



BARRIERS TO ENTREPRENEURSHIP:

ASSESSING NMBM SCHOOL LEAVERS FOR BUSINESS ENTERPRISE

BY

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Submitted in partial fulfillment of the requirements for the degree of

Masters in Business Administration

at the Nelson Mandela Metropolitan University

November 2011

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DECLARATION

I, Thabang Vuyo Qumza, hereby declare that this treatise for Masters in Business Administration is my own work and it has not been previously submitted to another university or for another qualification. All the sources used have been acknowledged and recorded in the list of references.

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ABSTRACT

In plight of the country's high unemployment, poverty, and income inequalities, there is an urgent need to address these issues by converging toward entrepreneurship. World-wide, it is acknowledged by both government and academia that entrepreneurship soothes and remedies socio-economic ills. It creates employment, wealth, alleviates poverty, increases tax base, balances income disparities and accomplishes social stability.

With the high youth (18-34 year age) unemployment looming at 73% and a low South African total entrepreneurship rate at 8.9%; this study attempts to investigate the barriers that hinder school leavers from engaging in entrepreneurship. The research investigates critical entrepreneurial factors including entrepreneurial character and behaviour, entrepreneurial knowledge and skills, managerial knowledge and skills, knowledge on legal aspects of a business, sourcing of finances, and entrepreneurial background and orientation.

The primary objective was met through the investigation of the secondary objectives. This was accomplished through a questionnaire survey, composed with multiple choice questions and closed questions measured on a Likert scale. The questionnaire was constructed based on the literature reviewed from various sources including books, dissertations, journals, government reports, newspapers, magazines, internet, television and radio broadcasts (interviews and news).

The study discovers that learners are inhibited by various factors from engaging into business venturing. The list of barriers identified was:

- A discouraging entrepreneurial background (heritage) – parents had low levels of education and were not entrepreneurial,
- Weak entrepreneurial character and behaviour
- Lack of entrepreneurial exposure and work experience,
- Learners lack financial skills and computer skills,
- Families lack savings to financially support their business start-ups,
- Limited knowledge on the legal aspects regulating a business,
- Limited knowledge on sourcing finances (angel and venture capital investors).

ACKNOWLEDGEMENTS

The completion of this research study is attributable to the contribution of various parties. Without the support and contribution of these individuals, completion of this dissertation would have not been possible. Therefore, I pay great gratitude to the following:

- Dr M. J. Figg for his guidance and having the confidence in me,
- Dr J. Pietersen for his expert advice with statistical analysis,
- Mr C.N. Mbotshelwa - Deputy Principal from iThembelihle Comprehensive School for granting the permission to conduct the research,
- Mr L.C. Baartman – Principal from Newell High School for granting the permission to conduct the research,
- Mr T. Dolley – Principal from Cowan High School for granting permission to conduct the research,
- The school teachers – Ms N. Mhlantla, Mr N. Timba, Mrs N. Matshoba for assisting in the co-ordination and distribution of questionnaires,
- My parents Joy and Sipho for believing in me and supporting me,
- Grandmothers for encouragement and keeping me in prayer,
- God for preserving me and providing me with the strength to finish.

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CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION

Nelson Mandela Bay is home to Port Elizabeth, Uitenhage and Despatch, situated in the Eastern Cape Province of South Africa, with a population estimate of 1.5 million people (Nelson Mandela Bay Municipality 2011). The city currently faces a poverty crisis with an unemployment rate of between 70-80%, where 65 % of its population depends on social grants, and 70-80% of school learners dropout before grade 12 (Rogers 2010). The city's unemployment rate shockingly exceeds the current national unemployment statistic of 25.7% (STATSSA 2011).

In South Africa, there are currently 7.65 million job-seekers and 72% of the unemployed is youth between the ages 18 to 34 years (SABC3 News 2011a; STATSSA 2011; SAFM 2011; Musengi-Ajula, 2010). The Eastern Cape has lost 35 000 thousand jobs year on year, and to be more specific, there were 16000 jobs lost between the 1st quarter of 2011 and 2nd quarter of 2011 (STATSSA 2011). Judging from these statistics, the socio-economic climate of Port Elizabeth is bleak and calls for serious attention. It is from this bleakness and plight that this research study has emanated, attempting to identify the barriers that hinder school leavers from entrepreneurship.

Horn (2006) in the City of Johannesburg Department of Economic Development, (2009:4), states that the demand for skilled labour is one of the reasons behind the unemployment of school leavers. As a result while there are one million employment vacancies in the SA economy, unemployment is escalating due to a skills shortage (Vollgraaff 2011f). There is thus no doubt that poverty and unemployment could be redressed by converging school leavers toward entrepreneurship, since the youth is the group reported to suffer most from socio-economic injustices (City of Johannesburg Department of Economic Development 2009). The education curriculum is accused of lacking in entrepreneurial focus and impetus, and that is

why school-leavers and even graduates find themselves non-participants of the economy at the end of their education tenure (North 2002).

North (2002); Co and Mitchell (2006:348) in Sathorar, (2009:67), urge the need for training and education of youth in the field of entrepreneurship so that they become employers instead of employees when they exit the education system. As a tradition school-leavers and graduates have both the expectation and a sense of entitlement to employment after completing secondary or higher education, instead of creating employment for themselves and others (Herrington et al. 2010:29; City of Johannesburg Department of Economic Development 2009:9). Sonn Crispin in Harris (2011:1) of corporate affairs Old Mutual, concurs that more effort needs to be put in encouraging the youth to be self-employed entrepreneurs and later employers instead of looking for an employer.

Entrepreneurs, Kazaka Kuse and Yunna Panday are an entrepreneurial example to the youth (Butler 2011a). After finishing tertiary studies, they could not find employment. They individually started businesses and later merged their entities. The two businesswomen advise that unemployed youth should consider starting businesses instead of job seeking (Butler 2011a). Farr in Harris, (2010) stresses that youth needs access to adequate education and orientation toward an entrepreneurial mind-set.

In the Quarterly Labour Force Survey released on 28th July 2011, it is reported that 1.580 million of the unemployed and 2.493 million of economically inactive people in SA have completed a secondary education (STATSSA 2011). Women and youth are the majority to suffer and fall victim from the growing unemployment crisis (Herrington, Kew & Kew 2010). North (2002) suggests that in order to thwart the dilemma, now is the time to instil entrepreneurship as a career choice to school leavers. With entrepreneurship as a career choice, school leavers have a realistic and dignified option added to their choices of whether to pursue business venturing, tertiary studies, or employment.

In South Africa, 1.2 million learners enrol for grade 1 (RSA Department of Basic Education 2010), of which 50% (600 000) reaches grade 12, and about 8% qualifies for tertiary education (Vollgraaff 2011b). In the Report on the National Senior Certificate (NSC) Results (2010), the Eastern Cape recorded a 58.3% (37 364)

national senior certificate achievement rate, from 64 090 learners who wrote the exams (RSA Department of Basic Education 2010), meaning that a large group of learners, namely 41.7% have fallen short of achieving the NSC. The Eastern Cape NSC 2010 passes by qualification were 15.9% for the bachelor's degree, 23.8% for a diploma, 18.4% for a higher certificate, and 0.2% just passed (school leaving) the NSC (RSA Department of Basic Education 2010). These figures raise questions and concern as to what options or alternatives do the failed group have for their future? Besides this contentious issue, the majority of school leavers do not enrol for higher education due to various reasons from expensive tuition and accommodation, or not meeting the minimum points for enrolment (Baloyi 2011; Herrington et al. 2010:24; City of Johannesburg Department of Economic Development 2009). So the question regarding possible options of income generation for these school leavers remain.

In general, tertiary education in South Africa is expensive (Baloyi 2011). On average, NMMU charges R 21 940 for a Bachelor of Arts (BA) degree, R21 940 for a BSc, and R19 760 for Engineering in tuition fees (Weavind 2011). It was further reflected on eTV Sunrise programme, that a "BA degree in South Africa can range in cost from between R8 750 at the University of South Africa (UNISA), R16144 – University of Johannesburg (UJ), R18832 – University of Pretoria (UP), R 25 999 – WITS, R 20 803 – MONASH" (Baloyi 2011). To add more to an expensive higher education, government financial aid has been overcharging students by R 77 million (eTV 2011). With the high cost of tertiary education, not all school leavers are able to afford it since some pupils come from impoverished backgrounds. Therefore, entrepreneurship stands as a vital option for them to pursue the opportunity of earning profits and creating employment for others. After all, business venturing is an opportunity and a strategy that is embraced and supported by SA government policy through the 1995 White Paper of the National Strategy for the Development and Promotion of Small Business in South Africa (RSA Department of Trade and Industry 1995; Cupido, 2002:12; Musengi-Ajula 2010) and later the Integrated Small Enterprise Development Strategy of 2005 (RSA Department of Trade and Industry 2005). Entrepreneurship presents the opportunity for schools leavers to circumvent the monsters of poverty and unemployment which are devouring the bottom of the pyramid (BOP) communities.

According to the Global Competitive Report 2010-2011 and RESDI 2011, only 15% to 20% of school-leavers enrol for higher education and this is a problem which results in a paucity of highly skilled entrepreneurs and labour (Schwab 2010). The situation aggravates as youths fall pregnant and live from social welfare, participate in criminal activity, and engage in substance abuse (Herrington et al. 2010:24; City of Johannesburg Department of Economic Development 2009). The above mentioned socio-economic ills dominate the current poverty cycle which is perpetuated as a result of youths not being participants in the economy (Human Sciences Research Council 2009). Entrepreneurship is known to remedy socio-economic ills of a nation by creating jobs, generating income and decreasing crime (Falkena et al. 2002:16; Yunus 2007).

South Africa is characterized by its significant high income disparities which are underpinned from the post-apartheid regime (Blecher, Thomas, Muradzikwa, Smith & de Villiers 2009; National Planning Commission 2011; STATSSA 2010). SABC3 News reported that 80% of black people earn 41% of the national income and 9% of whites earn 45% of the national income (SABC 2011a). The country is believed to have one of the most skewed income distributions in the world, with a high Gini coefficient (measure for inequality) of 0.68 judged from a scale of 0 to 1 (Mohr & Fourie 2008:81). Blecher et al. (2009:48), highlight that 20% of the poorest households earn 3% of the country's income, whilst 10% of the richest households earn 55% of the country's income. Correction of these disparities can be accomplished through entrepreneurship, as it is acknowledged that entrepreneurship increases income and also creates wealth (Furchtgott-Roth 2008; Hart 2011; Mashego 2011). Hence Government drafted the 1995 White paper of National Strategy for the Development and Promotion of Small Business in South Africa (Department of Trade and Industry, 1995), National Small Business Act 1996 and later followed with the 2005 Integrated Small Enterprise Development Strategy (Department of Trade and Industry 2005).

It is acknowledged globally by governments and the research body that entrepreneurship results in higher productivity and Gross Domestic Product (GDP), creates employment, increases tax base, improves living standards, decreases crime, and accomplishes social stability (Carey 2010:4; Cronje, Du Toit, Marais, Motlatla 2003; Cupido 2002:4; Dana 2007:5; Department of Trade and Industry

2008:50; Dutiro 2009; Furchtgott-Roth 2008; Herrington et al. 2010:14; Hatten 2006:371; Musengi-Ajulu 2010:1; Mwangolela 2007; Tice 2011; Venter, Urban, & Rwigema 2010:21). According to Strategic Business Partnerships (2006), South Africa's micro, very small, and small businesses contributed 11%, 15% and 14% toward GDP in 2004 respectively; and accounted for 71% of employment in the country. Moreover the impact of entrepreneurship can be witnessed from the size of the other economies and their GDP growth rates like the United States of America (USA), United Kingdom (UK), Germany, China, Japan and India which have thriving economies (Hill 2009).

Unfortunately, South Africa can be considered a laggard when it comes to entrepreneurship (Mashego 2011). The country has a low prevalence rate of Small, Micro and Medium Enterprises (SMME) as compared with the rest of world. Entrepreneurship is measured by the Total Early-stage Entrepreneurship Activity (TEA) index among adult business start-ups and new firms (Herrington et al. 2010). In the Global Entrepreneurship Monitor (GEM) South African Report 2010, the country ranked 27th out of 59 countries, scoring a TEA rate of 8.90%. SA TEA rate was below the averages of 11.9% of all GEM participating nations and 11.7% of efficiency-driven economies. This means only 9 out of 100 adults in SA are entrepreneurially active (Herrington et al. 2010:16).

The South African start-up (nascent) entrepreneurship rate was low at 5.1% as compared to the GEM average of 6.4% and 6.7 % of efficiency-driven economies respectively. For new businesses (between three months and three and a half years old) the prevalence rate was 3.9% below that of all GEM participating countries (5.9%) and efficiency-driven countries (5.2%). In Herrington et al. (2010:18), SA was listed second last for the activity of established businesses (three and a half years older) recording a rate of 2.1%. This is underperformance when compared to all the participating GEM countries' average of 8.6% and efficiency-driven economies of 7.6%. As a result of the low rate of SMME start-ups, nascent entrepreneurship was reported to make minimal contribution toward economic development and growth in the country. In consideration of SA stage of economic development the country was expected to reach a TEA index of 15%, which would be more compatible with that of the other emerging economies like Argentina, Peru, Brazil, Ecuador and Chile (Herrington et al. 2010:18).

In view of the unemployment predicament, government set aside R10 billion in the 2011 budget strictly for job creation, small enterprise development, and youth development (RSA Department of National Treasury 2011). Furthermore, in the 2011 mid-term budget policy statement, R25 billion has been allocated as a support package for stimulating industrial development, entrepreneurship, and employment creation (Vollgraaff 2011h). This is however, not a simple matter of allocating funds solving the problem. Indeed, the Youth Entrepreneurship Policy and Strategy Framework of June 2009, suggests that early development of entrepreneurship and business skills soothes the pressure on the labour market for the youth that is unable to enter higher education. At the same time, Du Plessis in Vollgraaff (2011e) highlights that small business lack management skills, support on advice and mentorship; therefore, there is a need for non-governmental institutions to provide these services to budding businessman.

Government persistently requires and encourages the public to erect small businesses but has created a highly regulated environment which is not conducive for business. In the Diagnostic Report compiled by the National Planning Commission (2011), South Africa has higher regulatory compliance costs by 6.5% as compared to other countries. SMMEs high rate of failure in SA are attributed to a paucity of management skills, leadership skills, lack of capital and the regulated business environment (Cupido 2002; Carey 2008; Vollgraaff 2011d). Business has been complaining about government regulation (Barron 2011; Pelsler 2011), furthermore Schussler reveals that, “regulations (red tape) suffocate the life out of businesses”. At the Annual National Internal Auditor Conference, held on 15-17 August 2011, SA Minister of Finance, Pravin Gordhan mentioned that government was considering easing the rigid labour laws in order to stimulate job creation through differential employment that does not threaten existing permanent employment. This notion was positively welcomed, but COSATU leader Zwelinzima Vavi, objected to such a notion and is adamant that such measures will not be accepted by COSATU (SABC3 News 2011b).

In November 2010, Economic Development Minister released the new growth path, a framework intended to address the country’s socio-economic challenges – poverty, unemployment and inequality, with a set target goal of achieving 5 million jobs by 2020, provided the economy grows at 4% to 7% year-on-year (Vollgraaf 2011).

These projections were unrealistic, with the current conditions of the global economy, Pravin Gordhan mentioned that SA can only generate a target goal of 4 million jobs by year 2025 (SABC3 News 2011b). Treasury forecasted the economy to grow by 3.4% in 2011, 4.1% in 2012, and 4.4% in 2013 (Vollgraaf 2011) and with SA's low TEA index of 8.9% (Herrington et al. 2010), the current US and European debt crisis (Gordhan 2011), and businesses still recovering from the 2008/2009 recession shedding 1 million (4%) jobs from 14 million in the fourth quarter of 2008 to 13.1 million in the third quarter of year 2009 (Statistics South Africa 2011; National Planning Commission 2011), it is clear that the Economic Development Department will miss the projections of creating 5 million jobs by 2020. This scenario therefore calls for a conscious movement toward entrepreneurship development.

Success in establishing business start-up relies on both human capability and the business environment (Brand, Schutte, & du Preez 2006). According to Herrington et al. (2010:24); Musengi-Ajulu (2010) and City of Johannesburg Department of Economic Development (2011), one of the factors hindering youth from engaging in entrepreneurship is the inability to secure loans as a result of not having assets to put down as collateral, no credit history, no accumulated capital to finance the business from, and lack of public awareness on government supporting programmes. Tyler (1997) in Cupido (2002) and Salkowitz (2010:145) mention that red tape, access to capital, skills development, and lack of managerial skills are the main factors impeding entrepreneurial success. Figg (2002:36-38), Eybers (2010:21), Hatten (2006:19-20) and Hodgetts and Kuratko (2008) concur that businesses fail in their early stages due to incompetent management and lack of resources, specifically capital. A research study conducted by University of Johannesburg's Centre of Small Business Development, also depicts similar reasons for failure like budgeting skills, poor business plans, and a lack of practical skills to run a business (Pelser 2011). Therefore attention should be focused on the development of management capability and accessibility to finance.

There is comprehensive research regarding barriers to entrepreneurship, but there is limited research conducted which primarily focuses on historically disadvantaged school-leaver entrepreneurship (Musengi-Ajulu 2010). Common occurring elements of successful entrepreneurs are currently a tertiary education in law or commerce and work experience (Herrington 2011; Nieman & Nieuwenhuizen 2009:31; Venter et

al. 2009; Vollgraaff 2011). From observation and reports these individuals excel as a result of their expertise, work experience, and business networks. School-leavers on the other hand, have a plethora of disadvantages and challenges as lack of management and leadership skills, business maturity, a tough regulatory environment and little or no business networks describe their reality. So entrepreneurship could be more challenging to a school-leaver than to a graduate professional with work experience.

The results of this study can be later utilized to serve as ground work which could be used to inculcate the culture of entrepreneurship in learners. Scholastic pedagogy should change from that of just “going to school to be an employee” to also include that of “go to school to be a business owner-manager” (Harris, 2010). The mentality of being an employee and not engaging in enterprise tends to slow down the economic growth of a country. It has crippled not just school-leavers but a lot of graduates as well as causing them to idle for employment instead of taking calculated risk, applying their knowledge and using their formal practical training attained from tertiary institutions (Kirby 2003:54; Herrington et al. 2010). After ascertaining the challenges that impede youth from entrepreneurship, government, private business and parents should strive and put effort in encouraging and orientating pupils to engage in business venturing.

1.2 PROBLEM STATEMENT AND LITERATURE REVIEW

“An entrepreneur must overcome substantial barriers to start a new business and keep it up and running” (Furchtgott-Roth 2008:13).

According to Sathorar (2009) both local and global research acknowledges that school leavers encounter difficulty in establishing and sustaining businesses, particularly in the formal sector. The Centre for Innovation and Entrepreneurship (CIE) at University of Cape Town, mentioned that in South Africa young adults exit schools without the necessary skills to start a business (Sathorar 2009:5). Youth between ages 18-24 accounted for 17% in 2008, 17% in 2009, and 20% in 2010 for early-stage entrepreneurship (Herrington 2010:25). SA TEA rate was 8.9%, meaning that almost 9 out of 100 adults were entrepreneurial in 2010. Furthermore, the 20%

at the age category 18-24 years represented in the 8.9% TEA index actually translated into just under 2 out of 100 adults between the ages 18-24 having the initiative to be an entrepreneur. This entrepreneurial rate is low and thus calls for an investigation into what are the barriers that hinder school leavers from engaging in entrepreneurship and how can this be overcome.

South Africa had a staggering figure of 2.1% for the prevalence of businesses in the established phase (Herrington 2010:18). According to Radipere and Van Scheers (2005:402) in the Annual Review of Small Business South Africa (2005-2007), the country is reported to have a high failure rate of 40% of new businesses in the first year, 60% in the second year, and 90% in the first ten years (RSA Department of Trade and Industry 2008). In Dutiro (2009:9), it is further highlighted that eight out of ten businesses fail within a five year period. This is indicative of a high rate of failure of SMMEs which is underpinned to a lack of entrepreneurial dynamism. Major factors attributed to these high rates of failure include a lack of managerial, leadership, marketing and technical skills as well as little experience, lack of financial support, rigid government policy, education and training (Carey 2010; Cupido 2002; Hatten 2006:19-20; Herrington et al. 2010; Perks & Struwig 2005:172-173 in Department of Trade and Industry 2008).

The literature gathered led to the following research question: What barriers hinder school leavers from engaging in entrepreneurship?

1.3 SIGNIFICANCE OF THE STUDY

Entrepreneurship mostly takes place amongst small, medium, and micro enterprises (SMMEs). These entities make up 97.5% of all businesses in South Africa. SMMEs contribute toward the GDP, salaries and wages, and formal private employment – 35%, 43% and 55% respectively (Nieman & Nieuwenhuizen 2009:3).

The study intends to broaden the body of knowledge on entrepreneurship in South Africa, with the hope that it will be utilized in fostering entrepreneurship amongst youths at school level. Should the barriers be identified and measured successfully, there exists the opportunity of inculcating a culture of entrepreneurship in school learners. This research would assist policy makers in the fostering of early

development entrepreneurship - training and empowering of youths for self-employment and job creation - with the expectation of eradicating the humiliation of both poverty and unemployment amongst historically disadvantaged communities.

In target are entrepreneurial capital and heritage, and the business environment barriers that are assumed to inhibit school leavers from engaging in entrepreneurship. Literature reveals that businesses fail due to various reasons from lack of managerial, technical, leadership, financial skills and rigid government policies. This study offers potential and budding entrepreneurs the opportunity to benefit by establishing and growing businesses that stand a chance of longevity.

Lastly, the study provides policy makers with a measure of the effect of education policies in place. This determines whether further change needs to be reintroduced to foster entrepreneurship in schools.

1.4 RESEARCH OBJECTIVES

1.4.1 Primary Research Objectives

According to STATSSA (2011), 72% of South Africa's unemployed is youth between ages 18 to 34. Sathorar (2009:116) in her study found that only 6.95% of grade 12 learners would engage in business start-up. Sathorar's figure was in correlation with that of Isaac, Visser, Friedrich and Brijlal (2007:613), who notes the ratio of entrepreneurs to workers in South Africa being 1 to 52, in contrast to that of developed economies being 1 to 10, whilst Herrington et al. (2010), found the TEA rate to be 8.9%.

The main objective of this study is to improve youth entrepreneurship activity by investigating the barriers that hinder school leavers from engaging in enterprise.

1.4.2 Secondary Research Objectives

In order to succeed in the attainment of the main objective of the study, the secondary objectives listed below were surveyed.

- To investigate entrepreneurial characteristics and behaviour.
- To investigate entrepreneurial aspirations and intentions.
- To investigate entrepreneurial orientation and background.
- To investigate entrepreneurial knowledge and skills.
- To investigate managerial knowledge and skills.
- To assess knowledge on legal aspects of business.
- To investigate knowledge on sourcing finance and institutions that support.

1.5 LIMITATIONS OF THE RESEARCH

The research study had limitations due to constraints such as time and the budget. In the research the unit of analysis was grade 12 learners enrolled in the year of 2011. Reason behind this unit of research, was to focus on those school leavers who were exiting secondary education, instead of including all school leavers (dropouts).

1.5.1 Unit of Research

The study strictly focuses on grade12 learners enrolled in the year of 2011.

1.5.2 Geographic Demarcation

The research empirical component is predicated in the Port Elizabeth area of the Nelson Mandela Bay Municipality (NMBM). The sample is to be drawn from three secondary schools comprised mainly of previously disadvantaged public schools. The reason for selecting the number of schools is, there are numerous secondary schools in Port Elizabeth, trying to collect data from all schools would be time consuming and very costly. Lastly, the schools selected are located less than five kilometres from each other, therefore it made it possible to conduct the study on the same day.

With the delimitation in place, it means the results can be utilized to generalize for public schools in previously disadvantage communities of the NMBM only.

1.5.3 Barriers to Entrepreneurship

The research is restricted on the investigation of barriers hindering school leavers from entrepreneurship. The purpose for this is to dedicate a specific focus on the subject under study, and to avoid deviations to material irrelevant to the research.

1.6 RESEARCH METHODOLOGY

Primary data was collected by the use of a self-designed questionnaire which was based on the literature reviewed. The questionnaire was distributed to three high schools to be completed by grade 12 learners from historically disadvantaged schools. The schools which participated in the study were namely, Newell High School, Thembelihle Comprehensive High School, and Cowen High School. The purpose of choosing three schools was to obtain an unbiased and well-represented sample.

A pilot study was initially launched to test the data collection tool (questionnaire) and then followed by the main study. After a critical examination of the pilot study results, the main study was launched. The questionnaires of the main study were returned and data capturing was performed with the use of Microsoft Excel. Data analysis was conducted using tools such as Microsoft Excel and STATISTICA computer software programmes. The data analysis work was conducted under the supervision of a statistical expert from the Nelson Mandela Metropolitan University (NMMU).

The unit of analysis (respondent) in this research study was the grade 12 learner, since end of the year 2011 is their last year of secondary schooling, making them school leavers the following year. A quantity of 129 questionnaires was distributed, and 100 completed questionnaires were expected.

1.7 EXPECTED OUTCOMES

The expected outcome of the study is to extend the body of knowledge particularly in the field of youth entrepreneurship. There has been plenty of research conducted in the field of entrepreneurship, but limited research has been conducted which particularly focuses on “school leaver entrepreneurship barriers” (Musengi-Ajulu

2010). Most of the research in place is scattered and in derivatives waiting to be integrated.

The throughput work expected is to be of assistance to government policy makers and established business to intervene in overcoming and eliminating school leaver entrepreneurial constraints. The findings of the study should be used to improve the level of entrepreneurial activity amongst school leavers and sustain the new businesses started by school leavers. Also, this research should encourage budding entrepreneurs to pursue entrepreneurial ventures and highlight the challenges that lie ahead and solutions thereto.

1.8 KEY TERMS

- Entrepreneurship – the identification and exploitation of an opportunity seized by planning, sourcing and organizing the resources required to offer a product or service to the target market, with the expectation of meeting demand for in return to make a profit.
- Business Enterprise – in this research refers to business venturing or start-up
- Barriers – constraints or hindrances to entrepreneurship
- School leavers – refers to grade 12 learners enrolled in the year 2011.

1.9 OUTLINE OF THE STUDY

The research has been planned and layered according to the following layout of chapters.

CHAPTER 1: Introduction and problem statement

CHAPTER 2: Vitality and contribution of entrepreneurship to the SA economy

CHAPTER 3: Entrepreneur constraints to entrepreneurship

CHAPTER 4: Barriers to start-up, growth and sustainability of SMMEs

CHAPTER 5: Research design and methodology

CHAPTER 6: Empirical results, Presentation, and Interpretation

CHAPTER 7: Summary, Conclusion, and Recommendation.

CHAPTER 2

VITALITY OF ENTREPRENEURSHIP TO THE SA ECONOMY

As mentioned earlier in chapter 1, entrepreneurship can soothe socio economic ills. In South Africa, entrepreneurship contributes 35% of GDP, 43% of total salaries and wages, and 55% of formal private employment (Nieman & Nieuwenhuizen 2009:3).

2.1 BACKGROUND OF THE SOUTH AFRICAN ECONOMY

South Africa is abundantly endowed with minerals. The country is the world's leading producer of platinum group metals, manganese, vanadium, chrome, vermiculite, and gold (Mohr & Fourie 2008:85). Furthermore, it is also the world's leader in reserves of the minerals listed above including Alumino-silicates. It was the discovery of alluvial diamonds and gold in the 19th century that changed the face of the South African economy from a solely agricultural economy. The mining boom attracted a lot of expatriates which caused survivalist farmers to venture into commercial farming catering for the increased market for agricultural goods (Mohr & Fourie 2008:76).

In the early 20th century, agriculture and mining contributed 48.8% to the South African GDP (Blecher et al. 2009:47; Mohr & Fourie 2008:77). During this era there existed production balances between mining versus agriculture; and a balance between primary versus the tertiary sector. In the first decade of the 21st century, SA's economy in real GDP was dominated by the tertiary sector, with the primary sector having plummeted by more than 35%, and the secondary sector surged by more than 15% when comparing the figures of the first decade of the 20th century (Mohr & Fourie 2008:77).

The country has not been exempt from the effects of the economic crisis and disasters starting with the Great Depression of 1929, and the drought in the 1930s. SA's economy plummeted from 1970 until 1992 as a result of the sanctions by the international community against the apartheid regime due to the violation of human rights (Mohr & Fourie 2008:78). The apartheid government was nationalistic and preferred a centrally planned economic system, meaning the state made decisions regarding the use of the factors of production, prices, foreign-exchange, and imports

and exports. In Blecher et al. (2009:42) and Sinxoto (2007), it is stated that before 1994 the state executed high levels of control over the ownership of factors of production. Producers were free to produce, but could not implement the least-cost methods for production since the state intervened at every level of the production process.

2.2 AN ECONOMY IN TRANSITION

Since 1994, the South African economy has been in transition from being purely command-based to a largely market-based economy forming a mixed economy in this regime of a democratic government (Blecher et al. 2009). Traceable to SA's current mixed economy are elements of a command (government intervention) and a market mechanism coexisting. Property rights and decision-making are factors determining the classification of an economic system of a country. Arnold (2005:53), states that "property rights entail the laws, rules, regulations and social customs that define what an individual can and cannot do in a society". On the other hand, decision-making revolves around the economic questions as to "what to produce"; "how to produce it"; and "for whom to produce" (Blecher et al. 2009). Characteristic of SA's mixed economy, property rights are recognized, but not all factors of production are privately owned. Moreover the owners of factors of production are free in selecting the method of production. However, a fraction of enterprises are fully government owned whilst others are parastatal, and the business environment is regulated by the state (Mohr & Fourie 2008:33). South Africa is not exceptional in the mixing of an economic system as most nations to-date have mixed economies (Blecher et al. 2009).

Since late 1970s, global economies have been in transition moving toward a more market-based economic system (Blecher et al. 2009:34). In these nations mixed economies are neither pure command nor pure market economic systems, but a hybridization of both. Most countries have economies that are a hybrid of traditional, command and market system. Arnold (2005:50) defines a mixed economy as "an economic system characterized largely by private ownership of factors of production, market allocation of resources, and decentralization of decision making". Attributable to the system, most economic activities occur in the private sector, with government fulfilling an economic and regulatory role (Mohr & Fourie 2008:33).

2.2.1 The Market-based System

The market system in the SA economy is driven by consumer demand. Consumers spend their money and thus voice out what products should be produced (Blecher et al. 2009:28). Most production of goods and services are generated from the private sector. Producers only produce and distribute output to consumers of what they are able to afford. This output is achieved by application of the least-cost production method with the aim of maximizing profits (Blecher et al. 2009:27).

2.2.2 Government Intervention

There are various reasons behind government intervention. Explanation behind government's involvement in the economic system include: equity, classification of products (demerit or merit), institutional frameworks, and prevention of market failure. South Africa is a democratic state, voters elect government into power with the expectation that it will commit in meeting their needs, through the equal distribution of output (Blecher et al. 2009:31)

Exemplary to this, is the 'public transfer payments' made by the state which includes social grants and state pensions. Government illegalizes demerit goods which are goods and services that society disregards for consumption, whilst on the other hand, government legalizes and spends tax on 'merit' goods (education) which are goods that society regards as acceptable for consumption. (Blecher et al. 2009:31.)

For a market economy to function various laws and systems need to be ascertained including a legal system for defining property rights, a banking system to enable financial transactions and labour laws governing employment and the conduct of business relationships (Blecher et al. 2009:32). It is the responsibility of government to provide the institutional structure for an economic system, and thus, state intervention is vital and inevitable (Mohr & Fourie 2008:33).

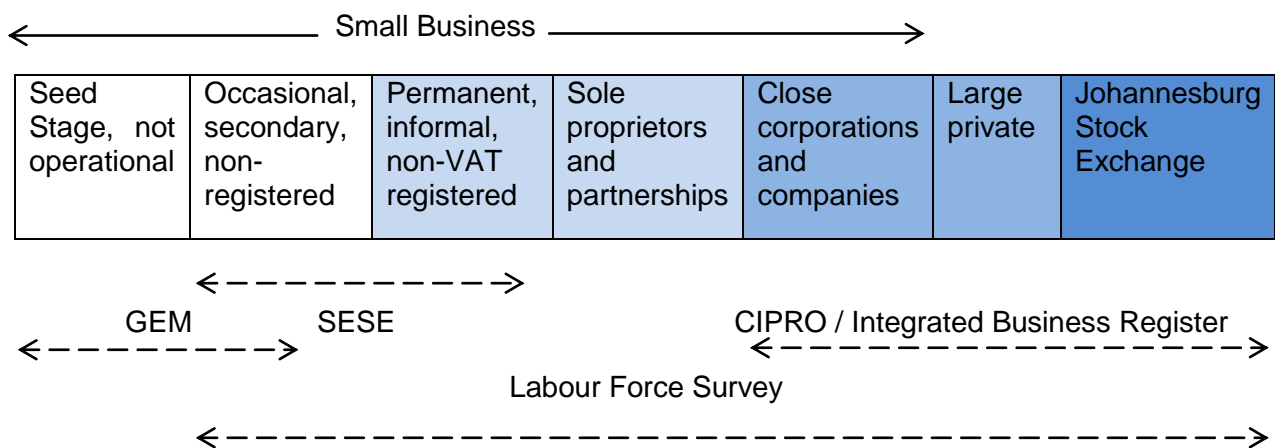
2.3 STRUCTURE OF THE SOUTH AFRICAN ECONOMY

The country's economy is dual in nature, separated into formal and informal – with formal being businesses officially registered for tax and VAT, whilst informal

business includes the non-registered entities (Herrington et al. 2010:17; RSA Department of Trade and Industry 2003:20). It is further divided into three sectors, known as primary, secondary, and tertiary (Mohr & Fourie 2008:76). The primary sector produces raw materials such as agricultural, mining, fishing and forestry products. On the other hand, the secondary sector is the manufacturing sector of the economy in which raw materials and other inputs are converted to produce other goods. This value creation process entails beneficiation and manufacturing of consumer goods. Lastly, the tertiary sector known as the services sector includes retail trade, financial services, transport, and others (Mohr & Fourie 2008:27; Blecher et al. 2009:48). To-date, it is reported that the tertiary sector is more dominant than both the primary and secondary sector.

The three sectors are further sub-divided to the following categories - other producers, electricity, construction, agriculture, forestry and fishing; mining and quarrying; transport and communication; wholesale, retail, hotels and restaurants, government services; manufacturing; and lastly finance, real estate and business (Blecher et al. 2009:49). Furthermore, the National Small Business Act of 1996 further classifies them to small, medium, micro and very small businesses.

Figure 2.1 Businesses from informal to formal and the sources monitoring them



Source: (RSA Department of Trade and Industry, 2008)

2.4 SIZE AND PERFORMANCE OF THE SA ECONOMY

In Mohr and Fourie (200:56), five economic objectives utilised to judge the performance of an economy are listed below. Relevant to this study, two of the five are discussed namely economic growth and employment, the full list is as follows:

- Economic growth,
- Full employment,
- Price stability,
- Balance of payments stability,
- Equitable distribution of income

2.4.1 Economic Growth

Measurement of economic growth is important since it is indicative of the final production output of a nation. SA measures its economic activity by its GDP barometer. A country's GDP is the total quantification of production of finished goods and services in a country for a particular period (Arnold 2005:140; Mohr & Fourie 2008:57). For a country to experience economic growth the GDP value has to appreciate if the population of a nation is on the rise. If total production output decreases in an increasing population, it is believed that a state could face an unemployment and poverty crisis (Mohr & Fourie 2008). This quantification of economic activity is a duty performed by both the South African Reserve Bank (SARB) and Statistics South Africa (STATSSA).

STATSSA and SARB use three different methods to measure GDP, which are the production method, expenditure method, and income method (Arnold 2005:140-141). Price is the common denominator that enables the summing up of the aggregate production of various finished goods and services of the country. Mohr and Fourie (2008:57) states that there are three sets of prices used to measure GDP and each type is specific for a particular method applied. Since there are three methods to measure GDP, this provides greater accuracy in measuring GDP. Accuracy of GDP measure can only be reflected if the results of the different methods of measurement balance. In accomplishing accuracy each method has to specifically apply one of the three sets of prices: market prices, basic prices, and factor costs (Mohr & Fourie, 2008:60).

Having obtained the GDP result, the issues of adjustment as a result of the changes in prices emanates. Therefore GDP is expressed in either current prices (nominal GDP) or constant prices (real GDP). Nominal GDP is usually greater than real GDP, reason being, it is not adjusted to inflation. Once the nominal is adjusted with

inflation, the factored results reflect the real GDP which is a result that has considered the change in prices (Mohr & Fourie 2008:61-62.)

Businesses – large, small, medium, micro and very small all contribute toward the country's GDP. Most of the GDP and employment is contributed by private enterprises. This is indicative of most production of goods and services coming from the private sector.

2.4.2 Unemployment

In economic terms, the unemployed include the population between the ages of 15 to 64 years that is willing and able to work but is not able to find employment (STATSSA 2011:17). Unemployment is a stock since it is measured on a particular date (Mohr & Fourie 2008:498). The rate of unemployment is calculated as the percentage number of unemployed people over that of the labour force. The phenomenon manifests in various ways, by being cyclical, seasonal, or structural (Mohr & Fourie 2008:499). The unemployed population consist of first time entrants and re-entrants, resigned persons looking for other jobs, laid-off persons to be recalled later and retrenched or fired people.

In review of some global employment, SA employs 41% of the population between the ages of 15 to 64, whilst China employs 70%, and Brazil and India have 65% employed. South Africa is way below the norm, which is 60% (Biyase 2011b). To-date, South African unemployment rate stands at 25.7% in the second quarter of 2011 as compared to 25.2% in the second quarter of 2010 (STATSSA 2011:11). Moreover, in the Eastern Cape unemployment is looming at 28.9% with the majority of the unemployed being among the black (29.4%) and coloured population (22.6%) (STATSSA 2011:12). This raises a serious concern for the country as government has long been grappling with this issue. The global financial and economic crisis affected employment in SA to plummet from 14.204 million jobs in the last quarter of 2008 to 13.133 million jobs in the third quarter of 2009, and slightly peaked to 13.255 million jobs in the last quarter of 2009 but further declined to 12.872 million jobs in the third quarter of 2010 (STATSSA 2011:7). The drastic decrease in employment from 2009 until 2010 is underpinned to the global financial crisis and economic

recession (Herrington et al. 2010:24), and the low demand for primary commodities (Blecher et al. 2009:48). From the period 2001 to 2007 the rate of unemployment has been 24.6%, 27.6%, 29.3, 26.4%, 24.2%, 23.1%, 23.6% respectively (STATSSA 2008:25). If unemployment remains unattended, it may lead to socio-economic instability, as Mohr and Fourie insinuates that unemployment has various negative effects on individuals from frustration, poverty, crime, and death (Mohr & Fourie 2008: 498-499; van Wyk, Ratele & Slebusch 2011).

Since the major part of production comes from the private business, it would be correct converging solutions toward private enterprise development to create jobs, and not government. The government's duty is to provide a business environment that is conducive for conducting and creating business, through its policy making and regulations. If any unemployment is to be alleviated government should promote business start-ups more aggressively (Falkena et al. 2002).

Various factors such as paucity of skills and entrepreneurial capacity continue to restrict employment growth in South Africa (RSA Department of Trade and Industry 2008). However, the country's labour productivity is regarded as high when compared to other middle-income nations (World Bank 2007:2 in RSA Department of Trade and Industry 2008:26).

The disparities and calamity experienced in South Africa stem from the implications of the past apartheid regime which imposed racial laws. Black people were deprived access to a quality education under the implementation of the Bantu Education, leaving them under skilled and under-developed (Bernstein 2010:8; Sinxoto 2007; Figg 2002). Laws such as the Black Land Act of 1913, the Development Trust and Land Act of 1936, and the Group Areas Act prevented black people from having access to land, saw a lot of black people moved to homelands, being allotted 13% of SA's land, and were prevented from operating businesses in the urban areas (Blecher et al. 2009; Figg 2002; Sinxoto 2007). Hence the underprivileged face high rental costs when establishing their businesses in central business districts (CBD).

2.5 SIZE AND STRUCTURE OF SMME SECTOR IN SA

SMMEs are classified as small, medium, or micro enterprises and are defined in the National Small Business Act, 1996 as separate and distinct business entities,

inclusive of co-operatives and non-governmental organizations, managed by one owner or more, including its branches or subsidiaries operated in compliance to prescribed thresholds for a particular industry. They include formal, informal and non-VAT registered enterprises (RSA Department of Trade and Industry 2008).

Table 2.1: Classification of small business according to sector, size and thresholds

Sector or Subsector in accordance to the standard industrial classification	Size or class	Total full-time equivalent of paid employees less than	Total turnover less than	Total gross asset value less than
Agriculture	Medium	100	R 5.00 m	R 5.00 m
	Small	50	R 3.00 m	R 3.00 m
	Very small	10	R 0.50 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m
Mining and Quarrying	Medium	200	R 39.00 m	R23.00 m
	Small	50	R 10.0 m	R 6.00 m
	Very small	10	R 4.0 m	R 2.00 m
	Micro	5	R 0.20 m	R 0.10 m
Manufacturing	Medium	200	R 51.0 m	R 19.00 m
	Small	50	R 13.0 m	R 5.00 m
	Very small	10	R 52.00 m	R 2.00 m
	Micro	5	R 0.20 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R 51.0 m	R 19.00 m
	Small	50	R 13.0 m	R 5.00 m
	Very small	10	R 5.10 m	R 1.90 m
	Micro	5	R 0.20 m	R 0.10 m
Construction	Medium	200	R 26.00 m	R 5.00 m
	Small	50	R 6.00 m	R 1.00 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m

Retail and Motor Trade and Repair Services	Medium	100	R 39.00 m	R 6.00 m
	Small	50	R 19.00 m	R 3.0 m
	Very small	10	R 4.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Wholesale, Trade Commercial Agents and Allied Services	Medium	100	R 64.00 m	R 10.00 m
	Small	50	R 32.00 m	R 5.00 m
	Very small	10	R 6.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R 13.00 m	R 3.00 m
	Small	50	R 6.00 m	R 1.00 m
	Very small	10	R 5.10 m	R 1.90 m
	Micro	5	R 0.20 m	R 0.10 m
Transport, Storage and Communication	Medium	100	R 26.00 m	R 6.00 m
	Small	50	R 13.00 m	R 3.00 m
	Very small	10	R 3.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Finance and Business Services	Medium	100	R 26.00 m	R 5.00 m
	Small	50	R 13.00 m	R 3.00 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m
Community, Social and Personal	Medium	100	R 13.00 m	R 6.00 m
	Small	50	R 6.00 m	R 3.00 m
	Very small	10	R 1.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m

Source: (RSA Department of Trade and Industry 2008)

Nieman (2009:9) defines entrepreneurship as the emergence and growth of new businesses. In Department of Trade and Industry Annual review (2008) SMMEs are identified by government as a key target area with a potential to create jobs and relieve the high unemployment rate. Since the change of government in 1994, SMME development has been top priority to government, and evident to this was the

drafting of the White paper in 1995 of National Strategy for the Promotion and Development of Small Business in South Africa and followed later by the 2005 Integrated Small Enterprise Development Strategy (DTI 1995, 2005).

According to Bhargava (2007:24) “small enterprises play an important role in the economic development of a country. The development of these enterprises, both in the formal and informal economic sectors, is proposed as a way to achieve socio-economic development and to eliminate poverty”. SMMEs are believed to create employment opportunity and that is why they are of interest internationally (Garavan, O Cinneide, & Fleming 1997). In the USA small and medium enterprises accounted for 80% of employment (Mwangolela 2007). Thus, it cannot be denied that SMMEs do create employment which is furthermore upheld by the economist Schumpeter in Venter et al. 2010) who attests to the positive relationship between entrepreneurship and economic development.

Now that SA has been incorporated into the BRIC (Brazil, Russia, India and China) group, the country’s economic performance will be under global scrutiny. According to Timmons (2009:5), it is mentioned that in India, China and Russia entrepreneurship is exploding. However, SA’s entrepreneurial activity is low and the country ranks poorly in world standings (Herrington et al. 2010).

There is a positive relationship between economic development and the level of entrepreneurship in a nation. In Nieman and Nieuwenhuizen (2009) prosperous economies such as the UK, USA and Japan are a testimony to the fact that growth of an economy is attributable to the SMME sector. SMMEs grow and create employment in an economy where on the contrary, large businesses become smaller tending to lay-off, retrench, downsize and outsource (Nieman & Nieuwenhuizen 2009:3). SMMEs are job creators whilst large companies are job shedders (Vollgraaf 2011a), evidence to this is the case of Cadbury (Croft Foods) in Port Elizabeth who recently announced their intention to retrench 300 permanent employees (The Herald 2011:1), whilst Pick n Pay is to retrench 3137 workers (Vollgraaff 2011c). Most entrepreneurship occurs in small, medium and micro enterprises (SMME), in SA SMMEs account for 97.0 per cent of all businesses in South Africa (Department of Trade and Industry 2008; Nieman & Nieuwenhuizen 2009:3). In South Africa SMMEs are further reported to contribute 35% of SA total GDP, contribute 43% of

the total value of salaries and wages, and employ 55% of all formal private sector employees (Brand et al. 2006:3; Department of Trade and Industry 2008, Dutiro 2009; Nieman & Nieuwenhuizen 2009:3).

2.6 SMME TREND AND CONTRIBUTION TO THE SA ECONOMY

In the Annual review of Small Business South Africa, 2005-2007, small businesses contributed 27-34 per cent of total GDP in the period of 2006 (RSA Department of Trade and Industry 2008). The contribution to the GDP by SMMEs was reported in gross valued added terms which amounted to R493 and R572 billion. The GDP is said to have increased compared to the gross value added (GVA) figures of the year 2000, of R274 and R313 billion. The total GDP percentage was distributed according to the following contributions 8-10% micro, 9-11% very small, 10-13% small, 40-50% medium and large (RSA Department of Trade and Industry 2008).

The SMME sector makes up 97.0 per cent of active enterprises, distributed as 36.2% micro, 45.5% very small, 11.4% medium, and 3.7% small, on contrary, large business takes 3.0 per cent (RSA Department of Trade and Industry 2008). Active enterprises are comprised by both small and large enterprises. The SMME sector is reported to have surged by 27% (144 000) of officially registered and economically active entities from year 2004 to 2007, with a national presence of 536 240 entities. Large business has a presence of 17 251 entities, equalling 556 042 in total of all economically active enterprises (RSA Department of Trade and Industry 2008).

The presence of SMME's in the formal sector is focused in industries such as manufacturing with 11.7%; Real Estate and Business Services with 44%; Wholesale and Retail Trade, Repairs of Motor Vehicles and Motor Cycles, Personal and Household Goods, Hotel and Restaurants with 23% (RSA Department of Trade and Industry 2008:63). However, in the informal sector 51% was focused in the Wholesale and Trade; 12.3% in manufacturing; 9% in construction; and 10.3% in Community, Social and Personal Services.

The Eastern Cape holds 5.3% of formal and 13.4% of informal small businesses. The province's figure of newly registered businesses is low at 2.1% as compared to the 52.8% of Gauteng province (RSA Department of Trade and Industry 2008:83).

This is indicative of low levels of entrepreneurial activity in the province, due to its frequency of rural areas, where the majority of people are underdeveloped. Gauteng is reported to be the hub of the majority share of SMME in SA boasting 48.3% of formal and 24.6% of informal SA businesses. This indicates that most entrepreneurship occurs in the Gauteng province.

However, the downside is that the proportion of micro enterprises decreased from a share of 50% down to 37% of the SMME sector (RSA Department of Trade and Industry 2008:62). An alarming indicator is that only 1% of SMMEs registered between April 2005 and March 2006 survived more than 1.5 to 2.5 years. In the GEM South African Report (2010), it is recorded that most enterprises remain in the nascent stage. South Africa has a low survival rate for start-ups, and low levels of opportunity driven entrepreneurial activity.

2.7 ENTREPRENEURSHIP HISTORY AND DEVELOPMENT IN THE NMBM

The Nelson Mandela Bay Metropole is the fourth largest industrial area in South Africa (Muller 2000:20). It was found by the Dutch East India Company in 1752, as Algoa Bay, but after arrival of the 1820 Settlers was named Port Elizabeth. The region developed to serve the purpose of a depot from Cape Town to make it easier to deploy troops for stabilising any unrest that existed then between blacks and whites (Muller 2000:21). An army base was established followed by a bake-house, blacksmith, carpenter shop and houses. As a result of this small development and the military market, farmers exploited the opportunity to sell products like grain, meat, butter, milk and other foodstuffs, and other products (soap and candles) previously sourced from Cape Town (Barrow 1806:290 in Muller 2000:21.)

The trading link between Port Elizabeth and Cape Town enabled the shipment of products to the Cape trading post, thus trade increased after 1799. Signs of entrepreneurship were evident as early as 1812, with the enterprising of the firm Pohl and Co exporting sheep and butter to Mauritius. The company grew and was even contracted by government to produce salt-beef. Another entrepreneur of that time was Frederick Korsten, who was in the trade business, operating ships transporting both passengers and cargo between the route of Cape Town and Port

Elizabeth. Lastly, the volume of trade was increased and local trade was catalysed by the 1820 Settlers (Muller 2000:22.)

At this point in time, blacks and coloureds (a term to depict generally those of Malay and mixed decent) are reported to have been highly entrepreneurial and dominating the transport riding business (Muller 1990:10). Transport riding was a lucrative business with high returns, earning as much as 20 to 25 pounds per load (Baines 1961:24 in Muller 2000:26). Coloureds were entrepreneurially venturing in the dry fishing and salt butter business. The eminent coloured entrepreneur of the time was Fortuin Weys, a blacksmith, known to be an industrialist in Port Elizabeth – who improved water supply to ships by installing a pump and pipeline system carrying water to the beach (Inggs 1986:98 in Muller 2000:25; Muller 1990:4). Abraham Zwarts, produced wheat, tobacco, dried fruit, cattle, sheep and goats (Thompson 1968:82 in Muller 1990:6). On the other hand, black entrepreneurs mostly operated in the transport riding business, well-known figures at the time were Abram Malgasse and Jonas January who were contracted to Port Elizabeth merchants to deliver products to Grahamstown and other destinations (Muller 2000:26). It was the discovery of diamonds in Kimberly and gold in the Witwatersrand that caused the downfall of the transport riding business as the introduction of the railway system changed the means of transportation phasing out transport riding (Muller 1990:10, 2000:30-31).

In 1840, Wool production in Port Elizabeth developed and was promoted by government for the benefit of improving socio-economic levels. The rapid increase in the production of wool was boosted by settlers who abandoned their uneconomical small farms. Wool surpassed wine as the most important export, recording 82% of total exports, clocking a mass 14.8 million kilograms, valued at 1.67 million pounds sterling (Inggs 1986:33 in Muller 2000:27).

Farmers were limited in increasing the value of the wool due to shortage of water supply. But later on wool washeries were established and paved a way for increasing the marketability of Port Elizabeth wool by washing wool in the rivers such as the Swartkops and others (Muller, 2000:28). In the 1930s, auctioning of wool was held in the town Hall and Feather Market Hall, later on centralised in the Wool Exchange. The year 1947/8, saw the establishment of companies, Bowling Mills and Cape of

Good Hope Wool Combers, which was washing, carding, and combing wool in Port Elizabeth (Muller 2000:37).

The 20th century for PE started with rise of the motor industry, first the establishment of the Ford assembly plant and followed by General Motors' (GM) assembly plant. During the period 1924 to 1930, both Ford and GM's total production amounted to 11 000 cars, and both employed in total 945 employees (Muller 2000:35). The motor producing industry grew and became competitive as other companies entered the South African market. The likes of Samad (Volkswagen) and Rover SA also entered the local automotive market which saw Samad thrive with the company selling 50 000 Volkswagens in ten years, while, Rover SA closed down (Muller 2000:38). The motor industry created opportunities for auto suppliers, like of Shatterprufe, Firestone, Goodyear and General Tyre and this resulted in employment creation. Government implemented the local content programme intending to change the industry from assembling to manufacturing industry (Muller 2000:40).

From the past two centuries, it is evident that entrepreneurship engagement long existed in the metropolitan area. The mind-set of relying on employment and not being self-sufficient and creating jobs is a problem of late. It cannot be overlooked that the advancement of coloured and black entrepreneurship has been delayed in the past by restrictive regulations by government of old with the pass and vagrancy laws which prevented individuals from absconding from their employers and subjecting them to the service of farmers (Muller 1990:5). In the middle of the 20th century coloured and black entrepreneurship suffered further in the metropolitan area as a result of the rise of apartheid laws one of those being the Group Areas Act, which prevented blacks from owning land in urban areas, good education, moving to urban areas, and owning businesses in urban areas (Arnold 2009:42).

CHAPTER 3

ENTREPRENEUR CONSTRAINTS TO ENTREPRENEURISM

“Whoever does not adapt his manner of life to the conditions of capitalistic success must go under, or at least cannot rise” (Weber 1930).

In South Africa, entrepreneurial human capital is viewed to be weak (Venter et al. 2010). According to GEM SA Report 2010, the South African school system is not producing functionally literate students, leaving the majority with inadequate literacy, numeracy and livelihood skills to be active participants in the economy (Herrington et al. 2010). As these under developed candidates pursue early-stage entrepreneurship, in a business environment which is highly competitive and dynamic, they encounter barriers due to of lack of managerial, technical, marketing skills, and entrepreneurial experience (Carey 2010:21; Cupido 2002; Herrington et al. 2010:24).

3.1 ESSENTIAL ENTREPRENEURIAL ATTRIBUTES AND BEHAVIOUR

As yet, no consensus has been reached on the standard definition for an entrepreneur, and to add to the confusion various models exist. Various authors have tried to describe the character of an entrepreneur by the functions they perform, characteristics and traits they portray (Kirby, 2003:108). For one to have a comprehensive understanding of the 'entrepreneur', it is enlightening to review literature from the perspective of economics, psychology and sociology. Psychologist and sociologists reveal the entrepreneur from a behavioural and personality perspective (Kirby 2003:111), whilst economists link the entrepreneur to production and the economy.

Kirby (2003) highlights three authors, Hornday, Gibb and Timmons who have identified the various entrepreneurial traits and behaviour. The most commonly featuring and important traits being (Furchtgott-Roth 2008:13; Kirby 2003:108; Timmons & Spinelli 2009:47):

- Commitment, determination and tenacity
- Internal locus of control
- Need for achievement
- Goal and opportunity orientation
- Tolerance for risk, ambiguity, and uncertainty
- Integrity and reliability
- Creativity and innovativeness

- Intelligence and conceptual ability
- Fearlessness of failure
- Ability to build and lead a team.

No individual is born with all the above entrepreneurial traits, characteristics or behaviour but these are acquired along the period of practice and learning (Nieman & Nieuwenhuizen 2009). Kirby (2003) believes that these traits can be taught, developed and acquired. Furthermore, he is convinced that "...very few entrepreneurs possess all the attributes, if they do, they are a combination in different ways". Lessen (1986b) in Kirby (2003) thus concludes the existence of entrepreneurial types being the causality of the different mix of traits possessed by various entrepreneurs.

3.1.1 Risk-tolerance and Uncertainty

Nieman and Nieuwenhuizen (2009:5) cite Cantilon, Say, Knight, Hoselitz as the main authors to have made a contribution in identifying and associating entrepreneurs with risk-taking. While entrepreneurs are known for their risk-taking (Kirby 2003:111), success is highly probable to those involved in the calculated type of risk. Timmons and Spinelli (2009:52) reaffirm that success is attributed to those entrepreneurs who are both tolerant of risk and who embark in calculated risk-taking despite the inevitable rapid levels of change and unpredictability. In contrast, unsuccessful entrepreneurs are risk averse or decide on expensive and intuitively made risks (Nieman & Nieuwenhuizen 2009:15). Venter, Urban and Rwigema, (2008:68) and Nieman and Nieuwenhuizen (2009:32) document that entrepreneurs are observed to take not just financial risks but both personal and social risks.

With high risk usually comes high returns, but "successful entrepreneurs avoid opportunities with signs of failure, regardless of the reward" (Nieman & Nieuwenhuizen 2009:15). Amongst society there exists a misperception that entrepreneurs are gamblers and irrational risk-takers; furthermore Timmons and Spinelli (2009:59) list these perceptions as entrepreneurial myths. In Oliver and Goodwin (2010) it is elucidated that the perception of entrepreneurs being at times irrational risk takers is actually not completely incorrect because some entrepreneurs

have acted in an irrational manner by gambling and engaging in uncalculated risks. The implications of those who have acted in such a manner have reaped nothing but failure, jail-time, mental illness, divorce, and loss of life.

Failure of the entrepreneur to make profits can be catastrophic from being unable to service debt, missing returns on investment targets, and not being able to pay salaries and wages (Oliver & Goodwin 2010). Entrepreneurs apply and receive large sums of loans and sums of investments from banks and investors. Investors expect returns on their investments and abhor losing their principal. Furthermore, banks expect the debtors to service the cost of debt in full and on-time. Default of loan payments may result in repossession of personal assets such as home or savings leaving the entrepreneur wholly liable for the debt (Venter et al. 2008:68), especially if the business is not a limited liability registered entity or not under a trust. The entrepreneur risks not only personal savings, but his reputation as well. Experienced entrepreneurs tend to manage risk by diversifying it amongst the stakeholders with the intent of sharing it (Timmons & Spinelli 2009:52).

Entrepreneurs encounter risks of career loss, family and social, and lastly psychological. Business failure can result in negative psychological blows leaving the individual with self-doubt. Since the majority of entrepreneurs resign from their jobs they risk the chance of re-entering the job market as unemployment levels are high. Victims that suffer most is the family which loses out on quality time, leaving children feeling neglected and suffering emotional scars as most of the time is spent on the business venture (Venter et al. 2008:68.)

Engaging in entrepreneurship can be stressful, from cash flow problems, labour relations, absenteeism, disciplinary issues, and delays from delivery of supplies. According to Timmons and Spinelli (2009), entrepreneurs tolerate both ambiguity and uncertainty. Unpredictability and surprises are said to be unavoidable and are a day-to-day encounters with daily problems ranging from backlogs to insufficient generation of revenue. An entrepreneur should be capable of managing and distributing risk to be shared amongst all the stakeholders participating in the business venture.

It is advised that the decision for one to start a new business venture should be a family decision. Entrepreneurial activity takes a lot of time and energy and as a

result, relationships may suffer and be compromised. It is vital for an entrepreneur to win the support of his family to combat the problems that will arise, such as long working hours, reduced holidays and stress.

3.1.2 Commitment and Determination

Business start-up requires commitment from the owner giving up time and resources for the survival and growth of the venture. This means even sacrificing time meant for family and friends. Nieman and Nieuwenhuizen (2009:19) are of the view that a high-potential enterprise cannot be established and developed part-time, but needs full commitment and involvement. At start-up phase the entrepreneur manages the business as it is still in its infant stage. Management of a business is time consuming and can be stressful leaving one with the responsibilities of planning, organizing resources, co-ordinating and ensuring proper implementation of production methods. In the beginning of the venture, the entrepreneur may be responsible for tasks such as hiring of labour, sourcing supplies, performing bookkeeping and co-ordination of production. All these functions require one to be committed and focused at the tasks at hand. It is reported that start-up ventures take time to be fruitful. Since this is the case, the survival of the venture is also dependant on the tenacity of the entrepreneur in leadership. The scenario above leaves the entrepreneur with no choice but to make the business top priority.

The entrepreneur, thus, gets totally absorbed in the survival and growth of the business. The business venture occupies his thoughts all the time, thinking of how to reduce production costs, improve product quality, addition of new product features, better production methods, and sourcing low cost but high quality supplies. The entrepreneur focuses on how to exceed customer satisfaction, and how to grow his customer base.

Entrepreneurs endure all perilous business times, never failing to try, and certainly never throwing in the towel but learning from failures. They encounter rejection, setbacks and disappointments but continue to press on pursuing their vision. McClelland (1986:227) in Nieman and Nieuwenhuizen (2009:19) describes perseverance as indicative of the ability of the entrepreneur to repetitively solve

problems or conquer challenges. Examples are Thomas Edison the inventor of the light bulb and Ray Kroc the founder of McDonalds. It is important that potential and budding entrepreneurs understand and accept that things will not flow smoothly and that entrepreneurship is not easy. It requires a combination of both patience and endurance for success.

3.1.3 Achievement Motive

Entrepreneurs are driven individuals who want to achieve in society. They have the hunger and thirst to achieve more than merely power and status. According to McClelland (1965) in Venter (2008:55) and Timmons and Spinelli (2009:43), people are motivated by three needs: the need for achievement, for power, and for affiliation. Their need for achievement centres not around money or power, but on inner competitiveness of trying to go beyond limits and boundaries. Instead, entrepreneurs view money as an indicator for monitoring performance (Kirby 2003:112; Timmons & Spinelli 2009:54).

They are described as “initiators driven internally by a strong desire to compete against self-imposed standards and to pursue and attain challenging goals” (Nieman & Bennett 2002:59 in Nieman & Nieuwenhuizen 2009:32; Timmons & Spinelli 2009:53). The achievement motive is different for every individual one reason being the different backgrounds that people come from. It is reported children with parents possessing tertiary degrees tend to finish and obtain tertiary degrees; and children from entrepreneurial families are more likely to start a business (Nieman & Nieuwenhuizen 2009:31; Timmons & Spinelli 2009:58). Literature reveals that exposing children to different kinds of goals stimulates their desire for achievement. So it can be concluded that youths tend to achieve only that which they have been exposed to.

In South Africa unemployment is at 25.7% (STATSSA 2011) and learners are beginning to despair and find no reason why they should attend school. Employment has been the sole goal for many who attend school. Now that this employment motivation has been marginalized the youth feel lost and that their life is without purpose or meaning. Parents and teachers and government should encourage

learners towards entrepreneurship forming a new focus and achievement motive. Learners at school can be motivated to establish their own successful business. This can be achieved in a number of ways. According to Kirby (2003:166), individuals can be motivated by the use of different theories:

- Ascertaining the needs and wants of learners
- Setting achievable and realistic goals
- Providing support and not leaving the learner in isolation
- Monitoring and evaluating outcomes to determine performance
- Rewarding performance
- Implementing a transparent reward system which clarifies the relationship between effort and reward, and the consequences of under performance
- Analysing the root-cause for under-performance to find the solution for improvement.

3.1.4 Locus of control and Independence

Locus of control is individual's philosophy about the control over one's life or destiny. It can be either internal or external. Individuals with internal locus of control have a self-belief that nothing occurs by chance or fate in their life (Venter et al. 2008:57). Rotter (1966) in Kirby (2003:112) links internal locus of control to those individuals who believe that achievement of goals is as a result of their input or effort. On the other hand, individuals with external locus of control tend to believe that all the events that occur in life are a result of fate and probability.

Nieman and Nieuwenhuizen (2009:32), state that entrepreneurs are individuals who prefer to be in control and enjoy high levels of autonomy, in other words they do not want to be managed. They like expressing their own mind and enjoy working independently. It is the high level of internal locus of control that causes many entrepreneurs to leave their previous jobs to start their own businesses. Lastly entrepreneurs detest being restricted and constrained by rules and regulations; they thrive in environments that promote freedom and individualism (Kirby 2003:112).

Entrepreneurs are reported to have high internal locus of control, taking full responsibility of both their successes and failures (Kirby 2003:112). They believe that

the survival and success of their ventures solely rest on their shoulders. They have faith in their actions, even if results are not satisfactory (Venter et al. 2008:57). In Timmons and Spinelli (2009:54), entrepreneurs are viewed as individuals who do not believe in fate, luck or any other external forces to be the cause of their success or failure in their undertaking, but their efforts alone.

Many learners drop out of school, and a question rises as to whether this is a result of low internal locus of control being a contributor. They may be lacking the self-confidence of believing that they can change and take control of situations. This lust for achievement can be fostered at school level and will encourage the youth to achieve regardless of whether they see themselves as employees or employers.

3.2 INADEQUATE ENTREPRENEURIAL AND MANAGERIAL SKILLS

Entrepreneurial human capital is said to be weak in SA, and is highlighted as one of the main reasons to limited business growth and job creation (Venter et al. 2010). According to Venter et al. (2010:42), human capital encompasses different variables from formal education, work experience, entrepreneurial experience, and knowledge. It is these variables that enable an individual to act entrepreneurial.

The main reason for business failure is entrepreneurial incompetence and lack of experience (Hodgetts & Kuratko 2008:13). Common among small businesses is the issue of owner-manager with inadequate managerial knowledge, skills, and the experience of operating a business (Eybers 2010:21; Cupido 2002). It is reported that 80% of SMMEs fail annually as a result of lack of managerial skills and development, perpetuated by improper and inadequate education (Cupido 2002; Herrington et al. 2010:24). At the infant stage of the business owners are forced to self-manage the business since they are unable to afford a qualified and experienced professional manager (Megginson et al. 2003:16 in Eybers 2010:22; Venter et al. 2010:7). According to Hodgetts and Kuratko (2008:213) a change takes place whereby the entrepreneur becomes a manager during the growth of the venture once the start-up phase is completed. The entrepreneur must be able to execute general management practices like planning, organizing, directing and controlling (budgeting, production planning, and strategic planning).

Budgeting entails the allocation of funds to the different business units serving as an enabler for operations and a guide in controlling over expenditure (Hoffman et al. 2005:8). Production planning determines what goods are to be produced on the day as per the customer projected in the production schedule according to their relevant production mixes. Failure to meet production targets results in backlog and customer loss as they resort to other suppliers for supply. Not only is meeting production target essential, but the quality of the product is important to customers. This boils down to an adequate choice of production or service methods and techniques of which the entrepreneur should have the expertise (Venter et al. 2010). Lastly, marketing links the business to the consumers, entrepreneur-managers must identify their target market, choose the correct pricing strategy, promote their products, offer customer oriented products and have their products readily available (Hatten 2006). All of this forms part of managerial capacity requisite and are vital for entrepreneurial success.

3.2.1 Accounting and Financial Management

Business transactions occur on a daily basis and need to be recorded according to accounting principles. Transactions are recorded that the owner is able to trace the flow of cash and inventory in the business. It is vital that an entrepreneur possess bookkeeping skills or else employ an expert with the skills and experience (Nieman & Nieuwenhuizen 2009:21). But at the infant stage of the business entrepreneurs tend to be multifunctional, not that they do so deliberately but due to financial constraints. Bookkeeping is important for a start-up venture, monitoring the activity of your sales, costs, and profit (Hatten 2006:225). Negligence of accounting records may lead to cash flow problems which is the lifeblood of a business (Gitman 2009).

Bookkeeping can be a barrier for people who have not enrolled for accounting at secondary school. This lack of skill may require individuals to go and register for bookkeeping to familiarize them with accounting principles, where they can learn about source documents, journal, ledgers, income statement and the balance sheet and cash flow statement. An alternative would be to purchase a user-friendly accounting system to use in the up-start business.

Management of finances is of paramount importance to a business. As the visionary, the entrepreneur must be able to perform financial analysis, planning, and control. By performing financial analysis managers elucidate the business' financial position and regulate risk of financial failure of the business (Cronje et al. 2003:415; Gitman 2009). Moreover, managers must have the ability to conduct financial planning and control in the form of preparing the different types of budgets, to allot funds to future operations, investment, control expenditure, and pay taxes.

Financial management has the component of capital acquisition known as financing (Cronje et al. 2009:393). Business owners must formulate financing strategies for their businesses. The two decisions the owner has to make being either short term or long term financing. Short term financing entails facilities such as overdraft, accruals, and debtor finance. On the other hand, long term financing can be sourced from alternatives such as personal funds, loans (family, suppliers, mortgage, and commercial bank), supplier credit, venture capital funding, and partners (Cronje et al. 2003; Hodgetts & Kuratko 2008). In conclusion, the manager must know how to mix his short term and long term financing strategies, to ensure the survival of the business.

3.2.2 Marketing

Cronje et al. (2003) describe marketing as the link between business and the market while Hoffman, Czinkota, Dickson, Dunne, Griffin, Hutt, Krishnan, Lusch, Ronkainen, Rosenbloom, Sheth, Shimp, Siguaw, Simpson, Speh & Urbany (2005) continue to explain marketing as planning and implementation taking part in a business which leads to the transaction between customer and the business. In Hodgetts and Kuratko (2008:105), the marketing function is viewed as the initial point and point of revolution of business activity. It monitors competitors, identifies opportunities, and analyses the business internal strengths and weaknesses. It is a vital element of the business plan and thus cannot be neglected. In the business plan marketing serves the purposes of elucidating the target market, to present the market strategy, sales, distributions, pricing, advertising, promotion and public relations (Hodgetts & Kuratko 2008:105).

Before the establishment of the business venture, a market research activity must have been conducted to determine what product to produce and for whom to produce it. The owner decides whether to produce consumer or business-to-business products (Hoffman et al. 2005). Market research is one tool that must be utilized by the entrepreneur in identifying the target market, consumers taste and preferences (Eybers 2010; Hodgetts & Kuratko 2008.)

The product must have both order qualifying and order winning features to be able to compete with other products in the market. Customer demand increases with the ability to satisfy or exceed customer needs and wants. The product must conform to customer specification and sometimes have special features for differentiation to attract greater demand (Jacobs & Chase 2008:14.) The entrepreneur should possess the knowledge of the product life cycle to keep track whether the product has reached its decline stage so as to respond by introducing new product innovations (Hoffman et al. 2005:301).

A place where the product can be purchased is important as unavailability of the product may result in customers resorting to substitute products. Most of the time consumers (individuals) consume products from retail outlets; whilst customers such as manufacturing businesses in industry receive their products directly from supplier distribution. The 'place' actually refers to distribution which is further broken down to two meanings: the physical transportation of products from place to place, and channel distribution. A small business owner should operate a channel of distribution that avails products to consumers quickly and at lowest cost (Hatten 2006:357).

Customers exchange their money for what they perceive to be a valuable good or service which meets their needs or wants. The value of exchange of a good or service is known as price (Cronje et al. 2003:320; Hoffman et al. 2005:507). Some consumers are price conscious whilst others are not (Hatten 2006:392). According to Hoffman et al. (2005:521), a business introducing a new product can price its products at premium price and then follow later with lower pricing, known as market skimming. Usually new entrants in business enter the market with a low price strategy (penetration strategy) to get customer volumes and positioning in the market (Hatten 2006:398), but later increase the price after establishing a large customer

base. In all, entrepreneurs must be familiar with the different pricing strategies, and know which strategy to implement to which situation.

Businesses communicate with the target market in various ways to get public awareness of its product offering or business. Hatten (2006:404) and Cronje et al. (2003:329) identify four tools usually used for promotion: advertising, personal selling, sales promotion, and public relations. The purpose of advertising is to inform the customers about the product or business by making use of different kinds of media (Hatten 2006:405). For personal selling to take place, interpersonal communication between seller and customer must be initiated with an attempt of building a relationship through a presentation (Hoffman et al. 2005:431). Sales promotions should be executed to stimulate sales via in-store samples, free samples, coupons, premiums or gift vouchers. A small business can benefit from public relations from news and editorial comments to increase the attention of the business.

3.2.3 Operations and Supply

Operations management is concerned with the conversion process of resources to products or services. To meet operations objectives the manager combines the various inputs, such as: material, information, customer specification, labour, technology and equipment (Hatten 2006:519). A competitive operations strategy meets six basic customer needs which are stated in Cronje et al. (2003) as:

- Quality
- Low Cost
- Shorter lead time
- Adaptability (flexibility)
- Reliability
- High level of service.

The importance of quality in products has grown tremendously over the years. Customers require products that conform to their specifications and that perform. Owner-managers must ensure the utilization of appropriate production method,

design, skilled labour, and equipment. Production of defect products results to high internal failure costs (reworks, scrap) and external failure costs (rejects by customer). The manager has to put in place controls, such as statistical process control to monitor the quality of the product. It would be advantageous for an entrepreneur to possess continuous improvement techniques, such as LEAN in order to improve product quality and lower production costs by the elimination of the seven types of waste (Jacobs & Chase 2008).

Utilization of the JIT (Just-in-Time) system is known to reduce lead times and decrease inventory costs. This is achieved by the application of a system known as the kanban pull system. In the kanban pull system production occurs when a product has been pulled from the shelf and thus needs to be replaced. It averts the building of large amounts of inventory; reason being this kind of inventory hides problems (Jacobs & Chase, 2008).

Both labour and machinery should be optimized to achieve high productivity. Equipment should be serviced and maintained on a regular basis to prevent breakdowns instead of waiting for break-downs to occur. This achieves what is called preventative maintenance. The skills of workers should be upgraded through training and development to have competitive staff. If people are not trained they will not have the confidence to perform their duties.

Customers expect value for their money, that is, a price charged to the quality (conformance or performance) of product or service. Entrepreneurs are aware that quality of products or service can increase customer base (Nieman & Nieuwenhuizen 2009:21). Sourcing of quality supplies is important for the end-product manufactured. It is an advantage to utilize products from ISO (International Standards Organization) accredited suppliers as this reduces the risk of failure of the end product manufactured. Establishing a base of ISO accredited suppliers increases the value and reliability of the product and leads to customer confidence on the product.

According to Cronje et al. (2003), the layout of operations entails the arrangement of equipment, machinery, and employees in the production facility. The process layout determines the flow of production, and it is of great importance since it affects both

cost and efficiency. Three steps characterize layout, namely the process type, basic layout type, and the detailed design of the layout (Cronje et al. 2003:504).

Capacity planning and control must be performed during the inception of the business for provision of manufacturing and to determine the overall capacity level. There should be a balance between availability of capacity and the expected demand. The manager must be able to calculate measures such as the best operating level for which the process was designed and also determine the capacity utilization rate to know the operating level. A capacity cushion should be inbuilt for a business to cater for situations when demand exceeds expectation (Cronje et al. 2003:503; Jacobs & Chase 2008:54).

3.2.4 Human Resource Management

In the infant stages of a business the entrepreneur may need to fulfil a human resource (HR) role. HR practices including recruitment and selection of employees, induction training, and compensation for wages and salaries are basic functions that the business founder needs to execute. HR function is critical as it ensures that the right and relevant people are employed to avoid job mismatch (Cronje et al. 2003). The start-up manager makes sure that employees are paid the appropriate wages not below the minimum wage; get the benefits such as pension; unemployment insurance fund, at the agreed date of payment according to the agreed employment contract. Furthermore, the entrepreneur needs to be familiar with disciplinary procedures to control ill-discipline, misconduct, incapacity and negligence in the work place. Lastly, an entrepreneur needs to be engaged in training and developing employees to increase cross functionality and improve the skills matrix of workers. Employer-employee relations can be negatively affected by poor human resources practices leading to low morale and productivity.

3.2.5 Strategic planning

Entrepreneurs are known to be strategists (David 2009:42). A business strategy is a plan that management adheres to and executes with the intension and expectation of growing the company's profits, market presence; improving the business operations; and improving performance to outsmart competition (Hough, Thompson

Jr, Strickland III, & Gamble, 2008). The vitality of business strategy is highlighted by the fact that 80% of successful ventures are in possession of a strategic plan (Nieman & Nieuwenhuizen, 2009:19). According to David (2009:36) strategic management (strategic planning) is defined as “the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives”. Lynch in Venter et al. (2003) expounds that strategy is the path that the business wants to travel conscious of context, resources, purpose and objectives.

In David (2009), strategic management consists of three phases namely strategy formulation, implementation, and evaluation. In the formulation phase, the vision and mission of the venture are developed. A SWOT analysis is performed to appraise the company resource strengths, long-term objectives are set, decisions on resource allocation and expansion of operations are made. Strategy implementation is concerned with the deployment of employees and managers to take action on the formulated strategy (David, 2009). It is strategy evaluation which provides the information whether adjustments and modification on the existing strategy need to be made (David 2009:37).

The business owner has to provide clarification regarding the company’s prospects. Various questions like the current position of the business, where it wants go in the future, and what actions it needs to take to get there must be attended to give direction to the business. To answer these questions, the owner must possess the knowledge to perform PESTLE (political, economic, social, technological, legal and ecological) analysis to evaluate the macro-environment along with Michael Porter’s five force model that evaluates the industry the business is operating in and conducting a SWOT analysis to determine internal strengths and weakness of the business, and identify the opportunities and threats from the external environment of the venture to exploit existing business gaps, are vital skills that entrepreneur should acquaint themselves with to ensure success (Hough et al. 2008; Venter et al. 2010:408). An alternative to SWOT would be value chain analysis which assesses all the internal activities undertaken to create the value for the customers (Hough et al. 2008; Venter et al. 2010).

Small business owners should be capable of formulating and executing a company strategy so as to gain uniqueness from rivals and a competitive advantage in the market (Hough et al. 2008). Businesses with a competitive edge are reported to yield higher profits than those with an absence of competitive edge (Hough, et al. 2008). Ideal for a budding entrepreneur business would be to possess a durable and sustainable competitive advantage for the benefit of long term profitability. Once again, this can be achieved if only a strategic plan is in place. To develop these processes, the business owner must be creative and objective in their analysis.

3.3 UNTAPPED CREATIVITY AND INNOVATIVENESS

Theory states that entrepreneurs are more innovative than other people (Kirby, 2003:113). Venter et al. (2008:58) describe creativity as the ability to use imagination in developing new ideas, new things or new solutions. In support of this description, Amabile (1996:36) in Nieman and Nieuwenhuizen (2009:15) states that creativity is the generation of new and feasible ideas to solve problems and to seize opportunities. It can involve product or process adjustment, the identification of opportunity and solutions to problems. In simple terms, creativity is the ability to think new things and innovation is doing new things (Kirby 2003:132). The core success of entrepreneurs lies in the generation of valuable ideas to attract investors, satisfy the consumer needs, and outsmart competitors in industry (Nieman & Nieuwenhuizen 2009:15). Innovation is the crux of entrepreneurship and growth, survival of a business venture depends on the degree of generation, development and implementation of fresh ideas (Kirby 2003:113).

Entrepreneurs possess non-linear and non-conventional thinking, and are able to think at high levels of complexity. According to McShane and Von Glinow (2003) in Venter et al. (2008:59) and Kirby (2003:143), the stages of creative thought are preparation, investigation, transformation, incubation, illumination, insight, verification and implementation. For one to be creative certain resources are necessary ranging from knowledge, intelligence, inventive thinking, motivation, opportunity orientation, and flexibility to change (Dorf & Byers 2008 in Venter et al. 2008:58).

An idea is an imagination viewed as feasible, profitable and value-adding. It requires generation, development and implementation. Entrepreneurs come up with ideas on a daily basis and receive them from various sources including friends, family, networks, and media. However, that does not end at the idea stage since further work is conducted performing a costs and benefits analysis.

Creativity is the base for innovation; therefore, there is no innovation without creativity (Nieman & Nieuwenhuizen 2009:15). Creativity and innovation find expression in continuous improvement from product improvement, process improvement, or changing of a method. An example, is the production improvement system LEAN created by Toyota which focuses on the elimination of the seven types waste. "Innovation is the application of creativity to solve problems and to exploit opportunity" (Kirby 2003:132). Nieman and Nieuwenhuizen (2009:15) also concur to this view mentioning that it is the utilization of creative abilities. It can be achieved in small incremental steps or in a major breakthrough step known as radical innovation. Radical innovation is more demanding than incremental innovation, and both innovations are essential even though the other works on a cumulative basis (Venter et al. 2008:64-66.) The contribution made by innovation maybe overlooked or undermined, but evidence from Utsch and Raunch (2000) in Kirby (2003:113) exists linking business performance to its innovativeness.

3.4 ENTREPRENEURSHIP EDUCATION AND APPRENTICESHIP

In the year 2000, entrepreneurship was introduced into the education curriculum from Grade 3 to 9, as a compulsory subject – Economic and Management Sciences (EMS). It was further introduced in 2005, as an optional subject to grades 10, 11 and 12 curriculums (Sathorar 2009.)

Entrepreneurship education is part of the Outcomes Based Education (OBE) school curriculum, and is offered in higher education institutions as an academic choice (Venter et al. 2010:22). Entrepreneurship has been taught as a module or as a subject in schools. It is reported to be growing rapidly not just in the USA and Europe but in SA, Australia, Japan, Canada, China and Brazil (Venter et al. 2010:23). Individuals with more education and from high-income households tend to pursue

opportunity entrepreneurship, than those with less education and from poverty stricken households who tend to pursue necessity entrepreneurship (Venter et al. 2010).

However, all of this effort to introduce the youth to entrepreneurship notwithstanding, according to 36 South African experts who participated in the National Expert Survey of the Global Entrepreneurship Monitor 2010, found that not only the quality entrepreneurship education is a dilemma but the entire basic education. They recommend that the whole education system be overhauled and be treated as matter of national emergency (Herrington, Kew, & Kew 2010). A concern raised was that a dysfunctional education system is detrimental, since it produces ill-prepared entrepreneurs and a labour force that is incapacitated for the world of work. If workers attain little basic education, business growth may be inhibited, as a result of workers being limited to perform only simple tasks and not cope with advanced production processes. The experts mentioned further that the South African education system encourages a culture of job-seeking and promotes tertiary education as the only alternative to professional advancement and success (Herrington et al. 2010).

In Herrington et al. (2010:29), SA scored on a Likert scale a poor 1.75 for primary and secondary level entrepreneurship education. Education was highlighted as the most limiting factor to entrepreneurship engagement as a result of the poor basic education (Herrington et al. 2010; Nieman & Nieuwenhuizen 2009:31). For individuals to pursue entrepreneurship they must at least obtain matriculation as it increases the capacity for entrepreneurial activity. Nieman and Nieuwenhuizen (2009) maintain further that if one is able to afford tertiary education they should obtain it for it will increase the durability of entrepreneurial activity.

Entrepreneurs with the highest probability of success are those that have work experience and a higher education degree. They are reported to have scouted entrepreneurial opportunities from the work environment (Nieman & Nieuwenhuizen 2009:32).

An education system that is based on knowledge acquisition and retention cripples creativity, competence, capability and interrelating (Handy 1985:140 in Kirby 2003:54; North 2002). Moreover, the current education system is reported to

programme the youth toward being an employee instead of an employer. Kirby (2003:54) finds that “the education system is rather disabling than enabling...” This means that a shift in the current education methods is necessary, and specifically this would translate into putting more emphasis on practical skills than theory.

The current teaching methods are found to be one-way dimensional, characterized by interaction of the educator teaching and the student writing notes (Timmons & Spinelli 2009). Teaching methods should enable both the educator and the learner to participate in the classroom. Furthermore, it is reported that 99% of all activity during class attendance is passive as professors are lecturing students sit and take notes (Timmons & Spinelli 2009:8). Educators have the burden to assist learners in discovering their entrepreneurial potential and to unleash that dormant potential (North 2002). A more engaging learning experience is what is needed for the learners of today to stir their creativity and interest, so that entrepreneurial education becomes fun and habitual. Learners should be exposed and familiarized with business cases rather than just theory so that in real life they are able to adapt in crisis situations that arise during their venturing tenure.

With regards to the quality of education, South Africa ranks 125th out of 139 countries, a clear indication that the country’s education is in a dismal state (Herrington et al. 2010:32). Government keeps on allocating large sums to education, but this does not resolve the problem. With a 2011 budget of R189.5 billion, issues such as paucity of textbooks, high teacher absenteeism and poor quality infrastructure have not been overcome (RSA Department of Basic Education 2011c). Education problems at hand left unattended for a long period are going to haunt the country pertaining productivity. An educated work force is vital for business development which further leads to economic growth.

Dr Hansberg Niefer, CEO of Mercedes-Benz South Africa (MBSA), states that many of the social issues faced by SA which include poverty, crime, and unemployment emanate from lack of skills and education. He further insists that a lot of youth still fall through the cracks of the education system as a result of failing the NSC or just being unemployable despite the fact that they have passed the NSC. This is particularly apparent in the impoverished communities.

3.5 UNDERDEVELOPED LEADERSHIP

According to Gillian Stamp, good leaders provide clear direction and guidelines for the employees, trust employees to perform to the maximum of their abilities, and lastly, ensure that employees develop to maximum capacity. DuBrin (2010) and Hatten (2006:464) agree that leadership is defined as the ability of inspiring and supporting the people that are pursuing organizational goals. Moreover Cronje et al. (2003:173) expands on leadership as being the complex element of management that drives activities through relationships until the organizational goals are achieved. Common amongst most leaders is this attribute of inspiring. A myth that has long prevailed is that leadership is assigned for a particular top position or level (Maxwell 2005:4). Leadership can be practiced at all levels in an organization. Leaders are responsible to instil a can do attitude among their followers. It is in this light that an entrepreneur must be able to set realistic and achievable goals for the team members and instil confidence in team members that they can achieve those goals and overcome crisis situations (Dubrin, 2010).

Leadership is important for the success of any company (Cronje et al 2003:175). Owners adapt different leadership styles for different organizational levels and situations. For instance, in crises situations a dominant leader may be relevant; in time of prosperity when the company is thriving a co-operative leader may be in need; in an environment where there is a lot of unskilled labour and a high risk of safety an authoritarian leader may be appropriate (Venter et al. 2010:415).

According to the author's personal experience, learners are not exposed to roles that require leadership skills and expose them to an environment of intense decision-making. This results in an untapped leadership potential in youth and underprepares the learner for the real world. Opportunities for leadership exercise could be availed through sport, societies and through active participation in arts and culture. In previously disadvantaged schools there is little existence of extra mural activities, such as debating, drama, angling, and photography. The reason behind this paucity of extramural activity can be underpinned to lack of facilities and poor commitment from both learners and teachers. During class attendance leadership could be fostered through syndicate group work where learners learn to manage relationships and also learn how to function within a team.

A critical attribute of leadership is influence (Maxwell 2005:4). Leaders are able to influence others to perform beyond expectation and commit and embrace the vision of the leader. It is easier for a leader to demand members to outperform themselves if the leader is exemplary and demonstrates a high work ethic. Followers tend to imitate the leader, if the leader lacks commitment and is lazy, so will the members be. It is important that leaders demonstrate a high level of dedication, commitment, enthusiasm to promote high morale and a friendly work environment (DuBrin 2010.)

In a business environment there exist a network of relationships and hence Maxwell (2005) formulated the model of a 360 degree leader. A leader operates in an environment of relationships with sub-ordinates, peers of sub ordinates, colleagues, superiors, and peers of superiors (Maxwell 2005). Common to these relationships should be the sharing and embracing of the vision by all. Whether it be failures or successes, it is vital that all participants, not just the leader, account for the outcomes (DuBrin 2010).

Trust is the base and strength of all relationships, therefore the leader builds trust through transparency and honesty for members to believe in him and the team (Nieman & Nieuwenhuizen 2009:15-16). With trust team members are able to rely on each other and believe that every member is committed and will do everything to achieve the goals of the venture.

A leader who intends to foster an innovative culture in his start-up needs to allow experimentation and risk-taking (Venter et al 2010:65). This means allowing individuals the opportunity to express their creativity in spite of failure, but allowing them to learn from their failure. Ideas and solutions to problems should be generated from both the leader and team members to encourage active participation among followers (Kirby 2003:174). Active engagement creates a sense of importance and belonging for members to the organization.

It is an advantage if a leader is extroverted and is fearless in standing before a crowd (DuBrin 2010). Communication is important for the entrepreneurial leader since a lot of negotiation is conducted before starting and growing the business. Most of the time leaders have to clarify goals through clear unambiguous communication to all members of the organization (Cronje et al. 2003:175; Hatten 2006:464) and present before investors and shareholders to convince them in order to obtain the capital

needed to start the business. Most conflicts within an organization are also resolved through dialogue by communication between the different parties involved. Therefore communication is a vital skill for the entrepreneurial leader.

Leaders possess general personality traits which propel them to achieve goals and perform tasks, namely assertiveness, self-confidence, humility, extraversion, authenticity, sense of humour, and enthusiasm and optimism. Effective leaders are assertive, that is they express their feelings, demands, opinions and attitudes to group members. Self-confidence is important for leadership, since leaders are expected to exhibit self-confidence in crisis situations where they keep a cool head causing other members not to panic. Leaders should be trustworthy and authentic for the benefit of long-term relationships of which they can demonstrate by consistent behaviour, keeping confidentiality, admitting to mistakes, reporting the truth, upholding of values, and integrity (DuBrin 2010).

According to DuBrin (2010) leaders exhibit task related traits such passion, courage, internal locus of control, flexibility, and emotional intelligence. Emotional Intelligence (EQ) is elucidated as the ability to understand and manage one's emotions and manage the emotions of others. One can possess all cognitive abilities but without EQ they cannot become great leaders. DuBrin (2010:44) identifies four factors associated to emotional intelligence: self-awareness, self-management, social awareness, and relationship management. It is these factors that are used to score one's emotional intelligence.

Essential for the business an entrepreneur must possess cognitive factors to deal with problems. These range from creativity, conceptual thinking, business knowledge, insight, and cognitive intelligence (DuBrin 2010). The business leader must possess the knowledge and understanding of general management functions such as financial analysis, forecasting and production methods. Moreover, the leader should demonstrate sound technical competence as this causes employees to have respect and confidence in the leader. Insight is defined as a depth of understanding that utilizes intuition and common sense which enables leaders to make decision quicker and is of particular use during situations of crisis. Lastly, the entrepreneurial leader should be farsighted fully aware of the long range implications of the actions and policies implemented; and must be a conceptual thinker being able to

understand the interconnection of the various business units and how they affect each other and affected by the external environment (DuBrin 2010).

3.6 ORIENTATION AND CULTURAL BACKGROUND

Economic development is not the only factor that determines entrepreneurship rates but also attitudes and perceptions play an essential role in creating an entrepreneurial culture (Bosma & Levie 2009 in Herrington 2010:17). South Africa was ranked in the bottom third, recording below average for both entrepreneurial attitudes and perceptions, and was outperformed by Latin American countries in the efficiency driven economies. Clearly this is an indication that there is much work left to be done to promote entrepreneurship. Proof to this is the fact that in the first year of global entrepreneurship week Brazil attracted 1.4 million participants in contrast to South Africa attracting only 8 000 participants (Herrington 2010:18).

3.6.1 Family

Parents engaged in business venturing expose their children to entrepreneurship more than those whose parents are only employed. In the same vein, research concludes that youth that have entrepreneurial parents are more likely to undertake enterprise (Furchtgott-Roth 2008:6; Nieman & Nieuwenhuizen 2009:31; Timmons & Spinelli 2009:58). For example, Mzikayise Gunguluza, with his geographic information system (GIS) won a top business award, and based his success on his entrepreneurial family history (Butler 2010). Kirby (2003:55) states that family negative attitudes toward entrepreneurship can be a barrier at times, particularly if the family is not enterprise orientated and discourages such a practice. A further deterring factor to youth entrepreneurship engagement is the absence or marginal existence of entrepreneurs in society. Furchtgott-Roth (2008:6), extracted demographic characteristics of an entrepreneur indicating that entrepreneurs are more likely to be male, white, and married. Those entrepreneurs that emanate from an educated family score higher on analytical ability tests and have strong economic ties with family.

3.6.2 Role Models

The presence of role models promotes the development of entrepreneurship, but the absence of such individuals bears negative implications on communities that are not enriched with entrepreneurs (Nieman & Nieuwenhuizen 2009:12; Venter et al. 2010). It is found to be important to publicise and celebrate the achievements of entrepreneurs so as to familiarise and orientate learners. Bearing in mind, youth develops and engages in activities through association, so it is vital that entrepreneurs are made visible in society so that youth are able to aspire by association to other entrepreneurial achievements (Nieman & Nieuwenhuizen 2009:33). According to Kirby (2003:57), American universities have Hall of Fames, Scotland has a publication of Local Heroes; and celebration of national or global awards all of which serve the purpose of conditioning students for entrepreneurship. Kirby (2003) mentions that it is important that role models should represent all the different kinds of gender, ages, race and nationality, and not the stereotypical role model of a male, middle-age, and white entrepreneur.

3.6.3 Religion

There are different kinds of religions in the world, all intending to serve the spiritual need and to determine the way in which society lives. Religions across the spectrum have different doctrines varying in their deity, values, principles, and faith. Some religions encourage self-sufficiency and others discourage it. Individuals may be prohibited by religion from engaging in entrepreneurial activity. In Kirby (2003:51), religions such as Christianity and Judaism are reported not to prohibit entrepreneurship. Instead the bible in Deuteronomy 24 verse 14, forbids unfair labour practice, "You shall not oppress a hired servant who is poor and needy... You shall give him his wages on the same day, before the sun sets..." (English Standard Version, 2008:365). Furthermore, the bible in Deuteronomy 23 verse 19, forbids the charge of interest on loans (English Standard Version 2008:364) and in Deuteronomy 24 verse 10 prohibits collateral (English Standard Version 2008:365).

In the bible, investment or wealth creation is supported in Matthew 25 verse 14, but should not take priority over God.

3.6.4 Education

Education is viewed as a common ingredient amongst successful entrepreneurs. Common to SA's top 20 richest entrepreneurs is a tertiary education (Shevel 2011). The most frequently featuring degrees are law and commerce (MBA or CA) (Vollgraaff 2011). Simpson, from the Unilever Institute of Strategic Marketing further postulates a recipe for wealth creation being (Shevel 2011):

- Obtaining a higher education,
- Saving 10% or more of your income, and
- An entrepreneurial ability.

Entrepreneurship in South Africa is currently taught as subject under economic and management sciences. It is theory based and is assessed by tests and exams. Again the method of assessment evaluates not the enterprising ability but memory ability. Government education policy should be altered so that entrepreneurship is incorporated in every school subject. This way entrepreneurship will be infused in the minds of learners, as a result an entrepreneurial mind-set will be created.

3.6.5 Economic System

The type of economic system of a nation influences entrepreneurship activity. For instance, a command system determines what to be produced, how much production, and the method of production (Mohr & Fourie 2008:27). A command system clearly discourages entrepreneurship but a market economic system encourages and promotes entrepreneurship. Evidence to this is the current level of entrepreneurship activity reported in previously command system nations such as Russia, China, and India that are today known to be thriving economies (Herrington 2010).

CHAPTER 4

BARRIERS TO START-UP, GROWTH AND SUSTAINABILITY OF SMMEs

In South Africa, there is a high rate of failure among up-start small businesses (Nieman & Nieuwenhuizen 2009:35). These entities are reported to fail within a two

year period from start-up due to various reasons from management capability, lack of finance and the red tape created by government (Cupido, 2002; Carey, 2010; Dutiro 2009; Hatten, 2006; Salkowitz, 2010; Hodgetts & Kuratko, 2008). The majority of business failure is underpinned to financial problems, and rigid regulatory laws which do not present an enabling business environment.

Labour costs in South Africa are reported to be expensive due to minimum wage laws and wage demand imposed through strike action (Biyase 2011b). South Africa's winter season is a season usually plagued by labour strikes (Vollgraaff, 2011d). In July 2011, workers unions took to the streets by striking and demanding double digit wage increases (Vollgraaff 2011c). The strikes result to damaged property, loss of workdays, missed production targets, loss of business profits, decrease in economic growth, and furthermore strikes result to an increase in wages (Vollgraaff 2011b, 2011c). According to Ann Bernstein, cost of labour and minimum wage rate laws prevents small business owners from hiring more employees (Biyase 2011b).

SA labour legislation is reported to be rigid in terms of flexible employment and it does not cater for the small business owners to manoeuvre the number of employees during perilous economic times (Venter et al. 2008:230). South African Chamber of Commerce and Industry (SACCI) CEO, concurred on SABC3 News, on 15 August 2011, that "long term contracts make it difficult for entrepreneurs to enter into labour relations easily; they rather prefer a more fluid or flexible arrangement, so that they can release workers during perilous economic times". Pravin Gordhan, Minister of Finance, gave hope to small business owners as he mentioned at the Annual National Internal Audit Conference, held on 15-17 August 2011, that National African Federated Chamber of Commerce and Industry (NAFCOC) will review the labour laws (SABC3 News, 2011b). In response to Pravin Gordhan statements of changing labour laws, COSATU was adamant that labour laws will not be tempered with, a view which was also shared and supported by the ANC (SABC, 2011c)

The South African government policies promote small business but it has provided little support for SMMEs judging from the red tape created. Small business is starved from government procurement whilst on the other hand most of the support has emanated from private sector (Barron 2011). Khaas in Barron (2011), states that when government procures from SMMEs, a delay of payment occurs and eventually

the ventures experience demise from drainage of cash flow; of which it is a contrary case to the private sector.

According to Biyase (2011:4d), high taxes, operational costs, labour cost, government regulations and poor demand are reported to have a negative impact on business indices, driving the SME business confidence to record low levels. The SME business confidence index reviews trade, industry and services sectors. In the first quarter of year 2011 it plummeted by 23.48% to 41.08% from 53.69% in the last quarter of year 2010 (Africagrowth Institute 2011). The global business environment cannot be overlooked, as the US lost its AAA rating and Europe is in a debt crisis, the political upheaval in oil producing nations in the Middle East (Biyase, 2011:4d) - all these factors pose a direct threat to local business performance. Despite the global outlook, SA government has done little with its regulations to curb the current perilous economic tribulations in assisting small business development (Salkowitz 2010:145).

Cupido (2002) cites from the Multi Annual SME programme of the European Commission regarding the main reasons why business start-ups fail in their early years and found them to be:

- A complex legal, fiscal, and administration environment
- Difficulty in effecting research and development programmes and exploiting results
- Lack of suitable training programmes to develop lack of capabilities
- Difficulty of accessing finances at affordable costs
- High barriers in entering the product and service markets.

4.1 OPPORTUNITY IDENTIFICATION AND EVALUATION

Before a small business is established, it is essential that entrepreneurs embark on a process that is vital for the growth, survival and performance of the venture. This process involves identifying and evaluating an opportunity. Nieman and Bennett (2002) in Nieman and Nieuwenhuizen (2010) are of the view that opportunity is a gap in the market that is created by those businesses serving in it. The gaps emanate from large companies complacency, bureaucracy, and inertia. Large businesses become complacent by not seeking new opportunities because of past

achievements and grow too large in size creating a hierarchal structure and become bureaucratic (Timmons & Spinelli 2009). However, small businesses take advantage of these gaps since they are flexible and able to respond quicker than their counter parts. SMMEs gain an advantage over large business by adopting and utilizing the latest technology earlier than large businesses.

Ideas are not a substantial reason to start a business and cater for a market (Timmons & Spinelli 2009:111), but need to be developed, transformed and aligned to consumer wants and needs. The objective of the process is to create value in products or service offered to the customers and to achieve a sustainable competitive advantage. The process assists the entrepreneur to determine whether the venture is of high or low potential. Timmons and Spinelli (2009) suggest that the core of entrepreneurship lies in the creation and recognition of opportunities, and exploiting them. Furthermore, an opportunity should possess attributes of being attractive, durable, and timely. It is advised that the entrepreneur should execute all the phases of the window of opportunity to enjoy a sustainable competitive advantage.

4.1.1 Identification of Opportunity

As mentioned earlier, for an idea to qualify as an opportunity it should be attractive, durable, and timely, exceeding consumers' needs and wants. Opportunity can be an outcome of entrepreneurs deliberately and consciously embarking on a creative process of generating ideas. Ideas can be generated from trying to solve problems or creating convenience for end-users (Nieman & Nieuwenhuizen 2010). Timmons and Spinelli (2009:150) claim that "the most prosperous entrepreneurs, venture capitalists, and private investors are opportunity-focused" – all their efforts are predicated on the market and customer wants and needs. Characteristic of a high potential opportunity on which the entrepreneur should pay attention to are the properties below:

- Creation and adding value to customers,
- Problem-solving or provision of convenience,
- Stable market, yield margins and money that are appealing to the investors,

- Complement the owner and management team (Timmons & Spinelli 2009).

4.1.2 Opportunity Evaluation

It is essential that the opportunity identified is evaluated or screened so as to determine whether the business idea will become a prosperous opportunity. The process clarifies whether the venture will be a high or low potential. It may happen that important issues are overlooked, but these should be highlighted through conducting the screening process. The following criteria can be applied during the screening process (Nieman & Nieuwenhuizen 2010:88):

- Industry and market issues,
- Economics,
- Harvest issues,
- Management team,
- Fatal flaw,
- Personal criteria,
- Strategic differentiation.

An attractive opportunity for business is where there is a presence of untapped market niche. Favourable features of the niche market being little presence of competitors, differentiated products and services, a large customer base, and limited entry into the market because of a competitive advantage. An ideal market for entrepreneurs would be to operate in a market where the market is at full capacity where demand exceeds supply. Ideally business should pursue market share leadership with the intention of owning a large quantity of the overall market.

Cash flow is the lifeblood of a business (Gitman 2009:106; Timmons & Spinelli 2009:388). Stancil (1987:38) in Timmons & Spinelli (2009) highlights the importance of cash flow emphasising that it is cash that pays bills, debts, wages and salaries, and not profits. A venture that does not produce positive cash flow or breakeven within three years is considered unattractive (Timmons & Spinelli 2009:164). However, entrepreneurs who identify opportunities that require small sums of start-up capital are attractive, since they do not have to recover returns on investments,

immediately benefit from their profits within specified periods (Nieman & Nieuwenhuizen 2010:89).

From the inception of the venture, some entrepreneurs intentions are to start, grow and then sell the business; others are forced to sell due to unforeseen circumstances and opt for selling as an exit strategy. The harvest strategy is common among high potential businesses operating in attractive markets which Nieman and Nieuwenhuizen (2010) report to have the harvest objective as part of their agenda.

An attractive opportunity should not have fatal flaws. These entail lack of an entrepreneurial team, dishonesty, compromised integrity, and technical inexperience. The causes of fatal flaws are attributed to the market (Nieman & Nieuwenhuizen, 2010:89):

- Being too small,
- Fierce competition,
- High cost to entry barrier.
- Inability of entrants to create a sustainable competitive advantage.

It is vital that the enterprise is run by a management team that is competent possessing the expertise and skill to operate in a particular industry. The venture must be unique to others through strategic differentiation. Strategy differentiation can be implemented in the pricing strategy, good service, and a superior differentiated product.

4.2 INCUBATION, MENTORSHIP AND SUPPORT

Incubators promote entrepreneurship by providing assistance to up-start businesses (Hatten, 2006:371; Nieman & Nieuwenhuizen, 2009:194). Incubation is an essential method of nurturing early-stage entrepreneurship from start-up to the established business phase. Dutiro (2009:5) states that 87% of incubatees survive and remain in business. They offer entrepreneurs affordable rental prices, shared equipment and service that start-up businesses are not able to afford. Hatten (2006:371) highlights

that starting a business from an incubator has various advantages and benefits which include:

- Rental costs – incubators charge below market rent,
- Support services – shared access to office equipment which could be expensive if bought at the nascent stage of the business, and shared services of receptionists, secretarial support, and shipping and receiving,
- Professional Assistance – incubators organize professional services from accountant and lawyers at reduced fees. Furthermore, they provide training in cash flow management, marketing, and accessing financing,
- Networking – incubators have the ability to affiliate an entrepreneur with other local businesses,
- Financing – incubators provide financial assistance and access to other funding resources (revolving loans) below market rates.

Business mentoring on the other hand entails a long term business counselling between an advisor and an entrepreneur through the various stages of business development (Nieman & Nieuwenhuizen 2009:194). This relationship is intended to develop both managerial and entrepreneurial skills. There are various institutions involved in business mentoring to name a few are ABSA, FNB, Khula and Business Partners. According to Furchtgott (2008:17) venture capitalists can also offer more than just capital, such as mentorship, guidance and access to networks.

It is stated in Venter et al. (2008:241), that 57% of emerging SMMEs in Gauteng and 70% of SMMEs in the Western Cape have limited awareness of the support available to them.

Government is accused of little participation in development of local business as compared to the private sector (Barron 2011; Mashego 2011). Instead government is viewed as creating obstacles that hinder small business growth and an environment that is disabling rather than conducive for business. Commenting from the procurement perspective, Khaas mentions that the government procurement record is poor and has done little procurement from small and medium businesses. He further states that most of the support comes from the private sector than government (Barron 2011:7).

4.3 LACK OF FINANCIAL RESOURCES

According to Timmons and Spinelli (2009:431), a start-up's operations can be financed by different capital source inflows like personal savings, debt, or equity financing. It is imperative for business success that the appropriate type of finance is selected, which will suffice for the requirements of the start-up venture. Timmons and Spinelli (2009:426) stress that new start-ups can consume a lot of capital in the early stages, and even develop a bigger intake for cash in later stages, thus entrepreneurs must have a clear understanding of their financial requirements. There are various sources of capital available of which the entrepreneur should familiarize himself with and the requirements for qualifying to obtain them.

Usually entrepreneurs start their businesses from personal savings or from borrowing from their families. According to Mokoena (1998:16) in Nieman and Nieuwenhuizen (2010:35), more than 80% of new ventures are established from the founder's personal savings, and are dependent on debt and retained earnings to grow. Fruitful development of small business is impeded by lack of access to the appropriate type of finance. Many ideas are left underdeveloped as a result of lack of finance. Indeed the SA government tried to address the issue through the Department of Trade and Industry and Khula Enterprise Finance but still it remains difficult to obtain affordable start-up and expansion finance. Nieman and Nieuwenhuizen (2010) identify various reasons causing limited access to finance:

- Risk aversion by banking sector – small businesses are perceived to be of high risk due their high rate of failure
- Decline in micro finance institutions with few left assisting SMMEs.
- Poorly developed business plans with shallow research done.

Aspiring entrepreneurs are reported to spend a lot of time pursuing the wrong sources of funding with the incorrect business concept. Identifying an opportunity in the best technology and market attracts the best management, whilst speed and agility attracts venture capitalists, mentors and advisers. A vital point to be kept in mind is investors have different tastes and preferences on which types of ventures to

invest in, so entrepreneurs must pitch ideas that are parallel to investors' appetites (Timmons & Spinelli 2009:149-150).

Perceptions are hovering that banks favour men over women entrepreneurs when it comes to loans. Findings from the Finmark Trust research of 2006 states that women encounter difficulties when it comes to financing. Nico Jacobs, head of ABSA Small business, disagrees and argues that this perception is not based on factual data but stems from historical gender inequalities (Harris 2010b).

At times banks are found to be undermining. Entrepreneur Yumna Panday feels that the biggest challenge she experienced was that banks were not taking her seriously because of her age, and even gender (Butler 2011a).

According to Finmark research there is a paucity of appropriate financial products available to entrepreneurs. The majority of the products require a track record, collateral, and are expensive (Harris 2010b). This is one of the major challenges of an entrepreneur to find financing for the venture. The entrepreneur's chances of receiving funding depend on a number of factors such as education or qualification, experience, a sound business plan, and a good business idea. The factors influencing the success of receiving funding seem unfavourable for a school-leaver in pursuit of entrepreneurship. The potential entrepreneur has to be convincing with the two factors (business idea and plan) or else faces sceptical investors and bankers.

4.3.1 Personal Savings or Household Wealth

Future entrepreneurs are reported to save more than the people who remain employed for a wage (Buera 2003). Hence the finding in Nieman and Nieuwenhuizen (2010:35) that 80% of start-ups are funded from personal savings.

Sources of equity in the early stage of the venture may comprise of personal savings, family, friends, and angel (informal) investors (Hatten 2006:264; Timmons & Spinelli 2009:432). It is important to contrast this with the reality of youth emanating from historically disadvantaged communities, where they come from families where

there is no capital accumulation (savings) or wealth existence; and others are not privilege of an inheritance (City of Johannesburg Department of Economic Development 2009). The majority of township families depend on a month-to-month pay-check for survival, leaving little money for savings. It is reported that 47.8% of South Africans are not earning enough and the misery is exacerbated by a rising cost of living (Prinsloo 2011). Furthermore, the country's citizens are not good savers, as 72% of South Africans are not savers at all (Anthony 2011). According to Anthony (2011); Govender and Naidoo (2011), 8.9 million South Africans are debt trapped, and the household debt to disposable income ratio is 75.9%. This paints a clear picture of the financial position of many South African households. It would be difficult for budding entrepreneurs to finance their businesses from personal savings, family or friends.

Youths from historically disadvantaged communities are trapped and programmed from upbringing on a month-to-month pay-check cycle, and as result fail to explore the opportunity of earning their own profits rather than a wage or a salary. Lack of saving of households starves the youth from venturing in enterprise (Anthony 2011; Govender & Naidoo 2011; Venter et al. 2008:329). If one is to embark in entrepreneurship they have to be prepared to negotiate a loan with a bank and face the implication of paying back the expensive cost of debt (interest) which is a setback itself to the financial growth of the business.

It was easier for entrepreneur Kuse, owner of Daring Media, to start her business due to the fact that she had personal savings (Butler 2011a). In Nieman and Nieuwenhuizen (2010) it is mentioned that 80% of upstart businesses are funded by personal savings. A research study in the USA conducted in 1991 affirms this that 74% of the primary source of funding was personal savings instead of external investors (Timmons & Spinelli 2009:157).

4.3.2 Young Venture Capital and Angel Investment Industry

Venture capital (VC) investment is the funding of high-risk, fast-growing businesses in their budding stages, usually in new technology (Furchtgott-Roth 2008; Hatten 2006 & Timmons and Spinelli 2009). Venture capitalists invest funds expecting to

gain a shareholding in the business, with future intentions of selling the business in five to ten years (Hatten 2006:265). On the other hand, Seed or Angel investors fund businesses before they have made a prototype product from research and in the development stage (Classen 2010). Venture capital funding is reported to be new and growing in SA especially in Cape Town, and thus encourages postgraduate students to start their own businesses in technology (Classen 2010; Salkowitz 2010:145). In the Financial Mail, 12 November 2010, it was mentioned that Johann Rupert one of SA well-known entrepreneurs funded a cellphone encryption innovation invented by a 24 year old Stanford graduate with R8 million (Classen, 2010). South Africa needs more of venture capitalist like Rupert to promote and fund entrepreneurs.

According to an investigation by Furchtgott-Roth (2008:30), the relationship between ease of access to VC and start-ups performance has been found to be of statistical significance. Findings conclude that start-ups receiving VC at a young age probably go out of business, get acquired, go public, make a profit, or employ more employees. Nieman and Nieuwenhuizen (2009:181) precaution that receiving VC funding at seed stage of the business may lead to yielding away control of the start-up, rather entrepreneurs should receive this funding at the growth stage. The objective of VC is long term appreciation on investment which is obtainable from the varying rates of return. Seed capital can be costly demanding higher interest rates than in the later stages of the venture. It is rare that new ventures receive VC finance except for the high-technology industry (Nieman & Nieuwenhuizen 2009:181).

Furchtgott-Roth (2008) speculates over Silicon Valley success and attributes it to easier access to venture capital and exceptional business plans that clarify growth potential. Timmons and Spinelli (2009) highlight that applications in the form of proposals and business plans are recorded to amount to 100 to 200 per month. A mere 1 to 3 percent receives approval and funding from venture capital investors with 80% rejected without being considered, and 10 to 15% rejected after being considered (Timmons & Spinelli 2009:111,154).

It is strongly debated that lack of venture capital should not be a reason to deter aspiring entrepreneurs, since it does not safeguard enterprise success. Many billion dollar companies were established from small sums of seed capital, including the

likes of Estee Lauder and Walt Disney (Timmons & Spinelli 2009). A common misconception that the success of a start-up venture is dependent on money is argued in Timmons & Spinelli (2009: 388), with investors retaliating that money should not be a concern, but rather attention should be paid to the opportunity and building a track record of sales, profits and debt payments. Howard Head in Timmons and Spinelli, (2009) supports the same view that beginning with limited cash resources instils a discipline of leanness. Seed capital is important, but other factors like access to people and institutions to assist in creating and sustaining the venture are as important and should be given as much consideration (Furchtgott-Roth 2008:14).

Falkena, Abedian, von Blottnitz, Coovadia, Davel, Madungandaba, Masilela and Rees (2002:2), highlight that SMEs have limited access to venture capital and private equity. Besides, it has been observed that a trend is developing of VC investment to only to be availed during the growth stage instead from seed stage of the business (Falkena, et al., 2002). This is of concern since venture capitalists provide not only monetary support but their comprehensive involvement affects business performance. Despite their money provision, venture capitalists are of much greater value, are reported to improve business plans, provide training, motivation, mentoring, social connections and informal contacts (Zook 2005 in Furchtgott-Roth 2008). They are known to hone start-up's strategy, identify and attract top executives, network with important clients and suppliers, and form strategic alliances with other companies (Furchtgott-Roth 2008:20-21).

4.3.3 Commercial Bank: Overdraft and Loans

In Timmons and Spinelli (2009) an existing and expanding business finds it easier to raise both debt and equity, versus a start-up venture. Since new ventures have no track record of being capable to generate sales, profits, and debt payment they are regarded as high risk by banks and struggle to secure loans (Cupido 2002:3; Timmons & Spinelli 2009). Though upstarts may possess assets as collateral this may not suffice for them to obtain a loan. What could be convincing to banks are an adequate equity capital and a good management team. A common risk-averse decision by banks is lending maximum amounts to small businesses pegged to the debt-equity ratio. As rule of thumb Timmons and Spinelli (2009) point out that, new

ventures may secure working capital debt equal to its equity and subordinated debt. It becomes easier for businesses to secure a loan from banks after having built strong records of sales, profit, and debt payments; specifically if the existing business has intentions to expand (Timmons & Spinelli 2009:432).

An overdraft facility is a method for short term financing usually linked to a cheque account facility (Nieman & Nieuwenhuizen 2009:173). In South Africa the cheque system is an essential mechanism for conducting business, enabling the flow of transactions. It is only granted once a commercial bank has performed a thorough credit reference check. The business plan is believed to have a major influence on the approval. Interest and bank charges are costs associated with this facility which can be burdensome for the entrepreneur (Nieman & Nieuwenhuizen 2009:174). Moreover, start-ups are at a disadvantage since at start-up (nascent) stage the business has not accumulated a credit record; some owners are previously disadvantaged (with poor credit histories and no collateral) so chances of receiving an overdraft become slim.

In a paper by Mwangolela (2007), it stated that even though SA has world class banks, its managers are reluctant in lending to black business. The Task Group of the Policy Board of Financial Services and Regulation from TIPS supports the same view, stating that SMEs with good credit histories and sufficient collateral have more access to bank credit; whilst for start-ups, micro-enterprises, and entrepreneurs from previously disadvantaged communities (weak credit histories and limited collateral) access to credit is restricted (Falkena et al. 2002).

4.3.4 Trade Credit (Accounts Payable)

In South Africa, businesses purchase inventory from suppliers on credit (non-cash). According to Nieman and Nieuwenhuizen (2009:173), trade credit is explained as credit extended by one firm to another, whilst Hatten (2006:263) agrees and defines trade credit as “the purchase of goods from suppliers that do not demand payment immediately”. For an owner to obtain trade credit, he applies by filling a supplier’s credit application form, then, the supplier grants trade credit after the applicant qualifies the credit reference. Trade credit is of benefit since it is granted with a limit and in terms. The terms provide the period within which the outstanding amount must be paid, which can vary for different suppliers from 30, 60 and 90 days (Hatten

2006:173; Nieman and Nieuwenhuizen 2009:173). The limit on the other hand gives the maximum credit allowed for the buyer, of which it may increase depending on the record of payment. As much as trade credit is an essential form of finance for SMMEs, early stage businesses may encounter hindrances in obtaining trade credit due to low levels of accounts receivable and an unconvincing bank account balance (Hatten 2006:263; Nieman and Nieuwenhuizen 2009:173).

4.4 ACCESS TO MARKETS

An obstacle for SMMEs is the lack of sustainable markets for their products and services. The downfall of some small business is to imitate other businesses and offer the same products offered by their competitors with the hope that the market demand will behave the same as in the past. Small business should produce or offer customer oriented products or services that are aligned and exceed consumer wants and needs. Once a market focus is neglected in business it is impossible to maintain a sustainable market. As an entrepreneur one should strive for originality of ideas, plan to create a lasting competitive advantage, or even seek to exploit a first mover advantage in a niche market (Nieman & Nieuwenhuizen 2010).

4.5 BUSINESS PREMISE AND LOCATION

Buying property is expensive, with property prices having escalated in the past few years, taking into consideration the addition of legal and transfer costs which are a burden themselves. As a result of expensive property prices starting entrepreneurs usually opt for rental premises for their businesses. According to the calculations demonstrated by Christo Botes, executive director at Business Partners, monthly rental of a property after four years can become more expensive than a bond payment (Pelser 2010b). Rent was found to be convenient in the first four years of business start-up, but the cost of rent is further driven up by the demanded rental increase. The advantage of a bond is the fixed interest rates on the bond payments and period of payment. Furthermore, buying instead of renting is beneficial because the owner is investing and thus the market value of the property appreciates year on year (Pelser 2010b). It becomes easier for entrepreneurs to receive overdrafts, loans

and other forms of capital if they are in possession of property since it can be utilized for collateral (Falkena et al. 2002).

4.6 POOR ACCESS, ADOPTION AND IMPLEMENTATION OF ICT

According to the Global Information Technology Report (2010-2011), South Africa (SA) was assessed amongst the 138 member states. It is reported that SA has high access costs and the country ranks 129th for monthly residential subscriptions, 102nd for mobile cellular tariffs and 79th for broadband internet tariffs. Access and bandwidth are expensive, reported to be three times the cost of comparable service in Europe and six times the cost of some Asian countries (Salkowitz 2010). Salkowitz (2010:179) compares DSL (digital subscriber line) package costs per month of sub-Saharan Africa (\$366 per month) to those of India (\$6-44) and OECD (\$22) nations, which is resultantly expensive. Even though currently connected to the fibre optic cable, the quality has improved but the price remains relatively high, leaving South Africa paying eight to ten times more than operators in India for wholesale access to the international gateway (Salkowitz 2010: 180).

Furthermore, the uptake of Information and Communication Technology (ICT) was found to be weak, and this was due to the quality of education in science and maths (Hawkins 2011). South Africa ranks 61st in the adoption and implementation of ICT to achieve accelerated growth, whilst top five is Sweden, Singapore, Finland, Switzerland and the USA respectively, and BRICS countries Brazil (56th), Russia (77th), India (48th), China (36th), and South Africa (61st) (Dutta & Mia, 2011).

It is highlighted from the report that Sub Saharan Africa has been the biggest loser in matching the progress of ICT penetration as compared to other emerging markets (Hawkins 2011). There are various impeding constraints to the extensive and efficient use of new technology for increased development and prosperity stated to include - poverty, poor quality of education, opaque regulatory environments, and underdeveloped infrastructure (Hawkins 2011).

South Africa was ranked 83rd for the usage index of ICT which encompasses individual, business, and government usage. The country ranked last as compared to Brazil, Russia, India, and China (BRICS), which ranked 52nd, 69th, 67th and 36th

respectively according to the (Global Information Technology 2010:16). For individual usage of ICT, SA recorded a ranking of 95th which is a disturbing indicator depicting underutilization and lack of access to ICT facilities in the country.

According to the Department of Basic Education (2011:25) in South Africa there are 24793 schools, only 5756 (23%) schools have computer centres, and only 2489 (10%) of those are stocked with computers; and leaving 19037 (77%) without computer centres. This is one of the factors as to why the country ranked 95th and 113th for individual ICT usage and readiness, because schools lack the facilities. This poses a problem since pupils are under skilled when it comes to ICT skills. It is because of lack of exposure and experience to computer education. Business plans and other documents nowadays are generated by the use of computer skills, presentations to potential investors need to be conducted in power point presentations, business calculation need to be conducted by Microsoft excel, communication to affiliates and partners through e-mail. From the statistics released by Department of Basic Education one can observe that learners ICT skills remain challenged, and will struggle when enrolled for higher education, and in turn would struggle in starting and operating a business (RSA Department of Basic Education 2011).

4.7 RIGID LABOUR LAWS

South African labour is highly unionised across various industries, naming a few unions being Numsa, FAO, Ceppawu, and UASA (Biyase 2011d). Industrial action (strike) rate is reported to be the highest in South Africa as compared to the rest of the world. The country lost 322 days per 1000 employees in the five years to 2009 (Biyase 2011e), which hampers the recovery of small business and the economy as whole from the recent recession.

In the GEM South Africa Report 2010, government policies are highlighted as one of the three factors constraining entrepreneurship (Herrington et al. 2010). Companies have urged government to review (simplify) or remove the 'red tape'. The current labour legislation limits small business owners from employing on a mass scale due to high remuneration costs and rigid labour laws (Biyase 2011f; Pelsler 2010;

Prinsloo 2011). The labour law protects underperforming workers who can be charged with incapacity or in appropriate conduct (Sunday Times 2011). Entrepreneurs find the disciplinary procedures to be time consuming, leaving the owner to attend disciplinary hearings at the CCMA instead of running the business (Sunday Times 2011).

According to the 2010 SME survey cited by Pelsler (2010), which was a study focusing on both established and emerging business from previously disadvantaged communities, business owners were not in favour of the states labour laws (Seta's skills development levy, health and safety regulations) believing that they add no value to their business. Respondents showed negative signs on the labour act being unpopular yielding results of 40 % and 45 % between established and emerging business. A lightly positive response from emerging and established business of 40 to 49 % response was viewed for the Basic Conditions of Employment Act, Employment Equity Act, and minimum wages (Pelsler 2010a).

Tebogo Khaas, head of SMME forum, attests that government red tape is a threat to the local small business, as it creates a culture of entitlement among employees (Barron 2011). Moreover, he describes how after having fired two underperforming workers, he had to appear before the CCMA at the expense of managing his business. SMME owner-managers cannot afford to lose time on managing their businesses to attend hearings which can proceed for a week (Biyase 2011b). According to Tebogo in Barron (2011:7), "labour regulations have a dire effect on small business development, and employment creation".

Labour legislation is a barrier to private business owners (Cupido 2002), as it imposes wage rate laws, affirmative action, and lastly presents the difficulty to hiring and firing of workers (Biyase, 2011b). In most studies it is highlighted as an impediment to the growth of small and medium enterprises (Pelsler 2010a). Mike Schussler in Ferreira (2011) further emphasises that red tape is strangling the life out of private sector employment, and government should review its labour laws.

4.8 TAX BURDEN

Businesses are subject to various taxes in SA, from company tax, secondary tax in companies, tax on dividends from foreign-registered or incorporated companies (Neiman & Nieuwenhuizen 2009:139). Employers in South Africa make deductions on employee's taxes and contributions and pay these to the South African Receiver of Revenue (SARS). Additional taxes include standard income tax on employees, pay as you earn, unemployment insurance fund, the skills development levy, customs duty, and stamp duties (Venter et al. 2010:247; Nieman and Nieuwenhuizen 2009:140-141). When all these taxes are summated they reduce the profit of a business.

Schuler in Ferreira (2011), comments that entrepreneurs are faced with red tape challenges of steep electricity, service charges and SETA contributions which result to more tax burdens. Government spending is funded by company tax and personal incomes taxes. About 84% of personal income taxes are paid by companies through employees (Ferreira 2011). Pelsler (2011), reports that the unemployment insurance fund received a negative response from the 2010 SME Survey, scoring a response of only 37% of emerging businesses. But income tax and pay as you earn received a positive response.

According to the Annual Review of Small Business South Africa 2003, firms registered for tax and VAT carry a regulatory burden which decreases profits and inhibits business growth and additional employment (RSA Department of Trade and Industry 2003:20). Some entrepreneurs choose to operate in the informal sector as an implication of these costs, hence the large number of active informal small businesses. It is not just the cost of taxes that discourages small business, but the duration to obtain a VAT number taking 10 to 20 days (Thomas 2011). For example, IFFCO, the food manufacturer, had to wait nine weeks to obtain a VAT number (Thomas 2011). The consequence of owners avoiding business registration limits the enterprise from access to capital growth as no entity can secure capital without tax and VAT registration.

In the Annual Review of Small Business South Africa (2003:19), the total administrative burden in terms of VAT amounted to R 8 441 per year (DTI 2003). According to Msulders (2007), annual tax compliance costs for a small business cost

on average R 7 030, provided the practitioner prepares, completes and submits tax returns to the South African Receiver of Revenue (Smulders 2007). Nicolaas van Wyk suggested that SA needs a simplified tax regime for the benefit of establishing a strong small business sector (Ferreira 2011).

Companies tax concessions are 0% on first R43 000 of taxable income, 10% for income greater than R43000 but less than R300 000, and 29% on income greater than R300 000 (Venter et al. 2008:249). Government could stimulate business by increasing the taxable threshold to lessen the tax burden on small businesses, releasing some cash strapped ventures. But this is unlikely as government is debating to increase companies and individual taxes (Vollgraaff 2011g).

4.9 ENVIRONMENTAL REGULATIONS

Environmental legislation is taken seriously in South Africa, with parties found not complying having to pay penalties. This is governed by the Atmospheric Pollution Prevention Act, the National Health Act and the Water Act, to create an environment that is harmless to health and wellbeing (Nieman & Nieuwenhuizen 2009:148).

Water quality has been reported to decline in the country, and will affect all socioeconomic levels, Bill Harding in Biyase (2010b) mentioned. It is predicted that the loss of quality in water could lead to shedding of 200 000 jobs. The water crisis emanates from inadequately treated waste-water. Scientists foresee water quality as deteriorating all over the country, and already one-third of water hoarded in dams has been reported as becoming useless (Biyase 2010). This kind of negligence by business can have detrimental effect on the environment, and cannot be neglected by government when companies decide to be irresponsible.

In 2010, Port Elizabeth was experiencing drought with dams running at record lows. The predicament led the Nelson Mandela Bay Municipality to enforce water restrictions on both households and business. The majority of businesses utilize water and if none is available business tends to cease operation. Shut downs lead to short-time, loss of profits, wages, and salaries.

4.10 RISING TRANSPORT COSTS

Transport costs are a burden for entrepreneurs and one should not think of them to just include fuel. In the Financial Mail, 6 May 2011, transport costs increased from 2004 to 2009, with the capital cost of trucks, two-axle, six-axle and seven-axle vehicles increasing by 8%, 31%, and 28% respectively. In addition, fuel, oil, maintenance, tyres, and incidental costs rose by 75%, 78% and 109% respectively (Sherry 2011).

The Financial Mail, 6 May 2011, reports that the political instability in East Africa has had a negative effect on the price of Brent crude oil, leading to an increase in petrol prices (Sherry 2011). This year fuel prices are reported to have increased by 16.8% (Biyase 2011c), causing an increase in transportation costs. According to Hatten (2006:357), 75% of the food price accounts for distribution of the product. An entrepreneur must find viable means for transportation of the products, even if it means relocating the business closer to customer or suppliers. With the current scenario it is clear that transportation expense increases the costs to do business and adds to the burdens of the entrepreneurs.

4.11 ESCALATING COSTS OF ELECTRICITY AND WATER SERVICES

It has been mentioned that Sub Saharan Africa has poor infrastructure in areas such electricity, water, roads and ICT. The impact of such a state of infrastructure is known to decrease national economic growth by two percentage points yearly, and reduces business productivity by 40% (I-Net Bridge 2011). Minister of finance, Pravin Gordhan, has allocated R800 billion in infrastructure over the next three years. This is favourable for business as it will provide reliable and stable supplies of energy, water, roads and communications which are critical for business operations (I-Net Bridge 2011).

As much as government is expected to invest in infrastructure water, sanitation and electricity tariffs have not ceased to soar. Tariffs for property rates, water, electricity, sanitation were proposed to increase as from 1st July 2011 (Nelson Mandela Bay Municipality, 2011). Indeed the tariffs surged 14% for property rates, 15% for water, 14% for sanitation, and 24% for electricity (Hayward, 2011). This is discouraging to business owners as the increase in rates raises the operating costs of a business.

According to the 2011 Delloite CFO survey, all the respondents reflected that the cost of electricity posed a threat to profit margins (Vollgraaft 2011e).

4.12 CRIME

Crime is viewed as constraint to SA small businesses (Strategic Business Partnerships 2008). South Africa ranked 137th out of 139 nations which was a dismal and poor cost to business of crime and violence ranking (Herrington et al. 2010:20). According to Herrington et al. (2010) in the Global Competitive Report (2010-2011), crime and corruption were ranked third and fifth as the challenging factors to conducting a business in SA. Herrington et al. (2010), reports that in the year 2009, 70% of crimes were targeted at small businesses. This could be a deterring statistic to budding and aspiring entrepreneurs, as they raise the cost of insurances and security costs against risk of theft and burglary.

4.13 INSUFFICIENT PROTECTION FROM FIERCE COMPETITION

Rivalry from global competitors can be fierce leaving local suppliers with no business. Competition particularly from the emerging economies can cripple other businesses in the country as these countries have advantages of cheaper labour costs. In the Sunday times, 28 November 2010, it is mentioned that about 3000 jobs may be lost in the SA steel industry as a result of global sourcing. In the past two years, 200 000 tons of power pylon steelwork has been imported from India (Biyase 2010a). Whilst India protects its steel industry with a trade protectionist imports duty barrier of 10%, South Africa has none in place. This is indicative of poor support for the local industry by government. This is discouraging to local business owners and to aspiring entrepreneurs, as a result of the suffering of their businesses due to low cost and low pricing strategies of foreign firms (Biyase 2010a).

In the same vein of fierce competition, according to Zwelinzima Vavi interviewed by Xolani Gwala on SAFM, "Wal-Mart strangles small businesses within a 5km radius as a result of cheap import products and bargaining power on supplies. The company can afford and survive a price war due to the large discounts it receives

from its bulk purchase contracts from the suppliers” (Vavi 2011).Corporations are seen as a threat to the survival of small business and are also viewed as a threat to long term employment. Small business has to improve their business processes to be more compatible and thus be able to serve corporate giants like Wal-Mart. Wal-Mart has already threatened to reduce member staff but had an agreement not to retrench workers and also to source supplies from within South Africa. These are the challenges that impede doing business in South Africa and can be onerous for budding entrepreneurs.

CHAPTER 5

RESEARCH DESIGN AND METHODOLOGY

5.1 RESEARCH DESIGN

Secondary literature was reviewed sourcing information and data from books, journals, dissertations, newspapers, magazines, radio interviews and news, television news reports, internet, and conference proceedings. The literature review provided proof of the researchers understanding of the topic and served the purpose of being a base for the construction of the questionnaire.

A pilot questionnaire was prepared based on the secondary literature reviewed with the purpose of collecting primary data. The drafted questionnaire was approved to be tested by means of a pilot study by a statistician consultant from Nelson Mandela Metropolitan University.

On the 13th September 2011, letters requesting permission to conduct research at schools were hand-delivered in person to the Principals of the following secondary schools: Cowan High School, Newell High School, and iThembelihle Comprehensive School. Permission was granted immediately on site, obtaining both signatures and school stamps. The principals further assigned teachers which the researcher would liaise with for administering the questionnaire.

On the 21st September 2011, a pilot study was launched to test the drafted questionnaire. The pilot study sample was coincidentally homogeneous on the day since grade 12 pupils were writing an accounting trial exam paper. On the same day, ten pilot questionnaires were hand delivered to each of the three selected schools, making it a total of 30 questionnaires distributed. The response rate of the pilot study was 26 questionnaires collected out of 30 questionnaires distributed. Data of the pilot study was captured on Microsoft Excel for analysis of variations, discrepancies and ambiguity.

After thorough inspection of the pilot questionnaire, the main enquiry was launched as planned with the schools on the 23rd September 2011. On the same day, 129 pre-coded and numbered questionnaires were delivered at the three different schools. The teacher assigned by the principals assisted in the administering of the questionnaire. A cover page was attached to the questionnaire introducing the researcher, explaining the purpose of the study, and assuring anonymity. The researcher was available on sight for clarification and for further explanation of the questionnaire.

The questionnaires were collected immediately after the learners completed them. A total of 124 questionnaires were collected out of 129. A quantity of six questionnaires collected was rejected due to an error of sections being left blank (unanswered). A decision was made to include the 26 questionnaires collected from the pilot study to the 118 of the main enquiry, since no major changes were made. This resulted to a total of 144 respondents. The data capturing exercise was executed with Microsoft Excel software computer programme and further analysed with a statistical software computer programmed called STATISTICA.

5.2 RESEARCH METHODOLOGY

Research methodology is known to be the approach one applies when conducting research, or simply put the research process (Collis & Hussey 2003:47; Delpont & Fouche 2011:61). The term methodology is also known or used interchangeably with the term paradigm. The research methodology applied is said to be reflected by the research design, data collection method and the method of analysis (Collis & Hussey 2003). According to Hussey and Collis (2003), there are two main extreme but opposite ends of research paradigms, namely positivist and phenomenological. The study at hand was a descriptive type of research conducted with the application of a positivist approach.

According to Creswell (1994:1-2) cited in de Vos, Strydom, Fouche and Delpont (2011:64), a quantitative study is defined as “an inquiry into a social or human problem, based on testing a theory composed of variables, measured in numbers and analysed with statistical procedures in order to determine whether predictive generalizations of the theory hold true”.

The quantitative approach is known to be beneficial for its ease and speed of collecting data. Lastly, the quantitative paradigm is reputable for its ability to answer questions about relationships, able to explain, predict and control phenomena. As a result of the nature of the problem stated, and the fact that the study was conducted at three different schools, the study required ease and speed to collect the relevant data and this led to the positivist approach as the paradigm of choice.

5.2.1 Sampling Method

As defined in Collis and Hussey (2003:56), “a sample is a subset of a population, representing the interest of the study”. The unit of analysis under study was grade 12 learners enrolled in the year 2011. The study focused on grade 12 learners enrolled in public schools situated in previously disadvantaged communities. The sample was extracted from three secondary schools in the New Brighton area, namely Cowan High School, Newell High School, and iThembelihle Comprehensive School. The explanation behind the selection of these three schools was to obtain a sample that is highly representative instead of sampling from a single school. It would be

irrational to generalize results from a sample extracted from a single school, as in contrast to three schools. The idea behind sampling from three different schools was to obtain a representative sample that was composed of equal portions of the schools.

Since the schools are situated in the same area, located from each other within distances less than five kilometres, this made it possible for the study to be conducted at the same time. The researcher was able to visit one location after the other for primary data collection.

In the pilot study, 30 pre-coded questionnaires were delivered at the schools in person to be distributed by the teachers in liaison. In response to the pilot study, 26 questionnaires were returned. For the main study, 129 pre-coded questionnaires were delivered in person, and a response of 124 questionnaires was received, but six questionnaires were rejected due to blank (unanswered) questions. The ideal response that was targeted for the main study was to collect 100 questionnaires, which was by far exceeded.

5.2.2 Data Collection Method

A questionnaire survey is a quantitative methodology which entails extracting a sample from a population to be analysed and generalize about the population (Collis & Hussey 2003). A self-constructed questionnaire was the tool used to collect the primary data in the study. The questionnaire consisted of closed questions which were a variety of multiple choice and questions constructed using a 5-point Likert scale. On the Likert scale, a score of 1 to 2 was considered negative, 3 neutral, and 4 to 5 was a positive response. The purpose of the method of choice was to collect quantitative data with the expectation that it will be specific, precise, and yield high levels of integrity. In order to achieve specificity, precision and integrity a pilot questionnaire was constructed and tested on 30 grade 12 learners, 10 from each school. The pilot study was conducted on the 21 September 2011 during school hours. The pilot questionnaires were collected, and obtained a response of 26 questionnaires out of 30, of which the results were satisfactory requiring no major

changes on the questions although slight changes were required on the format of one section in the questionnaire.

For the main study, 129 questionnaires were delivered at the three schools on the same day to the teachers appointed by the school principals to act as liaison. The main study was conducted on the 23 September 2011 during school hours. On the front page of the questionnaire a letter explaining the purpose of the study was attached assuring anonymity to the participants. The teachers in liaison assisted with the distribution and collection of the questionnaires.

5.2.3 Data Analysis

The data from the questionnaires was captured on Microsoft Excel. The data was analysed using Excel and STATISTICA software computer programme. The majority of the analysis was descriptive in nature. Sections 3, 5 and 7 in the questionnaire consisted of closed questions measured on a 5-point Likert Scale. A score of 1 to 2 was considered negative, 3 neutral or unknown, and 4 to 5 was a positive response. The mean and standard deviation on each question in these sections were analysed and recorded.

The results were summarized and presented in both tabular form and by making use of graphs. Lastly, insight in the form of interpretation was given to explain the meaning of the results, and also compared to existing research results.

CHAPTER 6

EMPIRICAL RESULTS, INTERPRETATION AND PRESENTATION

As mentioned earlier in chapter 5, the tool utilized to collect the original data was a pre-coded questionnaire survey. The participants in the survey were grade 12 learners enrolled in the year 2011, since they were the selected unit of analysis. The data collected was quantitative in nature, undergoing descriptive statistical analysis. In this chapter the results are presented in both tabular and graphical forms. Furthermore, the results were discussed to explain whether the research objectives were met.

6.1 DEMOGRAPHIC DISTRIBUTION OF RESPONDENTS

The questionnaire contained a section designed strictly for the demography of the sample under investigation. The table below depicts the demographic profile of respondents according to their age, gender, ethnicity and parenting.

Table 6.1: Demographic profile of respondents

Category	Description	Percentage (%)
Age	Below 18	22.2
	18	45.1
	19	23.6
	Older than 19	9.0
Gender	Male	39.2
	Female	60.8
Ethnicity	Black	100
Parenting, caregiving or guardianship	Both Parents	30.6
	Single Parent	34.0
	Grandparent(s)	18.1
	Relative(s)	14.6
	Alone	0.7
	Other	2.1

The majority age distribution of the respondents was at the age of 18 years and below, represented by a portion of 67.3% of learners. The dominance of this figure can be explained by the fact that the age 18 is the norm for learners in grade 12 level. The Department of Basic Education concurs stating that “learners aged 16 to 18 makeup the appropriate norm for enrolment in the Further Education and Training (FET) band schooling, which corresponds to grades 10, 11 and 12” (RSA Department of Basic Education 2010).

The respondents were predominantly 60.8% female, in contrast to 39.2 % of males who participated. This result does not come as a surprise, even though the results for females were higher and for males lower. When comparing the results of this study to the ones published in the report on the National Senior Certificate (NSC) Examination Results for 2010, it can be seen that those who wrote the NSC examination were 54.54 % were female and 45.46% male (RSA Department of Basic Education 2011). Moreover, the figures published in the School Realities Report 2010 depict that in South Africa the enrolment for grade 12 comprised of 54.81% female and 45.19% male. The Eastern Cape enrolment percentages differed slightly with 56.13% being female and 43.87% male. It is notable that all these figures correspond to one another, confirming that the sampling method used was

appropriate and the sample selected was a well-represented and unbiased sample in terms of gender distribution.

The sample ethnicity was completely black, the explanation of which the study was conducted in a historically disadvantaged community where unemployment and poverty are exacerbated. This is the geographical and ethnic focus of the study. It was not a comparative analysis study between historically advantaged versus historically disadvantage schools.

With regards to parenting, caregiving or guardianship, 30.6% of respondents lived with both parents, 34.0% of respondents lived with a single parent and 18.1% with grandparents. When one combines the figures of learners living with neither a biological parent one obtains a figure of 35.4%. According to the South African Institute of Race Relations (2011), of children from ages 0 to 17 years that lived with both biological parents, it was deduced that 43% lived with a single parent (40% mother only and 3% with father only), 8% with grandparents and 23% with neither biological parents (Holborn & Eddy 2011). In this research study, the result for children that lived on their own was 0.7% which is in agreement with the corresponding finding of 0.5% for child-headed households in the research “First Steps to Healing the South African Family” by the Institute of Race Relations (Holborn & Eddy 2011).

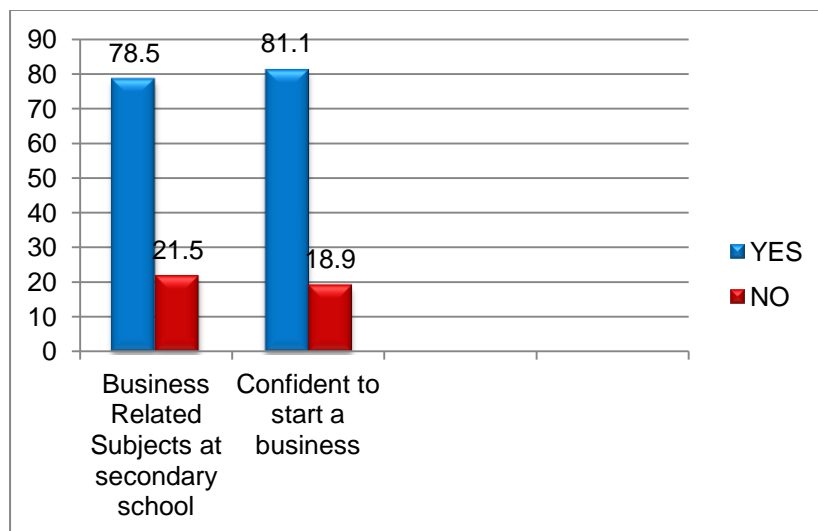
6.2 BUSINESS PEDAGOGY AND CONFIDENCE TO START A BUSINESS

The section served the purpose of assessing the aspirations and intentions of the respondents. The table below illustrates the distribution of learner pedagogy toward business related subjects and confidence to start a small businesses.

Table 6.2: Business pedagogy and confidence to start a business

Category	Description	Percentage %
Business related subjects at secondary level	Yes	78.5
	No	21.5
Confident to start a business	Yes	81.1
	No	18.9

Figure 6.1: illustrates business pedagogy and confidence to start a business



The majority of the respondents 78.5% had done business related subjects at secondary school level, whilst 21.5% of them had never been exposed to such pedagogy. Even though this was the case, 81.1% of the respondents were confident that they would be able to start their own businesses. The explanation behind the higher confidence of starting a business than the figure of learners who did do business related studies maybe due to the fact that even though some learners never studied business related studies they may recognise the need of entrepreneurship and operate in the informal economy as a result of high youth unemployment and poverty in South Africa.

Table 6.3: Intentions and aspirations after grade 12

Category	Description	Percentage %
Intensions after finishing grade 12	Start a business	8.4
	Work	5.6
	Tertiary education	74.1
	Take a break	2.8
	Don't know	9.1
Desired type of Income	Wage	7.1
	Salary	75.2
	Profit	17.0
	Dividends	0.7
Career Aspirations	Entrepreneur	29.8

	Employee (manager, professional, technician, clerk, sales and services, plant operator, other)	70.2
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In the questionnaire respondents were asked what their intentions were after finishing grade 12. A frequency distribution of 74.1% indicates that they intended to enrol for tertiary education. Although the result was lower, the figure agrees with the result of 79.4% of learners intending to enrol for tertiary education, depicted in the research conducted by Sathorar (2009:116). This response could be regarded as a positive indication, if its intention was for the purpose of eventually engaging in entrepreneurship. But this is not the case, as 70.2% of the respondents indicated that they eventually want to be employees (manager, professionals, technicians and clerks), contrary to the 29.8% who wanted to end-up as entrepreneurs. This result was further supported by the fact that 75.2% of respondents would like to earn a salary, as compared to 17% that would prefer earning a profit. The results attest to the statement made by experts in the GEM South Africa Report 2010, that the South African education system neglects the real world of work, and perpetuates a culture of entitlement and job-seeking (Herrington et al. 2010). Furthermore, it is stated that the education system encourages higher education as the only option for career progress and success, and as a consequence creates a mind-set that academic knowledge is more superior to occupational skills (Herrington et al. 2010). It is evident that the respondents' career intentions and aspirations lean more towards being employees rather than being employers.

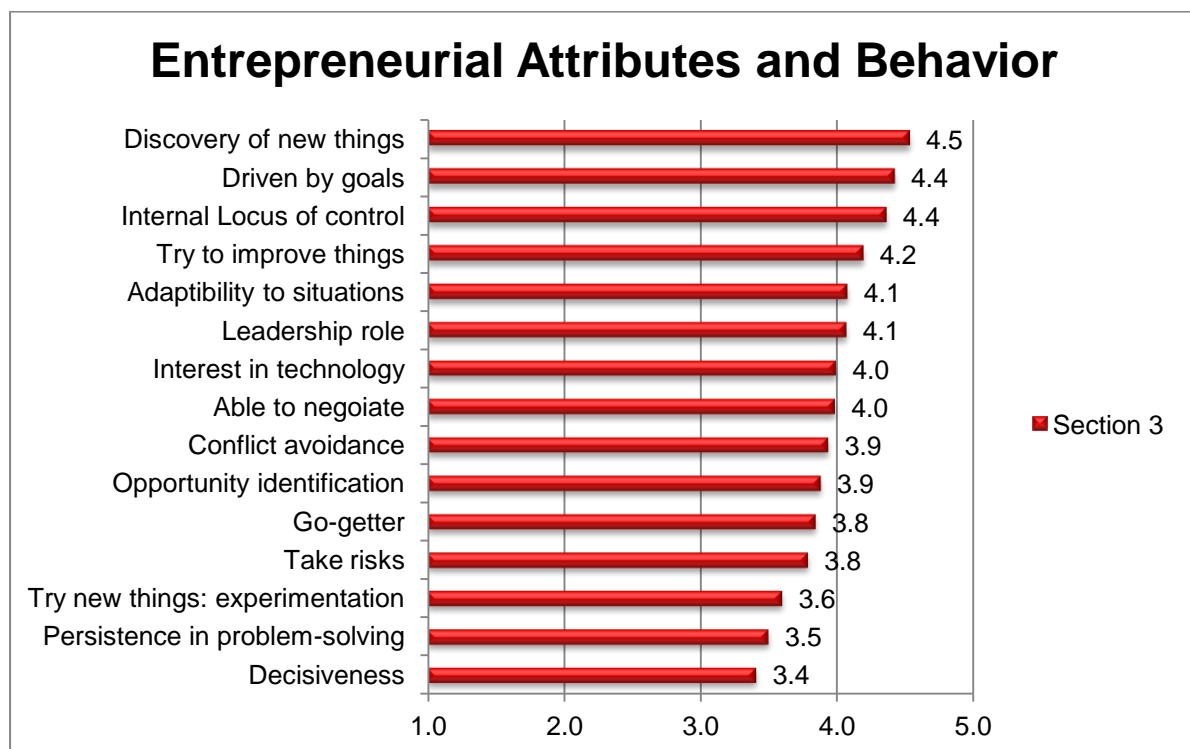
Only 8.4% of respondents intended to start a business after grade 12 studies. The result corresponds and confirmed the result in the GEM South Africa Report (2010) depicting SA with a TEA rate of 8.9% (Herrington et al. 2010). This can be considered to be a poor result when compared to the average TEA rate of 15.6% for efficiency-driven economies (middle to low income).

6.3 EVALUATION OF ENTREPRENEURIAL ATTRIBUTES AND BEHAVIOR

The purpose of this section was to evaluate the entrepreneurial attributes and behaviour of the respondents. The section comprised of closed questions measured on a 5-point Likert Scale. On the Likert Scale a score of 1 - completely false, 2 – partly false, 3 – neutral or undecided, 4 - partly true, and 5 - completely true. The mean values for each question were calculated and arranged from largest to smallest. The results were presented in both tabular and graphical form.

The results on entrepreneurial attributes and behaviour can be viewed overall as positive, since most of the questions scored mean values above the value of 3. The response to two questions was partly negative simply due to negative formulation of these questions, of which the problem was smoothed by data transformation techniques, but all in all the answers actually resembled a positive entrepreneurial attitude and behaviour.

Figure 6.2: Assessment of entrepreneurial attributes and behaviour



There were eight entrepreneurial attributes and behaviour points found to be positive and scoring 4-and-above on the five-point Likert Scale. These were namely discovery of new things, driven by achievement of goals, internal locus of control,

tried to improve things, adaptability to situations, comfort with leadership role, interest in technology, and ability to negotiate. Judging from the results these could be viewed as respondents' strengths pertaining to entrepreneurial characteristics and behaviour.

Learners revealed that they strongly like to discover new things and try to improve how things are done. This response is indicative of learners' ability of invention and innovation, which are paramount for entrepreneurship. Both attributes respectively scored a mean score of 4.5 and 4.2 on the five point Likert Scale.

Respondents depicted positive signs of being driven by achievement of goals and believed that they are in charge of their own destiny. Learners resembled signs of the achievement motive and high internal locus of control. Both attributes scored mean values above 4 on the five point Likert scale.

The sample under study indicated a positive response to adaptability to situations, leadership role, and negotiation skill. These attributes scored mean values of 4.1, 4.1, and 4.0 respectively. About 70.8% of learners indicated to be comfortable with playing a leadership role. This was further supported by the positive and strong response of 73.0% and 71.6% for both the ability to adapt to situations and the ability to negotiate. Respondents believe they are able to adapt to crisis situations, and control negotiations if deals need to be struck.

Contrary to the previous traits and attitudes found to be highly positive, a number of traits were of concern even though the findings were on the positive side of the scale. Fear of experimentation, lack of persistence in problem solving, risk-taking, and decisiveness were three attributes to underscore. These underscoring fell in-between the mean values of 3 to 4 on the five-point Likert scale.

A positive response of 62.7% of respondents were risk takers, although the result was higher it still agrees with the positive response of Sathorar's (2009:114) finding where 55.9% of grade 12 learners were found to be risk takers. The result reaffirmed Sathorar's finding and seemed to be of contradiction with the work of Davis (2001:32) in Sathorar (2009:114) which found South Africans to be risk averse.

On a daily basis entrepreneurs have to make decisions with no room to be hesitant or being afraid of failure. Risk is part of business start-up since one uses other

people’s money and has to bear with the stress that comes with the amount of responsibility. The respondents resembled indecisiveness, scoring the lowest mean value of 3.4 on the Likert scale, and a frequency response of 48.2%.

Learners also showed signs of weakness and caution when it came to experimentation. The response scored a positive mean value of 3.6 on the Likert scale. Whilst persistence in problem solving resembled the same response, it scored a mean value of 3.5 on the Likert scale. The results are clear: a significant number of learners are reluctant to experiment and lack persistence for problem-solving.

Overall, respondents resembled a strong and positive entrepreneurial character and behaviour. But resemble weakness in decisiveness, persistence for problem solving, and experimentation.

6.4 ENTREPRENEURIAL BACKGROUND AND ORIENTATION

The objective behind this section was to assess the entrepreneurial background and orientation of respondents. As it was mentioned in chapter 3, background and orientation have an influence on the decision for one to embark on entrepreneurship. Various influential factors including parent’s education level, entrepreneurial history of parents, friends, or relatives, existence of entrepreneurs in the community; religion, culture and school were evaluated. The results were presented in tabular form and graphically by means of a pie chart and a bar chart.

Table 6.4: Results on parents’ level of education

Category	Description	Percent %
Education level of parent(s) or guardian	Below Gr 12	27.7
	Grade 12	43.3
	Graduate	3.5
	Post Graduate	2.1
	Don't know	23.4

Figure 6.3: Graphical representation of the education level of parent(s)

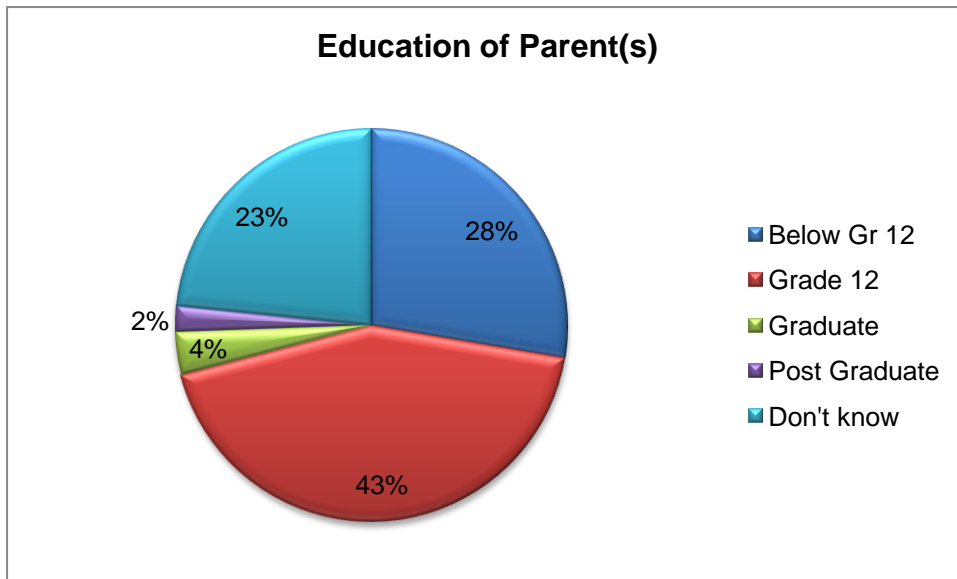


Table 6.5: Results on entrepreneurial background, orientation and culture

Category	Description		
	Yes %	No %	Do not know %
Parent(s) own or operate a business	14.1	85.2	0.7
Friends own or operate a business	16.3	80.9	2.8
Family relative(s) owns a business	50.8	39.5	9.7
I participate in the operation of a small business	27.9	70.7	1.4
There are entrepreneurs in my community	74.3	12.9	12.9
Religion allows me to start a business	62.7	23.2	14.1
My culture encourages me to be an entrepreneur	44.7	34.8	20.6
School encourages me to start a business	72.3	14.2	13.5

According to the results in table 6.4, 27.7% of parents had not obtained a grade 12 education, whilst 43.3% obtained a senior certificate examination, 3.5% were graduates, 2.1% had post graduate qualification, and 23.4% were unknown. The 5.6% of parents with a tertiary education agrees with the 6% figure of 1996 of South Africans with a tertiary education (Herrington 2011). A portion of 71% parents have an education level of grade 12 and below which explains why 74.1% of respondents chose tertiary education over starting a business. This response can be viewed as

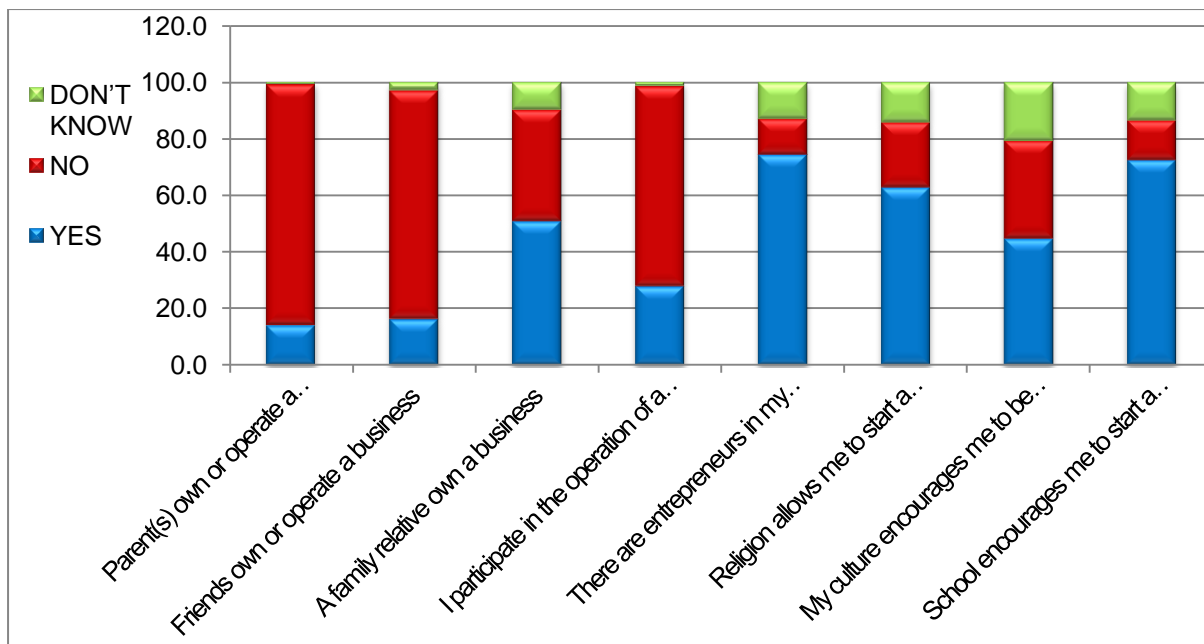
compensation by learners for their parents missed opportunity of attaining a tertiary education. Even though parents encourage learners toward a tertiary education, the reality is tertiary education is too expensive and unaffordable for the majority of South Africans. This is furthermore supported by the result in table 4.2, that 85.2% of parents are not entrepreneurial in comparison to only 14.1% who own a business. In chapter 3 it was stated that individuals with parents that are entrepreneurs tend to become entrepreneurs themselves. Instead of a positive influence toward entrepreneurship respondents face a negative influence since their parents are not entrepreneurial.

It was mentioned earlier in chapter 3, that children with entrepreneurial parents tend to engage in entrepreneurship. In this study, 85.2% of parents were not entrepreneurial, and 80.9% of friends are not engaged in entrepreneurial activity. As it is known, learners spend ample time around parents or friends. The poor entrepreneurial activity of parents and friends poses a negative influence toward the entrepreneurial orientation of respondents. Most children look up to their parents as role models and in this instance parents are imposing a negative model on their children regarding entrepreneurship. Non-existence of entrepreneurial role models can result in poor career direction and lack of entrepreneurial character.

A positive response was evident with family relatives and entrepreneurs in the community. A slightly convincing figure 50.8% of relatives owned a business, and 74.3% of respondents confirmed the existence of entrepreneurs in their community. This influence could be regarded as favourable for an orientation toward entrepreneurship. It enables learners to have a point of reference or role models to benchmark on and aspire to.

According to the results 70.7% of respondents do not participate in the operation of a small business, in contrast with the 27.9% who do participate. This is indicative of lack of work experience and entrepreneurial exposure. The more work experience the easier it is to engage in entrepreneurship as one is familiar with business processes that are stated in chapter 3. In this instance 70.7% of respondents have limited entrepreneurial experience or exposure. This is deemed to have an inhibiting effect on the orientation toward enterprise.

Figure 6.4: Illustrates respondent's entrepreneurial background and orientation



In summary, the respondents are disadvantaged pertaining entrepreneurial orientation and background. Major contributors to this are found to be paucity of entrepreneurial parents and friends, lack of work experience, a culture which lacks clarification on entrepreneurship. Religion and schooling were indicated to encourage the respondents toward entrepreneurship, with results of 62.7% and 72.3% respectively. This is a sign that economic management sciences or business studies have a satisfactory impact on gearing the mind-sets of learners toward entrepreneurship. The figure of 72.3% of respondents who believe that school (education) encourages them toward entrepreneurship corresponds to the figure 78.5% of students who have studied EMS or business studies at secondary school. However, the results on culture resembled that there was lack of clarity whether entrepreneurship is encouraged in the African culture, with 44.7% agreeing, 34.8% disagreeing, 20.6% not knowing whether it does or not.

6.5 ENTREPRENEURIAL AND MANAGERIAL SKILLS

Entrepreneurial and managerial skills are pivotal for the success of a business venture. Various types of skills were assessed using closed questions which consisted of a 5-point Likert scale. The respondents were asked to indicate whether they agree or disagree. The different scores had different meanings with 1 – strongly disagree, 2 – partly disagree, 3 – neutral or unknown, 4 – partly agree, and 5 –

strongly agree. A business plan and market research were defined for the purpose of clarity.

Internet skills scored the highest mean of 4.1 amongst the various entrepreneurial skills. This is indicative of high internet usage amongst learners. This high result may be associated to the 80% increase of smartphone users from 2009 to 2010, stimulated by lower prices of smartphones (Peacock 2011). As envisaged by Pater Dobek cited in Peacock (2011), internet usage will continue growing as a result of decreasing smartphone prices and increasing internet access. There is popularity of cellular phone technology amongst the youth, using the internet to download music, video files, and accessing social networks (Mashego 2011). However, a staggering figure for computer skills was found to be negative and poor with a mean score of 2.3 on the Likert scale. Only 29.1% percent of respondents indicated had solid computer skills and were familiar with Microsoft packages. This is a sign that learners do not own computers at home and there is a shortage at schools (Herrington 2011). These results were expected, as only 10% or 2489 out of 24793 schools are stocked with computers in South Africa (RSA Department of Basic Education 2011c), and it agrees with the finding by Herrington in 'Advocates for Change' (Herrington 2011). On the other hand, the Global Information Technology Report 2010-2011, indicated South Africa's individual ICT preparedness and uptake to be weak, ranking the country 113th and 95th out of 133 (Dutta & Mia 2011). Lack of computer skills raise a concern since nowadays documents are generated in electronic format, presentation slides are prepared on power-point and data capturing and business calculations performed on Microsoft excel. Paucity of computer skills is viewed as a barrier to start-up and operation of a business.

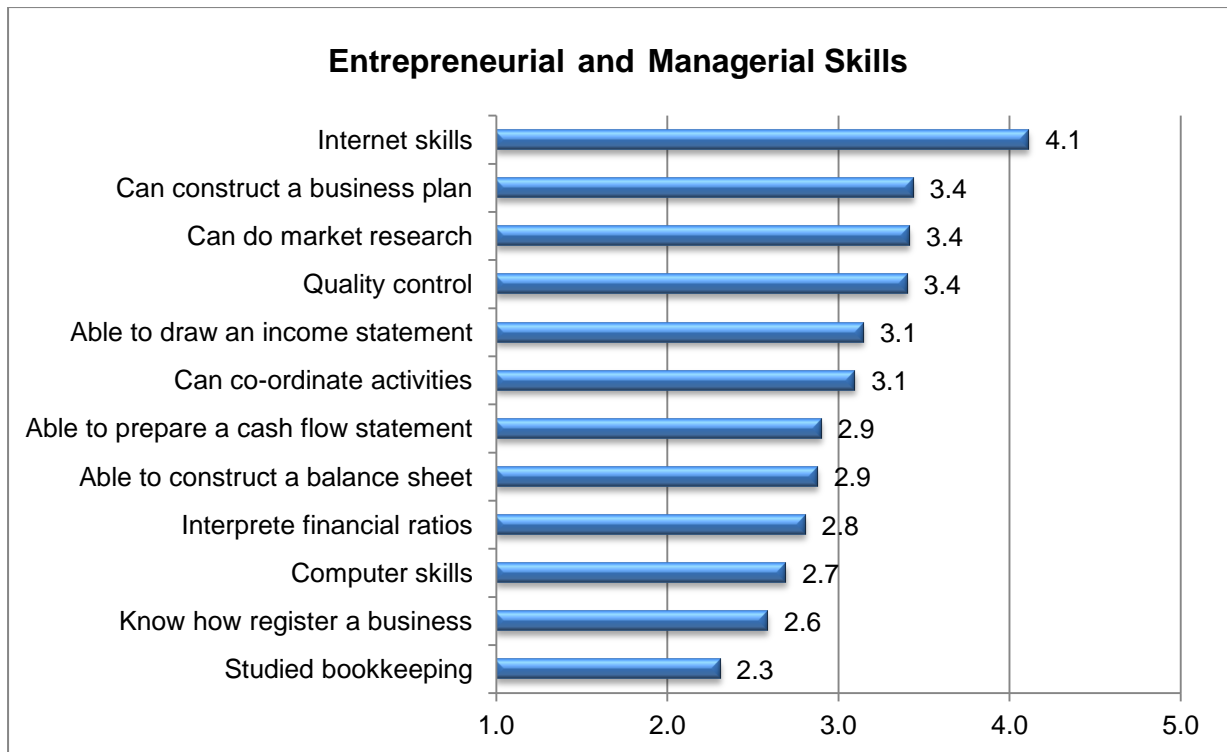
The respondents indicated that they are capable of constructing a business plan, performing market research, and were able to control the quality of their product or service. All three attributes scored the same mean value of 3.4 on the five-point Likert scale. From a descriptive perspective, respectively 45%, 51.1% and 48.9% of respondents were confident in doing market research, constructing a business plan and controlling the quality of their product or service respectively. The 51.1% figure in this study is way below to the 88.2% of learners able to prepare a business plan which was discovered by Sathorar (2009:122). The fact that only 51.15 of learners are able to construct a business plan was further supported by the facts in this study

where the respondents scored unconvincingly in the contents of a business plan - financial skills, co-ordination of operational activities, quality management and market research.

Knowledge on business registration was one of the factors to rank the most negatively, scoring a mean value of 2.6 on the five-point Likert scale. Only 27.7% of respondents knew how to register a business start-up, contrasted with 47.5% who do not know how to register their businesses. This result may be underpinned to the lack of awareness or advertising campaign by government organizations, such as Companies and Intellectual Property Commission (CIPC) previously known as Companies and Intellectual Property Registration Office (CIPRO).

The financial skills of respondents were measured on questions whether they studied bookkeeping (accounting records), and could prepare the various financial statements. Only 26.1% of the respondents had done bookkeeping (accounting recording), have the skill to record business transactions from subsidiary books (journals), ledger accounts up to trial balance and reconciliation of accounts. A response of 48.2% can draw an income statement, 38.7% can prepare a balance sheet, 36.9% can interpret financial ratios, and 43.3% could prepare a cash flow statement. The nature of the results was further reflected on a Likert scale constructed. All the above mentioned financial skills scored below the mean value of three with an exception for 'the income statement skills' which scored the mean value of 3.1 on the Likert scale. These results reflect a dismal state of financial skills among learners. Lack of financial skills is detrimental for the planning stage of the start-up venture, since they will lead to poor financial projections when presented to investors. Furthermore, poor financial skills result in mismanagement of finances.

Figure 6.5: Respondents' entrepreneurial and managerial skills



6.6 AWARENESS ON LEGAL ASPECTS OF BUSINESS

Learners were assessed on the legal aspects of business. The questions were centred on labour law, environmental legislation, occupational health and safety, bankruptcy law, consumer protection act and companies act. This set of questions was purposed to detect the level of knowledge in this particular area of business.

6.6.1 Regulatory Laws

Labour relations are important in the workplace area as they involve both the employer and employee. An entrepreneur familiar with labour relations act should find it easier to harmonize the work environment. The labour relations act covers issues such as trade union affiliation, collective bargaining, strike action, and dismissal. With regards to the labour relations act, respondents indicated that 41.5% knew about the act, 44.4% just heard about it, and 14% knew nothing about it.

Environmental regulations was the second most unpopular, with a response of only 17% to know about it, 47.5% just heard about it, and 35.5% knew nothing about it. Government takes environmental legislation seriously, failure to comply with the regulations may result in heavy fines. The business owner must have the appropriate

procedures in place to control issues like waste disposal, water management, air pollution, ensuring compliance to the acts mentioned in chapter 4 of this study.

The purpose of the occupational health and safety (OHS) act is for employees to work in a safe work environment (Rwigena, Urban, & Venter 2008). In this study, a response of 27.7% knows about OHS act, 46.1% just heard about it, and 26.2% knew nothing about it. Compliance to the act is important as it can eliminate hazards and thus minimize injuries on duty.

The lowest response was on bankruptcy law, with 15.7% knowing about it, 42.9% heard about, and 41.4% knowing nothing about it. This negative result is indicative that respondents are not aware of the procedures that occur after the business no longer meets its obligations.

The Consumer Protection Act has been enforced to protect the consumer from the sale of poor quality products, and enables consumers to receive full refunds if dissatisfied with the quality of products. On the other hand the Companies Act has seen the end of registration of close corporation. Both the Consumer Protection Act and the Companies Act have been introduced in the current year of 2011. Both acts shared the same response in this study, with 39% of respondents indicating to know about them. The majority of the learners further indicated on consumer protection act that 39.7% and 21.3% either had just heard about it or knew nothing about it. On the Companies Act, 34.0% and 27.0% had either heard about it or knew nothing about it.

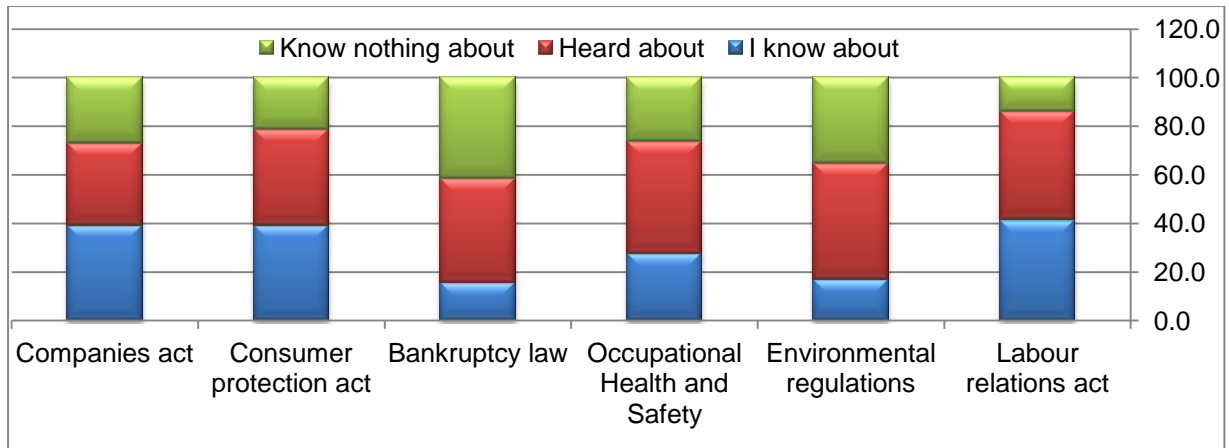
Negligence or non-compliance to the legislation could lead to penalty fines and even shutdown of the business by government. This would be detrimental to investment, profits and growth of a business. Lastly, may repel employees from taking interest in the labour market.

Table 6.6: Assessment on legal aspects of business

Category	Description		
	I know about %	Heard about %	Know nothing about %
Labour relations act	41.5	44.4	14.1
Environmental regulations	17.0	47.5	35.5
Occupational Health & Safety	27.7	46.1	26.2

Bankruptcy law	15.7	42.9	41.4
Consumer protection act	39.0	39.7	21.3
Companies act	39.0	34.0	27.0

Figure 6.6: illustrates the knowledge of learners on legal aspects of business



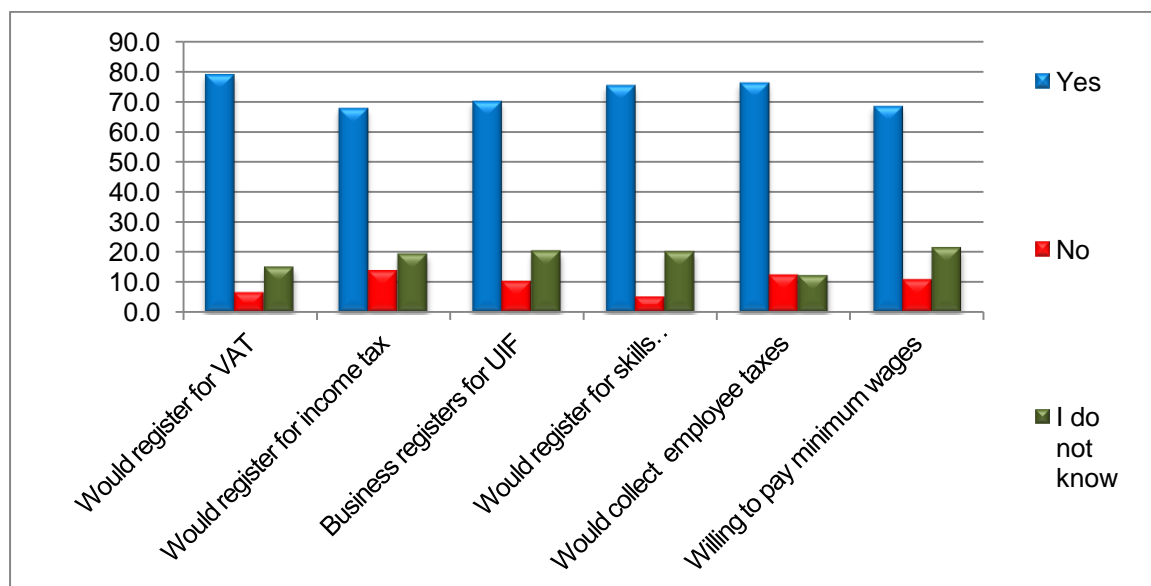
6.6.2 Compliance to taxes and minimum wage costs

In chapter 4 of this study, small business owners complain about tax burden and the cost of labour in South Africa. According to the results in this study, 78.9%, 67.6%, 70.0% and 75.2% of respondents indicated that they would register their businesses formally, for VAT, Income tax, UIF and skills development levy respectively. They also indicated that would assist the South African Receiver of Revenue in collecting employee taxes. Lastly, 68.3% responded that they would pay their employees minimum wages as stipulated by government.

Table 6.7: Willingness to comply with taxes and minimum wages

Category	Yes (%)	No (%)	I do not know (%)
Would register for VAT	78.9	6.3	14.8
Would register for income tax	67.6	13.4	19.0
Business registers for UIF	70.0	10.0	20.0
Would register for skills development levy	75.2	5.0	19.9
Would collect employee taxes	76.1	12.0	12.0
Willing to pay minimum wages	68.3	10.6	21.1

Figure 6.7: Compliance to payment of taxes and minimum wages



6.7 BUSINESS START-UP FINANCING AND INSTITUTIONAL SUPPORT

Capital is necessary to finance a start-up venture and this can come from different sources. Entrepreneurs are known to finance their businesses from personal savings, family funds, bank loans, venture capitalists, and angel investors. Learners were assessed on which option they would finance their business with.

6.7.1 Financial resources for small business start-up

It is evident from figure 6.8 below most respondent preferred financing their business from personal savings. The response obtained was a mean score of 3.6 on a five-point Likert scale, which was positive and indicative of learners being non hesitant to take the risk of starting a business from their own savings.

A negative response of sourcing capital from family members for business start-up was reflected. This result is justifiable since 8.9 million South African are debt trapped, and the household debt to disposable income ratio is 75.9% (Govender & Naidoo, 2011). This resembles a fact that family members are not well endowed with financial reserves. The result would force learners to go and borrow money from banks, angel investors or venture capital investors. This is a deterring factor to

potential entrepreneurs as loans charge interest and require collateral. It is an advantage to be financed by family because there are no interest payments and also there is flexibility of repaying the principal amount.

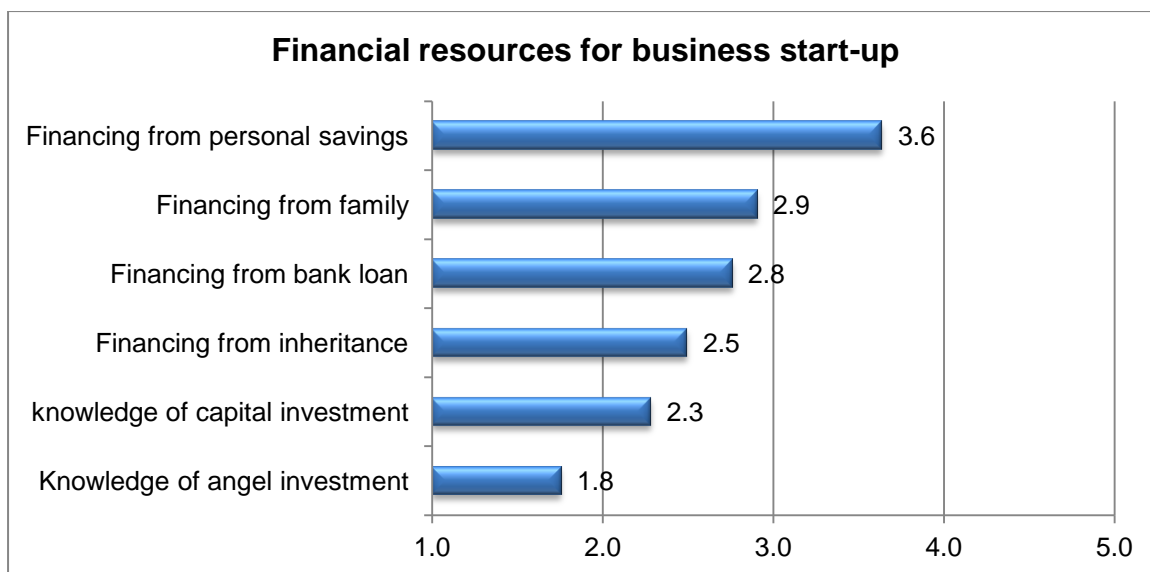
The third highest ranked alternative indicated by respondents was the use of bank loan. Even though this option ranked third highest, it was found to be negative and an unpopular decision. Although the respondents indicated earlier that they are risk-takers, it may happen that their family members are highly risk-averse and actually not wealth endowed families to meet the collateral requirement (City of Johannesburg, 2011b). Proof of this are the facts found in this study previously mentioned that only 5.6% of respondents had parents with tertiary education; 14.1% learners' parents were entrepreneurial whilst 85.2% were not business owners. With a low level of education and untraceable entrepreneurial history there is no way that these families possess enough assets to be laid as collateral.

As mentioned in the previous section, which overlaps to the current point, families in disadvantaged communities are poverty stricken. Families do not leave much inheritance as they are not wealth endowed. The little inheritance left behind is used for survival and not opportunity. The response on financing the business with their inheritance is a risk for these learners, hence the negative and poor scoring of 2.5 on the five-point Likert scale.

Both capital investment and angel investment as financial sources recorded negative and poor results. They each scored mean values of 2.3 and 1.8 on the five-point Likert scale. This means that learners are not aware of these two financing options either due to lack of access to information or the topic is just not covered in the school syllabus. Again access to internet and a computer have proved to be vital for access to information for learners.

Overall, learners are clueless as to how and from where to source financing for their business start-ups. It is a challenge for learners to obtain loans as they do not have collateral and since they come from impoverished backgrounds.

Figure 6.8: Financial resources for business start-up



6.7.2 Institutions for financial and non-financial support

This section was designed to answer secondary objectives regarding the perception of learners on the governmental and private institutions that provide financial and non-financial support for SMMEs. These institutions and agencies listed in table 6.6 have a mandate to implement the Integrated Small Business Strategy which is mainly based on small business development (RSA Department of Trade and Industry, 2008).

The results indicate that there is lack of awareness concerning these institutions. The learners' response depicts that the agencies have conducted few if any awareness campaigns when it comes to these institutions. Again this lack of knowledge on institutional support for SMMEs is due to the lack of access to information caused by the small number of schools furnished with computers and internet (RSA Department of Basic Education, 2011c).

The National Youth Development Agency (NYDA) previously known as Umsobomvu Youth Fund appeared to be the most popular agency amongst respondents. It was represented by 47.6% of those who know about, 42.7% heard about it and only 9.85 knew nothing about it. NYDA has done campaigns at education institutions, hence the high response amongst learners. It is also featured many times on electronic media such as television and radio. It could be deduced that NYDA had a positive overall response from 90.3% respondents.

Another positive response observable was that of Commercial banks and Industrial Development Corporation. Learners were aware of banks to provide financial support to SMMEs. Evidence to this fact is the positive overall response of 77.7%, which comprised of 34.3% of those who knew about and 43.4% who just heard about it. The positive response on banks can be pinned to television commercials of the various banks. IDC advertising is very popular in the newspapers and magazines, hence the positive response of 63.0%, composed of 31.5% who know about and 31.5% who had heard about the organisation.

The Small Enterprise Development Agency received an overall response of 73.3%, comprised of 28.5% who know about it and 45.1% who just heard about it. SEDA offices are visible in the central business districts and also popular in media, hence the positive response amongst school leavers.

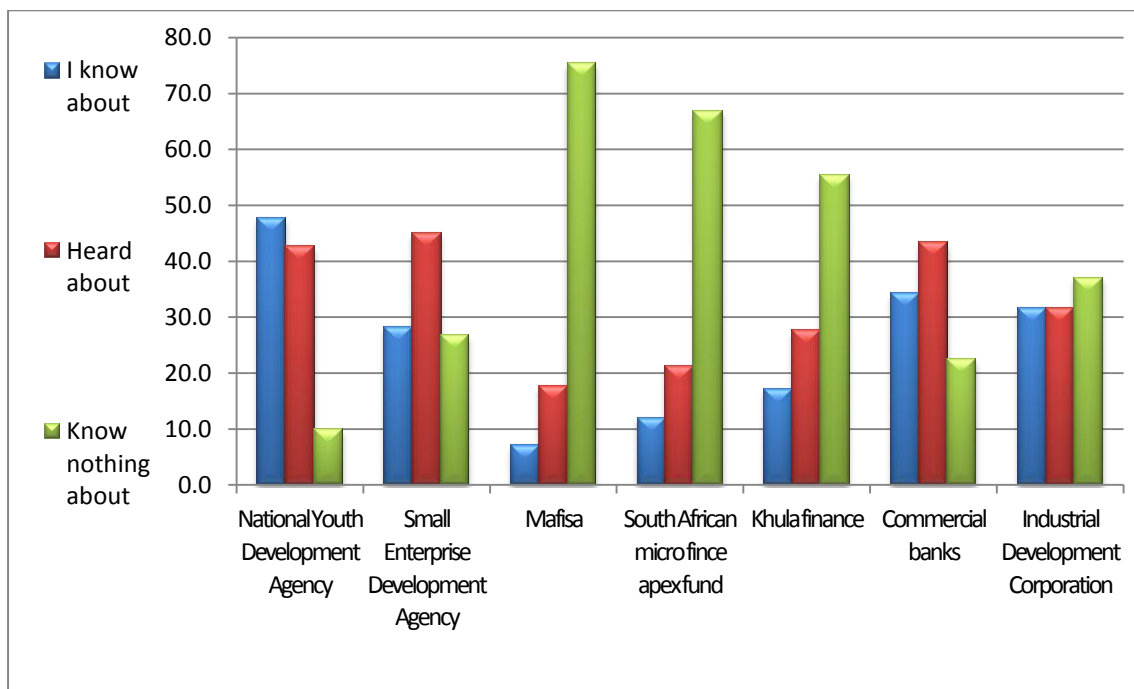
In contrary to the positive response to some of these institutions and agencies, a highly negative response was received for some of them. Among those who were unpopular included Mafisa, South African Micro-Finance Apex Fund (SAMAF) and Khula Finance Limited. These agencies and institutions have designed fancy websites of which the majority of the population they supposed to serve do not have access to. Preparedness and usage of ICT is very low amongst South Africans, resulting in it being ranked 93rd in world (Dutta & Mia, Global Information Technology Report , 2011). Mafisa, SAMAF and Khula received a dismal and negative result of 75.4%, 66.9% and 55.3% respectively, for not being known about by learners. This response is indicative of lack in awareness campaigns from these institutions.

Table 6.8: Financial and non-financial support organizations

Category	I know about %	Heard about %	Know nothing about %
National Youth Development Agency	47.6	42.7	9.8
Small Enterprise Development Agency	28.2	45.1	26.8
Mafisa	7.0	17.6	75.4
South African Micro-Finance Apex Fund (SAMAF)	12.0	21.1	66.9
Khula Finance Limited	17.0	27.7	55.3
Commercial banks	34.3	43.4	22.4

Industrial Development Corporation	31.5	31.5	37.1
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Figure 6.9: Awareness on financial and non-financial support organizations



Great work remains to be conducted by the institutions and agencies that are tasked with providing support to SMMEs. Results indicate a high lack of awareness amongst learners on these institutions or agencies. The agencies should reevaluate strategies how they could improve awareness among learners.

CHAPTER 7

SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 SUMMARY OF THE RESEARCH

The literature review was executed with the assistance from various sources including journals, dissertations, government publication reports, newspapers, library books, magazines, radio broadcasts, television broadcasts and the internet. The literature reviewed was intended to demonstrate the researchers' knowledge on the topic, and served as a base for the construction of the primary data collection tool – the questionnaire.

Primary data was collected with the use of a pre-coded questionnaire and captured on Microsoft Excel computer programme. The data was further analysed using STATISTICA computer programme, which determined the measures of central tendency – the mean and standard deviation. Frequency distributions on results were calculated and expressed as percentages. The results were further interpreted to determine whether the research objectives were met or answered.

The following summary of findings is ascertained:

- More than a third of learners live under conditions where there is a lack of proper family structure. Some are raised and parented by either a single parent, grandparent(s) or relative(s).
- Respondents indicated to have studied business related content at secondary school level and this initially translated into learners indicating high levels of confidence in starting their own small businesses. Despite this finding the research study further discovered that the career intentions and aspirations of learners still lean more toward being employees than being entrepreneurs. This is attributable to the education system that is not entrepreneurship predicated and focused.
- Despite a strong and positive resemblance of entrepreneurial character and behaviour, there remain three areas of concern. Signs of weakness and caution were evident with regards to experimentation and persistence in problem-solving. Furthermore, decisiveness was found to be a key area of weakness among learners.
- It was reflected that entrepreneurs do exist in communities and family relatives do own businesses. However, the research study found that 71.0% of parents only obtained education levels from matric and below. Furthermore, the majority of parents and friends of respondents do not own or manage a business. These are deterring forces toward respondents' entrepreneurial orientation.
- The study discovered that religion and school do encourage learners toward entrepreneurship. However, there is lack of clarity whether culture encourages it or discourages small business start-up.
- It emerged from the study that 70.7% of respondents do not participate in running a business. This is indicative that learners have little entrepreneurship exposure and experience, which is a barrier to starting and sustaining a business.
- There is a lack of computer skills amongst learners. Proposals are expected to be in typed form and also composed in electronic form. Presentations to investors are conducted with the use of power-point slides, and data is captured in Excel. The study revealed that learners are unfamiliar with these

skills and are thus at a disadvantage from starting and maintaining a business.

- It has emerged from the research that learners are challenged by financial skills such as bookkeeping, income statements, balance sheet, and cash flow statements. Without these skills it would be impossible for learners to draw financial forecast projections for investors, thus unlikely to attract financing. However, business plan, market research, and quality control of product obtained a weak yet positive response of 3.4 on the Likert scale. This finding explains why many small businesses cease to exist within conception stages.
- Business registration obtained a negative response of 2.6 on the Likert scale, an indication that learners lack the information of 'how' and 'where' to register a business. This is a consequence of lack of awareness campaigns by government organization namely CIPC.
- On legal aspects of business, learners lacked knowledge on environmental regulations, occupational health and safety, and bankruptcy law, indicating that they had only heard about this legislation. This lack of knowledge poses a threat to the environment and business. Non-compliance to legislation may result in heavy penalties or shut-down of operations, and be hazardous to human, animal or aquatic life.
- Learners are willing to comply with payment of taxes and minimum wages stipulated by government. The taxes included company income taxes, value added tax, unemployment insurance fund, skill development levy, and employees 'pay as you earn'. These costs are a burden to a start-up and suck from the cash flow of the business. However, a business registered for income tax and VAT stand a much greater chance of obtaining a loan.
- It surfaced from the research that learners would establish small businesses from their personal savings. Furthermore, respondents indicated that family members would not finance their business because they are not wealth endowed and are risk-averse.
- It emerged that family members would not borrow a loan on their behalf and they could not finance their business from an inheritance. South Africans pay 75% of their salaries to service debt, and 8.9 million of the citizens are debt trapped. Another explanation is that the family may not have collateral to

secure a loan and may be afraid of risk. The inheritance left behind may be fixed assets which are to be shared, and the majority of members may disagree with putting the assets as collateral to secure a loan for a start-up venture.

- Learners are clueless about angel investment and venture capital financing. This may be due to lack of coverage on the topic from school and lack of access to information as a result of no computers with internet at schools.
- Awareness on financial and non-financial support emerged as an area of concern in this research. Learners mainly know about and have heard about the NYDA, SEDA and Commercial banks were mainly heard about; and questions pertaining to Mafisa, SAMAF, and Khula Limited Finance revealed that nothing was known about them. These findings support the literature which shows that potential entrepreneurs are at a disadvantage as they lack awareness of the institutions that provide business support. To increase awareness, these institutions need to visit schools and drive awareness campaigns.

With the above mentioned barriers, it is evident that school leavers are faced with serious obstacles should they attempt enterprise. It cannot be over emphasised that entrepreneurship is vital for any economy, since it creates employment, redistributes wealth, and results in social stability. Further research, perhaps a comparative study using a mixed method, inclusive of a sample from both historically disadvantage and historically disadvantage schools would give an accurate measure of the barriers hindering school leavers from entrepreneurship. The study would provide information needed regarding what steps need to be taken to improve school leavers' entrepreneurial activity. server

7.2 CONCLUSION

The purpose of the research was to improve entrepreneurship activity by investigating the barriers that hinder school leavers from small business start-up. This research objective was pursued by finding answers to the secondary objectives derived from the main objective.

Due to the study's limitations, conclusions could only be drawn on learners from historically disadvantaged backgrounds. Therefore, the barriers identified are only applicable to those subjects under-study and those who come from a similar background in the Nelson Mandela Bay Municipality.

According to the empirical evidence of this study, school leavers are faced with obstacles in establishing and sustaining small enterprises. The following barriers were identified:

- Lack of family structure, low education level of parents, and non-entrepreneurial parents deter entrepreneurial orientation of learners,
- A mind-set that leans more toward being an employee rather than being an entrepreneur,
- Indecisiveness, fear of experimentation, and lack of persistence,
- A culture (African) that lacks clarification whether it encourages or discourages entrepreneurship,
- Lack of entrepreneurial experience or work experience,
- Poor financial skills and computer skills pose a threat to a successful inception and operation of the business.
- Limited access to information on 'how' and 'where' to register a business,
- Limited knowledge on legal aspects regulating business,
- Awareness of a tax burden draining cash flow,
- Limited awareness on institutions that provide financial and non-financial support to businesses,
- Lack of awareness on angel investment finance and venture capital finance, and
- Family unwilling to provide finance or secure loans for business up-start.

In addition, the prevalence of families not coming from or being exposed to entrepreneurial backgrounds is a sever barrier to aspiring entrepreneurs. To exacerbate this dire situation the study upheld the findings in literature that learners develop under conditions where there is lack of family structure, that is, the majority is raised by a single parent or a relative, eroding the possibility of a stable foundation. Furthermore, the majority of parents are not entrepreneurial and most have obtained only a basic education up to a grade 12 level. Another deterring

factor is families would not finance the small business started by learners, probably due to the non-existence of savings, risk-aversion and inability to meet collateral requirements.

Lack of financial skills is a barrier to entrepreneurship for the subjects under study. Learners are seriously challenged when it comes to financial skills, which are vital for preparing the business plan, managing finances, and convincing investors. This barrier impedes the subjects under study from securing financing as they are not able to prepare formal accounting records required by capital lending institutions.

Also, the financing of the business start-up is a barrier. This is due to the fact that learners have not accumulated any personal wealth and their families are not wealth endowed. It is evident that family members are not able to secure loans on their behalf due to lack of collateral. Since learners lack access to information they are not aware of the institutions that provide financial and non-financial support, and are clueless about angel and venture capital investors.

7.3 RECOMMENDATIONS FOR FURTHER RESEARCH

Hasty intervention is essential or else SMMEs will keep on failing at the current rate of failure or worse. The following subsections provide the interventions needed and further research which could give in-depth insight into these barriers.

7.3.1 Suggestions

Barriers to entrepreneurship were the focus of this study. They have been identified and the following suggestions are made in line with the findings of this study:

- Local entrepreneurs must be invited by schools to address learners on various areas of entrepreneurship. Schools need to identify entrepreneurs in the community and form a partnership whereby entrepreneurs agree in availing themselves for workshops and mentorship programmes.
- Schools should arrange visits for learners to local business so that they associate textbook content to real business.
- Government has increased the budget for education and therefore must furnish schools with computers and internet access. Private business could

assist by providing selected schools with computers and with internet access through their corporate social responsibility programmes, and parents should rather invest in buying a computer for their children rather than expensive cellular phone contracts or DSTV.

- Parents must engage learners in preparing monthly home budgets, paying bills and paying expenses, so that they may be familiar with the management of cash flow. This may be a challenge due to cultural barriers.
- Governmental institutions that provide financial or non-financial support such as SEDA, NYDA, Mafisa, Khula, SAMAF, and Banks, should consider making their services known to the public by field awareness campaigns, and advertising on radio and on television.
- Companies Intellectual Property Commission should conduct field campaigns to schools and advertise on television about the registration of businesses.
- Government could ease tax burdens by improving companies tax concession to perhaps 0% for R86 000 taxable income, 10% for above R 86 000 but below R 450 000, and 29% for R 450 000 and above.

7.3.2 Further Research

A comparative study inclusive of both learners from historically disadvantage and historically advantaged schools would be of benefit. The study would be highly informative if it were conducted by the mixing of methods, both quantitative and qualitative. The sample should be a highly representative sample (in terms of size, ethnicity, gender and location). The study would give a clear indication whether the barriers identified could be inferred to the province or even the country as a whole.

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APPENDIX 1: LETTER REQUESTING PERMISSION TO CONDUCT RESEARCH



14 September 2011

The Principal

New Brighton

Port Elizabeth

REQUEST TO CONDUCT A RESEARCH STUDY

I am Thabang Qumza, student number 20104975, registered with the Nelson Mandela Metropolitan University Business School. A research study is launched to investigate the barriers hindering school leavers from engaging in entrepreneurship. The study is important since it assesses the readiness of school leavers for starting and managing their own businesses. Lastly the study will highlight critical areas which need attention to policy makers and also to contribute to the body of knowledge.

Your co-operation would be much appreciated not just for the benefit of this MBA dissertation but for the betterment of the future prospects of school leavers. The research is limited to historically disadvantaged New Brighton secondary schools in the Nelson Mandela Bay Municipality. Therefore, permission is requested to conduct the research at the school.

Grade 12 learners are the subjects under study, so they are requested to complete a questionnaire to the best of their ability.

Your approval and assistance on this research will be greatly appreciated.

T.V. QUMZA

The Research

APPENDIX 2: LETTER EXPLAINING THE RESEARCH TO THE RESPONDENTS



23 September 2011

Dear Respondent:

My name is Thabang Qumza and I am a student registered at the Nelson Mandela Metropolitan University (NMMU) (student number 20104975). I am completing my Masters in Business Administration (MBA) and request your co-operation in filling in the questionnaire attached to this covering letter.

The aim of this questionnaire is to investigate the barriers that hinder school leavers from starting their own businesses. It is very important that you answer each question honestly; there are no right or wrong answers. Your anonymity will be respected and assured.

Thank you very much for your assistance, it is highly appreciated.

Kind regards

T Qumza

APPENDIX 3: THE QUESTIONNAIRE

5.1 Section 1

5.1.1 Name of School:

5.1.2 Indicate (tick) your age:

18 or younger	
18	
19	
19 or older	

5.1.3 Indicate (tick) your gender:

Male	
Female	

5.1.4 Indicate (tick) ethnic group:

Black	Coloured	Indian	White
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5.1.5 Who do you live with at home?

With Both Parents	With relative(s)
Single parent	Alone
With Grandparent(s)	Other

5.2 Section 2

Tick "Yes" or "NO" and place a tick where applicable to indicate your choice.

5.2.1 Have you done business related studies (EMS or Accounting) at secondary school?

YES	NO
-----	----

5.2.2 With your business knowledge, would you be able to start a business?

YES	NO
-----	----

5.2.3 After I finish grade 12 I intend to

Start a business	Enrol for tertiary education	I do not know
Work	Take a break	Operate a family business

5.2.4 When I start working I would like to earn a

A profit is the income earned by an entrepreneur, a dividend is earned by an investor, a wage is earned on a weekly basis usually by unskilled labour (operator), and a salary is earned on a monthly basis usually by skilled labour (e.g. professionals, managers and technicians).

Wage		Profit	
Salary		Dividends	

5.2.5 Eventually I would like to be a

Business Owner	Professional	Sales & Services
Business Owner-Manager	Technician	Plant Operator
Manager	Clerk	Other

5.3 Section 3

Complete these questions; there are no right or wrong answers. Indicate with a tick on the questions below. Tick a 1 if completely false, 2 if partly false, 3 if neutral, 4 if partly true, and 5 completely true.

Completely Completely
 False <.....>True

5.3.1	I am in control of my own destiny	1	2	3	4	5
5.3.2	I am a go-getter	1	2	3	4	5
5.3.3	I am able to negotiate	1	2	3	4	5
5.3.4	I am a decisive person	1	2	3	4	5
5.3.5	I give up when I cannot solve a problem	1	2	3	4	5
5.3.6	I am afraid to try new things	1	2	3	4	5
5.3.7	I tend to avoid conflict	1	2	3	4	5
5.3.8	I am able to identify a business opportunity	1	2	3	4	5
5.3.9	I am a person who takes risks	1	2	3	4	5
5.3.10	I am comfortable playing a leadership role	1	2	3	4	5
5.3.11	I am driven by achievement of goals	1	2	3	4	5
5.3.12	I am able to adapt to different situations	1	2	3	4	5
5.3.13	I try to improve how things are done	1	2	3	4	5
5.3.14	I like to discover new things	1	2	3	4	5
5.3.15	I have an interest in the latest technology	1	2	3	4	5

5.4 Section 4

An entrepreneur is an individual that identifies an opportunity, plans and organizes resources to start an enterprise which will offer a product or service to meet or exceed customer expectation.

5.4.1 Indicate (tick) the level of education completed by your parents

Below Grade 12		Graduate		I do not know	
Grade 12		Post Graduate			

Read the statements below and choose (tick) either **YES** or **NO** or **Do not know**.

Statement	YES	NO	I do not know
-----------	-----	----	---------------

5.4.2	My parent(s) operate or own a small business			
5.4.3	My friend(s) operate or own a business			
5.4.4	A family relative owns a small business			
5.4.5	I participate in the operation of a small business			
5.4.6	There are entrepreneurs in my community			
5.4.7	My religion (faith) allows me to start a business			
5.4.8	My culture encourages me to be an entrepreneur			
5.4.9	School encourages me to start a business			

5.5 Section 5

- A business plan is a document describing a business that is used to test the feasibility of a business idea, to raise capital, and to serve as a roadmap for future operations.
- Market research is the process of assembling information about customers, competitors, channels, and public policy particularly for decision-making.

Tick 1 if you strongly disagree, 2 if partly disagree, 3 if neutral, 4 if partly agree and 5 if strongly agree.

	Strongly Disagree				Strongly Agree	
5.5.1	I can do market research	1	2	3	4	5
5.5.2	I can construct a business plan	1	2	3	4	5
5.5.3	I know how to register a business	1	2	3	4	5

		Strongly Disagree			Strongly Agree	
5.5.4	I have studied bookkeeping (accounting)	1	2	3	4	5
5.5.5	I am able to draw up an income statement	1	2	3	4	5
5.5.6	I am able to construct a balance sheet	1	2	3	4	5
5.5.7	I am able to prepare a cash flow statement	1	2	3	4	5
5.5.8	I am able to interpret financial ratios	1	2	3	4	5
5.5.9	I can co-ordinate activities to achieve set targets	1	2	3	4	5
5.5.10	I am able to control the quality of my product or service	1	2	3	4	5
5.5.11	I am able to search the internet	1	2	3	4	5
5.5.12	I have solid computer skills (word, excel, power point)	1	2	3	4	5

5.6 Section 6

5.6.1 Indicate which of these laws you **know about**, **heard about** or **know nothing about**.

STATEMENTS	I know about	Heard About	Know nothing about
Labour Relations Act			
Environmental Regulation			
Occupational Health and Safety Act			
Bankruptcy Law			
Consumer Protection Act			
Companies Act			

Read the statements below and choose (tick) **YES** or **NO** or **Do not know**

STATEMENTS	YES	NO	Do not know
5.6.2 I would register my business for value added tax (VAT)			
5.6.3 It is compulsory for a company to register for Income Tax			
5.6.4 A company registers for unemployment insurance fund (UIF)			
5.6.5 My business would register for skills development levy			
5.6.6 I would allow my business to collect employee taxes for SARS			
5.6.7 I am willing to pay workers minimum wages set by Government			

Section 7

Tick a 1 if strongly disagree, 2 = partly disagree, 3 = neutral, 4 = partly agree and 5 = strongly agree.

Strongly Disagree

Strongly Agree

5.7.1 My business can be or has been funded from my inheritance

1 2 3 4 5

5.7.2 I have started or I would prefer starting a business using my personal savings

1 2 3 4 5

5.7.3 My family have or will lend me the funds to start a business

1 2 3 4 5

5.7.4 My family would borrow a bank loan on my behalf to fund my business

1 2 3 4 5

5.7.5 I know about angel investment funding

1 2 3 4 5

5.7.6 I know about venture capital investment funding

1 2 3 4 5

5.7.7 The institutions listed below provide financial and non-financial support to small businesses.

Tick the following options whether **know about**, **heard about** or **I know nothing about**.

Institutions	I know about	Heard about	I know nothing about
National Youth Development Agency			
Small Enterprise Development Agency			
Mafisa			
South African Micro-Finance Apex Fund			
Khula Finance			
Commercial Banks			
Industrial Development Corporation			

APPENDIX 4: FREQUENCY DATA FOR SECTION 1 TO SECTION 3

Age		Frequency table: Q2_3			Frequency table: Q3_1			Frequency table: Q3_6			Frequency table: Q3_11		
Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
32	22.2	Start a business	12	8.4	Completely false	5	3.6	Completely false	69	48.3	Completely false	1	0.7
65	45.1	Work	8	5.6	Partly false	6	4.3	Partly false	10	7.0	Partly false	4	2.8
34	23.6	Tertiary education	106	74.1	Neutral	18	12.9	Neutral	25	17.5	Neutral	20	14.2
13	9.0	Take a break	4	2.8	Partly true	15	10.7	Partly true	20	14.0	Partly true	25	17.7
		Don't know	13	9.1	Completely true	96	68.6	Completely true	19	13.3	Completely true	91	64.5
Gender													
Count		Frequency table: Q2_4			Frequency table: Q3_2			Frequency table: Q3_7			Frequency table: Q3_12		
Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
56	39.2												
87	60.8	Wage	10	7.1	Completely false	4	2.8	Completely false	18	12.6	Completely false	3	2.1
		Salary	106	75.2	Partly false	7	5.0	Partly false	9	6.3	Partly false	7	5.0
		Profit	24	17.0	Neutral	42	29.8	Neutral	16	11.2	Neutral	28	19.9
		Dividends	1	0.7	Partly true	42	29.8	Partly true	21	14.7	Partly true	41	29.1
					Completely true	46	32.6	Completely true	79	55.2	Completely true	62	44.0
143	100.0												
Ethnic													
Count		Frequency table: Q2_5			Frequency table: Q3_3			Frequency table: Q3_8			Frequency table: Q3_13		
Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
		Business owner	35	24.8									
		Business owner/manager	7	5.0	Completely false	3	2.1	Completely false	4	2.8	Completely false	1	0.7
44	30.6	Manager	22	15.6	Partly false	7	5.0	Partly false	9	6.3	Partly false	5	3.5
49	34.0	Professional	36	25.5	Neutral	30	21.3	Neutral	43	29.9	Neutral	27	18.8
26	18.1	Technician	10	7.1	Partly true	50	35.5	Partly true	32	22.2	Partly true	43	29.9
21	14.6	Clerk	3	2.1	Completely true	51	36.2	Completely true	56	38.9	Completely true	68	47.2
1	0.7	Sales & services	3	2.1									
3	2.1	Plant Operator	5	3.5									
		Other	20	14.2									
Live_with													
Count		Frequency table: Q3_4			Frequency table: Q3_9			Frequency table: Q3_14					
Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
					Completely false	14	10.2	Completely false	14	9.9	Completely false	2	1.4
					Partly false	14	10.2	Partly false	13	9.2	Partly false	5	3.5
113	78.5				Neutral	43	31.4	Neutral	26	18.3	Neutral	11	7.7
31	21.5				Partly true	34	24.8	Partly true	25	17.6	Partly true	21	14.8
					Completely true	32	23.4	Completely true	64	45.1	Completely true	103	72.5
Q2_1													
Count		Frequency table: Q3_5			Frequency table: Q3_10			Frequency table: Q3_15					
Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
116	81.1				Completely false	52	36.9	Completely false	8	5.6	Completely false	9	6.3
27	18.9				Partly false	25	17.7	Partly false	7	4.9	Partly false	10	7.0
					Neutral	27	19.1	Neutral	27	18.8	Neutral	26	18.3
					Partly true	18	12.8	Partly true	27	18.8	Partly true	25	17.6
					Completely true	19	13.5	Completely true	75	52.1	Completely true	72	50.7

APPENDIX 5: FREQUENCY DATA FOR SECTION 4 TO SECTION 5

Frequency table: Q4_1			Frequency table: Q4_7			Frequency table: Q5_1			Frequency table: Q5_6			Frequency table: Q5_11		
	Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
Below Gr 12	39	27.7	Yes	89	62.7	Strongly disagree	17	12.1	Strongly disagree	44	31.0	Strongly disagree	4	2.9
Grade 12	61	43.3	No	33	23.2	Partly disagree	11	7.8	Partly disagree	18	12.7	Partly disagree	10	7.1
Graduate	5	3.5	Don't know	20	14.1	Neutral	50	35.5	Neutral	25	17.6	Neutral	25	17.9
Post Graduate	3	2.1				Partly agree	22	15.6	Partly agree	21	14.8	Partly agree	28	20.0
Don't know	33	23.4				Strongly agree	41	29.1	Strongly agree	34	23.9	Strongly agree	73	52.1
			Frequency table: Q4_8											
Frequency table: Q4_2			Count Percent			Frequency table: Q5_2			Frequency table: Q5_7			Frequency table: Q5_12		
	Count	Percent	Yes	63	44.7		Count	Percent		Count	Percent		Count	Percent
Yes	20	14.1	No	49	34.8	Strongly disagree	15	10.6	Strongly disagree	44	31.2	Strongly disagree	43	30.5
No	121	85.2	Don't know	29	20.6	Partly disagree	19	13.5	Partly disagree	23	16.3	Partly disagree	23	16.3
Don't know	1	0.7				Neutral	35	24.8	Neutral	13	9.2	Neutral	34	24.1
			Frequency table: Q4_9			Partly agree			Partly agree			Partly agree		
Frequency table: Q4_3			Count Percent			Strongly agree			Strongly agree			Strongly agree		
	Count	Percent	Yes	102	72.3									
Yes	23	16.3	No	20	14.2									
No	114	80.9	Don't know	19	13.5	Frequency table: Q5_3			Frequency table: Q5_8					
Don't know	4	2.8					Count	Percent		Count	Percent			
						Strongly disagree			Strongly disagree					
						Partly disagree			Partly disagree					
Frequency table: Q4_4						Neutral			Neutral					
	Count	Percent				Partly agree			Partly agree					
Yes	63	50.8				Strongly agree			Strongly agree					
No	49	39.5												
Don't know	12	9.7												
						Frequency table: Q5_4			Frequency table: Q5_9					
							Count	Percent		Count	Percent			
Frequency table: Q4_5						Strongly disagree			Strongly disagree					
	Count	Percent				Partly disagree			Partly disagree					
Yes	39	27.9				Neutral			Neutral					
No	99	70.7				Partly agree			Partly agree					
Don't know	2	1.4				Strongly agree			Strongly agree					
						Frequency table: Q5_5			Frequency table: Q5_10					
	Count	Percent					Count	Percent		Count	Percent			
Yes	104	74.3				Strongly disagree			Strongly disagree					
No	18	12.9				Partly disagree			Partly disagree					
Don't know	18	12.9				Neutral			Neutral					
						Partly agree			Partly agree					
						Strongly agree			Strongly agree					

APPENDIX 6: FREQUENCY DATA FOR SECTION 6 TO SECTION 7

Frequency table: Q6_1a			Frequency table: Q6_2			Frequency table: Q7_1			Frequency table: Q7_6			Frequency table: Q7_7f		
	Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
Know about	59	41.5	Yes	112	78.9	Strongly disagree	57	39.6	Strongly disagree	66	46.2	Know about	49	34.3
Heard about	63	44.4	No	9	6.3	Partly disagree	14	9.7	Partly disagree	18	12.6	Heard about	62	43.4
Know nothing about	20	14.1	Don't know	21	14.8	Neutral	37	25.7	Neutral	29	20.3	Know nothing about	32	22.4
						Partly agree	17	11.8	Partly agree	13	9.1			
						Strongly agree	19	13.2	Strongly agree	17	11.9			
Frequency table: Q6_1b			Frequency table: Q6_3			Frequency table: Q7_2			Frequency table: Q7_7a			Frequency table: Q7_7g		
	Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
Know about	24	17.0	Yes	96	67.6	Strongly disagree	20	14.0	Know about	68	47.6	Know about	45	31.5
Heard about	67	47.5	No	19	13.4	Partly disagree	11	7.7	Heard about	61	42.7	Heard about	45	31.5
Know nothing about	50	35.5	Don't know	27	19.0	Neutral	29	20.3	Know nothing about	14	9.8	Know nothing about	53	37.1
						Partly agree	24	16.8						
						Strongly agree	59	41.3						
Frequency table: Q6_1c			Frequency table: Q6_4			Frequency table: Q7_3			Frequency table: Q7_7b					
	Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
Know about	39	27.7	Yes	98	70.0	Strongly disagree	41	28.5	Know about	40	28.2			
Heard about	65	46.1	No	14	10.0	Partly disagree	18	12.5	Heard about	64	45.1			
Know nothing about	37	26.2	Don't know	28	20.0	Neutral	31	21.5	Know nothing about	38	26.8			
						Partly agree	22	15.3						
						Strongly agree	32	22.2						
Frequency table: Q6_1d			Frequency table: Q6_5			Frequency table: Q7_4			Frequency table: Q7_7c					
	Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
Know about	22	15.7	Yes	106	75.2	Strongly disagree	46	31.9	Know about	10	7.0			
Heard about	60	42.9	No	7	5.0	Partly disagree	18	12.5	Heard about	25	17.6			
Know nothing about	58	41.4	Don't know	28	19.9	Neutral	32	22.2	Know nothing about	107	75.4			
						Partly agree	21	14.6						
						Strongly agree	27	18.8						
Frequency table: Q6_1e			Frequency table: Q6_6			Frequency table: Q7_5			Frequency table: Q7_7d					
	Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
Know about	55	39.0	Yes	108	76.1	Strongly disagree	91	64.1	Know about	17	12.0			
Heard about	56	39.7	No	17	12.0	Partly disagree	17	12.0	Heard about	30	21.1			
Know nothing about	30	21.3	Don't know	17	12.0	Neutral	18	12.7	Know nothing about	95	66.9			
						Partly agree	10	7.0						
						Strongly agree	6	4.2						
Frequency table: Q6_1f			Frequency table: Q6_7			Frequency table: Q7_5			Frequency table: Q7_7e					
	Count	Percent		Count	Percent		Count	Percent		Count	Percent		Count	Percent
Know about	55	39.0	Yes	97	68.3	Strongly disagree	91	64.1	Know about	24	17.0			
Heard about	48	34.0	No	15	10.6	Partly disagree	17	12.0	Heard about	39	27.7			
Know nothing about	38	27.0	Don't know	30	21.1	Neutral	18	12.7	Know nothing about	78	55.3			
						Partly agree	10	7.0						
						Strongly agree	6	4.2						

APPENDIX 7: DESCRIPTIVE STATISTICS FOR SECTIONS 3, 5 AND 7

Descriptive Statistics: Section 3

	Valid		Minimum	Maximum	Std.	
	N	Mean			Dev.	Number
Decisiveness	137	3.4	1.0	5.0	1.2	Q3_4
Persistence in problem-solving	141	3.5	1.0	5.0	1.4	Q3_5
Try new things: experimentation	143	3.6	1.0	5.0	1.5	Q3_6
Take risks	142	3.8	1.0	5.0	1.4	Q3_9
Go-getter	141	3.8	1.0	5.0	1.0	Q3_2
Opportunity identification	144	3.9	1.0	5.0	1.1	Q3_8
Conflict avoidance	143	3.9	1.0	5.0	1.4	Q3_7
Able to negotiate	141	4.0	1.0	5.0	1.0	Q3_3
Interest in technology	142	4.0	1.0	5.0	1.2	Q3_15
Leadership role	144	4.1	1.0	5.0	1.2	Q3_10
Able to adapt to situations	141	4.1	1.0	5.0	1.0	Q3_12
Try to improve things	144	4.2	1.0	5.0	0.9	Q3_13
Internal Locus of control	140	4.4	1.0	5.0	1.1	Q3_1
Driven by goals	141	4.4	1.0	5.0	0.9	Q3_11
Discovery of new things	142	4.5	1.0	5.0	0.9	Q3_14

Descriptive Statistics: Section 5

	Valid		Min	Max	Std.	
	N	Mean			Dev.	Number
Studied bookkeeping	142	2.3	1.0	5.0	1.6	Q5_4
Know how register a business	141	2.6	1.0	5.0	1.4	Q5_3
Computer skills	141	2.7	1.0	5.0	1.5	Q5_12
Interpret financial ratios	141	2.8	1.0	5.0	1.5	Q5_8
Able to construct a balance sheet	142	2.9	1.0	5.0	1.6	Q5_6
Able to prepare a cash flow statement	141	2.9	1.0	5.0	1.6	Q5_7
Can co-ordinate activities	142	3.1	1.0	5.0	1.2	Q5_9
Able to draw an income statement	141	3.1	1.0	5.0	1.6	Q5_5
Quality control	141	3.4	1.0	5.0	1.3	Q5_10
Can do market research	141	3.4	1.0	5.0	1.3	Q5_1
Can construct a business plan	141	3.4	1.0	5.0	1.3	Q5_2
Internet skills	140	4.1	1.0	5.0	1.1	Q5_11

Descriptive Statistics: Section 7

	Valid		Minimum	Maximum	Std.	
	N	Mean			Dev.	Number
Knowledge of angel investment	142	1.8	1.0	5.0	1.2	Q7_5
knowledge of capital investment	143	2.3	1.0	5.0	1.4	Q7_6

Financing from inheritance	144	2.5	1.0	5.0	1.4	Q7_1
Financing from bank loan	144	2.8	1.0	5.0	1.5	Q7_4
Financing from family	144	2.9	1.0	5.0	1.5	Q7_3
Financing from personal savings	143	3.6	1.0	5.0	1.4	Q7_2