GEM, 2010). A recent study of 43 countries further adds that entrepreneurial activities by women were far less in comparison to men (Pines, Learners & Schwartz, 2010:18). Only thirty-five per cent of women across the research areas pursue small business activities. This confirms the recent research findings that in South Africa men are expected to engage in high level entrepreneurial activity in contrast to the female (Herrington *et al.*, 2009:21). Alternatively, the higher representation of male owner-managers could be the result of under-representation of women in the current research sample (Kruger, Millard & Pretorius, 2005:63). It can be concluded that the fostering of women entrepreneurship in the research area could lead to more entrepreneurial activity and ultimately to economic growth and job creation in the area.

7.2.1.7 Race classification of owner-managers

In conclusion, Table 6.8 indicates that the majority (53.90%) of the owner-managers who participated in the study were from the Black race group. This is followed by other races such as the Coloured and Indian population. From the research areas of John Taolo Gaetsewe and Frances Baard District Municipalities, 18.08% of the owner-managers originate from other unidentified race groups. This implies that there are other races with entrepreneurial competencies within the district municipalities. That could include people, for instance, from Chinese and Korean origin. It should be noted that

indicating your race classification is a sensitive issue for many people and could have an impact on the correctness of the data.

7.2.2 Business and operational information

7.2.2.1 Small business classifications according to district municipalities

The majority (63.83%) of the participating owner-managers operate their businesses in the John Taolo Gaetsewe District Municipality in contrast to 33.68% who operated their businesses in Frances Baard District Municipality. That could imply, given the prerequisite that the intensity of data collection was equal in the two district municipalities, that the John Taolo Gaetsewe District Municipality is more entrepreneurial active.

7.2.2.2 Daily average working hours

Regarding the daily average working hours per week, only 31.91% of the owner-managers indicated that they spend more than 10 hours per day in their business. According to Zimmerer and Scarborough (2002), owner-managers of small businesses that on average spent between 50-60 hours per week display an enormous amount of entrepreneurial competency. Given the economic activity in rural areas, the results seem to be a good representation of a normal eight hour work day.

7.2.2.3 Number of full-/part-time employees

Table 6.11 confirmed that all the businesses that participated in this study can be classified as small businesses according to the South African classification guidelines (South African National Small Business Act No. 102 1996; National Small Business Amendment Act, 2004: 2).

7.2.2.4 Product distribution and marketing

From Table 6.12 it was eminent that the majority (80.14%) of products or services had been marketed locally. This is followed by marketing at the provincial level (11.34%). Only 0.35% of products were either marketed nationally or internationally. It is clear that most of the products and services were distributed in the local or provincial market. That could be a limiting factor to the growth and ultimately the success of the businesses. While lack of capital and information may be some of the vital challenges, others such as lack of infrastructure, unskilled employees and proximity to market may be cited as additional contributory factors.

Most of the businesses investigated are, furthermore, established as sole proprietorship. This means that the business is mainly owned and managed by one person. Factors such as time constraints due to family commitments and the relative low number of hours spent daily in the business may be some of the reasons why the owner-managers are not able to venture into international markets. Whilst lack of competition may also inhibit owner-managers to explore markets outside their normal client base, it is also true that the minimal amount of hours spend on product marketing contribute to the challenges of lack of business growth and sustainability.

7.2.2.5 Small business classifications into the industry sector

Twenty-one per cent of the owner-managers who participated in the study operated as retailers whereas in total more than 26% worked within the service-focused industries. The remaining businesses turned out to operate in the wholesale trade, manufacturing and the construction sector. The food and agriculture industries accounted for a total of 12% of the businesses. The general implications may vary; for instance, a large amount of capital is required to operate and train employees to acquire relevant skills within the construction industries.

Participation within the agricultural sector was very low (0.35%). This may be due to the extreme weather and geographical conditions in the Northern Cape Province.

The majority of the owner-managers operated within the service industries. The reasons for that may be twofold; the Northern Cape Province is largely known for its tourist attraction due to existing natural heritage such as the “*big hole*” in Kimberley. Again, the large attraction to the service-focused industries may be because the industry in general needs lesser capital and skills training for its operations. The shift towards a more service-oriented economy should also be taken into account when interpreting the results.

7.2.2.6 Age of the small businesses

Long-term business operations create the potential for sustained business activities. In general business sustainability is a critical sign of business success in general. From a total of 282 owner-managers of participating small businesses, 50% of the businesses operated for less than five years. A total of 34% of the businesses operated between 5 and 9 years. Only 10.6% of the businesses operated for 10 years and longer. These findings support the literature that small businesses continue to struggle for survival (Bosma & Harding, 2007:18). Businesses that survive the start-up phase of three and a half years are likely to become sustainable (Herrington *et al.*, 2011:4). Again, it is most likely that due to early business failure rates of small businesses across the municipalities, there is a positive correlation between the number of years the business is in operation, annual turnover and the number of employees (Perks & Smith, 2006:13).

According to literature, businesses that have been in operation for longer periods are most likely to increase employment opportunities generate more sales, increase turnover and the existing market value of assets. These findings are supported by the literature - seemingly the majority of small businesses find it very difficult to operate effectively in less than five years of business operations. After the fifth year, most owner-managers (entrepreneurs) of small businesses are most likely to experience

some challenges. The owner-managers (entrepreneurs) of small businesses are completely not interested in self-employment as career option but rather search for other career opportunities (Longenecker *et al.*, 2006).

7.2.2.7 Legal status of the business

Over fifty-eight percent of the owner-managers who took part in this study operate their businesses as sole proprietorship whereas more than fifteen per cent and over fourteen per cent own and operate close corporation and partnership respectively (refer to Table 6.14).

A total of 7.44% businesses were not registered. By implication, these entities do not operate formal businesses and hence, they are not known, i.e. this may be due to the challenges of taxation (Sieberhagen, 2008:101). Empirical study further confirms that the small business sector faces the challenges of taxation (Smulders, 2007:1-2).

7.2.2.8 Path to business ownership

Table 6.15 indicated that the bulk of the owner-managers (entrepreneurs) of small businesses started their own businesses (60.63%). It can be concluded that most of the small businesses were founded by individuals, who became first time owners in order to strive out of a negative situation such as instability in the job market (Kirkwood, 2009:346). Approximately 30% of the owner-managers purchased their businesses or took over existing businesses.

7.2.2.9 Source of start-up funding

From the analysis in section 6.4.9, it is confirmed that the owner-managers of small businesses in John Taolo Gaetsewe and Frances Baard District Municipalities of the Northern Cape Province use their personal savings and household income as major sources of funding their businesses. Existing literature indicates that owner-managers

lack financial assistance in the form of loans from financial institutions (Turner *et al.*, 2008:15). Literature revealed that the majority of start-up funds do not result from bank loans - instead friends and family members provide owner-managers with “seed capital” (Berlin *et al.*, 2010:10). The findings revealed that the majority of owner-managers used their own personal savings and funds from friends and family members for their business requirements (refer to Shafeek, 2006:8). This confirms the fact that these small businesses are faced with the immense challenges of funding.

7.2.2.10 Business location

The majority (46.09%) of the owner-managers in the study indicated that their businesses were located in the central business district (CBD) of the study areas. In addition, 34.39% of the businesses operated from home locations. The remaining 17.02% of the businesses were located within the outlying business areas with only 1.06% operating on agricultural land. It implies that in general business location is not evenly distributed across the study areas due to high costs (Koteff, 2007:23). As a result, the small business sector is limited because of availability of site location (Badenhorst *et al.*, 2003:79). It can be concluded that the small business sector lack permanent sites for business operation (Ngassam *et al.*, 2009:2). In conclusion, most of the owner-managers operate within the CBD because of proximity to customers (Moore *et al.*, 2008:237).

7.2.2.11 The size of business (in employees)

For the purpose of this study, the participating businesses were classified according to the South African business size classification. The South African National Small Business Act NO. 102 of 1996 and National Small Business Amendment Act (2004: 2) classify micro-businesses, very small and small businesses, as businesses that employ less than 50 full-time equivalents of paid employees.

Referring to Table 6.19, it can therefore be concluded that all the businesses that participated in this study can be classified as small businesses.

7.2.2.12 Turnover of the business

According to the National Small Business Act 102 of 2004, business turnover is one of the criteria that are used to classify businesses. As indicated by the National Small Business Act 102 of 2004, an annual turnover of R1 000 000 (one million rand) serves as the determinant of small businesses. It further classifies small and medium-sized businesses with annual turnover of R15 000 000 (fifteen million rand) and R50 000 000 (fifty million rand).

As indicated (section 6.4.12), the majority (42.90%) of owner-managers of the small businesses earned an annual turnover of less than R300 000 (three hundred thousand rand). This was followed by (25.53%) annual turnover earnings between R300 000 to R500 000 (three hundred thousand to five hundred thousand rand). However, only 4.96% of the participating businesses had an annual turnover more than R500 000. Taking these yearly earnings into account, it implies that most of the owner-managers who participated in this study across the district municipalities were owners of small businesses as defined (South African National Small Business Act, 1996) and (National Small Business Amendment Act, 2004: 2).

7.2.2.13 Owner-manager childhood experience

As stated in table 6.21 most (48.58%) of the owner-managers of small businesses indicated that they had no form of childhood experience prior to business ownership. However, it is significant to note that acquiring childhood business experience is no guarantee for business growth; other factors within the macro-economy are that there are diverse key role players in a small business's success. Nieman and Nieuwenhuizen (2009) disagreed that it is only through work-related experiences that entrepreneurship can be successful. In support, Deakins and Freel (1998, as cited by Kunene, 2008)

viewed the ability of the individual to attain practical experience as one of the critical factors for the owner-managers of small businesses to be successful.

7.2.2.14 First time business ownership

Out of the research sample of 282 owner-managers of small businesses, the bulk (60.64%) within the study areas have not operated and owned small businesses; whilst the remaining (23.05%) have experienced operating any form of business in the past. In order to assist the novice owner-managers, it is significant to institute educational programmes for the necessary experience and training (Kunene, 2008:119).

7.2.2.15 Reasons for business failure

Consistent with prior scientific studies (UNCTAD, 2006; Kellow, 2007; Amin, 2007), the empirical findings revealed some of the challenges that are faced by the owner-managers of small businesses in the research areas.

In conclusion, it was clear that most small businesses failed due to various challenges. Although about one-third of the owner-managers were unable to provide adequate reasons for business failure, it is assumed that business failure may result from lack of management and technical skills (Dube, 2007:35), as well as management principles and the refusal to act in accordance to management theories (Beaver & Jennings, 2005:9). Research findings confirmed the literature study that small businesses failed due to various challenges and heavy dependency on “big businesses” - thus small businesses experienced a severe failure rate because of lack of resources, opportunities and numerous environmental uncertainties (Ahmad & Seet, 2008; Barker 111, 2005:44).

Key among these challenges according to the empirical evidence is lack of assistance, unfriendly business environment and lack of collateral.

7.2.3 Descriptive statistics of measuring the variables

The scientific interpretation of the descriptive statistics (means or standard deviations) of statements measured by a Likert-scale, poses problems. Likert scales measure the attitudes of a respondent towards a specific statement, and can therefore not be interpreted in absolute or exact numbers.

Questions such as, for instance: what is an average score for a 7-point scale used in this study? Or what can be regarded as a relative high score, a high score or a very high score? - are relevant to interpreting the results and to make comparisons between constructs or groups. For the purpose of this study, the following guidelines have been used:

- Statements that yield a mean score below 3 ($\bar{x} < 3.00$), can be considered as statements that the respondents did not agree with, or that the respondents did not think that the statements (a specific challenge for instance) are applicable to themselves or their businesses.
- Statements that yield a mean score between 3 to 4 ($\bar{x} > 3.00$; $\bar{x} < 4.00$), are considered as statements with “average” scores, meaning that the respondents “somewhat agree or disagree” with the statements. The interpretation can be “just below average” or “just above average” depending on the wording of the statements or the specific situation.
- Statements that yield a mean score between 4 to 5 ($\bar{x} > 4.00$), are considered as statements with relative high scores meaning that the respondents agree with the statements.
- Statements that yield a mean score between 5 to 6 ($\bar{x} > 5.00$; $\bar{x} < 6.00$), can be regarded as statements with a high score, meaning that the respondents agree that that statements are true to their situation.

- Statements that yield a mean score above 6 ($\bar{x} > 6.00$), can be regarded as statements with a very high score meaning that the respondents fully agree with the statements.

It should be made clear that the above-mentioned guidelines are not based on scientific research done, but for practical reasons to discuss in interpreted the findings.

7.2.3.1 Business and operational challenges

Based on the findings of this study, it can be concluded that the owner-managers perceived all the challenges as relevant or important challenges to the small business sector in the research area ($\bar{x} > 4.00$).

In summary, it can be concluded that all the statements measured (refer to Table 6.24) are perceived as relevant or important challenges to the participating businesses. As a result, it can be concluded that the operational and business challenges selected for this study could have an influence on the success of the businesses.

7.2.3.2 Specific challenges of small businesses

As indicated in table 6.25 in section 6.5.2, it was evident that 13 of the 16 statements measured regarding the specific challenges as measured by the 7-point Likert-scale, were perceived applicable to the participating small businesses ($\bar{x} > 5.00$). Three challenges yielded an average score ($\bar{x} = 4.00$).

It can be concluded that most of the challenges (refer to table 6.25) were important to the owner-manager of small businesses, and could have an influence on the success of the small businesses.

7.2.3.3 Typical challenges of rural small businesses

Table 6.26 depicts various statements regarding typical challenges of rural small businesses. A total of 12 of the 16 challenges yielded mean scores higher than $\bar{x} = 5.00$, meaning that the respondents believe that these challenges poses a threat to their businesses.

7.2.3.4 Personal challenges of owner-managers of small businesses

In conclusion, it was eminent that in general the owner-managers of small businesses in John Taolo Gaetsewe and Frances Baard District Municipalities agree that there are personal challenges that could influence significantly on business performance. Nine of the 10 challenges assessed (refer to table 6.27) yielded mean scores of $\bar{x} < 4.00$, meaning that the owner-mangers agree with the statements.

7.2.3.5 Perceived success of the business

With regard to the assessment of the perceived success of the participating small businesses by the owner-managers, it can be concluded that the owner-managers overall perceived their businesses as relative successful. Ten of the 12 statements (refer to table 6.28) yielded a mean score of $\bar{x} > 4.00$, meaning that the owner-mangers agree with the statements.

7.2.4 Relationship between variables

Multiple linear regression analysis is applicable to predict the level of impact by dependent variable through several explanatory variables (Cooper & Schindler, 2008:115). The multiple linear enables the simultaneous investigations of the effect of two or more independent variables that has been identified by this study impact on the dependent variable, *Perceived business success*, as it has been measured by constructs such as business growth and the existence of human capital of the small

business. In total, two regression models were used to accept or not accept the hypotheses.

The following conclusions can be made based on the linear multiple regression analyses performed: The significant regression coefficients indicate that *Business growth* of the participating small businesses is related to a *Difficult business environment*, *Lack of support* and *Lack of skills*. The regression analysis further indicates that the *Existence of human capital* of the participating small businesses is related to a *Difficult business environment*, *Lack of support* and *Lack of skills*.

It is important to note that there were significant negative relationships found between the independent variables *Difficult business environment* and *Lack of support*, and the dependent variables, *Business growth* and *Existence of human capital* respectively. That means in practice that the more difficult owner-managers perceived the business environment and the higher the lack of support experienced, the lower the perceived success of the small businesses will be. The significant positive relationship between the independent variable *Lack of skills* and the *Perceived success* of the business indicates that the higher the skills level of the owner-managers, the more likely that they will perceive the business as successful.

With regard to the influence of personal challenges on the variables measuring the dependent variable Perceived business success, the results of this study indicate a significant negative correlation between the personal challenges measured in this study, and the dependent variable *Perceived success* of the business. This means in practice that the lower the owner-managers experienced their personal challenges, the more likely it would be that they will perceive the business as successful.

Based on the results of the study and the conclusions made, will the recommendations be discussed in the next section.

7.3 RECOMMENDATIONS

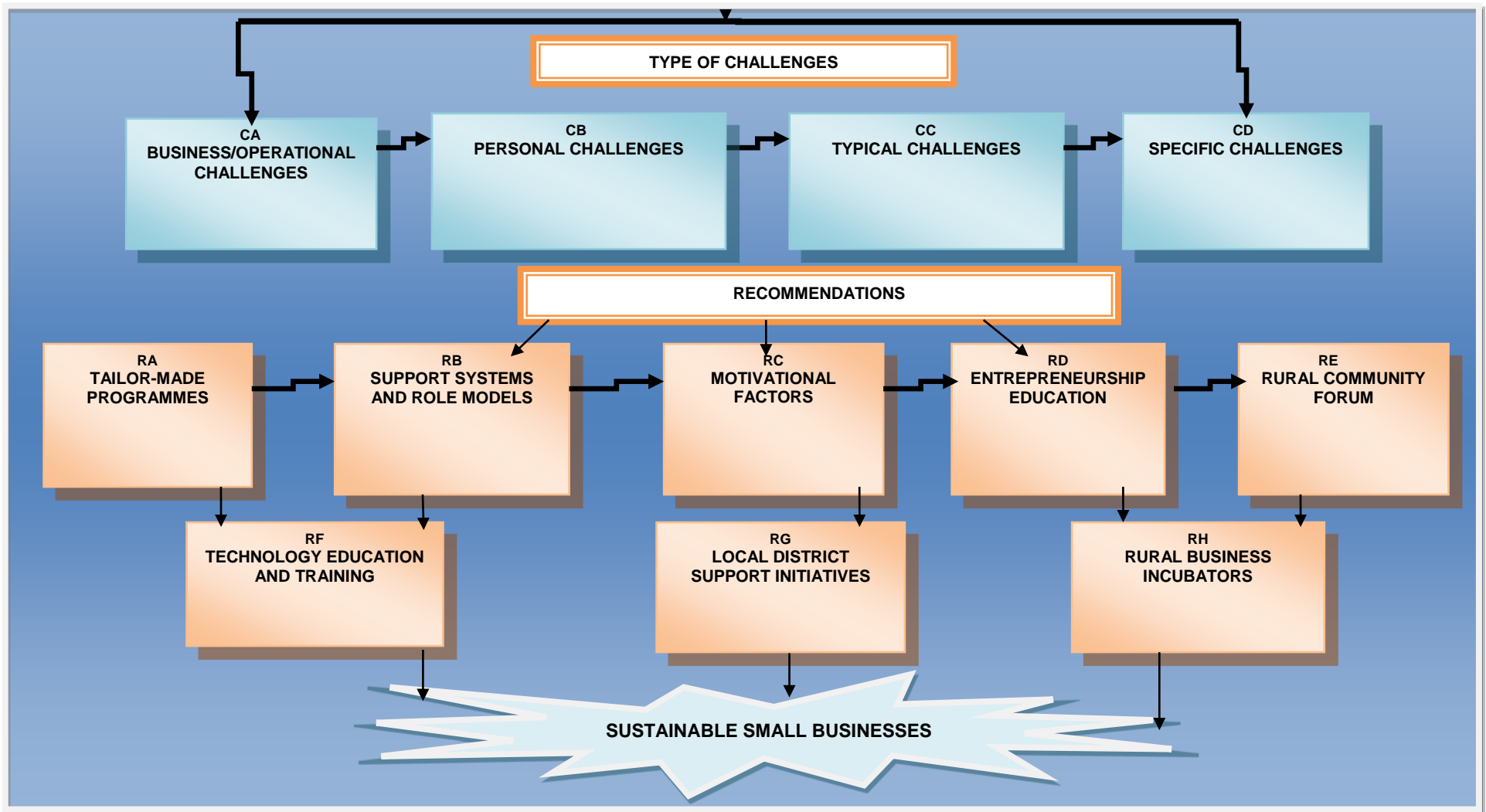
South Africa is an emerging economy; as such the encouragement of small businesses is of utmost concern for high entrepreneurial activities and economic prosperity (Nieman & Nieuwenhuizen, 2010:20). The primary objective of this study is to investigate the influence of challenges on the perceived success of small businesses in selected rural areas; to make practical recommendations on actions the various role-players can take to ensure the sustainability of small businesses in rural areas in South Africa.

The integrative framework below (see figure 7.1) provides clearer understanding of the various challenges as indicated from CA to CD on the framework. Next on the framework are the composition of the second part namely RA to RI of the various recommendations that should be applied to minimise the challenges of entrepreneurship as echoed throughout the literature and the empirical studies. The framework demonstrates comprehensive but detailed accounts of some common drawbacks that limit entrepreneurship as the solid builder of not only in economic activities but also generates adequate jobs (Timmons & Spinelli, 2009:325; Co *et al.*, 2006:7).

Besides, the framework is designed not only to outline the challenges that hamper entrepreneurship but also to highlight possible recommendations to assist the owner-managers of small businesses in rural areas of South Africa and elsewhere. In summary, the framework provides various classifications of the challenges that inhibit the small business sector of the economy.

In order to facilitate the enhancement of rural entrepreneurship and to ensure that rural small businesses become sustainable, an integrated framework is presented in Figure 7.1. on the following page.

Figure 7.1: Integrated framework to improve rural entrepreneurship and small business



Source: Own construct

7.3.1 Tailor-made programmes

In general, the development of entrepreneurship and small business programmes must not only focus on the national environment. For the sake of macro-economic development and growth, it is significant that attention be given to rural areas country-wide. Emphasis should also be placed on owner-managers of small businesses at provincial and district levels, using tailor-made policies that are designed to cater for rural environments, not only to encourage entrepreneurial operations but also to adopt the inclusive entrepreneurial culture awareness among the youth. This approach towards youth involvement should be earmarked to stimulate entrepreneurship among potential youth for the future. This action is believed to address most of the personal challenges as indicated in the framework.

The provincial small business development policy must prioritise the rural areas, where the majority of the South African poor population lives. Tailor-made programmes would specifically eradicate unstable income practices and encourage active participatory habits by individuals in rural areas in order to generate enough collateral for financial assistance (Hossain & Knight, 2008:3). Some of the key policy frameworks including an attempt to integrate the informal small business sector into the mainstream economic strategy across the province will provide strong foothold for future benefits. Personal challenges (see section 6.27) such as lack of knowledge, lack of support, fear of failure, lack of self-confidence and inability to understand existing tax policies, can easily be resolved. It is vital that through tailor-made programmes continuous encouragement should be given to group-based financial support (Armendariz & Morduch, 2005).

7.3.2 Support systems and role models

Drawing from empirical findings, it is recommended that Government should strengthen the establishment of specific firms to assist the owner-managers (entrepreneurs) of small businesses to become successful in rural areas. In this regard, the owner-managers (entrepreneurs) of the small business sector continue to openly indicate the lack of provincial and district support to assist in challenges within the small business sector. It is therefore recommended that strict policy

measures be instituted at grass-roots level with stern supervision of every form of business operations to determine specific needs for assistance and support to owner-managers of small businesses.

The owner-managers of small businesses should be assisted to access Government- and financial institutions' funding. In spite of the recent National Credit Act (NCA) which is designed to regulate the procedures of banks' lending to the general public, it is still recommended that the Government need to institute a certain clause in the act in favour of owner-managers (entrepreneurs) of small businesses.

It is further recommended that Government should reconsider redesigning specific financial models suitable to be utilised within rural small businesses. The model should be monitored by a specialised body according to the needs of the owner-managers in the rural areas. Accordingly, the model should offer the owner-managers of small businesses the necessary assistance; again individuals must be exposed to programmes in specific industries that would offer owner-managers the requisite skills.

The support systems can help to alleviate some of the personal challenges (see table 6.27) as well, namely fear of business failure, pressure due to extended family responsibilities and lack of self-confidence. It is further recommended that in order to provide meaningful support to the owner-managers, action should be taken to continue monitoring activities on a daily basis to determine whether the expectations are met.

Support programmes are recommended as the primary measures of activities that are performed by owner-managers of small businesses via the respective mentors. Most of the challenges that were identified during this study can be reduced through the following support programmes:

- Supporting owner-managers of small businesses to understand the management and implications of various forms of finances including cash flow reserves and credit ratings.

- Accessing the correct form of small business finance.
- Institute industry-based owner-manager peer network systems.
- Access to local market research.

7.3.3 Motivational factors

The programme should be structured to put forward all the benefits and the factors of motivation that are associated with entrepreneurial attitude. For instance, it is critical to inform the youth about how entrepreneurship can be used to generate employment, create wealth and reduce poverty and crime. Besides, the need for role models at community levels should form a major part of the programmes. Mentorship programmes with added stimulants in the form of rewards linked to the success of the owner-managers of small business venture should be encouraged at rural levels. These programmes will not yield the expected outcomes if they are not practical with strict systems of supervision at rural environments.

7.3.4 Entrepreneurship education

The study indicated lack of entrepreneurial culture as one of the numerous challenges that hampers rural entrepreneurship and small business development. It is strongly recommended that extensive entrepreneurial education and training will be established through various state organisations including the Non-Governmental Organisations (NGOs). It is recommended that entrepreneurship education should be structured with focus on specific requirements of not only the existing owner-managers (entrepreneurs) but also to include the younger generation to be part of the programme. It is simply important that the entire field of entrepreneurship education be researched throughout the district to determine what exactly rural entrepreneurship is about. Through the platform of education, there is the likelihood that the owner-mangers of small businesses will be able to change their attitudinal constructs with stronger impact on the owner-managers.

Regarding personal challenges (see table 6.27), the owner-managers of small businesses can ascertain maximum benefits as much knowledge would be acquired. An extended entrepreneurship educational programme is recommended to further add to credible performances in crime education and employment of competent and skilful labour.

7.3.5 Rural communication forum

Due to the nature of the business environment, especially the locations of businesses of owner-managers, inclusive programmes of communication must be established at all levels of the small business structures, to address challenges such as marketing of products and services, financial assistance, training, education and development initiatives. It is recommended that the forum would assist in curbing the scourge of bribery in rural areas (Chowdhury, 2007:248). There is also the need to establish institutions at rural areas to gather information on various challenges based on specific business environments prior to the implementation stages. Through these approaches, the present norm of providing “*blanket*” remedies to cater for entrepreneurship and small business challenges can be curtailed; challenges can be addressed according to specific needs of the broader environment, especially the issues of infrastructure in rural areas (Rahman, 2010:21).

In addition, the communication forums will enable the owner-managers of small businesses and other relevant stakeholders to assemble with much focus on the common challenges (see table 6.24 and 6.25) of mutual interest in order to encourage and harness their challenges. The forum should be designed to provide the necessary platform that addresses all forms of challenges that limit small business growth; thus it encourages vibrant entrepreneurial activity. Presently, it is common practice that the means of communicating with the owner-managers of small businesses is centralised in “*Big cities*”, to the detriment of the rural communities. As such, it is recommended that the communication forum should be structured to specifically include all the owner-managers of small businesses in John Taolo Gaetsewe and Frances Baard District Municipalities of the Northern Cape Province.

The members of the communication forum should therefore endeavour to facilitate forum-type contact of every small business sector at provincial level to be channelled to the district of the local government authorities. A situation which will greatly enhance communication levels at all sectors of the district as the national Government initiatives to offer assistance in terms of funding, lack of distribution channels and small business support to achieve the set objectives of sustainability and growth.

The majority of the Government programmes are known only to a certain class of owner-managers of small businesses. The present study has identified lack of information as one of the challenges. As such, the various structures of both the national and provincial authorities should closely monitor every programme to determine whether the owner-managers of small businesses in rural areas are aware of the available programmes. Business and operational challenges (see table 6.24) are very fundamental to small business success; thus it is recommended that most of these challenges will be addressed through the rural communication forum. More information can be received on a daily or weekly basis through interaction and information sharing regarding business specifics in marketing skills, technology resources and to determine the level of market competition.

7.3.6 Technology education and training programmes

Empirical study have demonstrated that there are personal challenges (see table 6.27), namely that the owner-managers are unable to apply internet services, not able to understand tax policies, lack of role models and fear for business failure. Drawing from these challenges, it is clear that the existing level of education within the research areas has been significantly low, especially in the field of technology.

In general, the owner-manager needs inclusive training programmes which are structured to cater for the majority of the personal challenges that were outlined. It is recommended that the training should also focus on successful programmes from a specific rural background. The idea should be the generation of a good system of communication and feedback from individuals and to provide feedback on various aspects of the training programmes. As most of the owner-managers operate in rural

areas without the knowledge of technologies, they are to be exposed to less expensive and labour saving technology equipment which generate more income and increase productivity (Sharma & Varma, 2008:51).

From table 6.24, the business and operational challenges are highlighted. In spite of its significance, technical skills development is of priority in order to consume “bread”. For the purpose of innovation and in order to improve “bread” into “cake” the owner-managers of small businesses need business training skills as core supplement to access financial and technological resources (ADB, 2007:2). It is recommended that Government should make technical and business skills available to the owner-managers for reasons of market competition, enhance entrepreneurial spirit and add value to individuals’ managerial skills. In summary, government should encourage adequate provision of technological innovation in addition to social assistance to enable easy access to the labour market (ADB, 2007:16-17).

7.3.7 Local district support initiatives

By means of a structured questionnaire as quantitative instrument, it has been discovered through empirical study that there are specific challenges (table 6.25) such as lack of support from the local district municipality, no Government assistance, problem of start-up capital, and absence of small business education in rural areas. It is recommended that strict and practical support systems should be established in rural areas to try and provide assistance to owner-managers who require not only start-up capital but also other challenges. The kind of support system should only be structured suitable enough to cater for rural owner-managers for improvement in educational associations (Cheston & Kuhn, 2002:43). The implementation of the supporting programme should include educating the owner-managers in rural environments besides additional programmes to train employees. It is recommended that the current system of education be improved for the level of efficiency.

From empirical and literature studies there are typical challenges (table 6.26) that pose serious limitations to rural small businesses. These challenges include lack of support from district municipalities, cash flow problems, too high cost of doing

business, lack of start-up capital, difficulties to employ skilled and to keep younger employees. With regard to these challenges, it is critical to perceive education to be of tremendous assistance towards the enhancement of small business operations. A broader approach to educating owner-managers is required to properly understand tax policies and to minimise the cost of doing business, and institute strict systems for crime control. It is recommended in addition to continuous education and training in entrepreneurship in rural economies as potential district support initiatives.

Reiterating the literature study, the factors which are likely to hamper entrepreneurship in general are: the environmental risks, lack of skilful human capital, inadequate training for individual entrepreneurs, and legal restrictions on business operations (Wickham, 2004:167). To try and eradicate these limitations and challenges, it is recommended that entrepreneurs access different support programmes including funding of different networking, entrepreneurial training and developmental training (De Faoite, Henry, Johnson & Van der Sijde, 2004:443). Most of these recommendations are structured to succeed within the urban environments. These can also be adapted to suit rural business environments through policy measures with added control systems that are closer to specific facilities. It is further recommended that in the general interest of all rural areas, this study is replicated. By doing that, it is critical to take into account the challenges that influence the high failure rates of small businesses as revealed in this study.

During the course of this study, challenges such as lack of information has been identified on numerous occasions and reflected as indicated in tables 6.24 and 6.25. These challenges have been mentioned earlier in the recommendations. However, it is further recommended that:

- marketing materials for small businesses be translated into the local languages with trained administrative personnel in provincial and district offices to provide information to the owner-managers of small businesses.
- most of the challenges that have been identified can be overcome through mentorship initiatives. The mentorship initiatives must be designed as the

core component of the small business programme not in the form of a support programme. This is because personnel are held accountable for the lack of performance by owner-managers who have been assigned to the mentor. Consequently, it is recommended that the mentors provide assistance to the owner-managers in addition to be given rewards and various forms of incentives based on the level of performance tied to specific owner-managers of small businesses. These initiatives serve as an outstanding stimulant to the mentors to try their level best to improve on owner-managers' success rates.

7.3.8 Rural business incubator

To eliminate some of the limiting factors of entrepreneurship, it is recommended that the owner-managers of small businesses access a number of support programmes that are at their disposal such as incubation, funding, networking, training and development (De Faoite *et al.*, 2004). Incubators are structured to fill knowledge gaps and provide local entrepreneurs with supporting networks. Business incubators are known to assist the effort of the entrepreneurial environment of the neighbourhood (Bisseker, 2001:10).

Due to numerous challenges that the small business sector is faced with, the Government should consider the establishment of rural business incubators to cater for the needs of the small business sector. Through the rural business incubator, small businesses can be equipped to access skills such as managerial, financial and technical skills in order to enable this sector to become more sustainable. The formation of the rural business incubator will not only assist small businesses to play a significant role in the evaluation of small businesses, but also to provide the necessary direction and guidance to the owner-manager of small business operations.

The planned establishment of a University in the Northern Cape could, among other stakeholders, take the lead in the establishing of incubators. The Department of Trade and Industry should also be actively involved in establishing incubators.

7.3.9 Other specific recommendations

Given the challenges of rural entrepreneurship in the study, and based on the conclusions drawn, this section makes recommendations to determine how some of the challenges identified throughout the study could be addressed. These recommendations are based on some definite steps to be adopted in order to encourage rural entrepreneurship. These recommendations that are based mainly on extant literature and empirical studies are further discussed below.

7.3.9.1 Recommendations for John Taolo Gaetsewe and Frances Baard District Municipalities

- It is recommended that the JTG and FBD Municipalities establish a general communication forum to access the needs of small businesses. Through the communication forum, various hampering challenges of entrepreneurship in the districts could be assessed and the information can be passed on to the respective state organs that are established to make the information available. In the process, solutions to the problems would be consolidated to open up opportunities with the view to assist most of the small businesses; thus provide the potential tools to enhance and development the local economies.
- It is furthermore recommended that each local district should be equipped with a reliable and updated data base of small businesses in the form of a district data base. The objective is to identify locally established small businesses. Information such as new business establishments and small business failures should be updated on the data base. That will enable service providers to get access to relevant information in order to improve their services. For instance, banks and other forms of service providers can get to know more about particular small businesses who require various forms of support.
- It is recommended that an annual workshop be held where the owner-managers of small businesses will be able to identify their needs and their respective challenges. That could provide and educate members on potential

opportunities at either the local, provincial or national level to expand existing knowledge and scope of the owner-managers of small businesses.

- The findings of this study should be made available to the relevant stakeholders in the two district municipalities as well as in the Northern Cape Province. The findings can also be discussed on the inaugurated annual workshop as suggested above.
- It is further recommended that the clustering of small businesses into industry cooperatives be investigated. That could assist them in enhancing and further augment their performances in needy areas including added capacity to put together collateral in order to secure funding from banks, target consumer markets, bulk purchasing of products for lucrative discounts and to share critical information instantly.
- It is also recommended that small businesses utilise existing Government structures such as the integrated development planning (IDP), road shows as well as the active establishment of local *“imimbizo”* that can be utilised to raise general awareness of information including services offered by banks, marketing of local products internationally, and workshops on skills development. Owner-managers of small businesses need to identify the needs of the local markets during the *“imimbizo”* sections in order to determine consumer demands.

7.4 ACHIEVEMENT OF OBJECTIVES

The successful completion of the study largely depends on the ultimate realisation of both the primary and secondary objectives as stated in section 1.4 of Chapter 1. The section therefore outlines the primary objective of the study as stated below.

7.4.1 Primary objective

The primary objective of this study was to investigate the influence of selected challenges on the perceived success of small businesses in selected rural areas.

The primary objective has been realised through the literature and empirical studies. Drawing from the research, an integrated framework was developed. The framework presented a structured approach to ensure sustainable small businesses in the John Taolo Gaetsewe and Frances Baard District Municipalities, and ultimately, the Northern Cape Province and South Africa.

7.4.2 Secondary objectives

In order to achieve the primary objective, the following secondary objectives were formulated:

- To gain an understanding of entrepreneurship by means of a literature study.
- To identify the challenges facing small businesses by means of a literature study.
- To gain an understanding of rural entrepreneurship and evaluate the impact of key constraining factors by means of a literature study.
- To gain an understanding of the research process by means of a literature study.
- To assess the challenges facing small businesses in the research area.
- To assess the perceived success of the participating rural small businesses.
- To assess the challenges facing and perceived success of the participating rural small businesses.
- To investigate the relationship between the challenges facing participating small businesses and the perceived success of these businesses.
- To use the results of the empirical research to draw conclusions and make recommendations.
- To propose an integrated framework to ensure the sustainability of small businesses in rural areas in South Africa.

The first secondary objective, **to gain an understanding of entrepreneurship by means of a literature study**, has been realised by reviewing the concept in Chapter 2.

The second secondary objective was, **to identify the challenges facing small businesses by means of a literature study**, reviewed in Chapter 3 of the study.

The third secondary objective was, **to gain an understanding of rural entrepreneurship and evaluate the impact of key constraining factors by means of a literature study** was discussed in Chapter 4 of the study.

The fourth secondary objective, **to gain an understanding of the research process by means of a literature study**, was achieved by reviewing the research process in Chapter 5 of the study.

The fifth secondary objective was **to assess the challenges facing small businesses in the research areas** by means of the empirical study in Chapter 7 of the study.

The sixth secondary objective was **to assess the perceived success of the participating rural small businesses**, by means of the empirical study in Chapter 7 of the study.

The seventh secondary objective was **to assess the challenges facing and perceived success of the participating rural small businesses** was achieved by means of the multiple linear regression analyses performed in Chapter 7 of the study.

The eighth secondary objective was **to investigate the relationship between the challenges facing participating small businesses and the perceived success of these businesses** was achieved in Chapter 7 of the study.

The ninth secondary objective was **to use the results of the empirical research to draw conclusions and make recommendations** was achieved in chapter 7 of the study.

The final secondary objective was **to propose an integrated framework to ensure the sustainability of small businesses in rural areas of South Africa** was achieved in Chapter 7 of the study.

7.5 RESEARCH LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

The research processes are most often met with potential drawbacks even in planned environments (Fouché, 2006:118). Key among some of the common limitations is the structured questionnaires used in this study. It is extremely difficult for owner-managers of small businesses who intended to further elaborate on some of the challenges that hamper their business operations, to do so. This limitation was overcome by including a few open-end and unstructured questions which allowed the owner-managers to provide more answers to clarify some of challenges relating to small business failures.

The depth of the study mostly referred to as research sample size, is very small taking into account the population. The sample of the research is made up of 282 owner-managers of small Frances Baard District Municipalities. Due to the small nature of the study sample, there are a significant amount of errors that could have occurred as the study progresses; thus changing the entire complexion of the study and its outcomes.

During the period of this study, it was very difficult to ascertain the actual locations and addresses of the owner-managers, because most of them do not have permanent business locations, which are due mostly to the confidentiality clause. This limitation was overcome by applying the snowball sampling technique method that was used to conduct the study.

This study was limited to two the districts of John Taolo Gaetsewe and Frances Baard District Municipalities of the Northern Cape Province; hence, it would be significant and most desirable to further extend the current study to various districts across rural provinces to ascertain if similar findings will emerge.

Several issues associated with the challenges that are inherent in this study, await further research in the future. This study points to various rural challenges that limit entrepreneurship and small business operations. Identifying these challenges with negative impact on rural entrepreneurship does not determine the level of influence on rural entrepreneurship. The extension of this study is needed to add more value to rural entrepreneurship by determining the impact of these challenges on rural entrepreneurship. Different challenges namely personal, specific, typical and business as well as operational challenges of rural entrepreneurship and small businesses require further clarification and how each of the challenges impact on rural entrepreneurship.

It is hoped that most scholars and academics of entrepreneurship will find these challenges within rural business environments very useful and that much assistance will be provided through similar studies to guide the owner-managers into applying the relevant strategy to curtail these challenges. Some of the research findings may be insignificant; the research findings are enriching experiences that contribute to the body of scientific knowledge by proposing an integrated framework of rural entrepreneurship challenges. These challenges open new ways of criticism that are prescribed to strengthen rural entrepreneurial activity and sustainability of small businesses in South Africa. Further discussions or disagreement on this issue equally serve the purpose. These challenges are worth researching further in the distant future for value and recommendations to Government action. Government structures stemming from the national, provincial and district have already showed deepening commitment towards the development of small businesses.

7.6 SUMMARY

This chapter ends the study on assessment of rural entrepreneurship in selected areas of South Africa with specific reference to two study areas, namely John Taolo

Gaetsewe and Frances Baard District Municipalities. The chapter further illustrates the empirical outcomes that were outlined in Chapter six with critical assessment of the research findings. Indeed the chapter provides a dearth of insightful and detailed account of the primary descriptions of variables such as gender, race, age groups of individuals and the highest level of academic achievements. This study therefore contributes immensely to existing literature by proposing an integrated framework that improves rural entrepreneurship.

In order to gather conclusive and reliable data, the Cronbach Alpha Coefficient was further utilised with maximum care to determine the reliability of every construct including structured questionnaires used to evaluate the research questionnaires. The main objective of the Cronbach Alpha Coefficient was to determine the statistical variances of different variables as used during the study.

Next the study discussed four groups of small business challenges that were identified not only from literature study but also as indicated by owner-managers of small businesses during the empirical study within the study areas of John Taolo Gaetsewe and Frances Baard District Municipalities. For in-depth conclusions and recommendations, this study approached two hundred and eighty-two owner-managers of small businesses who took part in the study. It was revealed that the majority of the owner-managers were aged between 30-39 years; an indication that there should be vigorous entrepreneurship educational programmes to groom the youth for future potential careers in entrepreneurship.

The gender composition throughout the study revealed that more male (63.47%) owner-managers (entrepreneurs) pursued entrepreneurship as the only means of employment in comparison to the female counterparts. This shows that even in rural areas entrepreneurship is highly regarded as a male dominated business path. The study revealed that more than half of the owner-managers who participated in the study were in stable relationships. This implies that within the study areas, favourable entrepreneurial conditions exist for small businesses to become successful. Within the study areas, most of the owner-managers received some form of education. This revelation further confirms existing literature that the level of education per individual does not determine entrepreneurial success. It is extremely

difficult to argue that the highest level of educational success promotes and enhance the success of entrepreneurship.

The study indicated that among the various ethnic groups that participated in the study, the majority (53.90%) of the businesses were owned and operated by Blacks as compared to others. 18.08% of small businesses were operated by foreign individuals. Small businesses in this study were classified into various sections as determined by the Amended National Small Business Act No. 102 of 2004. It was further revealed that the majority of small businesses who took part in the study, offer employment opportunities to two or five employees. Drawing therefore from this revelation it is correct to state that these businesses can be classified as small and fall within the study criteria as defined in terms of the Small Business Act no 102 of 1996. Most of the existing infrastructure has been identified through the empirical study as critical challenges. Within the study areas of John Taolo Gaetsewe and Frances Baard District Municipalities, it was discovered that about 57.09% of the owner-managers used their personal savings to operate their businesses. The owner-managers of small businesses indicated that most small businesses failed at early stages of establishment due to lack of assistance and unfavourable business environment. It was discovered that most small businesses were able to survive only for periods ranging between two to four years. Regarding the small business turnover, about 42.90% of small businesses indicated that their annual sales turnover was less than R30 000; an indication that the majority of the owner-managers operates small businesses as defined.

Descriptive statistics were utilised to measure the selected dependent and independent variables. A 7-point Likert-type interval scale was used during the descriptive statistics to measure the dependent and independent variables which were identified through literature and empirical studies. The study found that both primary and secondary objectives were achieved and that enough answers were received as required by the research questions. The current study has also added to a specific theoretical framework with the objective to contribute to the increasing body of knowledge that attempts to profile challenges of small businesses within the rural environments in the near future.

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APPENDIX A



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Code number:

QUESTIONNAIRE

CHALLENGES OF RURAL SMALL BUSINESSES AND ENTREPRENEURSHIP

CONTACT DETAILS:

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QUESTIONNAIRE ON SMALL BUSINESSES AND ENTREPRENEURSHIP

PLEASE NOTE:

This questionnaire must only be completed by entrepreneurs of small businesses in the John Taolo Gaetsewe and Frances Baard District Municipalities of the Northern Cape Province.

All information will be treated as **STRICTLY CONFIDENTIAL** and will only be used for academic purposes.

Instructions for completion:

1. Please answer the questions as objectively and honestly as possible.
2. For the sections A to E place a cross (x) in the space provided at each question which reflects your answer the most accurately. Use the following key: **1** = Strongly disagree; **2** = Disagree; **3** = Slightly disagree; **4** = Neutral view; **5** = Slightly agree; **6** = Agree; **7** = Strongly agree.

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
E1	The business has experienced growth in turnover (more sales) over the past few years	1	2	3	4	X	6	7

It is essential you indicate your choice clearly with a **pen**.

3. For sections G and F, mark the applicable block with a cross (x) with the correct information.
4. Where asked for comments or to express your own opinion, keep answers short and to the point.
5. Please answer all the questions, as this will provide more information to the researcher so that an accurate analysis and interpretation of data can be made.

Thank you for your co-operation. We hope that you will find the questionnaire interesting and stimulating.

SECTION A

BUSINESS AND OPERATIONAL CHALLENGES

In this section you have to indicate the extent to which operational and business challenges are influencing your small business.

Indicate to what extent does you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
Indicate the business and operational challenges of your business								
A1	Unable to employ skilful employees	1	2	3	4	5	6	7
A2	Lack of resources and basic infrastructure	1	2	3	4	5	6	7
A3	Lack of sufficient financial resources	1	2	3	4	5	6	7
A4	Inadequate accounting and management skills	1	2	3	4	5	6	7
A5	Not able to use technology	1	2	3	4	5	6	7
A6	Scarce marketing information	1	2	3	4	5	6	7
A7	Lack of suitable business location/premises	1	2	3	4	5	6	7
A8	Not able to get enough state support	1	2	3	4	5	6	7
A9	Too much competition with big businesses	1	2	3	4	5	6	7
A10	Lack of market information	1	2	3	4	5	6	7
A11	No resources to assist small businesses	1	2	3	4	5	6	7
A12	Fewer opportunities for small businesses	1	2	3	4	5	6	7
A13	Lack of small business assistance	1	2	3	4	5	6	7
A15	Insufficient provision of basic infrastructure (electricity, water and road networks) constrains	1	2	3	4	5	6	7
A16	No support to assist small businesses for long term survival	1	2	3	4	5	6	7
A17	Lack of sufficient training in the Northern Cape Province for small businesses	1	2	3	4	5	6	7
	Other (Please specify):							

SECTION B

SPECIFIC CHALLENGES OF SMALL BUSINESS IN THE DISTRICT MUNICIPALITY

PLEASE PROVIDE ANSWERS ACCORDING TO THE MUNICIPAL LOCATION OF YOUR BUSINESS.

Please indicate to what extent does you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
SPECIFIC CHALLENGES OF SMALL BUSINESSES IN JOHN TAOLO GAETSEWE OR FRANCES BAARD DISTRICT MUNICIPALITIES								
B1	Poor education system	1	2	3	4	5	6	7
B2	Lack of skilled employees	1	2	3	4	5	6	7
B3	Problem of start-up capital	1	2	3	4	5	6	7
B4	Inadequate basic infrastructure (roads, transportation, electricity)	1	2	3	4	5	6	7
B5	Difficult regulatory and policy measures	1	2	3	4	5	6	7
B6	Insufficient marketing information and opportunities	1	2	3	4	5	6	7
B7	Local economic development does not focus on small businesses	1	2	3	4	5	6	7
B8	Absence of small business education	1	2	3	4	5	6	7
B9	Lack of general small business support by government	1	2	3	4	5	6	7
B10	Too much costs of doing business	1	2	3	4	5	6	7
B11	Lack of support from the local district municipality	1	2	3	4	5	6	7
B12	High crime rates	1	2	3	4	5	6	7
B13	Lack of competition	1	2	3	4	5	6	7
B14	Problems with suppliers	1	2	3	4	5	6	7
B15	Inability to prepare credible business plans for bank loans	1	2	3	4	5	6	7
	Specify other forms of specific challenges as experienced by small businesses:							

SECTION C

TYPICAL CHALLENGES OF RURAL SMALL BUSINESSES

Small businesses in rural areas are faced with typical challenges. The purpose of this section is to determine typical rural challenges that constrain small business operations in rural areas.

Please indicate to what extent does you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
TYPICAL CHALLENGES OF RURAL SMALL BUSINESSES								
C1	Long distance travel to market products or services	1	2	3	4	5	6	7
C2	No access to internet services	1	2	3	4	5	6	7
C3	Lack of basic infrastructure (roads, water, transportation and electricity)	1	2	3	4	5	6	7
C4	Too much costs of doing business	1	2	3	4	5	6	7
C5	No support from district municipality	1	2	3	4	5	6	7
C6	Very difficult to employ skilled labour	1	2	3	4	5	6	7
C7	Not easy to keep younger employees	1	2	3	4	5	6	7
C8	Cash flow problems	1	2	3	4	5	6	7
C9	Ageing workforce	1	2	3	4	5	6	7
C10	High crime rates	1	2	3	4	5	6	7
C11	Lack of start-up capital	1	2	3	4	5	6	7
C12	Lack of security (collateral) for bank loans	1	2	3	4	5	6	7
C13	Problems with suppliers	1	2	3	4	5	6	7
C14	Lack of reliable and competent employees	1	2	3	4	5	6	7
C15	Limited skills to prepare credible business plans for bank loans	1	2	3	4	5	6	7
C16	Lack of competition	1	2	3	4	5	6	7
Other (Please specify)								

SECTION D

PERSONAL CHALLENGES OF THE OWNER-MANAGERS OF SMALL BUSINESSES

The South African government has over the years instituted various organs to assist owner-managers of small businesses. Yet, the owner-managers continue to experience many challenges. The focus of this section is to identify personal challenges of owner-managers that inhibit rural small businesses.

Please indicate to what extent does you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
PERSONAL CHALLENGES OF THE OWNER-MANAGERS OF SMALL BUSINESSES								
D1	Lack of self-confidence	1	2	3	4	5	6	7
D2	Great fear of business failure	1	2	3	4	5	6	7
D3	Pressure due to extended family responsibility	1	2	3	4	5	6	7
D4	Lack of education and general training	1	2	3	4	5	6	7
D5	Lack of small business success stories and role models	1	2	3	4	5	6	7
D6	Time pressures because of work and family issues	1	2	3	4	5	6	7
D7	Lack of permanent business office	1	2	3	4	5	6	7
D8	Problem of running the business alone (no family support)	1	2	3	4	5	6	7
D9	Unable to understand existing tax policies	1	2	3	4	5	6	7
D10	Not able to use internet services for marketing opportunities	1	2	3	4	5	6	7
	Other personal challenges (Please specify):							

SECTION E

PERCEIVED SUCCESS OF THE BUSINESS

It is important for the business to sustain the family and to make a profit. It is also important that the owner-manager, the family and employees (if the business employs people) be happy and satisfied to work in the business. This section will measure the perceived success of the business.

Please indicate to what extent does you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
INDICATORS OF SUCCESSFUL SMALL BUSINESSES								
E1	The business has experienced growth in turnover (more sales) over the past few years	1	2	3	4	5	6	7
E2	The business has experienced growth in profits (more money in my pocket) over the past few years	1	2	3	4	5	6	7
E3	The business has experienced growth in employees (we employed more people) over the past few years	1	2	3	4	5	6	7
E4	The business has experienced growth in stock items (more items on the shelves) or extended services, over the past few years	1	2	3	4	5	6	7
E5	The image of the business (how people see us), relative to our competitors, has grown over the past few years	1	2	3	4	5	6	7
E6	The business has experienced growth in customers (more customers/bigger contracts/extended services) over the past few years	1	2	3	4	5	6	7
E7	The business has experienced growth in terms of expansion (more branches, bigger building, new improved location) over the past few years	1	2	3	4	5	6	7
E8	People working in the business (employees, but also the owner-manager) are highly committed to make a success of the business	1	2	3	4	5	6	7
E9	People working in the business (employees) are viewed as the most valuable asset of the business	1	2	3	4	5	6	7
E10	The morale (job satisfaction) of our employees (included the owner-manager) has improved over the past few years	1	2	3	4	5	6	7
E11	The business keep most of the employees over the years (they are working many years for the business)	1	2	3	4	5	6	7
E12	Employees do no want to leave the business and work for another business	1	2	3	4	5	6	7
	Other personal challenges (Please specify):							

SECTION F

PERSONAL INFORMATION

The following information is needed to help the researcher with the statistical analysis of data regarding the challenges of small businesses and entrepreneurship. All your responses will be treated with utmost confidentiality. The researcher appreciates your help in providing this important information.

Mark the applicable block with a cross (X). Complete the applicable information.

F1	In which age group do you fall?	≤ 19	20 – 29	30 – 39	40 – 49	50 – 59	60+
		(01)	(02)	(03)	(04)	(05)	(06)

F2	What is your marital status?	Single	Married	Divorced	Widowed	Living together
		(01)	(02)	(03)	(04)	(05)

F3	Indicate your highest academic qualification.					
	Lower than matric					(01)
	Matric					(02)
	Certificate					(03)
	Vocational qualification (Trade skills)					(04)
	Diploma					(05)
	University Degree					(06)

F4	Indicate your past experience prior to self-employment (occupational background).					
	Unemployed					(01)
	Self-employed (owned small business)					(02)
	Employed (administrative clerk, secretary, cashier, teacher)					(03)
	Farm worker (farm manager, farm supervisor, farm assistance)					(04)
	Government employee (teacher, nurse, police service)					(05)
	Top (executive) management					(06)

F5	Indicate the number of years that you are self-employed.					
	Less than one (1) year					(01)
	1 – 3years					(02)
	4 – 5 years					(03)
	6 – 10 years					(04)
	More than 10 years. Please specify:					(05)

F6	Indicate your gender.		
	Male		(01)
	Female		(02)

F7	Indicate your race.	Black	White	Coloured	Indian	Others
		(01)	(02)	(03)	(04)	(05)

G8	Please specify your ethnic group:
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SECTION G BUSINESS AND OPERATIONAL INFORMATION

Mark the applicable block with a cross (X). Complete the applicable information.

G1	In which District municipality is your business located in the Northern Cape Province?		
	In John Taolo Gaetsewe Distirct Municipality		(01)
	In the Frances Baard District Municipality		(02)

G2	On daily average, how many hours do you devote to your business operations?		
	Less than 7 hours		(01)
	7 hours to 10 hours		(02)
	10 hours		(03)
	More than 10 hours		(04)

G3	How many employees do you employed as full/part-time workers?		
	1 – 3 part time workers		(01)
	4 – 6 part-time workers		(02)
	1 – 3 full – time workers		(03)
	4 – 6 full - time workers		(04)
	Only myself and two family members		(05)
	Myself and my spouse		(06)
	Others: (Please specify)		(07)

G4	Where do you sell your products/services?	
	Local community in the district (local market)	(01)
	Distribute to other provinces	(02)
	National and International markets	(03)
	All the above	(04)
	Other: (Please specify)	(05)

G5	In which industry does your business operate?	
	Retail trade (stationery)	(01)
	Wholesale trade	(02)
	Manufacturing	(03)
	Construction	(04)
	Transport/distribution	(05)
	Accommodation and restaurant (guest houses, bread and breakfast)	(06)
	Food industry	(07)
	Agriculture/forestry/fishing	(08)
	Garden services	(09)
	Repairs of home appliances	(10)
	Internet services (mobile communication services)	(11)
	Wedding planner	(12)
	Funeral services	(13)
	Beauty saloon	(14)
	Travel and tours services	(15)
	Computer repairs	(16)
	Cell phone repairs	(17)
	Others: (Please specify the type of product or service)	(18)

G6	How long has your business been operating in the province (years)?
	Please specify: (number of years)

G7	Indicate the legal status of your business (form of business ownership).	
	Sole proprietorship	(01)
	Partnership	(02)
	Close corporation	(03)
	Company (private)	(04)
	Company (public)	(05)
	Business Trust	(06)
	Not registered	(07)
	Other: (Please specify)	(08)

G8	Indicate your path to business ownership.	
	Started the business myself	(01)
	Buy the business	(02)
	Join family business	(03)
	Take over existing family business	(04)
	Other: (Please specify)	(05)

G9	Indicate your source of start-up funding	
	Personal savings	(01)
	Borrowed or gifted(donated) from relative or friend	(02)
	Household/spouse	(03)
	Sold previous business	(04)
	Bank loan	(05)
	Other: (Please specify)	(06)

G10	Indicate the business premises (from where does the business operates?).	
	Work from home (home-based)	(01)
	Central business district (CBD)	(02)
	Outlying business area	(03)
	Near district taxi rank	(03)
	Agriculture land	(04)
	Other: (Please specify)	(05)

G11	How many permanent employees are employed by your business?							
	Myself	2-5	6-10	11-25	26-50	51-100	101-200	200+
	(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)

G12	Indicate the turnover (annual sales) that your business generates.	
	Less than R30 000	(01)
	R30 000 – R50 000	(02)
	R50 000 – R100 000	(03)
	R100 000 – R500 000	(04)
	Over R50 000	(05)

G13	Did you have any childhood business experiences or skills (i.e. parents, close family friend owned a business).	Yes (01)	No (02)
	If yes, who owned the business? (Please specify – i.e. father, mother, sibling, family friend, close friend.)		

G14	Is the present business the first business that you own?	Yes (01)	No (02)
	If no, please indicate what happened to the business previously owned.		
	Went out of business		(03)
	Still successful		(04)
	Sold of		(05)
	Other: (Please specify)		(06)

G15	If the business is no longer operational (closed) state the reasons for closure (you may choose one option or more)	
	No form of assistance (training needs, financial, infrastructure, information)	(01)
	Inability to acquired skilled personnel	(02)
	Unfriendly regulatory environment	(03)
	Lack of collateral (assets) for financial assistance from banks	(03)
	All the above	(04)
	Other: (Please specify)	(05)

Thank you for your support