ENTREPRENEURSHIP & SMALL BUSINESS MANAGEMENT

An emerging economies perspective

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Entrepreneurship and small business management

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PREFACE

Entrepreneurship and small business management: an emerging economies perspective aims to provide a perspective on entrepreneurship in emerging economies to students and entrepreneurs.

Entrepreneurship and small businesses are vital determinants of economic growth, particularly in emerging economies. They are acknowledged as engines driving economic growth, competitiveness and job creation. Often, emerging economies are fuelled by a search for growth opportunities, which leads to experimenting with new business models while building on and extending traditional approaches to strategy and management.

Critical issues such as conducting a feasibility analysis to test a business idea are discussed. Success factors and challenges linked to small business start-ups in emerging economies are also touched on.

The book aims to provide a balanced theory and practical approach to help budding entrepreneurs develop successful businesses. Fundamental aspects such as innovation and creativity, as well as entrepreneurial strategies are discussed. There is a focus on enterprise functions in order to ensure that there is an understanding of what small-business owners should do in their respective endeavours.

The analysis of the BRICS member countries adds value for the reader as it provides background to various entrepreneurial environments. The book touches on current issues such as high rates of unemployment and how to tackle poverty in emerging economies. Businesses of all sizes are required to operate within certain parameters. The importance of ethics, governance, sustainability and social entrepreneurship are explored. The case studies included in the book allow for reflection, and encourage the reader to explore the intricacies of entrepreneurship in emerging economies in the 21st century.

STRUCTURE OF THE BOOK

This book is divided into four sections.

Section A: The entrepreneurial ideas and contextual nature of entrepreneurship

This section covers chapter 1–10, and provides the reader with information pertaining to entrepreneurship in developing economies. There is a focus on areas such as entrepreneurial skills, creativity and innovation, as well as feasibility analysis.

Section B: Enterprise functions

This section covers chapters 11–16, and gives a perspective on enterprise functions, such as human resource management, finance, and marketing and sales, for example, with a view to providing guiding principles in terms of performing them.

Section C: Types of business focus

This section covers chapter 17–21 and deals with types of businesses such as family businesses, franchising, corporate and social entrepreneurship.

Section D: Plans and cases studies

This is the concluding section of the book, which essentially covers the essence of the business plan as well as relevant case studies. Case studies are presented as a way of ensuring that the reader understands and is able to identify different scenarios.

About the editors

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The late **Simon Radipere** was an associate professor in the Department of Applied Management at Unisa. He contributed immensely towards the entrepreneurship qualification at Unisa, and served as chair of the Department for Applied Management from July to October 2017. With over 15 years of university and academic experience, he served as an external examiner at different universities, and contributed chapters in various academic books. He had a specific interest in the business plan, and passed away in 2017 while working on a chapter on this topic for this book.

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Awie Vlok lectures in entrepreneurship and innovation management at the Business Management Department of Stellenbosch University, where he focuses on innovation programmes at undergraduate and postgraduate levels, as well as the business school. Prior to joining academia he held senior management and functional specialist positions in the automotive, information and communication technology (ICT), building and construction research and development sectors, as well as multidisciplinary research, and science-, engineering- and technology-related innovation. He has pioneered award-winning innovation capacity-building programmes and gained international experience as a facilitator of cross-boundary innovation strategies, knowledge fusion, creativity and innovation processes. His PhD research investigated innovation leadership competencies on which he has presented at international conferences.

Contents

SECTION A

The entrepreneurial ideas and contextual nature of entrepreneurship

1

The business case for entrepreneurship and small businesses in emerging economies

G.E. Chiloane-Tsoka & S.G. Mazibuko

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- explain the concept “emerging economies”
- discuss the characteristics of emerging economies
- discuss challenges facing small and medium enterprises in South Africa
- discuss the role of entrepreneurship education and small business in South Africa
- outline the state of the informal sector and local economic development
- understand Ubuntu as a value for entrepreneurs in conducting business
- discuss why South Africa forms part of BRICS
- outline the opportunities and weaknesses of BRICS
- explain the concept of unemployment in BRICS
- discuss the benefits and barriers to regional cooperation in SADC
- differentiate between developed and emerging economies
- discuss the policy implications facing policy makers in South Africa.

KEY TERMS

- Emerging economies
- BRICS (Brazil, Russia, India, China and South Africa)
- Sub-Saharan
- SADC
- Small business and entrepreneurship
- Africanisation and Ubuntu
- WTO (World Trade Organization)
- Developed and developing economies

1.1 INTRODUCTION

Entrepreneurship and small business development are vital determinants of economic growth particularly in emerging economies. They are acknowledged as engines of economic growth, competitiveness and job creation (Wennekers, 2004). The 21st century is, however, the century of the emerging economies, both in market growth and in changes to business strategy. The 2010 gross domestic product (GDP) statistics published by both the International Monetary Fund (IMF) and the World Bank indicate that the traditional BRIC countries (Brazil, Russia, India and China) are now counted among the largest economies in the world respectively. While the newest member of the BRICS, South Africa, is among the top 30 economies in the world (PwC, 2015), it is further predicted that by 2050 the economies of Brazil, Russia, India, China and South Africa will be accelerating more greatly than that of the G6 (the US, Japan, the UK, Germany, France and Italy (Wilson & Purushothaman, 2002)). The BRICS countries are important drivers of economic growth and that is why they are considered as efficiency-driven economies.

The prosperity of a country refers to the overall development of the total number of production units that prevail in that economy. An emerging economy or emerging market is a specific type of economy that is entrepreneurial at its core. Thus Schumpeter (1912) emphasised the role of entrepreneurs as a prime cause of economic development. Van Praag and Versloot (1934: 352) assert that entrepreneurs have a very specific function in the economy. In their view, entrepreneurs create employment and productivity growth, and produce commercialised high-quality innovations. Small businesses contribute not only to employment but are also a barometer for social and political stability as they offer innovation and competitive power to matters of policy makers, job creation, economic growth and international competitiveness in global markets (Carree, Van Stel, Thurik et al., 2002).

The Global Entrepreneurship Monitor (GEM) of 2013 indicates that growth expectations and aspirations of early-stage entrepreneurs are key factors in determining the entrepreneurial impact and also policy objectives that will help create more jobs. It is further established that the entrepreneurial activity rate (TEA) per country is based on innovation-, orientation- and factor-driven scales, as discussed below.

It is indicated in the 2013 GEM report that countries such as Japan, Korea and China showed a high degree of innovative orientation and a high level of economic development as seen through their innovative products and services. These countries were closely followed by entrepreneurs in North America and the European Union (EU).

With the exception of South Africa, the sub-Saharan economies and European economies outside the EU reported lower proportions, while emerging nations such as Colombia, Chile, Taiwan and South Africa offered products or services that are new to their customers and experienced few local competitors.

Efficiency-driven economies (economies that focus on improving production efficiencies to drive growth) include Russia, Brazil, India, China and South Africa, as well as the BRICS countries mentioned previously. Factor-driven economies, where countries compete primarily on the use of unskilled labour and natural resources, revealed the lowest level of international customers on average. Often companies in these economies compete on the basis of price as they buy and sell basic products or commodities. Schwab (2012) categorises countries such as Iran, Egypt, Angola and Pakistan as factor-driven.

1.2 THE DEFINITION OF EMERGING ECONOMIES

Scholars give many different interpretations of the concept of emerging economies. Child, Faulkner and Tallman (2011) define emerging economies as complex environments in which traditional and modern institutions are embedded, often seen in a combination of bureaucratic and market-based economies. PwC (2015) see emerging economies as those searching for growth opportunities and experimenting with new business models even as they build on and extend traditional approaches to strategy and management.

It is important to note that all the countries referred to as emerging economies are located in the "Global South" known as Asia and the Pacific and they were at some stage colonised by some Western powers. Their strengths vary from very strong, for example China and India, to very weak, such as Sudan and Bolivia. These issues are better understood politically since these countries are seen as having been underdeveloped by colonialism: colonial powers used them as sources of raw materials and markets for finished products. There was never an attempt to develop them as independent economies but they are therefore "emerging" as they struggle to catch up to the Western world, in a sense, "emerging" from the shadows of colonial domination.

Urbonavicius (2015) defines emerging economies as the transitional economies of Central and Eastern Europe, Asian nations (China, India, Vietnam and others) that are increasing their free-market systems; countries in Central and South America; and finally, countries in Africa. Each of these regions face unique challenges. Emerging economies are those economies in search of growth opportunities and offer new products and services to their customers locally or internationally. Such economies are marked by unique challenges of culture, values and infrastructure limitations. They may experience challenges with the acceptance of new, nontraditional business models. (See Figure 1.2.)

As mentioned, these countries are emerging from the shadows of their colonial pasts. At some stage their economies served only the interests of the Western colonial powers with little regard for local development. Consequently, the concept of an emerging economy is a reflection of historical economic–political factors. Colonies were sources of primary raw materials as well as markets for the products finished by European colonial powers. All infrastructural improvements were effected in colonies for the sole purpose of taking goods to the harbours and out of the colonies. The minimal education offered was also meant to ensure a labour force literate enough to execute colonial instructions rather than provide sustainable skills. "Emergence" then means successfully coming out of these conditions.

The term "emerging economy" represents those newly industrialising economies or countries (NICs) which today include the BRICS and their showing in international forums such as the World Trade Organization (WTO) (Pieterse, 2009: 1–3; Palat, 2009: 39–60). Nowadays it is loosely applied to all the global South. These countries have also been called the "developing world" or "developing economies". It is also important to understand that the evolution of the term has been informed by both economic and political narratives. However, the choice of the term "emerging economies" shows clear concentration on the economic front rather than the political one. This emergence is reflected in the postulated view that China and India in particular stand to overtake the leading Western economies in terms of GDP in the near future. Thus it is necessary to understand the characteristics of emerging economies. In the definitions below, Pieterse (2009: 15–28) simplifies the characteristics of emerging economies as follows:

- **Trade:** there is a growing trend to redefine the geographies of trade among developing countries as they prefer to trade among themselves.
- **Finance:** the hegemonic role of money lenders (the IMF and the World Bank, both of which are dominated by Western leadership) is declining as developing countries choose to finance their own economies along East Asian–Latin and American–African lines (*hegemony* refers to the dominance of one state or body over another).
- **Institutions:** the policies of the IMF, World Bank and the WTO have resulted in large debt burdens and prescriptive policies for countries in the South.
- **Hegemony:** the Global South has distanced itself from the West and is pursuing South-friendly policies in response to, for example, the primarily Western Group of Seven (an informal bloc consisting of Canada, France, Germany, Italy, Japan, the UK and the US).
- **Growing inequality:** there is clear growth of inequality in developing countries as compared to developed ones, as seen in shrinking agricultural produce, the often-negative role of multinational companies and rising slums.

1.3 SMALL BUSINESS DEVELOPMENT AND ENTREPRENEURSHIP: THE SOUTH AFRICAN PERSPECTIVE

Entrepreneurship is the dynamic process of creating incremental wealth. It involves vision, change and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions.

The Global Entrepreneurship Monitor (2015) showed that small businesses created more than 50 percent of all employment opportunities in South Africa, while contributing more than 45 percent of the country's gross domestic product (GDP). According to Zulu (Brand South Africa, 2015), South Africa's high rate of unemployment, poverty and extreme inequality called for bold and far-sighted interventions aimed at ensuring that small enterprises grow into thriving businesses. Government initiatives are also geared towards providing financial and non-financial support to small businesses in order to reduce obstacles of doing business. Given this high unemployment rate, Kingdon and Knight (2004: 392) argue that one would expect a large informal sector to absorb this surplus labour, but South Africa has a relatively small informal sector. There are a number of possible explanations for this phenomenon (Banerjee, Galian, Levinsohn, McLaren & Woolard, 2008; Rodrik, 2008). The South African government has implemented various strategies to encourage entrepreneurs and small businesses without much success (Herrington, Kew & Kew, 2009; Urban, 2010). South Africa performs very poorly in international entrepreneurship surveys and has consistently been ranked near or at the bottom of the Global Entrepreneurship Monitor (GEM) (Amoros & Bosma, 2014). Furthermore, Herrington

(2013) affirms that South Africa's rate for new-business and early-stage entrepreneurs is still significantly lower than for other sub-Saharan countries. He indicates that a worrying trend is the low number of established small businesses in the country. The established business rate in sub-Saharan Africa is high at 13 per cent, but South Africa comes in well below the norm at 2.9 per cent.

Undoing the legacy of apartheid necessitates bringing more South Africans into the mainstream economy, but the large corporate sector cannot absorb all the surplus labour. This means that entrepreneurial activity must be an important cornerstone of any economic strategy. Nonetheless the South African Banking Association Annual Review (2016), indicates that small-and-medium enterprises (SMEs) have been identified as productive drivers of inclusive economic growth and development in South Africa and around the world. In South Africa, SMEs make up 91 per cent of formalised businesses, and provide employment to about 60 per cent of the labour force, while total economic output accounts for roughly 34 per cent of GDP. SMEs contribute significantly to the economy, by fostering diversification through their development of new and unsaturated sectors of the economy. In addition, innovative and technology-based small-and-medium enterprises can provide a platform for local, regional and international growth, especially in the BRICS economies.

1.4 CHALLENGES FACING SMALL AND MEDIUM ENTERPRISES IN SOUTH AFRICA

Altman (2013: 205–206) and Juma (2015: 68–69) identified some of the challenges that South African SMEs face, namely

- lack of access to capital
- lack of skills training
- crime
- capital-intensive structure of the formal economy that makes it difficult for the small business to find its own niche
- the regulatory environment, which makes it difficult for the small business to be sustainable
- high unemployment levels that may have a bearing on the demand for goods
- reliance on exporting primary raw materials
- lack of understanding of market needs
- lack of support for research and development.

Piracy and illicit trade could also be added to this list. South Africa has become very exposed to global economic challenges to which it was less vulnerable pre-1994. Opening the economy comes with its own challenges. Piracy, especially in the arts industry, destroys emerging artists and this means they cannot live sustainable lives. The SAB (2013: 63) further shows that mentoring is lacking within the small-business sector. Linking emerging businesses to large experienced partners could help ensure better skills transfer and technological innovation. This initiative has the following advantages for SMEs:

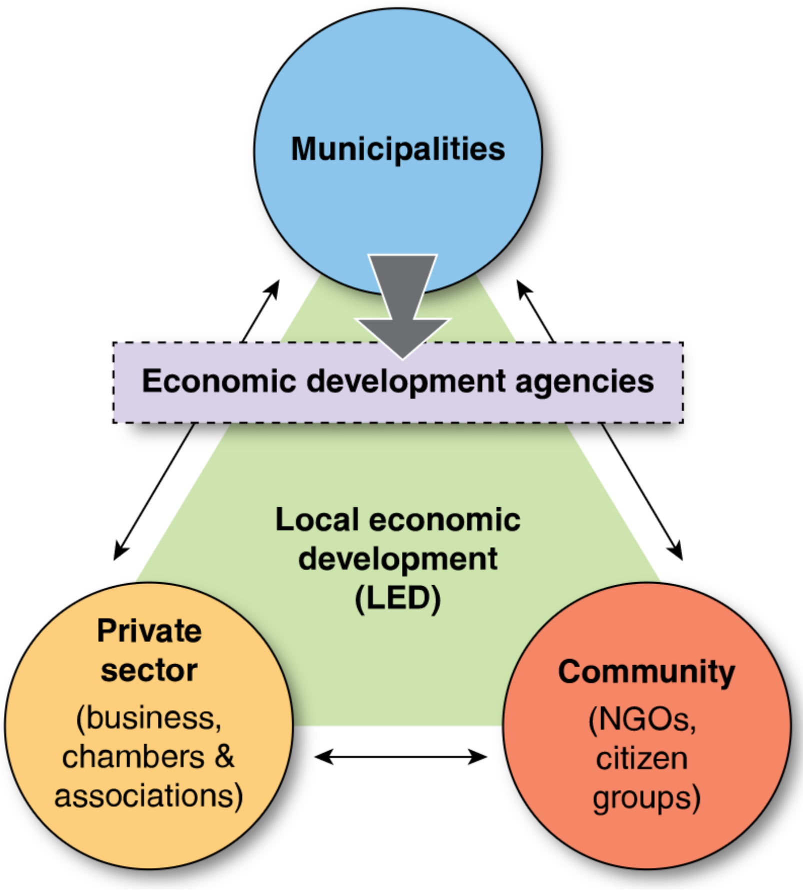
- Prevention of corruption and assistance with measures to prevent crime
- Provision of appropriate technology
- Improved production capacity (includes access to electricity)
- Improved management skills
- A supply of a skilled labour force
- Access to finance and ability to obtain credit
- Access to markets and developing relationships with customers
- Recognition by large companies and government bureaucracy
- Transfer of knowledge from large, experienced partners to SMEs
- Provision of support and assistance with regulatory compliance

1.4.1 The informal sector and local economic development

According to the *Quarterly Labour Force Survey* (2012), 2.1 million people in South Africa are active in the informal economy and the sector contributes 28 per cent of South Africa's GDP (Salga Network, 2012). The informal sector plays a crucial role in job creation and poverty alleviation. In South Africa, the informal economy forms a key component of strategies to address unemployment and poverty and support the creation of sustainable livelihoods. National policies on Local Economic Development (LED) or on small and medium-sized enterprise development set important frameworks and guidelines for all actors involved in this field. Public funding and support structures at national, provincial or local level also set powerful incentives.

Government has a particular role to play in LED by ensuring that it leads to job creation, sustainable rural development and urban renewal. LED interventions are meant to benefit disadvantaged and marginalised people and communities within municipal boundaries through an inclusive and redistributive approach to economic development.

Figure 1.1 South African local economic development network



Source: Adapted from http://www.SAnews.gov.za (2015)

Figure 1.1 provides the networks and functions of the LED while addressing job creation. It highlights the different networks and their responsibilities.

1.4.1.1 Main functions of local economic development and related issues

- Local government is responsible for creating a favourable environment for business development and success. By its nature, local economic development is a partnership between the business sector, community interests and municipal government.
- Government agencies such as the Sector Education Training Authorities (SETAs) and SEDA (Small Enterprise Development Agency) all have a potential role to play in supporting LED initiatives.

- Foreign donor organisations have a specific focus on LED issues; the most important of which in this country is Germany, whose main focal sectors are local government and good governance. The EU has also played a significant role in provinces such as Kwa-Zulu-Natal, the Eastern Cape and Limpopo.
- There are currently more than 30 local economic development agencies (LEDAs), across South Africa, operating at the district and local municipality level. However, they have had very different levels of success. There is not always agreement among the various LEDA role players as to exactly how these agencies should operate and how their mandate should differ from, and be integrated with, the local economic development responsibilities of the local authority. Although government initiatives are stimuli for creating a sustainable environment for business and job creation, it is necessary that challenges facing the South African government be outlined and their role defined, especially with regard to education.

1.4.2 The role of entrepreneurial education

Entrepreneurship is one of the means to alleviate poverty in emerging economies and transitional countries by increasing the number of entrepreneurs and creating employment and innovation in individuals. In South Africa, the following should be addressed in order to achieve national goals in stimulating entrepreneurship and small business in education.

1.4.2.1 Technical and vocational education and training (TVET) colleges

- Business must work with government to adapt the school curriculum, in particular the curricula of technical and vocational education and training (TVET) courses, so that young people leave school ready for work.
- Training programmes must be tailored to demand. If this does not happen, government will be spending money in vain.
- Rewrite the syllabi of TVET colleges to meet the industry's needs thereby fostering an enabling environment that will result in an increase in the percentage of graduates who find jobs.
- Financial incentives should be provided to SMEs, as well as to big businesses that promote student internships.

1.4.2.2 Universities

- Universities should play a critical role in redesigning the curricula to meet the needs of student entrepreneurs through theoretical and practical initiatives for skills development.
- Promote an entrepreneurship ecosystem that stimulates entrepreneurship through the intervention of curricula design. Mapping the entrepreneurial landscape by collectively addressing the triple challenges of poverty, unemployment and inequality by looking into the role of entrepreneurship education.
- An education system should equip the youth with the necessary tools to reduce high dropout rates, which severely undermines skills building and employability.
- Education systems should unleash the potential of student entrepreneurs; this will significantly alleviate poverty and unemployment and give students the skills to create employment.
- Develop the interdisciplinary skills that lead to the development of an "entrepreneurial mindset" as a result of access to facilities such as: ideation centres, entrepreneurship incubators, mentors, support and funding.
- Meaningful learning happens through engagement with students since everyone has things to learn. The curriculum becomes nothing more than words on a page if students do not have the opportunity to actually engage with it. Hands-on experiential training is beneficial.

1.5 ENTREPRENEURSHIP AND AFRICAN INTEGRATION

1.5.1 Entrepreneurs and Ubuntu values

One of the characteristics of Ubuntu is caring. Entrepreneurs should be encouraged to have a sound understanding of their impact on others and acknowledge others' interests as being valid and as significant as their own. Embracing this particular value would dramatically change the way they do business. Allis's (2012) start-up guide for entrepreneurship and small business shows how to conduct business using the values of Ubuntu.

Allis (2012) identified the following characteristics of Ubuntu in the indigenous knowledge production paradigm:

- **Acceptance:** recognise the unique humanity of those with whom one does business; the stakeholders.
- **Action:** understand that deliberate and careful actions can be agents of change.
- **Adaptation:** maintain the ability to flow, learn and modify yourself to fit new surroundings or adapt to new circumstances.
- **Analysis:** analyse what you do and do not do, and attempt to define and derive inherent laws, axioms, tenets and guideposts based on the effects of these actions and inactions.
- **Best effort:** put forth full and best effort within the boundaries of proper physical and mental health.
- **Challenge:** regularly challenge and step outside your comfort zone to reach worthy goals.
- **Commitment:** uphold commitments and always underpromise and overdeliver.
- **Communication:** make it a priority to learn and communicate extremely well with others.
- **Confidence:** always be confident and optimistic, and set realistic but ambitious goals.
- **Honesty:** be honest and forthright in all representations and deliberations with yourself and others.
- **Integrity:** act with integrity and in alignment with what you say you will do.
- **Perseverance:** do not give up nor give in too soon, as long as a goal is worthy of the effort
- **Work ethic:** work both hard and intelligently and do not leave for tomorrow what can be done today.

The practical application of Ubuntu values in emerging African economies contributes to new business methodologies and profit making, which is one of the main objectives of a business.

1.6 THE SOUTH AFRICAN POSITION WITHIN BRAZIL, RUSSIA, INDIA, CHINA, SOUTH AFRICA (BRICS)

The BRICS countries are said to have a lot in common in terms of population, GDP and unemployment. The invitation of South Africa's participation into BRICS is to provide a gateway to Africa. According to DIRCO SA (2014), the formation of BRICS is an effort by its members to foster cooperation in order to meet global challenges, especially those faced by emerging economies. There are arguments regarding why South Africa should be included in BRICS and opposing arguments regarding why South Africa should not be included. These arguments are summarised below.

1.6.1 Arguments for South Africa's inclusion in BRICS

According to Naidoo (2012), the reasons that South Africa should be included in BRICS are:

- South Africa accounts for approximately one-third of domestic product in sub-Saharan Africa.
- It is seen as able to provide BRICS members with improved access to Africa's 800 million consumers.
- It has minerals and other resources that cannot be ignored with regard to accelerating new growth.
- South Africa has a mature economy and sound corporate governance structures.
- It has a strong regulatory framework, which can attract investors seeking a secure investment.

- South Africa is also the platform, through the JSE, on which investment throughout the continent is established.
- Many South African companies do business in Africa and are also therefore well placed to provide information to BRICS nations looking to invest in Africa.
- South Africa has an excellent infrastructure, established corporate footprints and a culture of innovation.
- It has easy access to finance for business, a stable macro- and micro financial climate.
- There is an advanced banking system and functioning regulatory frameworks.
- According to DIRCO SA (2014), South Africa is also the most developed country in sub-Saharan Africa and serves as a gateway to Africa.

1.6.2 Arguments against South Africa's inclusion in BRICS

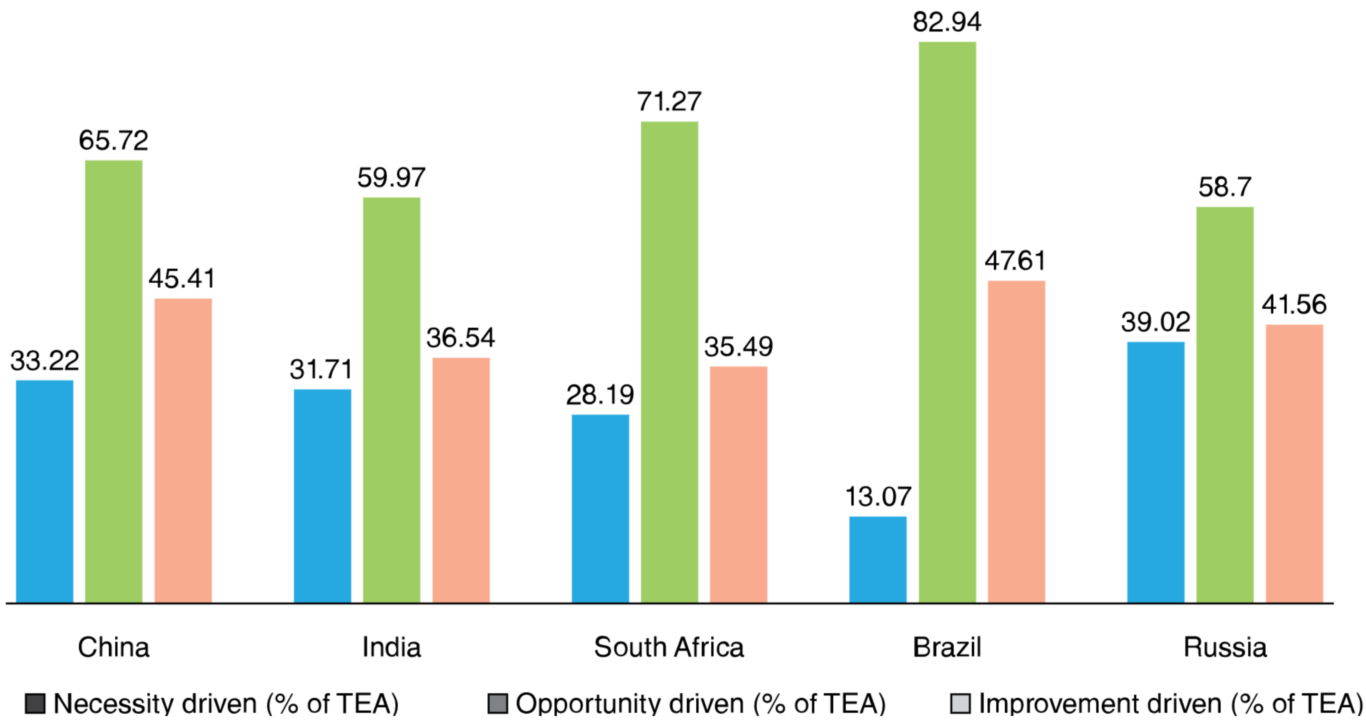
The following represents the argument by Neill (2010) against South Africa participating in BRICS despite it being a gateway to Africa.

- South Africa is by far the smallest in economic output. South Africa has therefore too small an economy to justify its inclusion in the group.
- It has an economy of $286 billion, less than a quarter of Russia's, the smallest of the original four BRIC nations, and its population of 50 million is far below Russia's 142 million and Brazil's 191 million.
- Many commentators have indicated that Nigeria would have better represented the African continent since it is thought to have an economy larger than that of South Africa as well as the largest population on the continent.
- South Africa is far too small to be in the top 20 global economies, and is not even a member of the N11 (the "Next 11" emerging economies with promising outlooks).
- Even on the African continent, South Africa's growth prospects are anticipated to be only 2.7 per cent in 2016 to 2017, while the average for the rest of Africa, in the short-tomedium term, is expected to be 7 per cent.

South Africa is also losing out in terms of foreign investment to Nigeria, a country with a population of 155 million (Naidoo, 2012). However, arguments for the inclusion of South Africa in BRICS indicate that what South Africa lacks in demographic and economic clout, it is said to make up by representing Africa at BRICS.

Table 1.1 indicates the geographic position of BRICS nations. It shows that Russia is the biggest country, at 17.1 million square kilometres (km^2). Due to its large area, it also has more administrative regions than all the other BRICS members. The second largest country is China at 9.5 million km^2, followed by Brazil (8.5 million km^2) then India (3.3 million km^2). South Africa has the smallest area at 1.2 million km^2 and the smallest number of administrative regions. According to the South African Institute of International Affairs (SAIIA), the BRICS countries collectively account for over a quarter of the world's land area (CIA, 2013).

Figure 1.2 Levels of entrepreneurial activity (TEA) categorised by motivating factor and BRICS country



Note: Necessity-based TEA indicates entrepreneurial activity that is prompted by the entrepreneur being unable to find work elsewhere, and therefore needing to start a business to support him or herself. Opportunity-driven TEA indicates entrepreneurship that is driven by the availability of business opportunities. Improvement-driven TEA indicates entrepreneurial activity that arises when an entrepreneur is not driven by need to embark on a new business venture, but is driven by the potential of increasing his or her income, or by the benefit of being independent.

Source: GEM Global Report (2014)

Table 1.1 Geographical position of BRICS

Country	National flag	Total area	Capital city	Administrative regions
Brazil		8 514 877	Brasilia	26 states and 1 federal district
Russia		17 098 242	Moscow	46 provinces, 21 republics
India		3 287 263	New Delhi	28 states and 7 union territories
China		9 596 961	Beijing	23 provinces and 5 autonomous regions
South Africa		1 219 090	Pretoria	9 provinces

Source: Central Intelligence Agency (CIA) (2013)

1.6.3 Economic power and what it means

According to Goldman (2003), it is expected that by 2050, the four BRIC economies could be wealthier than most of the current major economic powers. China and India will become the world's dominant suppliers of manufactured goods and services, respectively, while Brazil and Russia will become similarly dominant as suppliers of raw materials. Owing to lower labour and production costs, many companies also cite BRIC as a source of foreign expansion opportunity and promising economies in which to invest. BRIC member countries, sometimes known as the “Big Four” are referred to as emerging economies. Although the per capita income levels remain lower than industrialised economies, the aggregate wealth of the BRIC countries will exceed that of the G6 partly due to the large populations of these countries. South Africa (now a BRICS member) is not doing well in relation to high unemployment and low growth. Unstable political climates, skills shortages due to its poor education system resulting from past policies, and corruption as well as crime, all compromise growth potential for South Africa. Nevertheless South Africa is very well positioned for high export trading and a hub or gateway for African countries is an added advantage to BRICS.

1.6.4 Opportunities and challenges of emerging economies – the BRICS perspective

Table 1.2 Disadvantages and advantages of different BRICS countries for entrepreneurs (see also section 4.3)

Opportunities: Brazil • Rich in natural resources (minerals, oil and gas, soybeans, rainforest, water) • Diversified economy • Favourable labour costs	**Challenges: Brazil** • Social infrastructure lacking (e.g. road and rail transport systems) • High tax burden on individuals and corporates (the highest in emerging economies) • Low levels of investment in education and skills development • High levels of inflation and public debt
Opportunities: Russia • Rich in natural resources • A leading economy • Has the largest consumer class • Relatively politically stable • Has a skilled labour force	**Challenges: Russia** • Hit hard by 2008’s financial crisis • High levels of inflation in comparison to other emerging economies • Low levels of investment in social infrastructure • Low levels of investment in business resulting in businesses not always being competitive • Lacks institutional strength and political willingness to implement serious reforms that help to sustain growth
Opportunities: India • Growing young population gives a competitive edge and drives economic growth • Private companies in key sectors (IT, outsourcing, pharmaceuticals and textiles) are a key asset	**Challenges: India** • Public sector finance is poor • High levels of debt • Low spending on development • Poor infrastructure, low levels of internet penetration and burdensome bureaucracy • Risk-averse environment
Opportunities: China • Industrially competitive and diverse • High levels of economic growth (although slowing) • Strong foreign investment • Strong levels of development with regard to infrastructure and technology	**Challenges: China** • Environmental issues pose a threat to sustainable growth • High levels of inequality lead to social tensions • Factory employment is close to maximum capacity • The supply of cheap labour is shrinking, as urban wages rise and more people leave rural areas for urban areas
Opportunities: South Africa • Gateway to Africa	**Challenges: South Africa**

• Good natural resources • Relatively stable politically, mature economy and sound corporate governance structures • Good infrastructure • Business finance available • An advanced banking system • Expanding consumer market • Youthful demography	• Skills shortages due to a poor education system inherited from the previous dispensation • High levels of unemployment, poverty and inequality • Corruption and crime • Economically small in comparison to the other BRIC countries • High levels of bureaucracy and regulatory compliance • Natural challenges, such as drought and the spread of HIV/AIDS

Source: Adapted from *Greater Lansing Business Monthly* (2009)

1.6.5 Regional imperatives

Table 1.3 shows both the benefits and barriers to regional co-operation. The Southern African Development Community (SADC) demonstrates that regional cooperation holds good prospects for participants.

Table 1.3 Benefits and barriers to regional cooperation in the SADC

Benefits	Barriers
Integration of air services	Poor connectivity and high fares
Harmonised regulations and legislation	Fear of losing own sovereignty
Gender equality and empowerment	Negative traditional views of subordinating women
Improved postal services	Labour disputes
Improved telecommunications	Theft of copper cables
Trade liberalisation	Dumping of cheap, poor-quality goods
Labour mobility	Trafficking
Loosening border controls	Threats to sovereignty
Improved tourism market	Environmental degradation
Population provides market	Unemployment and poverty make trade difficult
Cultural diversity	Trade marginalises local cultures
Technological transfers	Patent/intellectual property rights

Source: SADC (2012)

Table 1.3 provides a summary of benefits and barriers that countries of the SADC experience. These issues are not unique to this region. Trade among countries brings with it both positives and negatives, but with cooperation these negatives can be successfully addressed. Similarly, small businesses can benefit in the same way.

Free trade means businesses can engage with little or no fear of the burden of taxation. Also, free trade means traders are relieved from the states subsidising their country's products unfairly. One of the reasons the BRICS was formed, for example, relates to unhappiness with the manner in which the rich countries dominate the emerging economies. This means that if the emerging economies adopt policies that favour them outside the confines of the rich world, they stand more chance of doing business with each other without domination. In this regard, regional trade tends to equate countries of similar strengths and ideologies to some extent.

Explaining Asia's regional economic integration, Das (2009) highlights the following as advantages of regional integration:

- Coherent policy mechanisms address developmental asymmetries.
- Helps less developed countries take advantage of global market-access opportunities.
- Enhances social cohesion.
- Improves social infrastructure including health and education.
- Reduces absolute protectionism.
- Member countries benefit from lower prices.
- Development experiences get replicated.
- Trade barriers are removed.
- Labour movement is encouraged.

1.7 POLICY IMPLICATIONS FOR ENTREPRENEURIAL DEVELOPMENT WITHIN SOUTH AFRICA

- South Africa has a 25 per cent unemployment rate related to structural unemployment. Policy makers, government and other stakeholders need to create an enabling environment for learning. TVET colleges should be prioritised to assist the youth with technical vocational skills, while universities should create a conducive entrepreneurship ecosystem to stimulate practical learning.
- Financial resources could be mainstreamed to big business, which will then be used for internships. This will result in skills transfer to prospective entrepreneurs.
- The contribution of the informal sector, for instance street vending, should be recognised as this sector creates employment opportunities.
- Measures to improve access to poorly located areas due to inadequate infrastructure (in the rural areas), which limits social inclusion and faster economic growth, should be put in place.
- South Africa's growth path is highly resource intensive and hence unsustainable. This can be changed by better education and training as discussed above.
- Corruption, which undermines state legitimacy and service delivery, should be kept in check.

1.8 CONCLUSION

In this chapter the concept of an emerging economy was outlined in the context of BRICS. Emerging economies are those economies that offer new products and services to their customers locally and internationally and as such provide growth opportunities for entrepreneurs. Challenges that are sometimes faced by entrepreneurs in small business are sometimes caused by the challenges of territorial borders and infrastructure. Nonetheless, in some circumstances many emerging economies are coming out from the shadows of their past colonial masters. Consequently, the concept is a reflection of historical economic-political factors.

REVIEW QUESTIONS

1. Define the concept “emerging economies”.
2. Differentiate between innovation driven and factor driven economies.
3. What are the characteristics of emerging economies?
4. What are the challenges facing small and medium enterprises in South Africa.
5. Discuss the role of education in South Africa.
6. Discuss Ubuntu as a value for entrepreneurs in conducting business.
7. What are the arguments for and against South Africa’s inclusion in BRICS.
8. Discuss the opportunities and challenges facing BRICS economies.
9. What are the challenges facing economic growth potential in South Africa?
10. What are the managerial implications for South Africa as a BRICS member state?
11. What are the policy implications facing policy makers in the South African context?

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2

Small business start-ups in emerging economies

L. van Scheers

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- define a small business in an emerging economy
- understand how to start a small-business start-up in an emerging economy
- identify factors contributing to start-up failure in emerging economies
- describe the role of small-business start-ups in the emerging South African economy
- identify ideas for small-business start-ups in emerging economies
- discuss small-business start-up business categories
- explain the macro environment of start-up businesses in emerging economies.

KEY TERMS
- Small business start-up
- Emerging economies
- Start-up failure
- Start-up business categories
- Macro environment of start-up businesses

2.1 INTRODUCTION

Emerging economies create opportunities for the development of new small businesses. The enhanced spending power of the growing middle class in these emerging economies is responsible for the creation of small business. Abor and Quartey (2010) suggest that, according to statistics, more than 80 per cent of all businesses in South Africa are described as small and this large number of small businesses is responsible for about 40 per cent of all economic activity. Natarajan and Wyrick (2011) suggest that it is important to know that about 80 per cent of all new job opportunities are created in the small-business sector and that more than 70 per cent of South Africans are employed in small businesses. Small businesses therefore form the backbone of the South African emerging economy.

The term "emerging economy" appeared in the 90s. It is an updated term for Third World countries. It is difficult to define and it is easier to remark that emerging economies include "all those countries not considered developed". Emerging economies have some characteristics of developed economies, but do not meet standards to be considered developed economies yet. The characteristics of developed economies can be described: as high average income per capita and education level; with a relatively small population growth rate per year; and offering a lifestyle market economy to its population. It is clear that these characteristics do not depict a developing country like South Africa.

In contrast, South Africa has an emerging (developing) economy, which suffers from: a generally low level of income per capita of the population; high unemployment levels; a large informal sector; a large small-business sector; and exports raw materials instead of processed products to developed countries, such as France. Another example of a developed economy is the Netherlands, which has a successful economy and well-established capital markets. It also shows openness to foreign ownership, ease of capital movement and efficiency of market institutions. In contrast to the Netherlands South Africa is known as an emerging economy and experiences lower income per capital, rising interest rates, an unstable sociopolitical environment, high unemployment and lower levels of business activity (Abor & Quartey, 2010). Emerging economies can be found throughout Asia, Africa and Eastern Europe whereas mature economies are those in

North America, western Europe and Japan. In addition to being an emerging economy, South Africa also joined the BRIC countries in 2010.

Even though it has a much smaller population and economy as compared to the other BRICS countries, factors such as its vast natural resources (gold, diamonds and platinum), developed infrastructure, easy access to finance for small businesses and functioning regulatory frameworks work in its favour to be included (http://www.fairobserver.com). It is evident that China is the most dominant constituent of the BRICS, and it is also a top investor in South African banking, infrastructure, mining, transport and renewable energy. For example, Standard Bank received an investment of $4.7bn from the Industrial Commercial Bank of China (ICBC), which represents a 20 per cent share. It seems that emerging economies contribute to the world economy by becoming important areas for global manufacturing operations. In developed countries, employment is very expensive; that is how emerging economies manufacture products that will be more competitively priced.

In emerging economies products are manufactured by small businesses. Therefore a significant characteristic of a flourishing and growing emerging economy is a booming small-business sector (Fida, 2008). The significant role that this sector plays in the South African economy cannot be ignored. Van Scheers (2011) argues that, although there is recognition of the important role they play in the South African economy, their development, growth and sustainability are largely constrained by a number of factors. This chapter will define small businesses; give ideas for small-business start-ups; explain factors contributing to small-business failure; note the role of small businesses; indicate different small-business categories; and finally, discuss the macro environment of small businesses in emerging economies. Next, we will define a small business in an emerging economy such as South Africa.

2.2 DEFINING SMALL BUSINESSES IN EMERGING ECONOMIES

Secondary research (Phakisa, 2013) indicates that there is no universally accepted definition for a small business because what is regarded in the US as a small business would often be regarded as a medium-sized business elsewhere in the world. In South Africa, Phakisa (2013) defines an enterprise with fewer than 100 employees as a small business whereas in Egypt it is defined as having more than five and fewer than 50 employees. This can be compared to another emerging country, for example Vietnam, where they consider a SME to have between 10 and 300 employees. With regard to developed countries, the Inter-American Development Bank defines an American small business as having a maximum of 100 employees compared to the European SMEs with fewer than 250 employees (Natarajan & Wyrick, 2011). The following economies are considered to be “emerging”: Brazil, Chile, China, Colombia, Czech Republic, Hungary, India, Mexico, Russia and South Africa.

As mentioned, a small business is defined in different ways with reference to the number of employees or to turnover (as in the National Small Business Act of 1996). In South Africa, a small business is officially defined in section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 as a separate and distinct business entity. This includes cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly operated in any sector or subsector of the economy.

The National Small Business Act categorises South African small businesses into the following distinct groups: the survivalist, micro, very small, small and medium businesses. The term “SMME” is therefore used to describe small, medium and micro-enterprises. However, in South Africa the terms “SMME” and “SME” are used interchangeably. In South Africa, the SME is defined by the number of employees per enterprise-size category combined with the annual turnover category and the gross assets excluding fixed property. The National Small Business Act 102 of 1996 provides definitions for various SMME categories as identified in Table 2.1.

Table 2.1 Definitions of SMEs given in the National Small Business Act

Enterprise size	Number of employees	Annual turnover	Gross assets, excluding fixed property
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to R50 million, depending on industry	Less than R2 million to R18 million, depending on industry
Small	Fewer than 50	Less than R2 million to R25 million, depending on industry	Less than R2 million to R4,5 million, depending on indust
Very small	Fewer than 10 to 20, depending on industry	Less than R200 000 to R500 000, depending on industry	Less than R150 000 to R500 000, depending on industry
Micro	Fewer than five	Less than R150 000	Less than R100 000

Source: Dockel & Ligthelm (2012)

As indicated in Table 2.1, a small enterprise has fewer than 50 employees. Currently, there is a lot of focus in South Africa on the development of SMEs. SMEs in a wide variety of fields and industries are regarded as a major force in economic development and wealth creation. In South Africa, the importance of an entrepreneurially driven economy is becoming increasingly important, particularly because of the employment-creation opportunities it offers. Globally, the small-business sector is regarded as the main driving force in economic growth and job creation (Hussaina, Si & Wang, 2013).

The most widely used framework in South Africa is the definition of the National Small Business Act, which defines five categories of business as follows:

- **Survivalist enterprise:** the income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. (In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector.)
- **Micro enterprise:** the turnover is less than the VAT registration limit (that is, R150 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, *spaza* shops, minibus taxis and household industries. They employ no more than five people.
- **Very small enterprise:** this category includes enterprises employing fewer than 10 employees, except mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology.
- **Small enterprise:** the upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.
- **Medium enterprise:** the maximum number of employees is 100, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer.

2.3 FACTORS CONTRIBUTING TO START-UP FAILURE IN EMERGING ECONOMIES

Starting a small business includes the possibility of success as well as failure and because of its small size, a simple management mistake is likely to lead to the failure of an SME, which therefore has no opportunity to learn from its past mistakes. Research conducted by Longenecker, Petty, Moore and Palich (2006) indicates that lack of planning, improper financing and poor management have been posited as the main causes of failure of small businesses. Lack of credit has also been identified as one of the most serious constraints facing African small businesses and hindering their development (Oketch, 2007). The National Small Business Act

102 of 1996 paved the way for the launch of a range of entirely new institutions within the Department of Trade and Industry (DTI) group, including the Ntsika Enterprise Promotion Agency and Khula Enterprise Finance. Ntsika, which has now been merged to follow the SEDA mission, aims to support small businesses to survive and minimise SME failure. SEFA assists small businesses with a business plan.

2.4 THE ROLE OF SMALL-BUSINESS START-UPS IN THE EMERGING SOUTH AFRICAN ECONOMY

SMEs play an important role in the development of emerging countries (Fida, 2008). They contribute to economic development by creating employment for the growing labour force in rural and urban areas; they also generate income, thereby providing desirable sustainability and innovation for the economy as a whole and eventually, leading to the reduction of poverty. Maas and Herrington (2006) confirm this as they state that SMEs are seen as a significant component of the solution to South Africa’s development issues, which include poverty, income inequality and unemployment. A recent study conducted by Abor and Quartey (2010) estimates that 91 per cent of formal business entities in South Africa are SMEs, and these SMEs contribute between 51 and 57 per cent of the gross domestic product (GDP) and provide about 61 per cent of the country’s employment; Van Scheers (2011) also confirms these statistics. The Banking Association of South Africa and member banks are committed to small-business development and offer support through stakeholder engagement, and involvement or ownership of several initiatives. Other initiatives described by Fatoki and Akinwumi (2010) that promote the development of small businesses include the current framework of small-business support and development in South Africa, which comprises the following:

- The White Paper on National Strategy for the Development and Promotion of Small Business (DTI, 1995), which sets out the government’s strategy in this regard
- The Centre for Small Business Promotion, which has also been established by the government with the goals of creating an enabling environment for the growth and expansion of SMEs and of developing and supporting the institutions involved in delivering support services to SMEs

Developing economies often have high numbers of low-capital businesses that manufacture or sell similar products that will decrease unemployment. Next ideas for small-business start-ups will be discussed.

2.5 IDEAS FOR SMALL-BUSINESS START-UPS IN EMERGING ECONOMIES

Emerging markets have fast-growing low-income consumers, which could be used for test sites for innovative products. Low-cost engineering products such as Tata’s Nano city car, to infrastructure-advancing, for example, mobile banking, which permitted companies to penetrate huge new emerging markets. Small-business owners should offer products that will satisfy the needs of the consumers in their specific emerging market. Unfortunately it is impossible to satisfy all the needs of all the consumers in a particular market, therefore the small-business owner should segment the market and target a specific customer. The aim of the small business is to maintain profitability over the long term, therefore it has to do marketing research to keep up to date with the changes in consumer needs and to change the product offering to satisfy the needs of the customer.

Ideas for new business start-ups should consider customers’ needs in emerging economies such as collecting and recycling waste. A good example is to design a biogas container from recycled plastic that can be carried on the consumer’s back like a backpack. Biogas can be used to provide poor rural households with an affordable source of energy for lighting or cooking. Another example of a business start-up idea is to create online IT training courses like Hyperion Development (http://www.ventureburn.com). This company provide affordable online courses to the disadvantaged youth in South Africa.

Low-cost business ideas

Become a computer tutor

Catering business

Computer repair service

Become a garage cleaning service

Become a handy man

Start an office and home organizer

Mobile mechanic

Cover letter and résumé service

Source: Abor & Quartey (2010)

2.6 SMALL-BUSINESS START-UP CATEGORIES

South Africa is a country that supports the system of free enterprise. This means that any person is free to start a business aimed at making a profit. Profit-seeking businesses can be classified by type of business activities or organisational form. The different types of businesses will now be discussed.

2.6.1 Different categories of ownership

Businesses can be classified according to organisational form. Business ownership refers to the way in which a business is owned and managed. The owners have to decide on how to raise capital, who is responsible for losses and how the profit will be divided. Common forms of ownership are sole trader, partnership, limited liability companies and close corporations.

2.6.1.1 Sole trader

This business is owned by one individual and managed by the same person. Many small service businesses such as general dealers, *spaza* shops, plumbers, hairdressers and lawyers are sole traders. There are no legal formalities other than a licence to trade, and a limited investment is required to start such a business. The owner is responsible for contributing the funds or capital required by the business. The owner accepts all the risks involved, bears any losses and gets the profit of the business. The owner is also liable, in his personal capacity, for the debts of the business.

The owner is also taxed on the profit of the business and the owner declares the profit on his personal income tax return. This is done because the sole trader is not a juristic person distinct from its owner. We can say that the business has no legal "personality" and cannot be summoned to court. When the owner of the sole trader dies, the business ceases to exist. If the business activities are taken over by someone else, a new soletrade business comes into being.

Advantages

The main advantages of the sole-trader business are that it is easy to set up and control the business. The sole trader

- makes all the decisions
- keeps all the profits
- controls the business
- starts with minimum capital
- has a simple management system.

Disadvantages

- There is unlimited liability for debts of the business and the risk of losing personal wealth if the business fails.
- Lack of capital means the business stays small.
- There will be lack of continuity in the business if the sole trader dies and then the business will also die.

2.6.1.2 Partnership

A partnership is created by a verbal or written agreement between the partners, specifying each partner's role and the extent to which each will share in the profits and losses of the partnership. There have to be at least two partners, but not more than 20 in a partnership. Firms of medical doctors usually form partnerships so that if one partner is away the other will attend to the practice.

Like the sole trader, the partners in a partnership are actively involved in the day-to-day running of the business. Because of the lack of legal personality, the owners (partners), like the sole trader, are also liable in their personal capacities for the debts of the partnership. Taxes from partnership profits are paid by the partners personally. Where a partner dies or withdraws from the partnership, or a new partner is admitted to the partnership, the old partnership ceases to exist and a new partnership is formed. Partners share losses and profit according to the ratio stipulated in the partnership agreement.

Advantages

- It is easy to set up.
- Professional assistance is gained through taking on an experienced or qualified partner.
- More partners mean more capital.
- The responsibility of managing the business is shared.

Disadvantages

- Unlimited liability partners could lose all their personal wealth to pay for the debts of the business.
- There is a lack of continuity if one of the partners dies, resigns or is declared bankrupt; in such cases the partnership is automatically dissolved and would have to be reformed.
- Partners can take decisions without consulting the other partners and these decisions are binding.

2.6.1.3 Limited liability company

This form of business ownership is very common in the business world. A company is formed when a large amount of capital is required to establish a business, or when the owners wish to limit their responsibility for debts to the original amount contributed. The owners of a company are called shareholders. People who are not the owners often manage it. The rules and regulations governing the formation and running of a company are contained in the Companies Act 71 of 2008, which was signed by the president on 8 April 2009 and gazetted in *Gazette* No. 32121 (Notice No. 421). The Act replaces the Companies Act 61 of 1973 and came into effect on 1 May 2011.

Two types of limited liability companies exist in South Africa, namely the private and public limited liability company. The shares of a private company like Coin Security are not traded on the stock exchange. We say that Coin is unlisted and because of the restriction on the free transferability of its shares, it is called a private company. Its full name is Coin Security (Proprietary) Limited. The word "Proprietary"' (or abbreviated as

“Pty”) denotes that it is a private company. A private company may have a minimum of one and a maximum of 50 shareholders. They are, however, often required to sign surety for the debts of that company. The shareholders and directors of the private company are often the same people.

A public company can have an unlimited number of owners (shareholders). Think, for example, of Jet Stores. Anybody can buy Jet Stores’ shares on the JSE. We say that Jet Stores is a *listed company* and because it can sell its shares to the general public, it is also referred to as a public company. The full name of Pep Stores is Pep Stores Limited. The word “Limited” (abbreviated as “Ltd”) denotes that it is a company limited by share capital. A public company must have at least seven owners (called shareholders or members), except in the case of a wholly-owned subsidiary, where another company holds all the shares in that company. The shareholders of a listed company cannot be held liable for the debts of the company. If the company goes bankrupt, the shareholders will lose only the share capital contributed by them. The owners (shareholders) of a listed company are, as a rule, not employed by that company; the directors of the company will be responsible for the daily business activities.

Remember!!

The word “Limited” (or the abbreviation “Ltd”) denotes a company limited by share capital.

The word “Proprietary” (or abbreviation “Pty”) denotes a private company.

Advantages

- Each shareholder has limited liability and does not risk personal wealth.
- The business has continuity.
- Large amounts of capital can be raised in relatively short time periods.

Disadvantages

- Legal formalities need to be sorted out before the company may trade.
- There are legal constraints on how to run the company.
- The company is accountable to its shareholders and creditors.
- A complex management system is needed.

The sole proprietorship (sole trader), the partnership, and private and public companies are all different legal business categories. Each form has its own characteristics, advantages and disadvantages, which distinguish it from the others. The main differences between the various categories of business will be discussed.

2.6.1.4 Legal personality

Some businesses have a legal personality or form an entity. These businesses can exist independently of their owners. This means that the owners are not liable for the debt of the business. These businesses have an unlimited life span because they are not dependent on the life span of their owners.

Certain businesses can be formed easily without legal consideration while some can take considerable time, effort and complicated procedures to establish.

2.6.1.5 Ownership and management

The extent to which owners of the business share in the management, income (profits) and losses, varies from one type of business to another. When the business has more than one owner, a mutual agreement has to be reached on how the business will be managed and how the profits and losses will be shared.

2.6.1.6 Obtaining capital

The size and nature of the business will determine the amount of initial capital required. Some businesses need more capital than others; for example, a *spaza* shop will need less capital than a factory manufacturing spare motor parts.

2.6.1.7 Division of income (profits)

The different business categories have different ways of distributing profits. The owner of a sole trader is entitled to the total income, while in other cases income is distributed according to a specific ratio or according to shares owned.

Remember!!

There is no ideal form of ownership. The business owner has to take into account the specific circumstances of his own business and choose the form that suits him best.

2.7 THE MACRO ENVIRONMENT OF START-UP BUSINESSES IN EMERGING ECONOMIES

The management environment consists of three subenvironments namely: the micro environment, the market environment and the macro environment. These three subenvironments are interdependent, and in this chapter the macro environment will be explained. The micro environment and market environment will be discussed in Chapter 8.

2.7.1 The macro environment

The macro environment includes all factors that can influence the organisation, but that are out of the company's direct control. A company does not generally influence any laws (although it is accepted that they could lobby or be part of a trade organisation). The macro environment is continuously changing, and the company needs to be flexible in order to adapt to change. There may be aggressive competition and rivalry in a market. Globalisation means that there is always the threat of substitute products and new entrants. The wider environment is also ever changing, and the marketer needs to compensate for changes and challenges in culture, politics, economics and technology, which will be discussed next.

2.7.1.1 Challenges presented by the macro environment

Changes in economic conditions are the most important factors for a small business to deal with because these factors have an immediate and large effect on the wellbeing of a small business. The challenge for the small business is to keep up with all these changes and to seek new opportunities to exploit, and also to deal with threats that these forces have on their business. Monetary, social, technological, global or international, physical and political challenges will be outlined shortly.

2.7.1.2 Monetary policy challenges

The monetary policy challenges include changes in interest rates, inflation, the rate of taxation and the exchange rate. For example, interest rates: small businesses pay interest on money they borrow and they also receive interest when they invest money. Small businesses also charge interest when customers buy goods on credit. Therefore an increase or decrease in interest rates affects business activities as well as the buying habits of their customers. The rate of taxation on the customer will have an impact on spending power and therefore also on the survival of the business. If customers do not buy products, the small business will not survive.

Monetary challenges such as interest rates, inflation and exchange rates can have a negative impact on the business when there are sudden changes or fluctuations. If the rand increases in value against our major trading partners, it will make it more difficult for local companies to compete against cheaper imported goods. On the other hand, a stronger currency means capital goods and resources can then be imported more cheaply.

Small businesses need to focus more on productivity in an attempt to meet the challenges of higher inflation or less favourable exchange rates. Changes in the income levels of customers will have a direct impact on the sales turnover. In times of economic growth and development, more people will have jobs, which in turn will result in higher sales. The opposite is also true when the economy is not growing or even shrinking. In such a case the overall income levels of people will be lower and fewer people can afford goods and services.

2.7.1.3 Social challenges

A social force such as HIV and AIDS can be a major threat to a small business in that it can result in a loss of skilled and experienced workers. The small business can deal with this challenge by investing in its workers through HIV and AIDS education programmes and the provision of anti-retroviral drugs to prolong the lives of affected workers.

2.7.1.4 Technological challenges

Changes in technology also offer opportunities, such as ecommerce, where products and services can be sold via the internet. The business needs to invest in its workforce to equip them with the necessary skills to work in a technological environment.

2.7.1.5 Global challenges

Global challenges such as the threat of cheaper imported goods and little protection in the way of import taxes also present serious challenges to an enterprise. Management and the workers need to cooperate in order to survive in a highly competitive global environment. Productivity levels and the best technology need to be employed to meet the challenge of cheap imported goods. On the other hand, globalisation offers export and offshore investment opportunities.

2.7.1.6 Physical challenges

The physical factors are scarce resources such as water, fossil oil, pollution and environmental damages. The world’s fossil-oil resources are decreasing as a result of fast-growing countries like China using more energy to produce products. The Kyoto agreement on pollution and the environment came into effect into 2005. This is an agreement whereby most governments throughout the world agreed to reduce carbon pollution to protect the earth’s atmosphere. Greater social awareness and government commitment to reducing pollution will put pressure on businesses to display greater environmental responsibilities.

We have already learnt that the business will use raw material and other physical resources in the course of production. The supplies of these natural resources are often not sustainable, which means that these resources may become depleted and therefore need to be properly managed at all times. The physical challenges are to try to protect scarce resources such as water and fossil fuel, and to reduce pollution and environmental damages.

2.7.1.7 Political challenges

Political instability and restrictive legislation can negatively affect investment and growth in South Africa. It is therefore important for the business community to engage with the government and the labour movement to ensure sound macro environmental policies, which are conducive to trade and investment.

Labour legislation, which forms part of the political environment, also presents unique challenges to South African small businesses, for example, the attainment of equity targets and black business empowerment. The small business can turn these challenges into advantages by entering into partnership with suitable empowerment stakeholders who can add value to the small business. An equity plan needs to be in place to ensure a smooth transition of skills to equity appointees. The political factors have a huge influence upon the regulation of a business and the spending power of consumers and other businesses.

2.7.2 Strategies to overcome macro environmental challenges

Small businesses need to devise strategies to overcome macro environmental challenges that affect their business operations. The small-business sector creates employment and income that the formal sector cannot provide. As such, the sector provides the livelihood of many communities and it is therefore imperative that finance, training and land is made available to this sector so that the self-employed can continue to drive their own destiny. It is important that small businesses do not only focus on a single market but that they provide a range of market goods and services to ensure that the whole sector does not collapse when a certain sector is experiencing difficulties.

The first strategy for the small-business sector is to create a means of receiving credit and funding.

The second strategy is to develop training facilities and give the small-business owners access to technology and machinery. This will ensure that the small-business sector has a comparative advantage, in terms of the product and viability, with other competing sectors within the region and outside the region.

The third strategy is to develop community-based tourism and small-scale farming projects to enhance small-business development. Access to land, and in some instances housing, is necessary to operate such ventures.

The last strategy is the target market strategy, which focuses on the target customer, the pricing structures and the geographic target markets to create a strategy for the small business. The more statistical information and knowledge the small business has about a target market, the more precisely a target market strategy can be developed.

2.8 CONCLUSION

Small business start-ups are considered to be the panacea for South Africa’s emerging economy as they contribute significantly to job creation, social stability and economic welfare.

In this chapter, small businesses in emerging economies were defined; ideas for small-business start-ups were provided; factors contributing to small-business failure were debated; the role of small businesses in emerging economies was discussed; different small-business categories were explained; and finally, the macro environment of small businesses in emerging economies was highlighted. Throughout the chapter the link between small-business start-ups and the emerging economy in which they operate was emphasised. It was illustrated that small-business startups in emerging economies differ from start-ups in developed Western countries.

REVIEW QUESTIONS

2.1 Compare the characteristics of developed economies and emerging economies; illustrate your answer with practical examples.

2.2 Debate definitions of SMEs with reference to the National Small Business Act 102 of 1996. Use a table in your answer and include practical examples.

2.3 Define five categories of business according to the framework of the National Small Business Act. Provide practical examples of the businesses.

2.4 “SMEs play an important role in the development of emerging countries and contribute to economic development by creating employment for the growing labour force in rural and urban areas.” Evaluate this statement using the following sub-headings in your answers:

2.4.1 Introduction

2.4.2 The important role of small-business start-ups in emerging African countries

2.4.3 Economic development

2.4.4 Creating employment

2.4.5 The important role of small-business start-ups in South Africa

2.4.6 Economic development

2.4.7 Creating employment

2.4.8 Conclusion

2.5 Businesses can also be classified according to “organisational categories”, which refers to the way in which a business is owned and managed. Compare the characteristics of the sole trader to limited liability companies. In your answer provide practical examples of limited liability South African companies.

2.6 Define the “limited liability company” giving practical examples of limited liability companies in South Africa.

2.7 Conduct an online search and give an outline of the advantages and disadvantages of the limited liability company in South Africa. Demonstrate your answer with practical examples of companies and use the following search terms: limited liability company; ownership of limited liability company; Companies Act 61 of 1973; unlisted and listed limited liability companies; advantages and disadvantages of the limited liability company in South Africa.

2.8 Conduct an online search and define “macro environment” of a small business as well as describe the impact of political factors on a small business. Answer the following questions in your answer:

2.8.1 What is the government’s policy on the economy?

2.8.2 What is the government’s position on marketing ethics?

2.8.3 How stable is the political environment?

2.8.4 Will government policy influence laws that regulate or tax your business?

2.8.5 Does the government have a view on culture and religion?

2.8.6 Is the government involved in trading agreements with such entities as the European Union?

2.9 Conduct an online search and describe the economic factors that affect a small business in South Africa. Answer the following questions in your answer:

2.9.1 Current interest rates and how these fluctuate

2.9.2 The level of inflation

2.9.3 Employment level per capita

2.9.4 Long-term prospects for the economy i.e. gross domestic product (GDP) per capita

2.10 Conduct an online search and describe the global factors that affect a small business in South Africa. Answer the following questions in your answer:

2.10.1 Does South Africa have strict import taxes for international businesses that want to export goods to our country?

2.10.2 How does the government protect local businesses from the imports of international products?

2.11 Review the monetary, social, technological, global, physical and political challenges faced by a small company. Analyse the different challenges and provide practical examples in your answer.

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RECOMMENDED WEBSITES

http://www.investinganswers.com/financial-dictionary/world-markets/emerging-market-economy-1518

https://www.empowering-people-network.siemensstiftung.org/en/shortlist/projects/biogas-backpack/

3

Feasibility analysis for small businesses within emerging economies

A.C. Neethling

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- explain the importance of a feasibility study
- discuss the elements of a feasibility study
- conduct a feasibility study on any idea or business
- identify and explain the typical elements of a feasibility study that are more common to developing economies.

KEY TERMS

- Industry attractiveness
- Technical feasibility
- Product/service feasibility analysis
- Concept test
- Prototype and usability testing
- Emerging industries
- Declining industries
- Financial feasibility analysis
- Estimated earnings

3.1 INTRODUCTION

Once an entrepreneur comes up with an idea for a new product or service, the entrepreneur should conduct a feasibility analysis to determine the likelihood that the perceived idea will be a success; that is, whether the idea can be converted into a profitable business venture. A feasibility analysis precedes a business plan, and the entrepreneur might, after conducting the feasibility analysis, decide to drop or rethink the business idea, especially if the product, industry or financial appeal is not attractive enough to support establishing a business venture. The feasibility study may also highlight shortcomings that need to be addressed, before the product/service can be successfully introduced into the marketplace. Alternately, the analysis could lead the entrepreneur to conclude that a great need and therefore great opportunity exists for the idea to be successfully introduced and accepted by the market.

The feasibility analysis addresses various criteria against which the idea needs to be evaluated. A distinction between developed and developing countries is sometimes necessary when conducting a feasibility study, as a developing economy often does not have the same infrastructure in place as a developed economy, and accordingly might not be as suitable for a particular new idea as a developed economy might be. Context may therefore be important when conducting the feasibility study and budding entrepreneurs might be compelled to review their market entry strategies, if the market or country is not yet ready for that invention or idea.

Barringer and Ireland (2012) describe the feasibility analysis in terms of four stages namely: product or service feasibility; industry and market feasibility; organisational feasibility; and financial feasibility, which will be discussed in the following section. However, a developing economy requires more aspects to be examined. This chapter also looks at the technical and legal feasibility of an idea.

CASE STUDY: Opportunities created by crime

AGV Security Services is a business venture that was formed with the specific aim to provide protection and medical services for tourists travelling within the Western Cape. Two of the founder members were employed in the security industry where they were sometimes called out to perform special duties such as protecting tourists at business venues. Experience in the protection industry, and extraordinary services rendered to tourists in the course of their work, indicated to the members of this organisation that perhaps there existed a need for a specialised service for the protection of tourists to South Africa.

The founding members approached the Small Enterprise Development Agency (SEDA) for support, which assisted them in drafting and conducting a feasibility study.

After describing the need for the service, namely the protection of tourists visiting South Africa, the members had to identify how they were going to sell this particular service. During the deliberation process, the following potential buyers of their services were identified:

- Foreign tour groups/tour organisers
- Locally organised tour operators
- Wine-route establishments
- Municipal districts offering popular tourist attractions
- Businesses housing and serving tourists

As the group lacked contact with foreign-based tour organisers, they decided to approach local tour operators and local bus companies providing guided tours in the Western Cape.

They also approached local municipalities housing popular tourist sites to enquire whether such institutions were willing to pay for additional security for tourists during designated times. Their thinking was that institutions could either include in the admission costs a charge for the provision of security services, or alternately that the security services could be seen as an operating expense for the local authorities.

Local restaurants, wine farms and guesthouses were also approached with the intention of offering a perimeter of secure wining and dining and accompanied security for the guests on their way home.

As part of the analysis on the market structure and size, the members acquired statistics from various sources, identifying the numbers of tourists to South Africa annually and more particularly to the Western Cape. Data was also gathered on the profile of tourists visiting the province.

As part of their financial feasibility analysis, the members sought to explore whether tour operators were willing to add a levy to their services, to cover the costs of providing a differentiated product, namely a secure and safe tour experience. The service was offered on an hourly basis and income calculations were done on the basis of the number of tours they could accommodate per day. Start-up and operating expenses were kept to a minimum and founding members initially provided transport at a cost to the business when workers needed to be transported. Registration with the Security Services Board was one of the big start-up expenses that AGV had to incur.

The security services industry is a highly regulated industry with various prescriptions that have to be met in order to offer services in this industry. In terms of technical and legal feasibility, the team realised that one of the operational requirements was that all employees operating within the sector had to be formally registered. Regulations made under the Private Security Industry Regulation Act included: applications for registration as a security service provider; training requirements for registration; clearance certificates; infrastructure and capacity necessary to render a security service; a register of security service providers; certificates of registration; and various prescriptions relating to the management of and record-keeping of employees.

Besides the management of the firm that was addressed by the organisational feasibility section, the team also had to identify how they were going to acquire and maintain the necessary skilled staff, and provide the services that were prescribed by legislation. The team also needed to acquire suitable premises as prescribed by the Act.

The feasibility analysis revealed that tour operators were not interested in providing security services as part of their tour package. The team faced similar reluctance from municipal authorities owning popular tourist destinations, who expressed that they either did not see the need for such protection and security services or felt that existing security provided was adequate. Only for ad hoc major events would they consider beefing up the security provided. The team got the greatest support for their idea from business owners such as restaurant owners, who wanted to provide a safe and secure environment for tourists visiting their establishments. This then enabled the team to identify their staff requirements and offer a focused service in order to provide the services demanded by the market.

3.2 PRODUCT/SERVICE FEASIBILITY ANALYSIS

The aim of the product or service feasibility analysis includes:

- To determine whether the planned product or service is attractive to the envisaged market in the form and price intended
- To determine the ease of use, suitability for purpose, or challenges potential users might encounter when using the product for the first time
- To gather feedback from the consumer, which can be used to make the necessary adjustments to the product or service before releasing it to the market
- To determine whether forecasts can be made to reflect the expected demand for the product.

The steps followed in this process are: to conduct market research to determine if there is a need for the product or service; to undertake a concept test (utilising a concept statement); to develop a prototype and conduct usability testing; and to use the feedback gathered to determine whether or not to proceed with a business idea. If the research or test indicates that there is no need or demand for the product or service, the budding entrepreneur might decide not to implement the rest of the steps listed above.

Barringer and Ireland (2012) identified two components to a product or service feasibility analysis, namely product/service desirability and product/service demand. An inventor or entrepreneur is often excited about an idea but that excitement does not necessarily translate into interest on the part of the consumer. The entrepreneur needs to determine whether it is possible to provide the product or service at a profit, and whether there is sufficient demand by customers to ensure that the product/service can be delivered at a profit in an ongoing manner. Scarborough (2011) states that the easiest way to answer these questions is to engage in primary and secondary research. Primary research could be conducted where

- data is collected using customer surveys and questionnaires
- focus group discussions are used by enlisting a small number of potential customers (8 to 12) to give the entrepreneur feedback on what they liked or disliked about the product/ service.

Secondary research could entail accessing information from sources such as trade and industry associations, published reports including market research reports, newspaper reports, trade magazines and journal articles and well as the information on the internet.

An alternate manner of determining the desirability of a product or service is to conduct a concept test, which involves an instrument called a concept statement.

3.2.1 Concept test

Before money is spent on building a prototype of the new product, the idea or concept should be tested, by presenting a concept statement to selected individuals. Once satisfactory feedback has been received, the entrepreneur will then go ahead and develop a prototype, which can then be tested for its suitability and ease of use. The concept statement can be presented to industry experts and individuals who are familiar with the industry and might be interested in the product or service offered. The concept test can then be used to serve the following purposes:

- To validate the assumption that has been made regarding the product/service: by providing individuals with the concept statement, potential customers can be asked to complete a short questionnaire that will assist the entrepreneur to determine whether the assumptions he or she made regarding the consumer and the product/service were correct.
- To use customer feedback to help tweak the idea: by asking potential customers to offer comments or make suggestions on how the idea could be improved, potential customers could contribute towards tweaking the product into its final format.
- A buying intentions survey could also be attached to a concept statement, to determine if there is a demand for the product or service. Such a survey would ask whether the potential customer “would definitely buy”, “would probably buy”, “might” or “might not” buy the envisaged product or service. In assessing

customer interest, the scores of respondents who have indicated that they definitely and probably would buy, are tallied and used as an indication of customer interest and how many people would actually buy the product or service.

3.2.2 Concept statement

The concept statement is a short, preliminary description of the product or service idea. The concept statement includes the following items:

- **A description of the product or service being offered:** this section often includes a sketch in the case of a product, so that the prospective customer could see how the intended product would look. It would also include features of the product or service that would enable the prospective consumer to express an opinion on his or her attitude towards the intended product/service. The response received at this stage would assist in building the prototype that incorporates the feedback and intention that the entrepreneur had in mind.
- **The benefits of the product or service:** this section highlights the benefits and value that the product or service offers potential users as well as the needs and wants that it aims to address or problems that it seeks to solve.
- **The intended target market:** this section lists the consumers or businesses that are expected to be interested in the product or service to be offered.
- **A description of how the product will be positioned relative to its competitors:** by utilising a positioning map, the entrepreneur is forced to think of the criteria that would be used to distinguish his or her product or service from that of competitors.
- **A description of how the product or service will be sold or distributed:** this section forces the entrepreneur to think of strategies and channels of distribution that need to be utilised in order to get a product or service to the consumer.
- A brief **description** of the company's management team.

3.2.3 Prototype and usability testing

After conducting a concept test, a prototype model of the product could be developed. The prototype is the first depiction of the new product; it is a model of the eventual product, and is designed so that potential customers can see what the final product could look like and how it is likely to work. Prototypes could be given to potential customers to use in order to get feedback on the product. (Websites to visit include http://www.rapdasa.org/ or http://www.ideaprototype.co.za/). Feedback would include impressions by the consumer on the ease of use, preference (e.g. size, colour), what worked well and what the consumer did not like. The aim of usability testing is to identify problems users experience and express while using the product. This will enable the entrepreneur to incorporate the feedback from the usability testing process before the final product is released to the marketplace.

Another technique that could be used is "in-home trials", where researchers are sent into customers' homes to observe how customers use the entrepreneur's products or services, and in so doing identify difficulties experienced when using the product so that improvements can be made to the product.

3.3 INDUSTRY AND MARKET FEASIBILITY ANALYSIS

When conducting an industry analysis, the potential and attractiveness of the industry is examined. An industry consists of a group of firms producing similar products or providing similar services that distinguish themselves from other types of businesses or services. The manufacturing or technically productive enterprises in a particular field, collectively, therefore form an industry, for instance: the music industry; fitness and health; security (protection services); or the building industry. A firm may compete in a particular industry, but decide to focus on a particular market within that industry.

It is useful to know which type of industry the business is competing in as each type of industry exhibits different characteristics in terms of the adoption of new products or new ideas. With highly innovative products, best described by the technology adoption life cycle, an innovation is adopted at different rates. In such cases the first group of people to adopt or use a new product is referred to as innovators, followed by the early adopters, early and late majority, with the last group to adopt the product being referred to as laggards.

3.3.1 Types of industries

There are various types of industries, with each type of industry offering different opportunities. The following types of industries can be identified:

- **Emerging industries:** an emerging industry is a new industry in which standard operating procedures have yet to be developed. A high level of uncertainty characterises emerging industries, yet many new ventures enter emerging industries as the barriers to entry are usually low with no established pattern of rivalry. Due to the high level of uncertainty in these industries, success may be short-lived with new innovations constantly changing the nature of competition, for example the cellular market.
- **Fragmented industries:** a fragmented industry is one that is characterised by a large number of firms of approximately the same size.
- **Mature industries:** a mature industry is an industry that is experiencing slow or no increase in demand, has numerous repeat customers, and has limited product innovation. A challenge in this industry for a new entrant is the cost associated with marketing and distributing, in order to achieve awareness and a presence in the market.
- **Declining industries:** a declining industry is an industry that is experiencing a reduction in demand and is therefore not an attractive industry to enter. An opportunity here would be to revolutionise the industry by becoming the leader in a niche segment of the industry by creating uncontested new market space that makes the competition irrelevant, for instance, Cirque du Soleil. See the reference to Cirque du Soleil at the end of this chapter for more information.
- **Global industries:** a global industry is an industry that is experiencing significant international sales. A start-up entering this industry usually tries to appeal to an international market from the very first day of operation and is typically found in internet-based businesses.

3.3.2 Attractive industries

An industry is said to be attractive if it fulfils one of the following characteristics:

- Is large and growing (with growth being more important than size)
- Is not crowded (not too many competitors)
- Is fairly young rather than older and more mature
- Has high operating margins – high profit margins are typically associated with large and growing industries where the level competition is still low.
- Is considered to be an important industry to the consumer. Owing to the changing demands and lifestyle of consumers, certain services have become critically important to consumers, for example cooked meals at stores such as SPAR and Food Lover’s Market as opposed to the unhealthier fast-foods option.

3.3.3 Nature of competition

When conducting an industry feasibility analysis, the entrepreneur would also explore the nature and degree of competition in that industry. The following types of competition can be identified:

- **Direct competition:** direct competitors are businesses offering identical or similar products to one’s own business. Direct competitors target the same customer.
- **Indirect competition:** indirect competitors are businesses offering close substitute products. Indirect competitors compete against each other by aiming to satisfy the same need, for example a need for entertainment.

- **Future competition:** future competitors are businesses that are not yet direct or indirect competitors but could become competitors at any time, for example books being sold via the internet.

3.3.4 Profitability of the industry

When conducting an industry analysis, one could also examine the profitability of the industry, which would also be another way of looking at the impact of competition on the industry. Porter's Five Forces model relating to industry competitiveness looks at the level of competitiveness in an industry and can be used to determine the possible impact the level of competitiveness can have on the profitability of a firm in an industry. Factors that affect the profitability of an industry are:

- **Threat of substitutes:** the higher the level or availability of substitute products, the less attractive the industry becomes as consumers might opt for substitute products, especially when price becomes an issue. By acquiring a patented new product, a firm may be protected for a limited period of time, in order to exploit the benefits of patenting, before the patent expires.
- **Bargaining power of buyers:** if a firm is dependent on a few large clients for the bulk of its sales, that firm may be vulnerable to the demands of such buyers, for example price reductions, especially where there is a large amount of supplies. The more standardised a product is, the easier it is to be substituted.
- **Bargaining power of suppliers:** where there are only a few suppliers that offer a critical component or product to the industry, those suppliers can manipulate the price and quality supplied to firms, as there are no alternative suppliers from which to purchase the product. This can therefore be a threat to the profitability of firms in an industry, as exorbitant costs might drive clients away from that industry.
- **Threat of new entrants:** where the threat of new entrants is low, for example as a result of high barriers to entry, the industry would be attractive and the threat to profitability low. If an entrepreneur introduces a new product to the market that can be easily duplicated, his level of profitability will be threatened by new firms entering the industry.
- **Rivalry among existing entrants:** the level of competition within an industry directly affects the profitability of the firm. In a highly competitive industry, with many identical products for consumers to choose from, a high level of price competition and aggressive marketing may exist, which will affect one's profitability in that industry.

3.3.5 Market factors

Most new businesses do not have the resources to target the entire market and would usually identify a target market. A target market is a segment of the larger market, at which a firm directs its goods/services and marketing efforts. It is important that the correct target market is chosen as a target market could indicate the type of partners that the firm would need to approach for example the appropriate firm to approach to assist with a promotional campaign. This section looks at the market that the entrepreneur hopes to attract to purchase the product or service. It also forces the entrepreneur to compare the new product/service to those being offered in the marketplace that seek to address the same or similar needs.

One way of entering a market, especially in a developing economy, is to try to identify a small yet profitable segment of the market, often referred to as a niche market. By focusing on the needs that are deemed to be important to a certain group of consumers in a niche market, an entrepreneur can focus on efficiently adding and creating value to a profitable smaller group of clients. The following section describes aspects of the market of which budding entrepreneurs need to take cognisance.

3.3.5.1 Market size and structure

Budding entrepreneurs would look at the size of the market in order to identify and determine whether they could capture a segment of that market. The target market that the entrepreneur identifies is those potential consumers that he hopes would purchase his product. In the AGV case study, the owners decided that the market they would be targeting would be tour operators servicing tourists visiting the Western Cape. They also identified other segments of the market that they could target, if the primary target market was too small. The mere fact that the feasibility study indicated that the business could not be successfully launched in the manner that they had envisaged does not mean that the idea in itself was a bad one. Eventually the owners decided on a different target market when they started the business. The same idea could have been successfully implemented in another market, for example in Gauteng. Likewise if the market that an entrepreneur has identified is too small, the entrepreneur should think of ways of expanding the target market, to include other segments of the market, in order to make the business financially sustainable.

The structure of the market refers to the number of buyers and sellers in the market and when analysing the structure of the market, one should also look at the influence that these players have in the market, as their strength could influence the entrepreneur's perception of the attractiveness of the market.

A five percent market share of a large market could be insignificant to the large players in the industry but a profitable share for a small growing company, thus the entrepreneur should try to determine how the players in the industry (large buyers and sellers) would respond to a new entrant into the marketplace. Strategies used in other parts of the world by these dominant players could give an entrepreneur an indication of the reaction he could expect from these players.

3.3.5.2 Growth and capacity of the market

A large and growing market creates opportunities for new firms to enter the marketplace. If existing players do not have the capacity to satisfy the demand, opportunities arise for new firms to enter the industry.

3.3.5.3 Market share

When entering a market, an entrepreneur might target a market share that is attainable and profitable for the firm. The entrepreneur could also choose to initially target a niche segment within the market, provided that the niche segment is large and profitable enough to enter. In a large market, existing competitors might not pay too much attention to a small firm focusing on a niche segment of the market, as the niche segment is too small a component of the large firm's market share. With time the firm can then expand into more segments of the market.

3.4 TECHNICAL AND LEGAL FEASIBILITY

Before a new product is introduced to the marketplace, it must be suitable and safe for people to use. Besides the product requiring to meet certain design specifications, as concluded from the product feasibility section, the product should be able to be used within the area and market that the entrepreneur has identified. One does not expect to sell electrical appliances in an area where people do not have electricity – unless the product is purchased as a gift or for some other purpose, in which case the demand is unlikely to represent a sustainable business opportunity.

Aspects to be discussed under technical feasibility include the following:

- **Availability of infrastructure:** often new products and services cannot be introduced into an area where there is no infrastructure supporting or enabling the use of the device for instance, electricity, and information and communications technology (ICT) infrastructure.
- **Health, safety and reliability:** a product should be safe to be used when manufactured or sold; for example, the fear that radiation emitted by cellular phones could cause brain cancer initially hampered acceptance and adoption of cellular phones.
- **Product design and product testing facilities:** products need to be able to function and should be able to perform under normal operating conditions, as well as under different weather conditions and not pose any danger to consumers when used; for example, clinical trials have to be conducted to examine the effects and potential risks of new drugs and pharmaceutical products, before they will be approved by the relevant authorities.

- **Technical specifications** with regard to product design, as mentioned above: which includes safety, quality and any other standards set in that particular country where the product is to be marketed. This includes material used in the production of other goods and services that need to meet certain minimum standards of production, for example SABS approval.
- **Permits and licensing:** licences are often required before a business is permitted to operate in a particular industry and failure to acquire a licence can prevent a business from starting, for example in the taxi industry.
- **Compatibility:** in the case of supplementary products (e.g. for cell phones or electronic equipment), the new product must be compatible with the products in the marketplace.
- **Legislation preventing the emission of harmful gases:** in the manufacturing or application phase, this may also hamper production of the planned product.
- **Legislation protecting local industries:** for example, in some countries such as China, foreign firms would only be allowed access to the local market if they partnered with a local firm.
- **Location of the manufacturing unit or sales outlet:** factors that should be considered with regard to location include

– distance from the consumer

– distance from raw material or supplies

– ease of transportation and service delivery from the intended location

– environmental issues and legislation.

- **Staff availability:** any product needs competent, technically trained staff familiar with the production methods or service standards required by the industry.

3.5 FINANCIAL FEASIBILITY ANALYSIS

The financial analysis looks at whether it's financially feasible to start and operate the business. The aspects to consider in this section include the initial capital requirements, estimated earnings from operations and the resulting return on the investment.

3.5.1 Capital investment

The nature of the business would give an indication of the capital investment required. Generally service-related businesses require less capital to start operations than manufacturing or retail-industry businesses. Financial feasibility analysis includes analysing required financial resources to acquire the non-current assets such as equipment, building and technology, as well as other operational costs.

3.5.2 Estimated earnings

The aim of any business is that the income generated by the business should exceed expenses incurred in the running of that particular business. Two important components used to determine the financial feasibility of a business are the income that the business is able to generate, and the expenses that the firm needs to incur in order to provide the goods or services to the marketplace.

One way of determining the financial potential of a new business is to look at the performance of similar already established businesses. The prices that existing business charge for their products gives the potential entrant an indication of the selling price of goods and services that he or she would have to compete against. The profitability of the venture is a function of the income generated (the volume of sales at a particular price) less the costs incurred (the cost of sales and other operating expenses). The entrepreneur should determine the volume of sales the business is able to generate in order to determine the income that can be generated from sales. The market feasibility gives a good indication of the potential demand and acceptance of the new business idea that can assist the entrepreneur in estimating potential sales. In determining the estimated earnings of the venture, the entrepreneur should look at the following:

- **Profitability:** revenue and cost forecast.
- **The cost of supplies and manufacturing** (providing the service): if manufacturing costs are high, the selling price will accordingly also be high.
- **Sales price:** "price" at which the product or service would be sold that would be attractive for the consumer as well as profitable for the entrepreneur.
- **Profitability of similar businesses in the industry:** this would also include the prices at which similar products or services are being sold by competitors. This will also enable the entrepreneur to determine whether he would be able to provide a competing product or service at a price equal to that being charged by competitors.
- **Anticipated profit:** whether the anticipated profit justifies the investment or risk undertaken.
- **Breakeven point:** the breakeven point indicates how many goods or services must be sold or provided at a particular price in order to prevent the company from running at a loss.
- **Establishment costs:** discussed in detail in section 3.5.2.1.
- **Operating costs:** discussed in detail below in section 3.5.2.2.
- **Financing requirements:** the total amount of money needed to start a business as well as sources of capital.

3.5.2.1 Establishment costs

Establishment costs are the costs related to the start-up of the business. Establishment costs include:

- Product development costs, which includes research and development
- Product testing and building of a prototype
- Market research costs
- Legal costs (intellectual property (IP) protection, for example costs relating to the registration of a patent)
- Rental of premises (costs relating to this)
- Costs of machinery and equipment
- Installation, programming and operationalising machinery and equipment
- Provision for operating costs, for example salaries and wages, rent, advertising, etc.

– For retail outlets, cash flow for a period of three months should be budgeted for.

– For a manufacturing concern, cash flow should be provided for at least six months.

The determination of establishment costs indicates to the entrepreneur the total costs required to start a business. This will enable the entrepreneur to determine whether he or she has sufficient funds or the capacity to raise sufficient funds to start the business.

3.5.2.2 Operating costs

Whereas establishment costs refer to costs incurred at start-up only, operating costs refer to costs that are incurred regularly during the operation of the firm. These include the following:

- HR-related costs, for example salaries, wages, pensions and medical contributions. The higher the costs to employ experienced, qualified staff, the higher the sales figures need to be to cover these expenses.
- Facilities-related costs, for example rent, water, electricity, insurance, instalment payments, security and maintenance. The business cannot exist without these facilities, therefore entrepreneurs need to determine these costs in order to see whether they can operate a profitable business, considering that these costs have to be incurred.
- Marketing costs, for example sales promotion, advertising, sponsorships. People need to be made aware of the new product or service entering the marketplace, in order to attract customers away from competing products or services.

3.5.3 Return on investment

Once the entrepreneur has determined what his total costs (investment) would be, he can then determine what return he would get if he were to invest the same amount in a different venture. Each alternate investment places different demands on the entrepreneur's time and effort, and exposes the entrepreneur to different levels of risk. After conducting the financial analysis, entrepreneurs should determine whether the return they expect is adequate compensation for the time, effort and risk that they are considering undertaking.

3.6 ORGANISATIONAL FEASIBILITY ANALYSIS

An organisation has to be formed by the entrepreneur in order to exploit the idea and bring the idea to the marketplace. After this, resources need to be acquired and allocated to the organisation in order for it to operate effectively.

Organisational feasibility is determined by evaluating management aspects (management prowess), organisational structure as well as the non-financial resource requirements of the firm.

3.6.1 Management aspects

Management prowess includes

- the passion of the entrepreneur or management team
- knowledge and understanding of the market by the management team
- the management team's professional and social networks.

When entrepreneurs plan to start a new business, as part of this organisational feasibility, they should evaluate the prowess, or ability, of the management team they plan to put together to make sure that the management team has the requisite passion for the business idea and relevant industry knowledge and expertise to launch the venture.

Venture capitalists are more likely to invest in the team that seeks the financing than in the idea itself. The passion of the entrepreneur would be the force that drives the new business through stormy and turbulent times. Likewise the expertise and skill of the management team would be critical to ensure that the business is able to respond to any challenges and changes in the market. If entrepreneurs wish to venture into an industry that is unfamiliar to them, it would be wise to partner with, or to acquire someone with knowledge of, and networks in, the industry, as part of his management team. Entrepreneurs who wish to launch their own business and have the knowledge and expertise of the industry should consider the contribution and value that any potential partner brings to the business before deciding on whom to partner with.

3.6.2 Organisational structure

The entrepreneur needs to know how the business is going to operate. The organisational structure informs entrepreneurs of the number of staff members the organisation requires to generate sales and ensure that the business operates effectively. This information is used to determine the costs relating to the appointment of staff as part of the financial feasibility analysis.

3.6.3 Resource sufficiency

Resource sufficiency refers to the ability of the firm to obtain sufficient resources other than financial resources. In a developing economy, the availability of some of the resources listed below might be difficult to obtain, especially if the firm competes both locally and internationally. Non-financial resources include

- affordable premises from which to run its office/lab/operations

- ability to attract and employ skilled employees
- willingness of highly qualified employees to join the firm
- available networks and the likelihood of establishing favourable strategic partnerships
- proximity to similar firms for the purpose of sharing knowledge
- possibility of obtaining intellectual property protection in key areas
- proximity to key suppliers and customers.

3.7 CONCLUSION

A feasibility analysis is a preliminary evaluation of a business idea. The feasibility analysis is conducted after the entrepreneur has identified an opportunity and decided to explore the probability that the opportunity could lead to a viable business. The feasibility analysis precedes the business plan and the business plan will only be drafted once the entrepreneur is satisfied with the outcome of the feasibility analysis. The feasibility analysis examines the product or service, organisational, financial, technical and legal aspects, and the market and industry feasibility of a business opportunity. Where the analysis indicates that the idea or opportunity is not feasible, the entrepreneur can decide to amend the strategies he or she had in mind when the feasibility analysis was conducted. The feasibility analysis enables the entrepreneur to tweak the idea and make the necessary changes in response to the feedback received before resources are committed to the exploitation of opportunity. The feasibility study requires the budding entrepreneur to look at the following:

- Aspects of the product or services to determine whether it is suitable for the consumer in the manner intended or whether the planned product should be modified to appeal to the needs of the consumer
- Aspects of the market, such as the size of it and the potential market share the firm hopes to acquire.
- The industry analysis looks at how attractive and profitable the industry is.
- The financial feasibility analysis requires the entrepreneur to determine whether the product can be introduced to the market at a competitive and attractive price to the consumer, and generate a satisfactory profit.
- The organisational feasibility analysis determines whether the business has sufficient management expertise, organisational competence, and non-financial resources to successfully start the business.
- The technical feasibility analysis examines aspects such as legal and technical requirements, available natural resources and infrastructure. This item of analysis is most relevant in a developing economy, as it is often assumed that these aspects are present and considered not to be a challenge to a developed country.
- By conducting a feasibility analysis, entrepreneurs can identify flaws in their designs, assumptions about consumers, etc., and make the necessary adjustments before going ahead to start a business.

REVIEW QUESTIONS

3.1 How would you classify the taxi industry in terms of industry type?

3.2 What are some of the technical feasibility challenges a student hoping to install coffee-vending machines in the hostels and faculty buildings of a university might expect to face?

3.3 What is a feasibility analysis and what does it seek to accomplish?

3.4 What are the criteria that you would use to determine whether an industry is attractive?

3.5 How would you go about determining whether an industry is profitable or not?

3.6 Which aspects would one look at when conducting a market feasibility analysis?

3.7 What is an organisational feasibility analysis?

3.8 Briefly describe elements of an organisational feasibility analysis.

3.9 Discuss the various elements of a financial feasibility analysis.

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RECOMMENDED WEBSITES

Cirque du Soleil: http://qz.com/366601/this-is-how-cirque-du-soleil-reinvented-the-circus/

http://www.rapdasa.org/

http://www.ideaprototype.co.za/

Startup in South Africa: https://www.techcentral.co.za/category/startups/

Startup Grind Cape Town Hosts Vinny Lingham (founder of Clicks2Customers, Yola & Gyft) – his story. https://www.youtube.com/watch?v=ZlzJ2_34tJg

4

Essential success factors in entrepreneurship for emerging economies

M.F. Rangongo & C.C. Ngwakwe

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- understand the uniqueness of entrepreneurship in emerging economies
- understand the importance of partnership management for an entrepreneur in an emerging economy
- know how creativity and innovation constitute an essential factor for entrepreneurship
- comprehend the essentials of business planning and marketing in entrepreneurial success
- understand and apply the risk management skills necessary for successful entrepreneurship.

KEY TERMS

- Entrepreneurship essentials
- Resource dependency theory
- Entrepreneurial collaboration
- Relationship management
- Negotiation

4.1 INTRODUCTION

The emerging markets' uniqueness and/or newness in the global business arena requires that entrepreneurs should learn or possess certain enabling attributes and tools to successfully navigate the region's business environment. This chapter contains some pointers regarding essential success factors required by entrepreneurs in an emerging market such as South Africa. Section 4.2 highlights some uniqueness in emerging market entrepreneurship and opportunities and challenges facing business in an emerging market such as in South Africa. Thereafter, the subsequent sections of this chapter highlight the importance of learning or possessing important success tools such as partnership, leadership, innovation and planning.

4.2 THE UNIQUENESS OF AN EMERGING MARKET FOR AN ENTREPRENEUR

4.2.1 Untapped abundant resources

Emerging markets such as South Africa and others draw their uniqueness from an apparently yet untapped abundance of resources (human and natural). In contrast, these opportunities can scarcely be found in developed economies. Entrepreneurs in developed economies quickly realised that the developed markets are heavily saturated with depleting resources and opportunities – a reason why emerging markets have become a choice destination in recent years.

4.2.2 Business value exists in low-income communities

Firms that adopt entrepreneurship as a strategy of growth have enormous value in emerging economies (Pisano, Ireland, Hitt & Webb, 2007). For instance, it is possible to fashion a profitable entrepreneurial venture even in poor communities in emerging markets by moving away from the status quo to apply models that uniquely address poor people's needs and still provide financial gains for the entrepreneur. A typical example of such a viable entrepreneurship strategy for emerging markets is the Base of the Pyramid (BOP) strategy (Seelos & Mair, 2007). This is unique to entrepreneurship in emerging economies, and may not easily fit into the saturated developed markets. Opportunities and new market niches are untapped and readily available with even cheaper resources for the entrepreneurs. This means that it is much easier to develop and successfully launch new brands into the emerging market as many of the customers are less aware of existing diverse brands (Roberts, Kayande & Srivastava, 2015).

4.2.3 Government institutions offer opportunities

There is also the uniqueness stemming from opportunities offered by government institutions in emerging economies, which are investing in the underdeveloped markets with an emergence of the small middle class with a taste for luxury goods. Entrepreneurs can thus take this opportunity and launch goods and services to provide for such a middle class and make financial gains to grow the entrepreneurship (see, for example, Roberts et al., 2015).

4.2.4 Competition among entrepreneurs

Other dimensions of uniqueness include the competition among emerging entrepreneurs that grabs market segments for their brands. This is because the awareness of opportunities is spreading globally and international entrepreneurs are responding aggressively to take advantage. One might then wonder why the rush to emerging markets, which includes even Africa – tagged previously as a “hopeless continent” (The Economist Intelligent Unit, 2012: 2). The United Nations Conference on Trade and Development estimates, perhaps correctly, that, on a global comparison, Africa provides one of the highest returns on foreign direct investment – more than other continents. While acknowledging the high return on investment in Africa, the UNCTAD indicates:

Since 1990, the rate of return in Africa has averaged 29 per cent; since 1991, it has been higher than in any other region, including developed countries as a group, in many years by a factor of two or more (UNCTAD: 17).

4.2.5 Distinct political institutional establishments

Apart from the uniqueness embedded in the opportunities, resource abundance and mode of doing business, emerging markets are also unique from developed markets from the context of their distinct political institutional establishments, economic development ideology and cultural norms (Alon & Rottig, 2013). Therefore, potential entrepreneurs must be aware of these as they form part of the new learning that must be embraced to navigate the new market terrain and take advantage of the enormous opportunities. This genre of distinctiveness in emerging markets might foster new thoughts and debates to innovate entrepreneurship theories that have existed and guided enterprising strategies in the developed markets (Alon & Rottig, 2013). Another unique aspect of emerging market entrepreneurship is the workforce category. While South Africa has a youthful labour force with growing feminisation (Casale & Posel, 2002), China, on the other hand, has an aging labour force (Alon & Rottig, 2013). These affect the distinctiveness of emerging market entrepreneurship with respect to impacts on the human resource availability, quality and cost (Alon & Rottig, 2013). Given the uniqueness of human resources availability, labour tends to be more costly in China while cheaper in South Africa.

4.3 OPPORTUNITIES AND CHALLENGES OF ENTREPRENEURSHIP IN SOUTH AFRICA

4.3.1 Expanding consumer market

As an emerging market, the South African market has many opportunities amid few challenges. Given that South Africa is the *one of* economic giants of Africa, discussion of the opportunities and challenges of entrepreneurship here has a much broader tone, which also encompasses Africa. The middle class in South Africa is increasing remarkably; this affords entrepreneurs the opportunity to provide this market segment with its concomitant quest for consumer products and services. Apart from the middle class opportunities, the South African market and Africa in general provides one of the biggest consumer markets in the world. Take, for example, the telecommunication business, which has proved how wide the consumer market is in Africa. Between 1999 and 2004 the use of the cell phone in Africa grew more than that in Asia at a rate of 58 per cent per annum while the use of cell phone in Asia grew at a much lower rate of 35 per cent per annum. Africa, therefore, ranks as the second largest consumer of cell-phone services in the global community after China (VenturesAfrica, 2016). Indeed, while almost half the African population live on a dollar a day, the other half are not necessarily poor. There is abundant growth in the middle class eager for new products and services. This therefore presents entrepreneurship opportunities from retail and/or services to small-scale manufacturing. Even among the poor communities, enterprising opportunities do exist, although returns might be comparatively low, but the "Fortune at the Bottom of the Pyramid" theory does prove that the large number of poor consumers will eventually contribute a large pool of profit to entrepreneurs who venture into the bottom of the economic pyramid (Africaopenforbusiness, 2016).

4.3.2 Youthful demography of the African market

Another opportunity is the demography of the African market, which is highly populated, with an alluring mix of young people below the age of 24, accounting for about half the population. This offers continuous opportunities for enterprises to venture into goods and services channelled toward a youthful consumerist appetite with its longevity propensity; age is very much on the side of youthful African market. World population forecasts indicate that by 2050, the population of Africa will increase to about 2.4 billion (*The Telegraph*, 2016) with a possibility of African youths below 15 constituting half of its population (The Economist Intelligent Unit, 2012). This is an indication of a resilient entrepreneurship market opportunity now and even into the near future offering current and potential entrepreneurs the opportunity of long-term investment founded on realistic projected returns, since the future market is guaranteed. The youth market, therefore, means the education industry and allied skills, as well as employment and diverse youthful consumerism for goods and services will continue to bolster and sustain entrepreneurial returns. In addition, Africa's rate of urbanisation is increasing tremendously, higher than in India, with about 40 per cent of African consumers living in urban areas – this is an opportunity for entrepreneurs to capture a cluster of target markets as the demand for new goods and services by new urban arrivals increases (The Economist Intelligent Unit, 2012).

4.3.3 Apparent risk with alluring returns

While there is abundant enterprising opportunity in Africa, entrepreneurial business risk is still high. However, expert opinion from top business executives is that the alleged risk of entrepreneurship in Africa is far greater than the actual risk with potential for encouraging sustained returns after the waning of risks (St-Pierre & Bahri, 2006; Africaopenforbusiness, 2016). According to the The Economist Intelligent Unit.

The key economic risks range from weak fiscal and monetary policies, high inflation, volatile currencies, high taxes, nationalisation issues, skills shortages, inadequate infrastructure and red tape (Economist Intelligent Unit, 2012: 7).

Inflation in Africa is high from a global lens comparison – especially within the commodity and product markets. The inflation problem is and will continue to be compounded by power shortages, high taxes and inadequate infrastructure for business. Although South Africa is more developed than other African countries with a comparatively better infrastructure, there are still sporadic power problems and an inadequate transport system to support business (Economist Intelligent Unit, 2012). While big businesses can survive transport and power inadequacies, smaller businesses may not be able to, and generating their own electricity is expensive.

4.3.4 Business climate

As regards the climate for doing business, Africa ranks very low when compared to other regions of the world with regard to ease of doing business. The greatest of the problems include irregular socioeconomic policies; weak regulation of labour, which is often detrimental to the employers of labour and deters young businesses from early employment of labour; a shortage of critical skills; and corruption. Despite these inhibitors, South Africa, Botswana and Mauritius are rated the best places to invest as they offer a relatively better environment for business than other African countries (Economist Intelligent Unit, 2012). However, this rating does not dispel the aforementioned challenges.

4.4 ENTREPRENEURIAL MANAGEMENT AND LEADERSHIP

There have been a lot of discussions about exactly what constitutes skills that are essential for successful entrepreneurship in any context. Several researchers have shown a myriad of skills, success factors and traits that are essential for people who want to enter into entrepreneurial ventures. Such skills include, but are not limited to: creativity and innovation; motivation, with a high need for achievement; independence and autonomy; as well as not being afraid to take calculated risks (Caird, 2013). The personal traits include: proactivity; high energy; self-confidence; high tolerance for ambiguity and/or uncertainty; self-reliance, as well as the ability to be a team player; determination, commitment and the ability to persist against all odds; and a positive attitude. In addition to the traits mentioned for any business to prosper and be sustainable, networking, strategic thinking and management of risk, as well as basic management and leadership skills are crucial (Botha, 2014; Daft, 2014; European Union [EU] Skills Panorama, 2014; Venter, Urban & Rwigema, 2008).

4.4.1 Management and leadership knowledge

An ideal entrepreneurial venture starts with a good, viable idea and/or an opportunity that needs to be managed well, in order for it to flourish and be sustainable. Organisations, big or small, utilise financial, human, technological and infrastructural/physical resources to achieve goals of producing products or rendering services. This management of resources is more challenging for small businesses in emerging markets as the resources are limited. Therefore, effective and efficient management of these scarce resources becomes crucial to achieve the entrepreneur’s vision. Management is a process that entails planning, organising, leading and coordinating organisational resources to achieve organisational objectives.

- **Planning**, which is the first step in the management process, involves being able to scan the environment, both internally and externally, to find out the strengths and weaknesses of the organisation, as well as the opportunities and threats that are outside the organisation, which may facilitate or hinder the prosperity of the organisation. Being able to identify what opportunities there are can help the entrepreneur respond to customer needs and thereby build and maintain a competitive advantage. In addition, if entrepreneurs are able to assess the threats and opportunities, they are able to make projections/forecasts in terms of business prospects. Projections help in drafting informed business plans to help convince potential financiers in cases where finance is required. This points to the fact that entrepreneurs need, in line with strategic planning, to be able to draft clear and informed business plans. The end-product of planning is to come up with the vision, mission, goals, and strategic and operational plans for how the entrepreneurial venture is going to be executed.

- **Organising**, the second phase of the management process, follows once the goals and plans of the entrepreneurial venture have been outlined. This second step involves indicating how the available resources are going to be allocated and utilised to achieve the set goals. For instance, organising involves checking if money/finance, or properly qualified human resources are available to be able to execute the set plans effectively and efficiently. In addition, during organising, different employees who have similar skills and competencies can be grouped together to achieve specific operational goals. These categorisations of people with similar skills and competencies show the levels of skill as well as reporting structures, thereby resulting in organisational structures and hierarchies. The structures are also essential for people to take responsibility and be accountable for the execution of plans and goals as set out during the planning session. Having organisational structures is important for entrepreneurs to allocate/delegate and monitor progress of duties that need to be performed. How well duties are performed is important for the prosperity of any organisation, as well as its competitive advantage. The organising function includes having policies and standards of operations on, for instance, recruitment and selection, promotion, remuneration and labour relations, which guide employees on what to do and how to do it. Entrepreneurs need these guides that can help them in interactions with all their stakeholders, existing and potential.
- **Leading** involves influencing employees towards achievement of the set goals. The leading role requires that the entrepreneur communicates the vision of the business, as well as goals and plans to all the employees and other stakeholders in such a way that they will be motivated to achieve those goals. Therefore, interpersonal skills of communication and motivation of the self and others are very important in all businesses, including small businesses.
- The **control** function is there mainly as a way of monitoring and evaluating progress in terms of the execution of plans as laid out, checking where mistakes have been made and taking corrective measures to remedy such mistakes. In start-up ventures especially not everyone has the same understanding of the business owner's vision of the business. So by controlling all other employees, the small-business manager or owner makes sure that all employees do what they are supposed to do.

In addition to small-business managers being able to apply the fundamental management principles as indicated above, they should have the following skills:

- **Financial management:** small-business owners/managers need to know what they can afford in terms of resources such as equipment and infrastructure, how much profit/loss they are making, and be able to forecast the future financial health of their business.
- **Managing people and change management:** the ability to recruit the right people, train them and retain them is crucial especially for small-business owners as they cannot afford frequent recruitment costs and ad hoc training of new employees. Just like big businesses, small businesses operate in turbulent environments. This turbulence is felt more in emerging markets as they are challenged by several factors that include a lack of skills/expertise and resources. Continuous scanning of the environment is therefore crucial so that the small-business owner can grab opportunities that present themselves while at the same time respond to customer needs, which are also frequently changing.
- **Marketing management:** entrepreneurs need to keep in mind that attracting customers involves a lot of work and financial demands. Therefore it is important to do market research, which will inform the small-business owner of whether or not there is a need for their business idea or not, as well as finding out what the customers for that idea really need. If effective marketing is not instituted, the survival of the business may be seriously compromised.
- **Risk management:** risk is the likelihood that something untoward may happen in the course of running a business that can have a negative effect on achieving the goals of that business. So possibilities of risk need to be identified, analysed and managed whenever possible. According to a PricewaterhouseCoopers (PwC) Report (2012: 7), "the balance between risk and reward is the very essence of business: without taking risks, companies cannot generate profits". Thus businesses are often encouraged to take calculated risks.

It is imperative for all organisations, small businesses included, to carefully differentiate between calculated risks and entering into reckless and irresponsible ventures. The type of risk an organisation faces depends on several factors, which include the size of the business and its location. Small businesses are especially vulnerable to cash flow problems, which according to the PwC Report (2012) are some of the major factors that have contributed to small-business failure.

Additional factors that threaten the survival of small businesses, especially in emerging economies, are theft and vandalism of equipment and/or property. Unfortunately should these happen, many small businesses struggle to recover as they have limited financial resources. There are financial risks when venturing into business, as well as reputational risks for those stakeholders – people or organisations, investing in any new venture, i.e. should anything go horribly wrong their reputation is at stake (Wickham, 2006). Other risks to contend with include credit risk, the ever-evolving cyber risks, political risks, as well as environmental liability risks. Therefore it is crucial that all businesses, especially small businesses, develop risk-management strategies. These risk-management strategies, if developed and managed effectively, help businesses to detect potential threats and to devise plans for mitigation. Effective risk management can substantially reduce costs and insurance premiums, which if not handled well, can drown the small business.

4.5 THE RESOURCE DEPENDENCY THEORY AND RELATIONSHIP MANAGEMENT

An organisation is an open system. The operational activities that take place within any organisation are dependent upon the inputs (that is, resources in the form of, for instance, raw materials, finance and competent people) that are obtained from the external environment and the final products/services of the organisation are consumed/utilised by people/stakeholders external to the environment. This implies that the internal activities of the organisation depend on the external environment, while the external environment depends on the organisation for products and/or services. However, resources are limited, particularly in emerging economies. There is constant competition for these resources. Small businesses have to compete with big and established businesses for these limited resources. This highlights the importance of the strategic management of resources, especially for small businesses.

The planning stage of management (as explained above) requires that the manager of an organisation analyse the internal and external environments for availability of resources. Internal analysis entails looking at the resources that the organisation possesses, while external analysis checks the kind of resources that are available that the organisation can utilise for its production or service rendering. Proper knowledge of the internal and external circumstances, in terms of the resources that the organisation has or does not have is essential for any organisation. This enables it to be able to take advantage of the resources and/or opportunities that are out there to eventually function effectively and efficiently and achieve its goals. According to the resourcebased view “resources, organisational capabilities and competencies must be seen as the foundation characteristics that make up the competitive advantage of an organisation” (Ehlers & Lazenby, 2010: 114). The resources that can help an organisation to realise a competitive edge can be in terms of *assets* (tangible and/or intangible) or organisational capabilities.

- In terms of **tangible assets** organisations need to have a clear picture of their financial situation, the type of materials, equipment, infrastructure and/or technology they have that they can utilise to achieve a competitive advantage.
- **Intangible assets/resources** include the type of employees the organisations have employed, the image of the organisation or reputation with customers. A negative/poor image or being perceived negatively by the customers can be damaging for an organisation if the organisation is not aware and does not rectify the poor perception.
- Resources are not enough by themselves for an organisation to be competitive. **Organisational capabilities**, in the form of processes, as well as talents, competencies and skills are essential to process the inputs effectively and efficiently into products and/or services that are required by customers. The competency and quality with which these products and services are processed/managed will assist in achieving a competitive edge (Ehlers & Lazenby, 2010; Myers, Hulks & Wiggins, 2012). Competencies develop over time with experience, as well as education and training. Unfortunately most small, medium and micro enterprises (SMMEs), especially in emerging economies, can often not afford to employ experienced personnel because firstly, they do not have the finance to afford the experience and secondly, emerging economies often function in areas that have scarce skills. Therefore, it is important for managers/owners

of SMMEs to try to maintain a balance between their scarce resources (finance, for instance) with procurement of yet another scarce resource (capabilities).

One of the strategies that SMMEs can use to access scarce resources can be through the formation of partnerships or collaborations that are essential in improving their competitive edge.

4.6 NETWORKING AND COLLABORATION/PARTNERSHIP ESSENTIALS

For better prosperity, sustainability and to achieve a competitive edge, SMMEs need to network and form partnerships and collaborations among themselves, as well as with other stakeholders. Mullins (2010: 828) defines network-building as a process that "involves individuals interacting with others establishing a network of co-operative relations. These networks are outside of the formal structure …" Collaborations and networks can help discover what is happening outside the day-to-day running of one's business, identifying resources and taking advantage of them, thereby being able to build a competitive edge. The importance of forming networks can further be emphasised by the fact that "A leader or employee with many relationships knows what's going on in the organization and industry, whereas one who has few interpersonal connections is often in the dark about important activities or changes. … people with the greatest power are those who cultivate relationships with individuals at all levels, both in and outside the organization" (Daft, 2014: 436). In addition, according to Hurry (2012: 4) "… by default (SMMEs) will collaborate because they themselves do not have all the resources to engage in continuous innovation".

4.6.1 Motives for collaborations

Following a review of the literature, Hurry (2012: 83) compiled a list of common motives for collaboration including the following:

- Accessing technology
- Accessing expertise
- Building knowledge and learning
- Accessing core competencies
- Coordinating and speeding up the value chain in order to enjoy first-mover advantage
- Colluding against common rivals or reducing competition
- Cost saving due to synergies via process rationalisation and systems improvement, etc.
- Economies of scale
- Economies of scope
- Increased flexibility, efficiencies and rewards
- Inventory savings
- Improvement of competition position
- Improvement of quality
- Reaching new markets/customers
- Reducing transaction costs/coordinating costs
- Reducing risk and uncertainty
- Sense of community and legitimacy
- Sharing R&D costs and legitimacy
- Sharing resources/resource access

4.6.2 Who to collaborate with

Collaboration and networking opportunities can be with governmental or non-governmental organisations whose mandates include SMME support and development; private businesses; or personal relationships with other SMMEs, customers and/or suppliers (Senik, Scott-Ladd, Entrekin & Adham, 2011). Thus, the partnerships and collaborations can take several forms as follows:

- Firstly, networks with **bigger corporations** can afford the SMME managers/owners an opportunity to get access to coaching and mentoring by people who have more experience in running businesses in their area of interest and, importantly, in their geographic area.
- Secondly, SMMEs can form networks and/or agreements with their **suppliers**. This kind of agreement can provide them an opportunity to negotiate for better deals and better prices; they can have some influence on the quantity of the materials and/or services they get from their suppliers, and should situations call for it, they may be able to get materials quickly (just-in-time), which is something that can be difficult to negotiate if there is no continuous relationship with the suppliers.
- Thirdly, networks can be formed with **customers**, both current and potential. The advantages of having a relationship with customers include the fact that:

– It is easier to know the customer's needs and whenever possible tailor-make products and services to suit those customer's needs;

– Customer satisfaction can be better monitored;

– Frequent contact with a customer will likely promote customer loyalty.

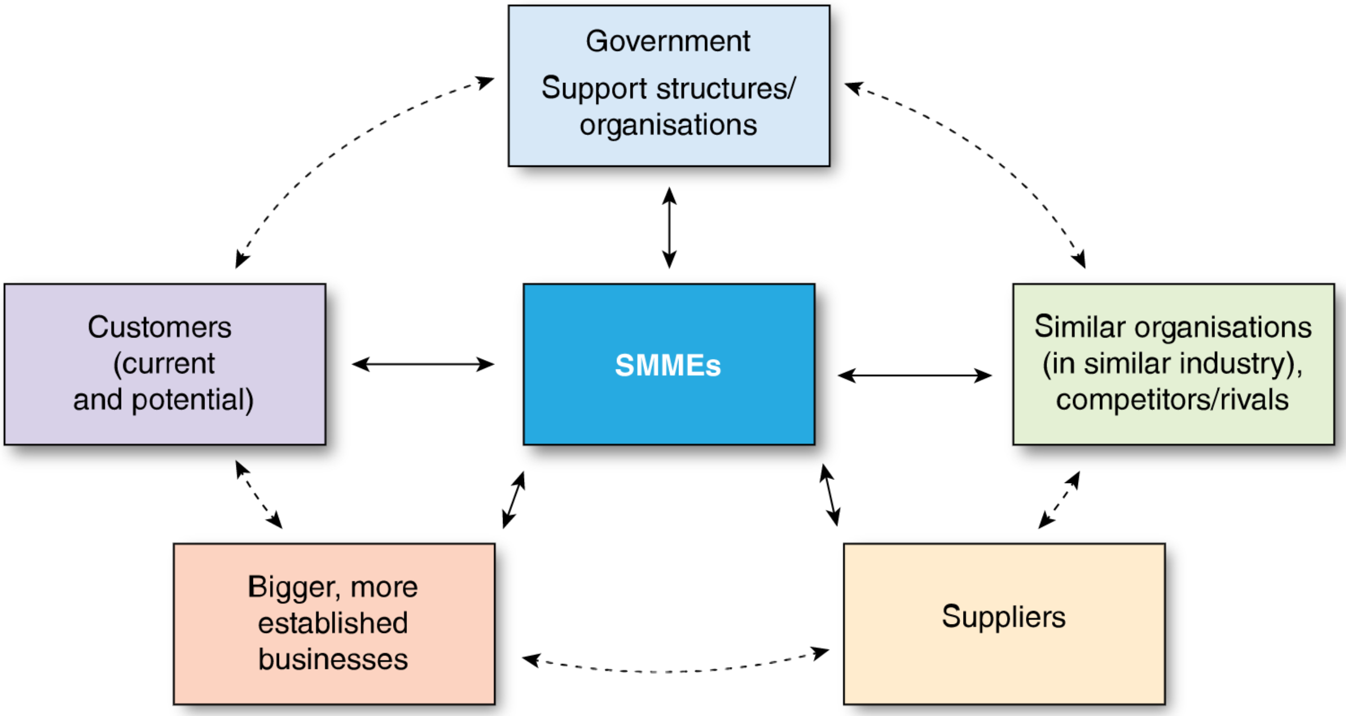
– Customers can also include the **communities** within which businesses operate. Usually they have expectations in terms of social responsibility. Forming some form of relationship with them can assist businesses to know what communities expect. This type of relationship can also promote support by the local communities.

- Fourthly, networking with **support and development initiatives** (from both the public and private sectors) that are in place in South Africa would help the small business to know the type of services offered by these organisations and thus take advantage of the services. Such services include, for instance, assistance with the registration of their business; training in business skills; facilitating networks and collaborations among various businesses through the databases that these organisations have; and financial assistance. Forming close partnerships with such government organisations can help small businesses to know what type of legislation there is in the country and what they need to do in order to be compliant.
- Lastly, network with peers, or similar small businesses, as well as competitors to form collaborations in the form of **strategic partnerships and alliances** that can help SMMEs achieve a competitive edge.

Figure 4.1 illustrates the types of networks that businesses can form.

From Figure 4.1 it can be seen that there are various types of organisations and/or people/stakeholders, with which the small business can form networks and that these are also interconnected, directly or indirectly. For that reason, networking with the one can potentially result in relationships with the other(s).

Figure 4.1 Networks that can be formed



Networks and collaborations can be in the form of social contacts. Social contacts, according to Danis, De Clerq and Petricevic (2011) are: "… (people who an individual knows, or who are known by people the individual knows) that an actor may leverage during the process of establishing new business". Danis et al. (2011) found that these social networks are especially important in emerging markets as they help SMMEs in getting access to the kind of knowledge needed to see new opportunities and know how to exploit those opportunities. With modern technology and better access to such technology, social networks are getting easier to establish through social media, and small businesses should take advantage of the opportunity to network.

Networking can also be enhanced by attending business and entrepreneurial seminars (Danis, De Clerq & Petricevic, 2011), conferences and/or exhibitions that are offered every now and then. Subscribing to membership of business organisations is also an important consideration whenever possible. All these efforts will go a long way to help small businesses to identify relevant players in their business industry, as well as business opportunities, suppliers and customers.

4.6.3 Formal collaborations

More formal and/or strategic collaborations can be in the form of joint ventures or strategic alliances. They can be between small businesses themselves or the small business can try to partner with bigger businesses.

- **Joint ventures:** a joint venture is "a temporary partnership formed by two or more organisations for the purpose of capitalising on a particular opportunity" (Ehlers & Lazenby, 2010: 211). Joint ventures are especially attractive when the two businesses that are coming together have unique skills and/or competencies that complement one another. Usually businesses enter into joint ventures to learn unique skills that the partner has so they can improve their own skills, or take advantage of newer technologies, or increase their ability to penetrate newer markets that they would not have been able to access if they were operating on their own. The ultimate goal of entering into a joint venture is to enhance the competitiveness of both businesses (Ehlers & Lazenby, 2010; Haberberg & Rieple, 2008). According to Ehlers and Lazenby (2010: 212): "smaller organisations can increase their competitiveness by joining forces against larger organisations". In addition, small businesses in joint ventures can "… lower business risk by partnering with local entrepreneurs who have knowledge, contacts and experience of the domestic market" (Rwigema, 2006: 225).

- **Strategic alliances:** in strategic alliances, small businesses can enter into partnership agreements to share knowledge, expertise and skills; share and reduce costs when dealing with suppliers or reduce costs in terms of research and development; work together on the development of new products and technologies; and share the benefits of new businesses while they each remain independent and do not necessarily share ownership. Strategic alliances may be shorter term compared to joint ventures (Ehlers & Lazenby, 2010; Elmuti & Kathawala, 2001; Išoraite·, 2009; Rwigema, 2006). Išoraite· (2009: 39) defines a strategic alliance as "an agreement between two or more organizations to cooperate in a specific business activity, so that each benefits from the strengths of the other, and gains competitive advantage". More and more companies are encouraged to enter into strategic alliances to enhance their ability to respond effectively to globalisation as well as the ever-increasing uncertainty and turbulence of the business environment. Strategic alliances are especially good when small businesses want to grow by venturing into new and unfamiliar markets while coping with the increasing costs that come with research, development and management of such growth (Ehlers & Lazenby, 2010; Rwigema, 2006).

Therefore, it is important to realise that for small businesses to survive, they need to collaborate and form partnerships with other small businesses, as well as with other stakeholders. However, management of these partnerships is also crucial for survival. Before entering into any form of commitment it is important to carefully assess the other partner in terms of whether the two companies are able to work together or not, then jointly agree on the vision and purpose of the relationship, as well as on the roles and responsibilities of both partners and what resources (human resource skills, finance, technology, infrastructure) each partner brings to the table. Misunderstandings, disagreements and/or conflicts between business partners can eventually cause more harm to any small business than provide benefits, if not well managed. The harm can be detrimental especially for a small business in an emerging market due to the fact that resources, especially financial, are already limited.

As resources are scarce especially for small businesses in emerging economies there is constant competition for them. Companies therefore need to be able to negotiate access to these resources as they are essential for survival.

4.7 NEGOTIATION SKILLS AND RELATIONSHIP MANAGEMENT

In order to be competitive and sustainable, entrepreneurs in all organisations, especially small businesses from emerging economies, need to learn negotiation skills to gain access to scarce but vital resources. Negotiation is unavoidable in all situations, personal or business. In the personal space one can negotiate with one's spouse, friend, child or parent. In the business environment negotiation can be with suppliers, customers, business partners or rivals or any other stakeholder. So negotiation is integral to all collaborations and is necessary as a business adaptive strategy "… since it is through this process that a common ground between actors is identified, new understandings emerge, and joint or individual actions are decided upon" (Hurry, 2012: 6). Moreover, entrepreneurs who do not have negotiation skills will likely fail in issues of business sustainability (Hurry, 2012). "Effective negotiation is the key to the improvement of organizational effectiveness" (Chebet, Rotich & Kurgat, 2015: 31).

People negotiate because they want something that they value and quite often are willing to pay for it. When managing a business, success and sustainable resources and competencies can be some of the things people negotiate for. According to Chebet, Rotich and Kurgat (2015: 23), negotiation can be defined as the "process of getting the best terms once the other side starts to act on their interest … The negotiating process involves balancing matters between two parties so that the negotiator not only gets what he wants but also gets what he wants in the best possible way".

According to Artinger, Vulkan and Shem-Tov (2013) effective entrepreneurial negotiating behaviour includes being persuasive, expressive, adaptable, willing to bargain and to accept risk and uncertain payoffs. In addition, for the negotiation process to be effective Chebet, Rotich and Kurgat (2015) suggested that negotiators need to do the following:

- Prepare and plan thoroughly prior to entering the negotiation relationship so they have a clear idea of what they would like to get or settle for from the negotiation.
- Adopt a win-win situation; practise how to communicate competently, which can include learning the language (verbal and nonverbal) of the negotiating partner.
- Be willing to ask questions and listen effectively, i.e. for verbal and non-verbal cues/information.
- Maintain personal integrity while at the same time building strong relationships with negotiating partners.
- Exercise patience.
- Learn the culture of the negotiating partner and, as much as possible, be flexible and adaptable.

According to Hurry (2012), the advantages of effective negotiation for businesses are countless. Entrepreneurs can achieve improved competitiveness by developing better strategies following what they get from negotiation, thereby improving their revenues. Through negotiation, entrepreneurs can strive to reduce costs, resulting in greater efficiency in their operations. “Knowing how to be influential can allow them to build new businesses; gain access to the benefits of other firms’ assets, e.g. production capacity, technology, market access, capital, products; to reach new markets quickly; and finally to fight against same competitors” (Hurry, 2012: 7). In addition, the negotiation process evolves thorough preparation and planning, which helps the negotiator access information about the strategic positions of both their organisation as well as that of their negotiating partner. This knowledge can enhance their strategic position, thereby enabling the organisation to adapt well to fluctuating economic and market conditions.

Building a relationship with stakeholders is crucial to achieve competitiveness. Retaining that relationship is just as important. So managing any relationship is important from the onset. This management of a business relationship starts with selecting a partner that the business is likely to have a long-term relationship with. This means that partners should have

- shared business values and ethics
- a common understanding of the vision and objectives of the partnership
- commitment to the objectives of the partnership
- trust for one another.

Constant monitoring of how the partnership is unfolding and working is necessary, as is continuous communication of future needs. Feedback can help in retaining and strengthening most relationships. Should any relationship not work out as initially envisioned, it is always advisable for partners to talk about their relationship and part ways amicably so that they leave room for future collaborations.

4.8 CONCLUSION

The South African entrepreneurial landscape, like most circumstances in emerging markets is faced with challenges, which can have negative effects on the success of small businesses. These negative effects are a matter for concern as they hamper economic growth and development. Although there are a lot of opportunities for new businesses in South Africa, taking advantage of those opportunities is hampered by a pervasive lack of resources. Therefore to be able to thrive in underresourced emerging markets, entrepreneurs need to engage in several strategies that include partnerships/collaborations. Entrepreneurs also need to negotiate to get the right resources for their business visions. In addition, entrepreneurs need to be innovative. Technological advancements present an opportunity for new businesses and/or potential to grow current businesses. So there are a lot of considerations that small-business owners within emerging markets should consider and can take cognisance of for them to thrive and achieve a competitive edge.

REVIEW QUESTIONS

4.1 Discuss the types of partnerships and/or collaborations that small businesses can form.

4.2 What are the benefits of a business entering into a collaborative relationship with its suppliers?

4.3 What are some of the steps that business negotiators can follow in order for the negotiation process to be effective?

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5

Challenges of starting a business in an emerging economy

L. van Scheers

LEARNING OUTCOMES

After you have studied this chapter, you will be able to

- categorise general challenges for a start-up business in a developing economy
- evaluate financial challenges for starting a small business in a developing economy
- appraise managerial skills challenges for starting a small business in a developing economy
- identify marketing skills challenges for a small businesses in a developing economy
- assess challenges when evaluating a new business opportunity in an emerging economy.

KEY TERMS

- Start-up small business
- Emerging/developing economies
- General challenges
- Financial challenges
- Managerial skills challenges
- Marketing skills challenges
- Evaluating new business opportunities

5.1 INTRODUCTION

The small-business sector has contributed to the economic growth of the emerging nations. Small businesses play a significant role in creating employment opportunities and compared to large companies, they employ more women, young people and part-time employees. They are also closely connected with the region in which they operate and therefore have significant influence on the region's development. Van Scheers (2011) observes that the small-business sector comprises over 90 per cent of South African business operations, contributes over 50 per cent towards gross domestic product (GDP), and employs over 50 per cent of the workforce. The small-business sector has shown some positive signs in South Africa, Mauritius and North Africa, and Van Scheers (2011) states that small businesses constitute 55 per cent of all jobs provided. Research by Bowler, Dawood and Page (2007) revealed that 40 per cent of new business ventures fail in their first year, 60 per cent in their second year, and 90 per cent in their first 10 years of existence. All these facts illustrate the importance of the small-business sector as well as the difficulty in starting a small business in emerging economies. Therefore, although starting a new small business can lead to personal and financial rewards in the future, the small-business owner will face a number of challenges when starting out. General, financial, managerial skills, marketing skills challenges and challenges evaluating new business opportunities were outlined in Chapter 4. The following general challenges for a start-up business in developing economies have been identified and will be discussed next.

5.2 GENERAL CHALLENGES FOR STARTING A BUSINESS IN A DEVELOPING ECONOMY

Kanchana, Divya and Beegom (2013) note that challenges faced by all new small businesses, regardless of which economy they start the business in are the following: overestimating success; misplaced purpose; negative mindset; poor organization; Jack of all trades; employee motivation; and lack of family support.

However, in emerging economies the list is much longer, because these economies bring with them more challenges as to what business start-ups in developed economies experience. It is a fact that emerging economies usually present viable business opportunities to small businesses since they have large consumer populations with new consumer needs or wants. Unfortunately, emerging economies also bring different challenges for small-business startups, such as: challenges inhibiting small-business growth; globalisation; poor infrastructure; product or service demand challenges; limited protection from corruption; cultural risks; issues finding qualified staff; and crime.

5.2.1 Challenges inhibiting small-business growth

Despite the importance of small businesses and their contribution to the economic growth of South Africa, they still face numerous challenges that inhibit growth as observed by Hussaina, Si & Wang (2013). Apart from funding and limited access to finance, the *Global Entrepreneurship Monitor Report* (GEM, 2012) noted that South Africa’s small businesses also suffer from poor management and marketing skills. South Africa has one of the highest small-business failure rates in the world due to these factors (Strydom, 2013: 2863–2871). Dockel and Ligthelm (2012) emphasise that marketing decisions are essential to small businesses if they want to succeed. Successful marketing will generate crucial sales but unfortunately, marketing expenditure makes up only a small portion of their budget. Chimucheka and Rungani (2011) argue that the probability of a new small business surviving beyond 42 months and becoming an established business is less likely in South Africa than in any other Global Entrepreneurship Monitor participating countries. These arguments illustrate how difficult it is to start a business in emerging economies.

The challenges facing entrepreneurs and small business in Africa are varied and many. Lack of financial support, weak economic infrastructure, and lack of policy coherence for small-business support need to be addressed quickly if small firms are not to fall far behind their counterparts in other parts of the world. Given the small number of indigenous African small businesses compared to businesses from other parts of the world, education and training support will help establish a good foundation for small-business growth (Abor & Quartey, 2010). Students in universities and technical schools should be encouraged to become entrepreneurs because of their potential to explore non-traditional small-business models.

5.2.2 Globalisation of markets and production globalisation challenges

Globalisation of markets may assist small businesses that have challenges with limited market access to expand their businesses. Globalisation of markets refers to a fundamental shift in the world economy in which nations are moving toward an interdependent global economic system (Hamisi, 2011). Globalisation has resulted in previously historically separate markets having become one huge global marketplace as a result of reductions in trade barriers and advances in information and transportation technologies. As a result, the small business can now participate in international trade right from inception.

Another facet of globalisation is globalisation of production. Companies can locate production facilities in countries where labour and other production inputs are cheaper. The end result is that globalisation presents new threats for small business in Africa in the form of increased competition from foreign entrants. Locally manufactured goods now compete with cheaper, good quality products from other emerging economies, such as China, India and Brazil. These inexpensive imports are rapidly replacing locally made goods and shutting down small-scale manufacturers.

5.2.3 Poor infrastructure challenges

Basic physical infrastructure required for economic development, such as good roads, ample power supply, and good rail and river transportation facilities, are in very poor shape in most African countries. A study conducted in Tanzania by Hamisi (2011) observes that deplorable roads, deteriorating rail lines, inadequate power supply and unusable waterways (Gordin, 2011) have combined to make small-business operations difficult. Mambula (2013) indicates that damage to equipment because of power surges and down time due to unavailability of electric power during production hours are major problems for small manufacturers in some

African countries. To overcome this problem, entrepreneurs need to pay for their own private generators to power their manufacturing operations, thus their production costs are increased and their products become less competitive.

In addition to the problems noted above, the information and communication infrastructure in most African countries is weak. Access to information infrastructure is considered an indispensable condition for widespread socioeconomic development in this age of globalisation and in the information economy (Gordin, 2011). The result of poor communication networks in most African countries is the low level of internet usage. Also, Africa has low telephone penetration, and inadequate broadcasting facilities, computing infrastructure and other consumer electronics. Although these are general shortcomings for African countries, it should be noted that African countries exhibit differing levels of information infrastructure, with North African countries and South Africa at a higher level of information technology preparedness than most African countries. Power-supply problems are the leading challenge in most African countries.

5.2.4 Limited protection from corruption challenges

Gordin (2011) discusses problems that many US companies face in emerging markets because of limited protection from corruption. Emerging countries often have less evolved legal and ethical protections, forcing businesses to risk encounters with criminals or crooked law enforcement agents. Stealing or unscrupulous business transactions are common, but violence and even murder can happen in some countries.

5.2.5 Cultural risks

A disadvantage of trying to do business in emerging economies is the challenge in overcoming cultural risks. Cultural perspectives, rituals and product usage vary around the world and when new economies emerge, they may have different expectations than ones in which a business is established. An American small business for instance, may struggle with understanding how to do business in China, Brazil, or South Africa because of cultural challenges.

5.2.6 Challenges in recruiting qualified staff

In emerging economies it is difficult to find employees with the proper skills for the small business. Employees need to understand the vision of the small business and should be committed to making it a success. Finding employees who can be trusted with the valuable task of creating a successful business is difficult. The small-business owner needs to take extra care when hiring and carefully evaluate potential employees. Employed staff should be provided with strong guidance and mentorship so that they feel empowered to perform their roles effectively. A good strategy for the small business is to create a solid and comprehensive human resources policy so that problems can be managed if they do arise.

5.2.7 Crime

The World Bank's Investment Climate Report (2005) rated crime as one of the four major constraints on small-business growth. About 30 per cent of small businesses surveyed for the World Bank study (2005) indicated that crime was a major problem. A study conducted by Van Scheers (2011) rates crime among the top four constraints of operating a small business.

Viswanathan (http://www.quora.com, 2016) gives a summary of typical challenges faced by business start-ups in developing countries:

- Unfavourable government regulations
- Poor implementation of regulations and laws (weak judicial system/corruption)
- No proximity to other successful ventures
- Unavailability of talented human resources
- Poor communications and technological infrastructure
- Cultural issues dissuading individuals from entrepreneurship
- No social support from the government in case of failure

- Poor linkages and availability of quality educational institutions
- Financial institutions not keen on supporting technology-related ventures
- Expensive real estate and frauds

5.3 FINANCIAL CHALLENGES FOR STARTING A SMALL BUSINESS IN A DEVELOPING ECONOMY

The Economic Development Department (http://www.economic.gov.za, 2014) focuses on the challenges faced by South African small business, noting that the main and common problem remains access to finance. Access to capital; financial-support challenges as well as financial assistance available for small business in South Africa, and government-initiated financial options to support small business will be discussed next.

5.3.1 Access to capital

Access to new capital is what drives many small businesses to take on the risks of doing business in emerging markets. As new economies emerge, untapped capital is up for grabs and building and maintaining a pipeline to those funds helps companies not only expand abroad, but also bring in new resources for domestic growth. Emerging market capital can breathe new life into companies that have maxed out potential for new capital domestically. Small businesses may have opportunities to grow in emerging markets not available to them in domestic markets.

5.3.2 Financial-support challenges

Despite existing policies on financial support for small businesses, very few entrepreneurs receive financial help when they need it. For example, Neneh (2011) observes that 72 per cent of the entrepreneurs he studied in Nigeria considered lack of financial support as the number one constraint in developing their business. According to Terblanche, Moeng and Macleod (2011), small businesses consider procedures for securing business loans from banks cumbersome and the collateral demanded for such loans excessive. Banks, on the other hand, defend their behaviour by noting that most small businesses that apply for a loan do not present an acceptable feasibility study or a good business plan. Furthermore, many small-business owners do not even have a deposit account in a bank, a condition for advancing a loan to an applicant. To complicate the problem, there is no law to protect a bank against a loan default. Banks, as Hussaina, Si and Wang (2013) state, also point out that entrepreneurs are unwilling to acquire formal training in how to run a business. Although in some African countries banks are by law required to set aside a certain percentage of their profits for small-business loans, many banks would rather pay a fine than make what they believe to be a high-risk loan.

5.3.2.1 Financial assistance available for small businesses in South Africa

The following financial institutions in South Africa will consider lending money to small-business owners in assisting business start-ups as well as for expanding existing businesses.

ABSA Bank

ABSA bank has for a long time been active in financing small enterprises. There is an ABSA division called New Enterprise Banking (NEB), which deals with entrepreneurs who do not have enough collateral for normal business loans and who require Khula credit guarantees. Unfortunately, the criteria for this loan are a 100 per cent BEE ownership and full-time involvement in the business. Small businesses do not qualify for traditional bank credit due to a lack of a credit rating, security or their own capital. They also have to bank only at ABSA (http://www.entrepreneurmag.co.za). Absa has dedicated banking products such as special cards and accounts for business owners.

First National Bank (FNB)

FNB has made substantial progress towards recognising the importance of small businesses and has started taking small-business development seriously. It has launched the Progress Fund, which is an equity investment scheme aimed at businesses owned by black entrepreneurs who are younger than 35 (http://www.sowetanlive.co.za/sowetan). The age limit is a criterion because the funding for the Progress Fund is assisted by the National Youth Development Agency, which has very strict requirements and generally disqualifies most entrepreneurs. Although evidence all over the world has clearly shown that serious entrepreneurship usually starts after 30, most financial institutions tend to favour younger entrepreneurs (Von Broembsen, Wood & Herrington, 2013).

People's Bank

This bank is a subsidiary of Nedcor and holds Nedbank's old Nedenterprise unit, which deals with small-business finance (Pakisha, 2013). To date, the unit's impact has been slow, including its use of Khula enterprise guaranteed loans. But there is hope yet, because the bank has been said to be assisting small businesses that have won tenders by supplying bridging financing to them.

Standard Bank

Standard bank has been at the forefront of small-business support and was the first bank to offer small-business banking in South Africa (http://www.standardbank.co.za). For many years they have had a small-business division as well as small-business accounts and cards. They also introduced other services to small businesses like bulk cash deposit machines, for small-business owners who cannot go into the bank during normal banking hours to deposit the cash. Standard Bank has the best developed infrastructure for dealing with small-business owners but unfortunately they are no longer part of the SEDA and SEFA schemes (see page 56), so the chances of getting a loan without collateral are now extremely slim.
Business start-ups can qualify for a BizLaunch account. A BizLaunch account will assist small-business owners to keep accurate banking records. It will also produce statements for easy reference and assist in building up a banking relationship and credit-risk profile.

A recent initiative, which shows that Standard Bank remains in touch with the needs of small businesses, is their new transaction account for blacklisted business owners (http://www.pixelpusher.co.za/tag/standard-bank-personal-loans-blacklisted/). At most South African banks it is almost impossible to open even a savings account if you are blacklisted. Macleod, Moeng and Terblanche (2013) mention that Standard Bank's new account for blacklisted business owners is opened without overdrafts, which assist small businesses to conduct business and rehabilitate their financial record.

5.3.2.2 Stokvels and micro-finance institutions

Small entrepreneurs in black communities in South Africa can borrow money from microfinance institutions such as *stokvels*. As a way of saving money, a group of people, who contribute an amount of money every month, form a money *stokvel*. Each member then receives the total amount saved once or twice a year, depending on how many members the *stokvel* has. The members may also borrow money from the *stokvel* without paying interest. This type of micro-finance assists SMEs to survive and expand their businesses.

5.3.3 Government financial initiatives to support small businesses

Most governments have a policy towards encouraging the growth and development of small businesses, for obvious reasons. The motivation behind government's initiative in European countries is driven by the belief that the small business is handicapped by type of business and location. European countries state that the market mechanism has failed to address the capital needs of small businesses in emerging economies. The landscape of government funding initiatives directed at the small-business community is a complex one and subject to the political situation prevalent at the time. Different governments have a variety of complexities and usually the most developed countries differ in their emphasis, targeting, commitment and approach to financing small-business start-ups.

Most governments have tried to stimulate and encourage small businesses and enterprise development by creating and supporting financing schemes that should alleviate the present market deficiencies. In the United Kingdom (UK) as well as in much of the European Union (EU), funding initiatives have been created and introduced to provide for both equity and debt finance. The Small Firms Loan Guarantee Scheme was introduced in 1981 to address the perceived gap in the provision of loan finance for small enterprises. This involves the government underwriting or guaranteeing a percentage (75–85 per cent) of the loan made to a small firm by a bank to fund a viable project, which would otherwise not normally qualify for debt finance on commercial terms. Another UK government initiative was introduced in 1994 and caters for the lack of appropriate equity finance. The Business Expansion Scheme (http://www.financial-dictionary.com) provided tax advantages for individuals to invest in qualified unquoted companies. It was designed to stimulate small equity investments in businesses seeking to expand but, in reality, became a vehicle for tax avoidance for the wealthy. As Storey (2011) notes, it is highly questionable that it came anywhere near to achieving its objectives of injecting equity into those small businesses. Mason and Harrison (2013) suggest that there were indeed a number of very real benefits to the scheme, such as raising the profile of the small enterprise as representing the appropriate investment vehicle for private investors.

In South Africa, the Small Enterprise Development Agency (SEDA) was established in December 2004 as an agency under the Department of Trade and Industry (the DTI). The establishment was done by merging three organisations, namely the Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (NAMAC) and Community Public Private Partnership Programme (CPPP). The GODISA Trust and National Technology Transfer Centre were integrated into SEDA in April 2006, becoming the SEDA Technology Programme (STP) (http://www.thedti.gov.za/agencies/seda.jsp). SEDA provides business development and support services for small enterprises through its national network, in partnership with other role players. It also implements programmes targeted at business development in areas prioritised by the government.

The Small Enterprise Finance Agency (SEFA) was established in 2012 as a result of the merger of South African Micro Apex Fund, Khula Enterprise Finance Ltd and the small-business activities of IDC. SEFA's mandate is to foster the development, survival and growth of small business in South Africa and to contribute towards poverty alleviation and job creation. SEFA has a regional footprint of nine offices around the country.

SEFA focuses on small-business challenges such as weak small-business performance, duplication of services among government agencies and the high cost of delivering financial services to small business. Its mission and vision are to offer a range of finance from loans of R500 up to R5 million. It provides finance directly to small business that could not access private-sector funding, through more simple procedures and it aimed to improve its processing times and pricing of products. It introduced a Co-Operatives Support Programme, and had a set target for numbers to be supported, and the values. Of the funding disbursed, 30 per cent was targeted towards youth-owned enterprises, 45 per cent towards priority rural provinces, 40 per cent of funding towards women-owned businesses, progressively increasing in subsequent years, and 70 per cent towards black-owned businesses (http://www.pmg.org.za).

5.4 MANAGERIAL SKILLS CHALLENGES FOR STARTING A SMALL BUSINESS IN A DEVELOPING ECONOMY

Managerial skills are required to manage a small business and in an emerging economy many small-business owners lack managerial skills because they have never received managerial training. These small-business owners need to survive after losing their jobs. They become small-business owners because the formal system does not create formal work opportunities. Examples of managerial skills are the following: managing personal stress; managing time; doing performance appraisals; motivating people; managing conflict; solving problems; marketing; book-keeping; record keeping; writing business plans; and pricing. Managerial skills could be sorted into four main groups. The first group focuses on participation and human relations skills, e.g. constructive communication and team building, while the second group focuses on competitiveness and control, e.g. assertiveness, power and influence skills. A third group focuses on innovativeness and entrepreneurship, such as creative problem solving, while a fourth group focuses on maintaining order and rationality, e.g. managing time and rational decision making. Managers require certain managerial skills to manage a business successfully, namely technical, conceptual, interpersonal, communication, analytical, decision-making, administrative and problem-solving skills. Technical skills; conceptual skills; interpersonal skills; communication skills; decision-making skills; analytical skills; administrative skills and problem-solving skills are the different types of skills that will be highlighted next.

5.4.1 Technical skills

Technical skill is the ability to perform a specialised task that involves certain methods or processes (Pearce & Robinson, 2010). Most people develop a set of technical skills to complete activities that are part of their daily work lives. For example, the accountant will develop the basic skills needed to conduct an audit while marketers may know pricing, market research and sales concepts. It is apparent that managers rely less on their basic technical skills as they advance to higher levels of management but these basic skills supplied the background to manage their businesses (Bateman & Snell, 2011). Managers on the operational level of management in an organisation, for example, use more production skills and need a higher degree of technical skill.

5.4.2 Conceptual skills

These involve the manager's ability to adopt the perspective of the organisation as a whole to see the big picture. The manager with a high level of conceptual skill is able to plan achievable goals and arching strategies for the organisation. When greater responsibility is required, conceptual and decision-making skills are used with increasing frequency. As managers advance to higher management levels in an organisation, they exercise their conceptual and decision-making skills with increasing frequency (Bowler, Dawood & Page, 2007).

5.4.3 Interpersonal skills

Interpersonal communication is an interactive process between individuals that involves sending and receiving verbal and non-verbal messages. Effective communication between individuals, especially between a manager and subordinate, is critical to achieving organisational objectives (Rue, Byars & Nabil Ibrahim, 2014). Interpersonal skills influence the manager's ability to work with people. It involves managerial ability to deal effectively with employees. This skill is acknowledged as a key to a small business's future. Small-business owners spend half of their working day in interaction with other people. In many organisations, the reason a small business fails is not because of technical skills, but lack of interpersonal skills.

5.4.4 Communication skills

The key to any successful small business is its communications. It involves the small-business owners' ability to transmit their ideas and preferences to others in both oral and written forms. Without communication skills, the small business will not be successful. Skills in communicating effectively in meetings, through letters and memoranda are consistently important throughout their careers (Pearce & Robinson, 2010). Small-business owners must develop their abilities to lead, motivate and communicate effectively with those around them. Every function of small-business management (planning, organising, leading and controlling) requires effective communication skills.

5.4.5 Decision-making skills

Decision-making skills involve the small-business owner’s ability to choose an appropriate course of action from two or more alternatives. Subordinates perform the task directly required for production, but the owner must still decide what strategy to implement, what resources are acquired and how they are to be allocated (Terblanche, Moeng & Macleod, 2011). Small-business owners use these skills when they consider the overall objectives and strategy of the business, the interactions among different parts of business, and the role of the business in its external environment. The key to decision making is the ability to select the appropriate decision-making style for each decision faced. Successful small-business owners learn to match the appropriate decision-making style with the situation.

5.4.6 Analytical skills

Analytical skills show an ability to properly use scientific and quantitative approaches, techniques and tools to solve management problems. Small-business owners need to diagnose problems and identify alternative solutions before selecting and implementing a corrective plan of action. This is the primary indication of the level of their analytical skills.

5.4.7 Administrative skills

Administrative skills are the ability of small-business owners to execute business rules, regulations, policies and procedures to operate effectively within budgetary constraints. It also involves coordinating information flow in the business.

5.4.8 Problem-solving skills

Problem solving is the process of determining the appropriate response or action necessary to alleviate a problem. Small-business owners need to have the ability to sort out the issues being discussed and to recognise which business issues are crucial. Successful small-business owners will contribute to sustainable development in South Africa.

Next, marketing skills challenges will be outlined.

5.5 MARKETING SKILLS CHALLENGES FOR SMALL BUSINESSES IN A DEVELOPING ECONOMY

The American Marketing Association (2006) suggests that marketing is “the process of planning and executing the pricing, promotion, and distribution of goods, ideas, and services to create exchanges that satisfy individual and organizational goals”. Marketing begins with a need which must be satisfied by the selling of a specific product or the rendering of a service to a consumer. In developed economies such as Ireland, Hills (2001) observes that small businesses engage in fairly sophisticated marketing planning with many committed to three-year marketing plans and reviewing their plans annually. In contrast in South Africa, Van Scheers (2010) indicates that a lack of marketing skills has a negative impact on the success of small businesses and contributes to their high failure rate. Strydom (2013) states that small-business owners exhibit certain personality traits that are responsible for the success or failure of their businesses. Inadequate marketing skills of small-business owners create marketing problems in South Africa. Some of the marketing skills challenges have been addressed in the various studies on small business. These relate to the following:

- Gaining an understanding of the market and potential for growth
- Market segmentation
- Market needs analysis
- Competitiveness

- Marketing of products and services

The small-business owner also needs to constantly study the macro environment; seek attractive opportunities, and plan new strategies. The business has to offer the product to consumers to make them aware that the product can satisfy their needs. To make this offer, the small-business owner has to make a decision about the following four factors:

- What will the product consist of? (Product)
- Where will it be purchased? (Distribution)
- How should it be promoted? (Marketing communication)
- How much will it cost? (Price)

Small businesses in South Africa experience the following marketing-skills challenges:

- Social-media platforms
- Building customer loyalty
- Low demand for products
- Poor locality of the small business
- Ineffective marketing of products and lack of market knowledge
- Products pricing

5.5.1 Social-media platforms

Small-business owners experience challenges in choosing the correct social-media platforms to promote their businesses. Social-media platforms can be used for different marketing activities. Using social networks can make the small business more visible. Engaging with customers online can raise awareness of product range and build the business's reputation as a trusted supplier.

Social networking can improve a business in a number of key areas:

- Marketing of products or services
- Brand building
- Customer interaction

5.5.2 Building customer loyalty

Small-business owners experience challenges when trying to build customer loyalty. The ability of a small business to not only attract, but retain customers can make the difference between success and failure. Regularly delivering a high-quality product or service is important but in an increasingly competitive environment the small business cannot rely on that alone to retain a customer base. The small-business owner needs to conduct constant research to establish its customer base and its accompanying needs. Innovative rewards programmes, added convenience in the form of home deliveries or extended hours, or comprehensive aftersales service can assist the small-business owner in retaining customers.

5.5.3 Low product demand

Strydom (2013) observes that ensuring that consumer demand matches product supply is one of the primary tasks of a small business. Consumers expect high product availability and low prices and small businesses in return tend to focus more on increasing product variety and expanding logistical activities. The level of products demanded from a small business is a further function of many different factors. Pakisha (2013) suggests that the small business is experiencing demographic changes in South Africa, which could result in too small a population to support the small business in a specific region. The community could also experience social change, which could further affect the needs of consumers and result in increased competition from other small businesses in the region. Other important marketing challenges small businesses are exposed to include increased traffic congestion, parking restrictions in urban areas and rising petrol prices affecting customer's willingness to travel to them.

Chiliya, Herbst and Roberts-Lombard (2009) support this view and explain that the trading environment in South Africa has changed to a great extent in the last few years. Significant developments have occurred in the economic and social environment, which has affected the ability, perception and behaviour of consumers regarding shopping and retailing. Consumers have different needs and desires and their consumption patterns vary considerably. There is a likelihood that smaller small businesses are less able to satisfy the demands of the modern customer than larger retail stores.

5.5.4 Poor locality

Strydom (2013) explains that the choice of a small-business selection is influenced by its location. Customers are more likely to select a small business while considering a number of shopping activities that they must execute. For example, they might purchase a product at a small business only because it is close to another one they planned to visit and not because of its attractive characteristics. The proximity of other small businesses can therefore be regarded as an important determinant of store choice.

Levy and Weitz (2012: 218–220) highlight a number of additional factors that small businesses should consider when determining location. For example, the small-business owner would need to examine the planned area's level of population and employment growth to make certain the market to be serviced is sustainable. A competitor analysis would need to be conducted, since this will affect the demand for the small business's products. The proposed target market would need to be attracted to its offering.

Jobber (2010) further notes that geographic information systems (GIS) can assist a small-business owner in selecting the most appropriate store location. The system is designed to profile geographical areas according to factors such as disposable income, family size, age and rates of birth. Following this approach could help the small-business owner to identify the best location for its specific target market.

5.5.5 Ineffective marketing of products and lack of market knowledge

Many research studies have shown small businesses often under-utilise and misunderstand marketing (Fuller, 2012: 34; Hogarth-Scott, Watson & Wilson, 2006: 6; Mackintosh & Tynan, 2011). Some small-business owners view marketing as expensive and time-consuming, requiring specialised expertise and therefore only relevant for larger businesses. There is also a tendency among small-business owners to view advertising as a waste of money and to consider "word-of-mouth" communications as more effective for their businesses (Hogarth-Scott et al., 2006: 14). Kroon and Moolman (2012) have the opinion that the initial costs of getting any SME up and running are high and, as such, marketing costs do not take priority.

Parrot, Roomi and Holliman (2010) highlight an additional number of mistakes that have been made by small-business owners, including: insufficient knowledge of customer's behaviour and attitudes; failure to segment the market effectively; absence of a planning process; misunderstanding their marketing strengths; and adapting a narrow and short-term approach to promotion. Marketing activities have also not been comprehensively recorded and monitored and limited flexibility was demonstrated to develop new ideas. The small-business owners they investigated did not have a commercially valid understanding of their customers and marketplaces and failed to monitor customer behaviour.

Parrot et al. (2010: 198) continue that "… in essence, SMEs are repeating the 'classic' mistakes of larger organizations in assuming, guessing and making gut-feel decisions. If these decisions are misplaced the consequences could be and often are grievous". They believe that if small-business owners keep on overestimating the effectiveness of their marketing programmes, they may not reach their full potential. Their ability to have an in-depth understanding of their marketplace and become competitive in the true sense of the word is dependent on them developing a deeper and systematic understanding of their current marketing decision-making processes.

5.5.6 Product pricing

Small businesses experience problems in establishing product prices, which can be a challenging part of running a successful small business. The small business needs to be competitive, but also needs to be profitable to survive. The owners should give answers to the following questions:

- Should prices be based on their competitor's prices?
- Should prices be based on costs?
- Should prices be based on what the buyer is willing to pay?

The answers to these questions show that small-business owners need to understand not only direct costs and indirect expenses but also the competitive market price. The offerings and prices of competitors should be compared and the business owner should also establish where the products fit into the existing market. The owners need to determine whether they can add value without adding cost. This will enable them to promote those elements, such as personal customer service, which will enable them to price products more profitably. Every pricing decision made should offer a win-win outcome so that their customers receive value for their money and the small business receives reasonable profits. As an example, pricing arts and craft products give a bigger problem because the direct costs are not that clear. A simple formula to use may be: labour costs plus material used times two, which will give the wholesale price. Pricing products still seems to be one of the biggest problems faced by a small-business owner.

5.6 CHALLENGES WHEN EVALUATING A NEW BUSINESS OPPORTUNITY IN AN EMERGING ECONOMY

Every business venture starts with an idea. The idea may be as simple as opening a shop that features local artwork or as complex as creating a new biotechnology company. Either way, the success depends on the strength of the idea, how well it fits the temperament of the small-business owner and the resources available. All ideas will unfortunately not realise a feasible small business. Although emerging economies offer great new business ideas, it is not easy to start a successful small business. When considering starting a small business the business's potential and owner's abilities to make it work should be evaluated. Also the risk and benefits should be analysed to minimise the failure of the business. Usually, small-business owners will start a business, taking into account the technical and managerial skills they possess. However, ideas can also come from inefficiency in the marketplace. The business owner may have an interesting idea of how to do so and has the resources and capability to correct that inefficiency. In addition, when conducting market research and it becomes clear that a product or service that is being consumed in one market is not offered in the small-business owner's market, there is then an opportunity to offer that product. Self-analysis; prior business experience; market research; risk assessment; support from family and community; and competition analysis are all factors that need to be analysed before starting a small business. These will be described next.

5.6.1 Self-analysis

Most small businesses fail because of poor management and the owner's inability to manage resources (Van Scheers, 2011). Therefore, before small-business owners start researching the feasibility of business ideas and their potential markets, they need to evaluate their own talents, desires and goals. Their willingness to take risks as well as the amount of time and energy needed to develop a new, successful business should be evaluated. The owners' financial, personal and marketing skills should also be assessed to ensure that they have the necessary background to make a success of the new venture. Since an estimated 90 per cent of all small businesses fail within the first few years, the small-business owner needs to have a plan on how to survive if the new business fails. Writing a self-assessment in the form of a detailed curriculum vitae (CV) will help to establish a realistic picture. It should list the entrepreneur's educational background and professional experience, hobbies and outside interests. This document may be helpful in separating professional attributes by functional area for example marketing, accounting and human-resource skills. A list of personal attributes, for example, knowing how to work with numbers, communication skills, organisational skills and people skills will all be useful in starting a small business.

5.6.2 Prior business experience

Owning or running a business does not make a person an entrepreneur. Many business owner are really managers in that they run a business that they have copied from someone else. In connection with this observation by Weeks (2002), it is also significant to note that most respondents of his research study indicated that they had a general idea of what management of a business entails, even if they had no previous business experience and though they were not always able to express their ideas in “academic terms”. The research also indicated that 71.6 per cent of the respondents were first-time business operators. This reflects relatively low experience in running a business when evaluated in tandem with the number of years the small businesses have operated. The demographic factors indicated that the older the owners, the less likely they were to leave and the more successful they become. From Weeks’s (2002) study, only 28.4 per cent of the respondents indicated that they had prior business experience. It seems that prior experience in running a business is not always an indicator that the business will be successful. Many factors will determine the success of a small business, such as the economic climate of the country, demand for a product or service and disposable income of consumers, among other factors.

5.6.3 Market research

Extensive market research to establish the demand for a product or business and to determine the feasibility of the planned business should be performed. In addition to statistics of trends and current customer buying patterns, the small-business owner should also know who the customers are, where they are located and what kind of competition exists in the area.

5.6.4 Risk assessment

A complete evaluation of a business opportunity includes a risk assessment. An honest appraisal of the potential risks inherent in a new business can assist in preparing for possible problems and a decision on whether the risks are worth the investment. The risk-assessment process includes factors that could negatively affect the business, such as the general state of the economy and competition. Internal considerations should include the owner’s health, the level of credit available and the number and type of employees needed to run the business efficiently.

5.6.5 Support from family and community

The small-business owner should also evaluate the amount of support expected from family and the community. Usually, an inordinate amount of time will be spent in the initial stages of opening a new business, which could affect family relationships. Attitudes and cultural preferences in the community can have an impact on the ability to grow and sustain a small business.

5.6.6 Competitor analysis

The small-business owner should conduct a competitor analysis. Questions to assist the small-business owner are:

- How many similar small businesses are in the market?
- Which product or service are they offering?
- Does this business idea meet a need or solve a problem?
- Does the small-business owner understand the customer needs better than other small businesses at the moment?

Positive answers will give the small-business owner the opportunity to zero in on the price points and feature points that will differentiate it from existing players in the market. It is important to remember that customers spend money because they believe that what they buy can solve their problems, fulfil their needs, or satisfy their desires. If the business idea does not address a real problem, need, or desire, getting it off the ground will be doubly difficult. Another important question to be asked is: Will this business idea make money and how fast? The following questions need to be answered:

- How long will it take before the business idea will generate profits?
- Who specifically will spend money on the product or service?
- After the sales start rolling in, can the small-business owner sustain profitability over time?

5.7 CONCLUSION

It is clear that the small-business sector contributes to the economic growth of emerging nations and alleviates unemployment in South Africa. Although it is an important sector, research indicates that it is very difficult to start a small business in an emerging economy. Starting a new business can lead to personal and financial benefits but the small-business owner will face a number of challenges when starting out. General, financial and managerial skills; marketing-skills challenges and challenges evaluating new business opportunities were identified and outlined in this chapter.

REVIEW QUESTIONS

5.1 Write short notes on general challenges for starting a small business. In your answer provide practical examples as applied to South Africa.

5.2 Review section 5.2 of the chapter and explain the following challenges:

5.2.1 Inhibiting small-business growth

5.2.2 Globalisation of markets

5.2.3 Poor infrastructure

5.3 Pat needs to conduct a competitor analysis for the start-up business she wants to start. She is planning to start a hair salon in Pretoria. Assist Pat with the questions and write a report on her competitors.

5.3.1 How many similar small hair salons are in her area?

5.3.2 Which service are they offering?

5.3.3 Does this business idea meet a need or solve a problem?

5.3.4 Does Pat understand the customer’s needs better than other small salons at the moment?

5.4 Conduct an online search and write a report on “Financial assistance available for small business in South Africa”. In your answer provide practical examples of South African financial institutions.

5.5 Conduct an online search and write a report on “Government financial initiatives to support small business”. In your answer provide practical examples.

5.6 Write short notes on the role of SEDA in supporting small-business start-ups in South Africa.

5.7 Conduct an online search and define “managerial skills”. Also indicate the importance of the managerial skills needed for small businesses. In your search use the following key words:

5.7.1 Managerial skills; different types of managerial skills; managerial skills needs of small business in Africa; managerial skills needs of small business in South Africa.

5.7.2 Provide practical examples and use those key words for sub-headings in your answer.

5.8 Differentiate between technical and conceptual skills. Provide practical examples in your answer.

5.9 Analyse marketing-skills challenges for small businesses in developing economies. Use the following subheadings in your answers.

5.9.1 Introduction

5.9.2 Social media platforms

5.9.3 Building customer loyalty

5.9.4 Low demand for products

5.9.5 Poor locality of the small-business

5.9.6 Lack of market knowledge

5.9.7 Product pricing

5.9.8 Conclusion

5.10 "Most small businesses fail because of poor management and the owner's inability to manage resources." Perform a self-analysis indicating whether you would be able to start a small business. Next, use the following three-point scale to answer the next question: (1) doesn't sound like me: (2) sounds like me to a certain extent; or (3) sounds a lot like me.

5.10.1 Do you have the following attributes?

(1) Know how to work with numbers

(2) Communication skills

(3) Organisational skills

(4) People skills

5.10.2 Based on your responses, do you think that you have the attributes of an entrepreneur? Do you think you could be a successful entrepreneur? Why or why not?

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RECOMMENDED WEBSITES

http://dailytape.com/2011/09/01/the-characteristics-of-developed-and-developing-countries.html.

https://www.empowering-people-network.siemensstiftung.org/en/shortlist/projects/biogas-backpack/

http://financial-dictionary.thefreedictionary.com/business+expansion+scheme.

http://www.investinganswers.com/financial-dictionary/world-markets/emerging-market-economy-1518

http://masterful-marketing.com/biggest-marketing-challenges-facing-small-businesses/

http://pixelpusher.co.za/tag/standard-bank-personal-loans-blacklisted/

https://pmg.org.za/committee-meeting/15288/

http://www.sowetanlive.co.za/sowetan/archive/2007/08/02/fund-gives-youth-hope

http://www.standardbank.co.za/standardbank/business/starting-a-business/loans

https://www.thedti.gov.za/agencies/seda.jsp

6

Entrepreneurial strategies for small businesses within emerging economies

W. Sami

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- define entrepreneurial strategy
- describe the different entrepreneurial variables
- explain the entrepreneurial strategy mix
- apply the entrepreneurial strategy mix to a business of your choice.

KEY TERMS

- Entrepreneurial strategy
- Entrepreneurial strategy mix
- Entrepreneurial variables
- Entrepreneurship

6.1 INTRODUCTION

Today's business world is filled with constant change and uncertainty. Uncertainty can be used to your benefit if you create and employ an entrepreneurial mindset – a way of thinking that captures the benefits of uncertainty. Entrepreneurial strategy is important for business in the 21st century. Entrepreneurship is about creation, and strategic management is about how advantage is established and maintained from what is created. Research shows that traditional approaches and strategies can also apply to new venture firms and small businesses. Business survival is lowest when businesses are small and young, and thus the development of effective strategies is critical for the continuity of the business (Lechner & Gudmundson, 2014: 36).

Entrepreneurs are pivotal as agents of change to transform local communities. Entrepreneurs recognise opportunity, mobilise resources and create value and therefore are key to the creation of institutions and the building of capacity that will sustain economic development.

Resources are defined as tangible or intangible assets that are tied semi-permanently to the firm. These include all assets, capabilities, organisational processes, firm attributes, information, knowledge and so on, that are controlled by a firm. Resources enable a firm to conceive and implement strategies that improve efficiency and effectiveness.

6.2 ENTREPRENEURSHIP

As explained in Chapter 1, entrepreneurship is the dynamic process of creating incremental wealth. It involves vision, change and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. An entrepreneur must have some essential characteristics which include

- the willingness to take calculated risks
- the ability to formulate an effective venture team

- the skills to marshal the needed resources
- the knowledge to build a solid business
- the capability to plan
- the vision to recognise opportunity where others see chaos, contradiction and confusion (Kuratko, 2009: 5).

Entrepreneurship has emerged as a focal point for economic policy as an instrument for generating growth, jobs and economic development. Innovation is the source of growth and competitive advantage. A new venture is typically created to pursue the realisation of innovations into the marketplace.

6.3 ENTREPRENEURIAL STRATEGY

6.3.1 Definition

Entrepreneurial strategy is defined by Morris et al. (2010: 194) as a vision directed, organisation-wide reliance on entrepreneurial behaviour that purposefully and continuously rejuvenates the organisation and shapes the scope of its operations through the recognition and exploitation of entrepreneurial opportunity.

Entrepreneurial strategy is the component of corporate strategy that promotes the persistent search for competitive advantage through innovation (Russel & Russel, 1992: 640). Without specific goals and strategies for innovation, entrepreneurship in an enterprise will happen by chance or haphazardly. Some emerging countries, for example Zimbabwe, have a diverse number of indigenous entrepreneurs who have established successful enterprises, which have gone through the established obstacles for entrepreneurs.

Entrepreneurial strategy is concerned with applying creativity and entrepreneurial thinking to the development of a core strategy for the firm. Entrepreneurial and strategic actions are often intended to find new markets or competitive space for the firm to create wealth. The degree to which the firm acts entrepreneurially in terms of innovativeness, risk taking and proactivity is related to dimensions of strategic management.

Dominant logic refers to the way in which managers conceptualise the business and make critical resource-allocation decisions. Managers will often consider only information that is believed to be relevant to the firm's prevailing dominant logic. Morris, Kuratko and Covin (2010) suggest creating a dynamic dominant logic in order to make entrepreneurship the basis upon which the organisation is conceptualised and resources are allocated. As a dominant logic, entrepreneurship promotes strategic agility, flexibility, creativity and continuous innovation throughout the firm. When entrepreneurship is introduced to strategy, the possibilities regarding where the firm can go, how fast and how it gets there are greatly enhanced.

6.4 ENTREPRENEURIAL VARIABLES

There are entrepreneurial variables that make up the entrepreneurial strategy mix and these will now be discussed. According to Lumpkin and Dess (in Lechner & Gudmundson, 2014: 38), entrepreneurial orientation is now afforded five dimensions, which are discussed below. There is a positive link between firms exhibiting innovativeness, risk taking and proactive action, and firm growth and performance.

6.4.1 Innovativeness

Innovativeness is the ability to introduce a new product, service or process (Iakovleva, 2013: 18). Innovativeness is the predisposition to engage in creativity and experimentation through the introduction of new products/services as well as technological leadership via research and development in new processes (Lumpkin, Moss, Gras, Kato & Amezcua, 2013: 769). Innovativeness entails supporting and encouraging new ideas as well as experimentation and creativity and is seen as the key element of the entrepreneurial orientation concept. Innovativeness is said to be present when firms pursue active implementation of new ideas, products, processes and not merely their generation. Creativity is the source of innovativeness, which leads to innovation of products, services, processes, markets and technology. Innovativeness is usually characterised by

- a strong research and development emphasis
- technological leadership
- the introduction of new products
- the degree of changes to product or service lines.

Innovativeness can be used to create differentiation advantage through uniqueness. It is also a chief means by which firms can create differentiation and develop solutions that undermine those of competitors. Innovation is often viewed as the root of entrepreneurship, which often leads to sustainable growth and development. The stimulation of innovation activity is crucial for the competitive advantage and growth of companies and, eventually, the economy. Innovations need not always be spectacular technological breakthroughs; the bulk of innovations in modern society consists of small improvements that come from day-to-day learning (Iakovleva, 2013: 17). Moreover, a sustainable competitive advantage can only be achieved through continuous innovation and the creation of new ideas.

Smaller firms may face difficulties in scaling up their internal innovation efforts to achieve radical innovations. This may be due to

- a lack of an internal R&D department
- a limited resource base and therefore access to economies of scale
- having a small strategic focus, and risk being locked into their present strategy.

This is also the reason why a small enterprise needs an entrepreneurial strategy. The scarcity of resources makes the task of innovation extremely challenging for small firms. Some research has suggested open innovation as one of the ways in which a small enterprise can overcome some of the above-mentioned challenges. Open innovation refers to the use of purposive inflows and outflows of knowledge to accelerate internal innovation and expand the markets for external use of innovation (Iakovleva, 2013: 18). This means that enterprises should use external as well as internal ideas in order to advance their technology. Innovations can easily transfer between inward and outbound, between firms, or between firms and creative consumers. Open innovation supports the notion that competitive advantage often comes from inbound as well as outbound connections. Thinking in terms of open innovation may provide new ways of solving the specific challenges facing a small enterprise. If there is little innovation, there is little that one can gain from participating in the market. A society gains from innovative and highly competitive entrepreneurs because they will produce more innovative and competitively priced products. Below is an example of how an entrepreneur or small business manager can come up with innovative ideas to solve everyday problems.

CASE STUDY

The story of 23-year-old innovator Harald Oswin and his light-bulb moment is no different. As the country faces ongoing load shedding Oswin believes he may have come up with a way to lower the strain on the country's energy grid during peak hours. He and his team have made energy-sector role players sit up and take notice after creating a device that switches homeowners' geysers on and off at preprogrammed times. Oswin is the chief executive of FNS Energy, the company behind the gadget dubbed the Geyserflicker. Oswin says that the idea for the device was sparked during an internship in Cape Town in 2012 when he was sharing a flat with several students. "My flatmates were very concerned about conserving energy and shifting electricity usage out of peak demand periods. They therefore switched the geyser off as much as they could and then switched it back on before they needed a warm shower," recalls Oswin. As it takes up to two hours to reheat the water, this meant he had to wake up during the early hours of the morning to ensure he had hot water by 6 a.m. – by when he needed to get ready for work. "I realised that this was not an efficient way of doing things and on further investigation I realised that it was not just us, it was a hassle that my neighbours, my colleagues and my community faced." And so the idea for the device was born.

Source: Small Business Connect, 2015.

Questions

1. Do you think Oswin was innovative? Describe how, using the case study.
2. What other entrepreneurial variable(s) did he possess in launching his idea?
3. How does Oswin's idea make a difference to you personally?

A strong emphasis on innovativeness mobilises entry into new arenas, renews the firm's presence in existing ones and embodies a capability to explore new possibilities. Innovativeness can have a positive impact on performance and contributes to competitive advantage by facilitating creative thinking within a firm's learning activities. Therefore it improves the application of market intelligence acquired through market-orientation activities, which can, in turn, benefit performance. Small firms often develop as a result of new innovations and they can benefit and grow from remaining innovative and relevant in the market. Being innovative is clearly a creative undertaking. While it is not possible to force creativity, it is possible to create an environment that is more supportive of fostering creativity.

6.4.2 Risk taking

One of the characteristics of entrepreneurship is taking risks. Risk taking involves taking bold actions by venturing into the unknown, borrowing heavily and/or committing significant resources to ventures into uncertain environments (Lumpkin et al., 2013: 769). Risk taking represents a willingness to commit resources to implement projects, activities and solutions that inherently contain a high level of uncertainty regarding the likely outcomes. Small-business managers may differ in their risk-taking behaviour and perception of affordable loss, which influences entrepreneurial choices. Risk taking is a principal characteristic of an entrepreneur.

Risk-taking orientation is the willingness of an entrepreneur to invest resources in a venture or project where the outcome may be highly uncertain or unknown. Positive risk taking often leads to entrepreneurial success. A good entrepreneur must

- be calculative
- possess risk-taking behaviour in all aspects of business.

Baird and Thomas (1985) propose three types of risk taking of an entrepreneurial organisation.

1. The first risk is associated with obtaining a loan to fund a project or to start up in the case of a new venture. When firms borrow heavily, it places huge financial pressure on the firm and can erode profitability and performance; the inability to repay may lead to the dilution of the entrepreneur's equity in the venture.
2. The second type of risk taking is associated with excessive commitment of resources into a particular project or investment. In other circumstances, it is possible for a firm to start with few funds for a particular project and, as it continues, more funds need to be committed if the expected result has not been achieved.
3. The third type of risk is the risk of venturing into the unknown. This is common when a firm commits resources to research aimed at a positive result; if the result is negative the amount invested goes down the drain, leading to a loss. Implementation of any strategy is not without risk – an important decision variable for any entrepreneur is potential loss in the event of failure.

Furthermore, when deciding to take risks, firms must be able to tolerate one of two possible scenarios: the first being the risk of failing and the second being the risk of missing out on an opportunity. The first one is caused by fear of venturing into the unknown and the second is caused by not taking any action when an opportunity arises in the market. A tolerance of risk taking orients the firm toward action and induces it to embrace uncertainty. A firm needs to master the art of taking timely risks in order to reap the full benefits of taking that particular risk. Timely risk taking is associated with speedy strategy decision making and both have been subsequently linked to improved business performance. Without a degree of risk taking, firms delay or refrain from introducing innovations, undertaking exploitative activities and react conservatively to changing market conditions. The result in this case would be weaker performance as the firm would be doing little to seize customer and market opportunities.

A firm should therefore be able to manage its risk. Risk management usually involves seizing opportunities and committing resources before fully understanding what action needs to be taken. Such an approach seeks to take advantage of evolving situations by capitalising on the fact that markets rarely stabilise for any length of time. Risk aversion renders firms passive to developing new market opportunities, which is likely to deteriorate performance in an age of rapid change. Small businesses in emerging economies must therefore be able to manage their risk and position themselves to exploit opportunities when they arise in the market.

6.4.3 Proactiveness

Proactiveness is an opportunity-seeking forward-looking perspective characterised by the introduction of new products and services ahead of the competition and acting in anticipation of future demand (Lumpkin et al., 2013: 769). This refers to the process that anticipates and acts on future needs by seeking new opportunities, which may or may not be related to the present lines of operations, the introduction of new products and brands ahead of competition, and strategically eliminating operations that are in the mature or declining stages of their life cycle.

Proactiveness anticipates competitive moves and maintains first-mover advantage and it involves the identification and evaluation of new opportunities and the monitoring of marketing trends. Proactiveness in firms is characterised by intentional change that forcibly acts on information to make changes rather than merely anticipating it. This alleviates the risk of complacency by ensuring that firms are better placed to serve markets in the short term and shape them in the longer term. The emphasis on anticipating and acting on future needs orients the firm to seize initiative and act opportunistically in the marketplace, thereby shaping demand. The proactive firm adopts continuous environmental scanning and acts in advance to change in order to serve customers and markets better, rather than allow its destiny to be guided by external forces. Proactiveness leverages the firm's responsiveness capability and propensity to act to meet new circumstances. For example, a shoemaker observed how much the shoes of security guards were worn out (the shoes form part of their uniform). When the shoes were worn out, he contacted the head office to make an offer to produce shoes for this company.

At the early stages of an enterprise, proactiveness is critical for performance improvement. Small and resource-constrained enterprises, in particular, have an interest in exploiting time advantages. Proactiveness deals with anticipating and creating future demand, pre-empting competition and favouring uniqueness.

A firm with strong proactive tendencies tends to be able to

- anticipate changes in the market and customer needs
- forge a new market segment
- introduce new products and services ahead of competitors.

A proactive firm is expected to: take the initiative and anticipate future problems; pursue new activities; and introduce new products and services. As a result, proactive firms become first movers and are rewarded with a marketplace position of competitive advantage with higher returns, distribution channels and brand recognition. Increasing the firm's receptiveness to market signals and awareness of customers needs (expressed or latent) are two of the main advantages offered by proactiveness. Proactive firms, through proprietary learning and experience gained over time, tend to be more attuned to changes and trends in the marketplace, which yields opportunities to the firm to meet expressed and latent needs before competitors do.

6.4.4 Competitive aggressiveness

This refers to the intensity of a firm's efforts to outperform competitors, gain an ambitious market share, set goals or take aggressive action such as price cutting or building larger production capacities. Competitive aggressiveness is characterised by a strong offensive posture or aggressive responses to the actions of competitors (Lumpkin et al., 2013: 769). Competitive aggressiveness can take the form of deliberate action as well as reactive action. In this way, a business can outdo competitors. This involves taking an offensive stance at overcoming threatening competitors in order to control larger market shares. An aggressive firm stepping in and taking over markets might result in product price cuts and securing easy access to rival-based markets. The aggressive marketing of products or services and the improvement of product or service qualities are often embarked upon to drive competitors out of the market. There are three possible ways for firms to aggressively compete, which are

- doing it differently
- refining the product and/market
- outspending the industry leader with the aim of becoming the industry leader.

Higher investments means that the stakes require strategic decision makers to have a higher tolerance level for affordable loss while low risk-taking entrepreneurs tend to underinvest. The actions above enable firms to acquire a substantial share of the market, outperform competitors and increase income.

Firms that are highly aggressive see competitors as enemies that must be conquered. Aggressiveness can be implemented through the mobilisation of resources to launch direct attacks on competitors with the aim of overwhelming their market efforts, steadily erode their competitive strengths or establish advantage through continuous offensive tactics. The aggressive firm also sees value as accruing from leveraging adaptive capabilities to consistently undermine competitors' effects in the market as opposed to adopting a passive stance to competition.

6.4.5 Autonomy

Autonomy refers to the ability to work independently, make decisions and take actions aimed at bringing forth a business concept and carrying it through to completion (Lumpkin et al., 2013: 769). Autonomy reflects the strong desire of a person to have freedom in the development of an idea and its implementation within an organisation. It also connotes the will and ability to be self-directed in the pursuit of environmental opportunities and the associated challenges. It allows employees to be self-directed, exercise creativity, pursue opportunities and champion new ideas that are essential for effective entrepreneurial activity to occur. This enhances a firm's ability to make quick and self-reliant decisions to provide the market with new products and services. Autonomy is a necessary condition for customer orientation and allows employees to

- be creative
- develop new ideas and open communication
- be focused on customer interaction and orientation.

Employees in an entrepreneurial firm need greater autonomy and self-regulation to determine what actions are required and when and how to execute them. This translates to quicker decision making that enhances positive performance. Autonomy also drives flexibility and creativity. Flexibility, in turn, allows businesses to react faster to customer needs while creativity drives innovation and uniqueness. Small firms are commonly characterised by less formalisation and unsophisticated control systems, which lead to greater autonomy.

Two types of autonomy have been identified in entrepreneurship literature; the autocratic mode and the generic mode.

6.4.5.1 Autocratic mode

The autocratic mode refers to an entrepreneurial decision-making strategy that allows a strong leader to take decisive risky actions for an enterprise. This type of autonomy occurs often in smaller enterprises and may refer to the style of certain owners or managers of firms. Most entrepreneurs with an autonomous orientation maintain a higher level of entrepreneurial activity, which gives them an edge over their competitors.

6.4.5.2 Generic mode

The generic mode refers to decentralisation of expected actions among staff members of a firm. Ideas generated by members of staff are passed through to management for consideration. This usually happens in bigger organisations where ideas need to be approved by senior management.

Therefore, firms need to put in place policies of empowerment, open communication, unrestricted access to information and the authority to think and act without interference. By establishing autonomy, managers demonstrate to employees their faith in their ability to perform effectively outside the rubric of firm constraints. Such autonomy, in turn, encourages employees to participate in change and become actively involved in entrepreneurial activity. If there are constraints in the actions and activities that employees can take, entrepreneurial activity is likely to fail and the performance of the firm is likely to suffer as employees fail to deviate from established practices when necessary. Autonomy will allow the firm to implement change quickly when the need arises.

For emerging young firms with limited resources, understanding which of the five entrepreneurial orientations are most valuable to secure improved performance at their potentially vulnerable stage of development is an important priority. Liabilities of newness may explain why small firms sometimes struggle to achieve strong business performance. With weak resources and knowledge base, these firms may be unable to make full and effective use of an entrepreneurial orientation, which is resource intensive when implemented.

6.5 ENTREPRENEURIAL STRATEGY MATRIX

Sonfield and Lussier (1997) developed an entrepreneurial strategy matrix (ESM) to provide an alternative to more complex models that existed earlier. The matrix measures risk and innovation. The entrepreneurial strategy matrix is a situational model in which the identification of levels of innovation and risk lead to prescriptions of appropriate strategies.

Innovation

Innovation is defined as the creation of something new and different.

Risk

Risk is defined as the probability of major financial loss.

The matrix consists of appropriate strategies that small businesses can choose from and the mix between innovation and risk (variables).

The entrepreneurial strategy mix suggests appropriate strategies for both new and ongoing ventures in response to the identification of different levels of venture innovation and risk. The ESM is appropriate for small-business managers and entrepreneurs to use as it allows even the most inexperienced entrepreneurs to characterise their new or existing venture situations and identify appropriate strategies; most strategy models tend to be too complex to use in a small-business setting.

The ESM: Independent variables

RISK		
LOW	High innovation Low risk	High innovation High risk
HIGH	Low innovation Low risk	Low innovation High risk

Source: Sonfield & Lussier (1997: 74)

The four cells in the ESM derive from two axes, innovation and risk. The top-left cell of the matrix (I-r) is the most desirable cell for an entrepreneurial venture with high innovation and low risk. The top-right cell of the matrix represents high risk and high innovation (H-I) and is therefore less desirable. These ventures often include unique products or services, but the risk is high, because of initial high investment or because of competition. The lower-right cell, low innovation and high risk, is probably the most familiar to small firms. Most new business start-ups involve somewhat conventional entries into well-established fields. Low innovation and low risk is when minimal investment is required, or market demand is strong and competition is weak. Therefore risk will not be very high. Some businesses, such as service businesses, may require minimal financial investment. The matrix suggests to both new and ongoing entrepreneurs that some ventures are more desirable than others in terms of likely outcome, success and rewards. Furthermore, it suggests strategy modification so as to move within the matrix from a less desirable cell to a more desirable cell.

The ESM: Appropriate strategies

RISK		
LOW	• Move quickly • Protect innovation • Lock in investment and operating costs via control systems	• Reduce risk by lowering investment and operating costs • Maintain innovation • Outsource high investment operations • Joint-venture options
HIGH	• Low innovation • Defend present position • Accept limited payback • Accept limited growth potential on Low risk	• Increase innovation; develop a competitive advantage • Reduce risk • Use business plan and objective analysis • Minimise investment • Reduce financing costs • Franchise option • Abandon venture?

Source: Sonfield & Lussier (1997: 75)

The value of the matrix is that it suggests appropriate strategies for different entrepreneurs. The small firm can choose from the matrix which strategy would be most appropriate given the circumstances of the business at a particular time. The entrepreneur must therefore identify the cell that best describes the new or existing venture and choose a strategy that is more likely to be effective. The matrix answers these questions: what venture situation are you in? What are the best strategic alternatives for a given venture? An entrepreneur therefore first evaluates the levels of innovation and risk for the venture and identifies which of the four cells it is in. Then the entrepreneur decides which of the strategies suggested in that cell to use. Entrepreneurs and small-business managers will find the above matrix valuable in strategic decision making.

Small and medium enterprises (SMEs) that are often confronted with resource scarcity can make use of networking, which is associated with the sharing of resources, capabilities, technologies and access to markets. Networking allows firms to access resources they do not own or control but are necessary for a firm’s competitive advantage. Networking can also be imperative in sharing risk and resources in capital-intensive ventures or in an environment with weak regulatory frameworks, as found in Tanzania where entrepreneurs feel less protected.

Entrepreneurial strategy making reflects the extent to which a firm is committed to risk taking, innovativeness and proactiveness in developing and implementing its strategy. As seen before, entrepreneurial strategy is resource consuming and therefore small firms can benefit from networking.

6.6 CONCLUSION

In support of the growth of small businesses, it will be essential for a broad array of policy instruments to be put in place so that it will stimulate R&D activities and science and technology in the country. As an emerging economy, South Africa will benefit from innovation. It is not always easy for small firms to engage in the practices discussed in this chapter, mainly due to a lack of resources. Support in terms of resources could assist entrepreneurs and small-business managers to develop strategies that will ensure their survival and ultimate success. The government could set up assistance in the form of what each small business needs specifically; this will also assist in creating jobs in the economy where unemployment is on the rise. Encouraging innovation in small- and medium-sized businesses remains at the front of policy initiatives for stimulating economic development in emerging economies. The emerging-markets environment is considered a growing market where many emerging opportunities exist in which entrepreneurial-oriented firms, through proactive behaviour, can take the advantage to exploit and enhance the firm’s performance.

REVIEW QUESTIONS

6.1 Define entrepreneurial strategy.

6.2 Describe the terms: innovativeness, risk taking, competitive aggressiveness, proactiveness, autonomy.

6.3 Briefly discuss the different entrepreneurial variables.

6.4 What are the characteristics of innovativeness?

6.5 Describe the difficulties small businesses often face in achieving innovativeness.

6.6 Explain the three types of risk-taking actions in an entrepreneurial firm.

6.7 Name the benefits of proactiveness in an entrepreneurial firm.

6.8 Describe the three possible ways in which firms can aggressively compete.

6.9 Discuss the two types of autonomy.

6.10 Describe networking and the advantages associated with it.

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7

Strategic planning

W. Sami

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- define strategic planning
- explain the purpose of strategic planning and what it entails
- describe the different approaches to planning
- explain the strategy-as-practice concept
- draw up a strategic-planning template and apply it where necessary
- explain strategy implementation.

KEY TERMS

- Strategic planning
- Strategic-planning process
- Strategy-as-practice
- Strategic-planning template
- Strategy implementation

7.1 INTRODUCTION

Strategic planning remains one of the most popular management tools and is the first step in determining the future direction of a business. Strategic planning is one of the most used tools in large and successful organisations across the globe (Rigby, 2015). Strategic planning could benefit small firms and help them grow beyond the average failure period. Strategic planning is a comprehensive process for determining what a business should become and how it can best achieve that goal. It appraises the full potential of a business and explicitly links the business's objectives to the actions and resources required to achieve them. Strategic planning offers a systematic process to ask and answer the most critical questions confronting managers (Rigby, 2015: 54).

7.2 DEFINITION

There is no commonly accepted and universal definition of strategic planning. However, for the purpose of this chapter, the following definition is useful: strategic planning is the formulation of long-range plans for the effective management of environmental opportunities and threats in light of a venture's strengths and weaknesses. The value that can be derived from the strategic-planning process is the strategic thinking that it promotes among business owners. Although not always articulated formally, especially in small firms, strategic thinking synthesises the intuition and creativity of an entrepreneur into a vision for the future.

A variety of tools and techniques have been developed to help managers identify and deal with strategic-planning decisions. The benefits of these various tools include increasing awareness about the business environment, strategic issues, and opportunities and threats, which help reduce the risks involved in making certain decisions.

The best strategic plan for a business is influenced by many factors. These include: the abilities of the entrepreneur; the complexity of the venture; and the nature of the industry in which the business operates.

Whatever the specific situation of a business, there are five basic steps that can be followed in strategic planning (Hitt, Ireland & Hoskisson, 2009):

1. Examine the internal and external environments of the venture (strengths, weaknesses, opportunities, threats).
2. Formulate the venture's long-range and short-range strategies (mission, objectives, strategies, policies).
3. Implement the strategic plan (programmes, budgets, procedures).
4. Evaluate the performance of the strategy.
5. Take follow-up action through continuous feedback.

In more detail, a successful strategic-planning process should

- describe the organisation's mission, vision and fundamental values
- target potential business arenas and explore each market for emerging threats and opportunities
- analyse the company's strengths and weaknesses relative to competitors
- identify and evaluate alternative strategies
- develop an advantageous business model that will profitably differentiate the company from its competitors
- prepare programmes, policies and plans to implement the strategy
- allocate resources to develop critical capabilities
- plan for, and respond to, contingencies or environmental changes
- evaluate and monitor performance.

The final steps in the strategic-planning process involve implementing and controlling strategies to ensure that the mission and objectives are achieved. Successful implementation of strategies requires effective and efficient support systems throughout the firm, which is easier for most small firms since they don't have sophisticated management functions.

Robinson and Pearce (1984) argued that strategic planning is not a popular practice among small and medium enterprises (SMEs), because they do not have the time or staff to invest in strategic planning. They further argued that research on the impact of strategic planning for SMEs has been inconclusive because many SMEs do not plan. Verreynne, Meyer and Liesch (2014: 3) suggest that SMEs use informal approaches to strategy making, which will reduce complexity and allow firms to compete efficiently. A study by Dincer, Tatoglu and Glaister (2006) showed that Turkish SMEs were increasingly turning their attention towards strategic-planning practices. This was probably because of the many benefits of strategic planning for SMEs. Furthermore, Wang, Walker and Redmond (2007) have established that strategic-planning practices are more common in better-performing SMEs. This shows that planning, in any form, can be useful for the success of a small business.

7.3 STRATEGIC-PLANNING TYPES

According to Mintzberg and Waters (1985), there are different ways a firm can approach strategic planning, which are discussed below.

- **Planned:** in this case the strategy is crafted by authority/leadership with precise intentions and goals. All actions are backed by a control system leaving no flexibility for actions not included in the strategic plan. The environment needs to be controlled by the organisation in order not to disrupt the actions and a planned approach is considered to be the most deliberate. This type of strategic planning is mostly seen in large, well-established organisations where there are many systems in place and a "way of doing things" within the organisation. Most of these systems do not allow flexibility or innovation and creativity to take place.
- **Entrepreneurial:** the strategy is the vision of the business owner and has very little tolerance for disruptions to the intended strategy. This way of thinking is usually common in young entrepreneurial organisations where not much structure has been established. The participants in the strategic-planning process need to adopt the leader's vision.

- **Ideological:** the vision of the organisation is collective and is communicated to such a large extent that it becomes an ideology. The behavior in the firm becomes very strong and formalises a pattern and because of the shared collective vision, it becomes very hard to change.
- **Umbrella:** general guidelines are set for the employees by management, which the employees of the organisation can move within. In this case, the strategy is neither emergent or deliberate because strategies can emerge from the freedom that the employees have within the established boundaries.
- **Process:** today's business environment is turbulent and unpredictable, therefore management does not set up a control system; instead the employees are indirectly influenced by the strategy. Management controls the process of crafting the strategy but not the content of it.
- **Unconnected:** one of the direct strategies where the employee has full power over his or her actions. Strategies can be unconnected from management and can be both deliberate and emergent.
- **Consensus:** a strategy without central directions from top management, instead the employees are following and learning from each other's decision patterns in response to the environment.
- **Imposed:** the strategy is imposed on the organisation by the environment and its force is what makes up an organisational pattern. This means that the organisation acts in accordance with what the environment dictates at a particular point, therefore it is the most emergent.

A business can choose any of the above strategic-planning types to suit its situation and environment. When done well, strategic planning offers a number of benefits which include

- promotion of strategic thinking, acting and learning
- improved decision making
- enhanced organisational effectiveness, responsiveness and resilience
- enhanced organisational legitimacy
- direct benefits for the people involved as it improves their performance, helps them meet their responsibilities and enhances teamwork and expertise.

7.3.1 Strategic planning in small businesses

Strategic planning provides comprehensive long-term direction to help a business accomplish its mission. Planning is one of the key managerial functions and is important because everything else depends on it. Planning can assist in establishing the direction of a small firm and also set up goals and objectives. However, planning seems to be difficult for most small firms as most small-business managers get caught up in the day-to-day activities of running the business.

To become effective in running a small business, managers need to be able to look ahead because before taking any action they must know where they are going and how to get there. A well-developed plan has advantages which include

- guidance for the owner and managers in operating the business
- direction and motivation given to employees
- possible attraction of investors
- creation of a conducive environment to lure more customers.

Planning requires thinking, takes time and is difficult to do but it helps the small business take advantage of opportunities and cope with unexpected problems. For strategic planning to be successful, small firms should make use of employee participation, implementation, evaluation and control as capabilities that augment each other in successful business strategies. An effective strategic-planning process might necessitate or require a change in organisational culture and new skills acquisition. It is therefore imperative that small firms adjust their activities in tandem with the challenges that come with the key objectives of the strategic-planning process.

This may be relatively easy to achieve in small firms because planning is usually informal and happens as needed. Many small-business managers do not have the time to sit and draft or formalise their plans. Most of the planning happens informally and usually only in the mind of the owner or manager of the firm. This may be because

- the day-to-day activities are so time consuming there is no or little time left for planning
- there is a lack of knowledge on how to plan
- sometimes managers feel that future changes cannot be planned for
- a change in the environment may require a business manager to act quickly and change certain things in the business.

Some scholars argue that this may be the best kind of planning for small businesses since it leaves room and flexibility to make changes quickly when the need arises. Therefore the flexibility of small firms is appropriate for informal planning. This, however, does not mean that small firms cannot plan formally. The amount of planning in small firms is often less than ideal.

7.3.1.1 The different approaches to planning

Firms approach planning differently because of the circumstances in which the firm finds itself. The two basic approaches to planning are formal and informal. Small firms appear to enhance their effectiveness through the informal application of basic strategic decision-making practices. Not much benefit is derived from a formal planning process for small businesses. The research by Verreyne et al. has shown that small firms without a formal planning process performed just as well as their formal-planning counterparts (Verreyne et al., 2014: 420).

Formal planning

Formal planning places significantly greater emphasis on specifying goals and objectives, which are prerequisites to a meaningful planning process. A critical aspect of any formal strategic-planning process is thorough scanning and analysis of the external environment. This involves the search and collection of data related to the external environment. The information collected can influence planning decisions by providing evidence of customer needs, exposing new technologies or shedding light on future market or technological trends, which are important inputs with regard to the innovation process.

Benefits of formal planning

Formal planning has the following benefits:

- Compels an organisational approach
- Develops specificity
- Helps identify sources of competitive advantage
- Helps secure resources
- Sets specific objectives and strategies
- Secures coordination of interrelated activities

The benefits of formal planning, however, seem to be enjoyed by large organisations. Smaller firms tend to engage in informal and irregular planning activities, if at all. A formal strategic-planning process creates a degree of inflexibility and rigidness, making efforts to adapt to changes in the external environment difficult especially when managers become strictly tied to their strategic plans. When the overall environment in which strategic planning takes place becomes overly formalised, the process is likely to become too complicated, inflexible and a restraining factor in participants' creativity. Firms, therefore, should strive to create a structured planning process while concurrently building more flexible decision-making processes.

Informal planning

Informal planning does not include formal written documentation, reports or activities. There is minimal emphasis on broad goals, company mission and long-term objectives, which are crucial in a formal plan. In informal planning the emphasis is on resource evaluation, assessment of capabilities and environmental analysis. The fact that the process is informal does not mean that it is not comprehensive. Planning in this case is not documented and usually happens in the "head" of the small firm owner/manager.

Benefits of informal planning

- Does not interfere with the day to day running of the business.
- Small firms are often unsophisticated therefore informal planning is sufficiently effective.
- The small firm environment is dynamic and may make a formal plan redundant.

The success of informal planning in some firms does not, however, mean that less planning/formal planning is unnecessary.

Both formal and informal planning require the small-business owner or manager to scan the environment, identify a distinctive competence, deploy financial or physical resources and monitor/control the implementation. This usually happens over a long-term period. Small firms' orientation is more short term; it may be that planning more than six months ahead would be redundant for any small firm in a fast-evolving market. To support the informal approach often employed by small firms, another perspective on strategy was established and is discussed in the next section.

7.3.2 Strategy as practice (S-A-P)

Relatively little is known about the actual activities that lead to the formation of a strategic plan or the purposes that these activities serve within the organisation. These gaps in knowledge are reflected in the S-A-P-approach perspective, which analyses the micro processes involved in strategic planning. The strategy-as-practice approach is an emerging focus aimed at understanding the detailed processes and practices that constitute the day-to-day activities of organisational life and which relate to strategic outcomes.

Traditionally, strategy research has mainly focused on firm level; that is, studying organisational processes or macro-level positions, for example corporate-level strategy. Macro level explores and attempts to explain strategy at the institutional level; which is most typically associated with explaining patterns of action within a specific industry (Jarzabkowski & Spee, 2009: 73). Recently, a new perspective has emerged within the strategy field, placing the micro-level activities of the "actual work of strategy practitioners" into the centre of consideration. The focus is on strategy as practice (S-A-P), aimed at understanding "the detailed processes and practices which constitute the day-to-day activities of organisational life and which relate to strategic outcomes" (Nordqvist, 2012: 26).

Therefore, strategy is increasingly being seen not only as a process but also as a practice: strategy is something people do (Hambrick, 2004; Jarzabkowski, 2004). This view is consistent with the idea that strategy is the tool organisations use to achieve their goals (Ansoff, 1965; Andrews, 1987; Tassiopoulos, De Coning & Smit, 2016). It stands to reason that strategy does not happen by itself – people at all hierarchical levels participate in varying degrees of planning, implementing and controlling. At the core of this approach, as the use of strategising might suggest, is a concern about what strategic actors do and the kinds of activities they perform when they strategise. The strategy-as-practice approach has defined its broad research parameters as studying practitioners, praxis and practices (Jarzabkowski & Spee, 2009: 70).

- **Practitioners** are the people (actors) who are actually doing the strategic work in all its aspects (Whittington, 2006; Jarzabkowski & Whittington, 2008).
- **Praxis** is defined as the actual work that constitutes strategy and is the flow of activity through which strategy is accomplished. These activities often take place in a series of occurrences and include formal and informal elements as well as routine and non-routine elements.
- **Practices** are common habits, behaviours and procedures of thinking, acting and using symbolic objects, and material tools through which strategy is done; theoretically and practically derived tools that have become the everyday lexicon and activity of strategy. Citing Reckwitz's (2002) work on practice, Jarzabkowski et al. (2007: 9) equate practice with routinised types of behavior, which consist of several elements, interconnected to one another. The 'symbolic objects' to which Reckwitz (2002) refers – such as Gantt charts, whiteboards and Post-it notes, may have relatively routinised properties in the way they are employed but contribute to different forms of strategic activity according to their situations of use.

The practice approach claims to open up a new view on strategy by engaging with the making of strategy as an outcome fashioned out of the doing of detailed work (Carter et al., 2008: 83). This means concentrating on formal/informal planning and strategising activities within the business, which is relevant also for small firms. The practice perspective's ability to pay close attention to what is in fact happening in businesses gives researchers a special sensitivity to the informal, unscripted activities through which strategies often emerge. The starting point of such analyses in small businesses is to focus on practices, as in the current study, that have a strategic role. This means that they form the basis of organisational success or survival – as in the case of routines or capabilities serving to create competitive advantage (Vaara & Whittington, 2012: 313). Therefore strategising relies on practices that significantly affect both the process and the outcome of resulting strategies. The strategy-as-practice perspective is relevant to small firms because it focuses on the day-to-day activities of managers, which is often the emphasis in small firms.

In reality, strategy is something that people do. Therefore it is imperative to explore strategising practices, which include a number of tasks that are primarily derived from the formal strategic management process. These practices include those theoretically and practically derived tools that have become part of the everyday lexicon and activity of strategy such as the strengths, weaknesses, opportunities and threats (SWOT) analysis (Jarzabkowski & Whittington, 2008: 282). Although many management tools exist, there is still a need to establish the use or non-use of these tools in managing small firms. Strategy may often emerge outside the formal process of planning and the emergent strategies are often successful and may be more appropriate than formal strategies (Balasundaram, 2009: 14; Verreyne et al., 2014). It can therefore be more important to practise strategic management or employ strategising practices in the running of a small firm than it is to follow through the process.

As such, it is essential to look at the doing of strategy, who does it, what they do, how they do it, what they use and what implications this has for shaping overall strategy (Jarzabkowski & Spee, 2009: 69).

7.3.3 Strategic-planning template

The strategic-planning template has been adapted from Pearce and Robinson (2009). The model proposed by Pearce and Robinson (2009) will be used as it is a comprehensive tool encompassing most, if not all, components of other management tools.

Table 7.1 shows that there is a strong relationship between the strategic management process and management tools discussed above. The researcher further superimposed these management tools on the strategic management model developed by Pearce and Robinson (2009) and Tait and Nienaber (2010). Furthermore, the relationship between the management tools and strategic management model are depicted in Figure 7.1.

Small businesses do practise some of the above processes of strategic management albeit not as prescribed by literature. Most strategic practices in small firms are informal and do not follow a particular pattern.

7.3.4 Strategic-planning issues

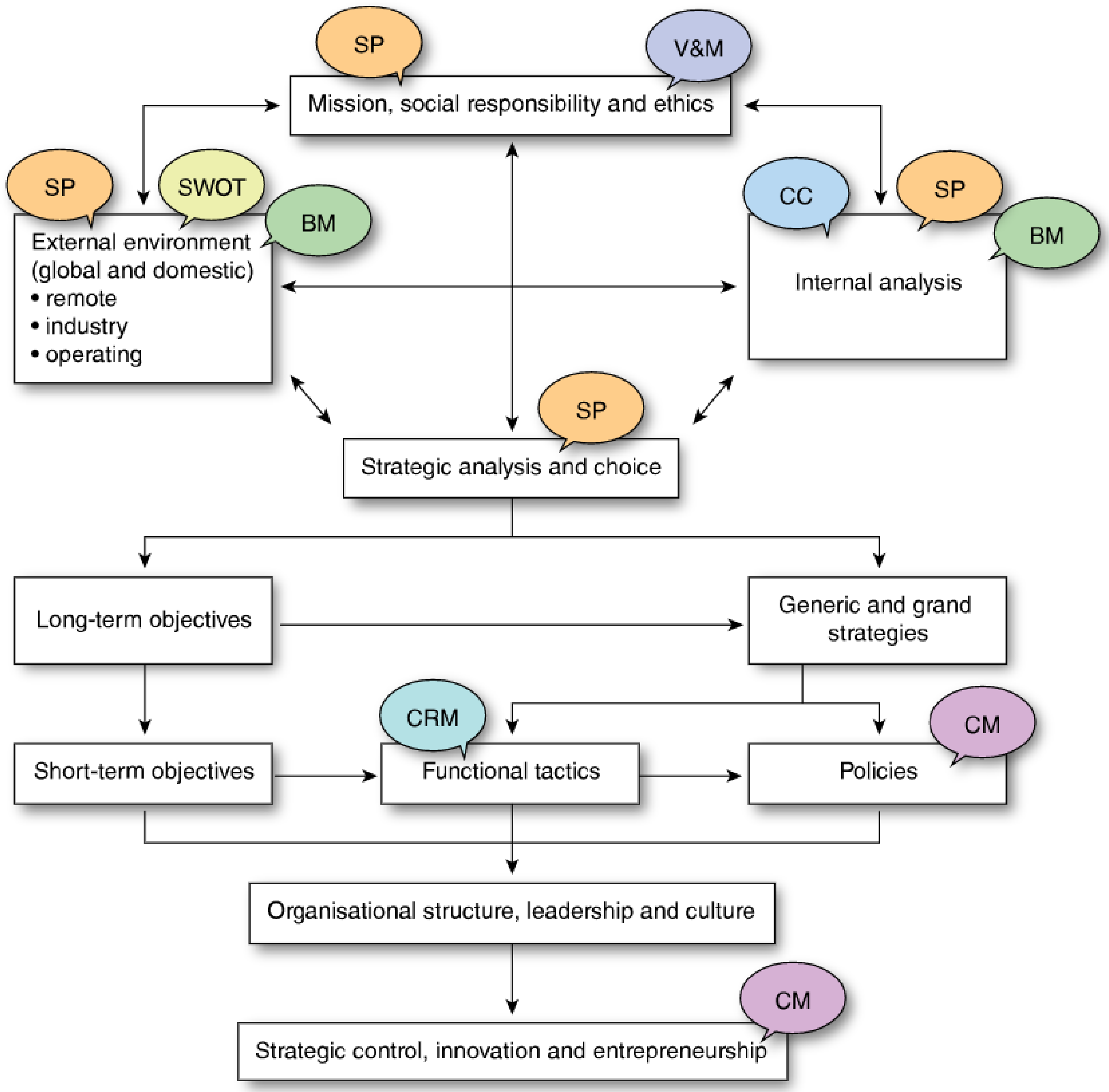
There are issues that can hinder strategic-planning efforts. These are discussed below.

Table 7.1 Strategic management process and management tools

COLUMN A	**COLUMN B**
Strategic management	**Management tools**
Develop vision and mission, objectives	Strategic planning **(SP)**, vision and mission statements **(V&M)**
External environment, industry forces	Strategic planning **(SP)**, scenario planning **(SP1)**, benchmarking **(BM)**
Internal environment, SWOT	Core competencies **(CC)**, strategic planning **(SP)**, benchmarking **(BM)**

COLUMN A	COLUMN B
Strategy analysis and choice	Strategic planning **(SP)**
Strategy implementation (short-term objectives, functional tactics, policies)	Employee engagement **(EE)**, customer relationship management **(CRM)**, balanced scorecard **(BS)**, change management **(CM)**

Figure 7.1 Adapted strategic management model



Sources: Adapted from Pearce & Robinson (2009); Tait & Nienaber (2010)

- **Leadership**. While it is important that planning be distributed throughout the organisation, the top levels of the organisation cannot take a back seat during the planning process. Leaders also need to guard against becoming too focused on current issues to the detriment of longer-term planning. Furthermore, there should be some level of continuity in planning, and development of new plans should logically build on past success/es.
- **Organisational culture.** The culture of an organisation can also have an impact on the strategic-planning process. What is often thought to be resistance to change is most often really fear of the unknown or distrust in the organisation. In a culture that is risk averse or change resistant it is important to build trust and faith that the process will be fair and equitable and benefit the organisation as a whole.
- **Poor implementation.** Managers in the firm need to ensure that there are continuous cycles of communication about the strategic plan, its goals and how the goals and objectives can be integrated into the everyday work of all employees if they expect that the goals and objectives are actually going to be accomplished. For the plan to succeed, resources need to be channelled to achieve the strategic goals and employees need to be focused on achieving the strategic goals.
- **Failure to develop measurable outcomes.** If the employees do not know how they are doing in relation to goals, they cannot possibly know whether they are achieving the goals or not. Therefore, reporting on performance indicators must be built into communications of the plan.

Implementation is important to ensure that a strategic plan is realised. This will be discussed next.

7.4 PLANNING THE IMPLEMENTATION

The purpose of strategic planning is not solely to generate plans but also involves implementing strategic initiatives. Although strategic planning usually goes well, implementation is often a problem. The basic assumption underpinning the practice of strategic planning is that it is rational to invest resources in formulating good plans because this will vastly improve the prospects of implementation success. Implementation has been seen as challenging even when good strategies are chosen. Therefore there is a need to plan the implementation of these strategies. Strategy implementation can be the most demanding and time-consuming part of the strategic management process. Strategic plans often end up in bottom drawers and no action is taken to implement the strategy.

Strategy implementation is the realisation of strategy and what the firm does. The successful implementation of strategic decisions is widely thought to be critical to the achievement of organisational aims and objectives. Firms face different challenges in their endeavour to execute a planned strategy, some of which are mentioned below.

7.4.1 Strategy implementation challenges

- Implementation may take more time than was originally planned.
- Activities to implement strategy are ineffectively coordinated.
- Other activities and crises may take attention away from implementation.
- Key implementation tasks may be poorly defined.

Small-firm managers need to be aware of the factors that may deter them from realising their plan because of failed implementation. Although they might have a plan, small-firm managers need to be flexible, open minded and always on the lookout for the problems that may arise because of the new plan and for ways of solving those problems. Without successful implementation, a strategy will remain just an idea.

Discussed below are some requirements for the successful implementation of strategy.

7.4.1.1 Requirements for successful strategy implementation

Effective communication: sometimes organisational processes and systems need to be adjusted to implement the selected strategy and everyone in the organisation must be brought on board. Strategy formulators need to communicate with the people who are involved in implementing the strategy in order to have a shared understanding and therefore make implementation easier.

Unique creative skills: creative skills are needed in order to place resources, employees and their work appropriately in order to make implementation smooth.

Control and feedback mechanisms: refined control and feedback mechanisms are needed in order to enhance the operations and align them with business strategy. There also has to be room for the reevaluation of goals and selection of a different strategy.

After implementing the strategic plan, it needs to be revised and updated constantly so that it suits the environmental conditions. Also, standards need to be set and they should be met in order to achieve the goals. Managers need to evaluate employees' performance through performance appraisals in order to ascertain if everyone is performing as required.

7.4.2 Evaluation and control

Strategy evaluation and control are important as they assist the firm to keep track of progress in attaining milestones and targets. The reason is that a continuous evaluation of strategy offers benefits, such as allowing the benchmarking of progress to be established and monitored effectively. This creates manager and employee commitment to achieve objectives. It also enables the monitoring of changes in the external opportunities and threats as well as internal strengths and weaknesses of the firm. Evaluation and control of the strategic plan will protect the business from collapse as it ensures that any errors are attended to timeously.

In the end strategic planning should enable a firm to gain a sustainable advantage over its competitors. Employee participation in the strategic-planning process is critical in the successful implementation of a strategy. Through a participative strategic-planning process, employees are satisfied that their ideas are considered for problem solving and become committed and motivated to work hard for goal achievement. By helping the firm to make strategic decisions, strategic planning reduces the probability of business failure, especially in small firms, and accelerates the chances of new product development.

Research has shown that firms that utilised strategic planning were better positioned to pursue growth opportunities. Strategic planners were more confident about their future growth prospects than non-strategic planners were. Regular strategic planners were more prepared in times of economic crisis and were therefore less affected by the economic conditions than non-regular planners were.

7.5 CONCLUSION

Small firms can make use of the strategic management model as it also involves the management tools that lead to success. In employing the template, small firms can also use the strategy-as-practice approach, which is more appropriate for small firms because it focuses on the day-to-day activities that take place in the business. The strategic-planning template will assist small businesses achieve their goals and therefore ensure survival and much needed growth, especially in emerging economies.

REVIEW QUESTIONS

7.1 What are the advantages of a well-developed plan?

7.2 Describe the strategic-planning process.

7.3 Explain why informal planning is deemed to be best suited to small firms.

7.4 Distinguish between formal and informal planning.

7.5 Discuss the benefits of formal planning.

7.6 Describe the benefits of strategy evaluation and control.

7.7 Define and explain the strategy-as-practice approach and its relevance to small firms.

7.8 What are the implementation challenges that small firms may encounter in an effort to realise their planned strategy?

7.9 Discuss the requirements for the successful implementation of strategy.

7.10 Discuss the four strategic-planning issues that can hinder strategic-planning efforts.

7.11 Briefly discuss five different types of planning.

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8

Entrepreneurial skills

N. Mmako

LEARNING OUTCOMES

After you have studied this chapter you will be able to

- define the concept “entrepreneurial skills”
- describe entrepreneurial leadership tasks
- explain the importance of skills, expertise and aptitudes in the success of the entrepreneurial venture
- describe entrepreneurial leadership as part of the entrepreneur’s skill set
- explain the main groups of skills required by entrepreneurs
- discuss management skills for entrepreneurs
- relate management functions to entrepreneurial skills
- differentiate between skills learning and skills “doing”
- explain entrepreneurial leadership and skills
- explain networking as part of the entrepreneurial skill set
- describe emotional intelligence as part of the entrepreneur’s skill set.

KEY TERMS

- Entrepreneurial skills
- Entrepreneurial tasks
- Skills
- Expertise
- Aptitudes
- Entrepreneurial competencies
- Technical skills
- Conceptual skills
- Interpersonal management skills
- Entrepreneurial leadership
- Networking
- Reciprocity and maintenance
- Emotional intelligence

CASE STUDY

GALXBOY: From Mams to the World!

Thatiso Dube is a Mamelodi-born entrepreneur who owns the popular clothing line GALXBOY and made his first million by the age of 24.

GALXBOY began in 2008 while he was still in high school, but back then it was known as Cheeseboy – a T-shirt brand funded by a R20 000 investment from friends and family, and inspired by what girls do because of boys, and boys because of girls. “In 2008, while I was in Matric, I started a brand by the name of ‘Cheeseboy’ which made T-shirts just for me and my friends. The kids at school started liking my T-shirts and they got very popular around Pretoria. So we started selling them, but it was not really a sustainable business because we just wasted all the money we made. Upon completing high school, I stopped making these tees and went into research mode, where I did extensive research on all my favourite brands, their names, logos, photo ads, and their design influences. After having spent a while doing my research, I changed the name of my brand from “Cheeseboy” to “Cheesegalxboy” to accommodate women too. However, the name was too long and I felt that it wouldn’t be relatable worldwide. This thought came about due to my “bigger picture” mentality of considering things worldwide and not only nationally, because that’s the level I want to reach, that ‘international status’”.

While working on his own personal brand, as well as designing for Amakipkip, Dube rebranded his 2008 start-up as GALXBOY in 2012, and opened his first store in 2014, hitting the R1 million revenue mark. Naturally, the brand stayed loyal to two things: its vision and design. GALXBOY is known for its bold and colourful designs. GALXBOY, a Pretoria-based urban streetwear brand, has made its way across borders to be stocked in stores in London.

Dube is inspired by a lot of things and people. “I design every day, so my influences change every single day. I might not come up with great designs all the time, but I feel better if I design every day. I believe that eventually all those bad design days become one great design when it’s time to put everything together. It’s also a good challenge because I’m a firm believer that we are here to create and learn so why not do it every day while we still have a chance?”

Using the connections he has gained over the years, his merchandise has created quite a following. Some of his pieces are worn by Da LES or Khuli Chana, Cassper Nyovest and Anatii. Dube says that his main concern is not really to get the clothing popular, but to get it loved by people who are like him; people who appreciate local streetwear. Currently the GALXBOY catalogue consists of T-shirts, tank-tops and snapbacks but their design team says customers can look forward to jackets, beanies, pants and sweaters, and for the ladies, handbags and nail polish.

Dube has been named one of the top 10 local fashion brands in SA in the *Sunday Times* NEXT GENERATION 2015 awards. From just a small brand in Mamelodi, Dube sees GALXBOY opening more stores across the continent, bigger campaigns, bigger ranges, more frequent ranges, kids lining up to buy their products, more brands under their umbrella and just helping other kids reach their dreams.

Sources: Adapted from:

http://theplugmag.co/2016/05/19/galxboy-founder-thatiso-dube-discusses-the-current-state-of-streetwear/

http://popularcvltvre.blogspot.co.za/2014/06/five-young-pioneers-of-popular-culture.html

8.1 INTRODUCTION

The entrepreneur wears many hats. These include leader, manager, strategist and knowledge centre of the business. From the above case study, Mamelodi-born entrepreneur Thatiso Dube displays admirable entrepreneurial traits such as creativity, passion, a genuine concern for customers and being driven by his vision. In order to do this successfully the entrepreneur needs to have a skill set that will allow for this. As is evident in the case study above, it is important for an entrepreneur to possess certain skills to ensure the success of any entrepreneurial venture. Dube displays important entrepreneurial skills such as networking, an ability to understand the market and creativity. Unlike aptitudes and in-born talents, skills can be learned, developed and improved through concerted and consistent efforts of self-development. It is impossible for the entrepreneur to know it all. However, entrepreneurs can make a concerted effort to constantly develop their skill set.

This chapter introduces the skills that an entrepreneur needs to succeed in starting and running a business venture. Entrepreneurial skills are defined to provide an overall understanding of the contents of the chapter. The entrepreneur is responsible for various tasks in the venture and these are related to the skills that the entrepreneur needs to have. The importance of a good combination of skills, expertise and aptitudes is discussed. Entrepreneurial competencies are often used to differentiate between successful and unsuccessful entrepreneurs. From this discussion, the main groups of skills required by entrepreneurs are discussed. The discussion moves to management skills for entrepreneurs and how certain skills can be used to execute the management functions. The discussion moves to entrepreneurial skills and striking a balance between learning and doing the actual tasks. Entrepreneurial leadership and then networking, essential to an entrepreneur, are discussed. The chapter ends by highlighting emotional intelligence as part of the entrepreneur's skill set as a tool for success.

8.2 ENTREPRENEURIAL SKILLS DEFINED

Entrepreneurship provides people with a means of livelihood, existence, self-actualisation, fulfilment, satisfaction and general wellbeing. To practise entrepreneurship well, one must apply energy, passion towards the creation and implementation of creative ideas and solutions (Kuratko & Hodgetts, 2004: 30). Entrepreneurial skills are part of a wider set of leadership and management skills needed in Small Medium Enterprises (SMEs).

Skills may be defined as proficiency, facility, or dexterity that is acquired or developed through training or experience (Merriam-Webster, 2017).

While the most common debate around entrepreneurship centres on whether entrepreneurs are born or made, the concept of skills in entrepreneurship implies that there is room for learning certain aspects about entrepreneurial practice.

8.3 ENTREPRENEURIAL TASKS

When starting a business, the entrepreneur is often the all-in-one leader–manager, administrator and funder in the business. Many entrepreneurs are not prepared for other roles beyond idea generation and creativity. Mmako (2016: 166) describes the tasks detailed in Table 8.1 that entrepreneurs have to perform.

8.4 SKILLS, EXPERTISE AND APTITUDES

Rankhumise (2013: 6) attributes a combination of features to the success of entrepreneurs. A good combination of these features will help entrepreneurs in their business ventures. These features are described in Table 8.2.

Table 8.1 Entrepreneurial leadership tasks

Entrepreneurial leadership tasks	Description of tasks
Creating compelling vision	The entrepreneurial leader creates a convincing vision of where the business should be. This attracts followers who would like to share in realising this vision for the business.
Laying founding values	Founding values are important in determining whether people are a good fit for the business or not. The entrepreneurial leader establishes this in an effort to guide business decisions and actions.
Attracting sure followers	Followers buy into the business idea and often invest their buy-in through employment. The entrepreneur should attract the right followers with the correct fit for the business who are committed to ensuring business success.
Managing self and leading others	The entrepreneur is not an autocratic leader who micro-manages followers. Good entrepreneurial leaders manage themselves and guide, inspire, reassure, empower and motivate their followers.
Promoting creativity and innovation	Creativity is the engine that keeps the entrepreneurial venture going. Creativity and commercial innovation are encouraged in the entrepreneurial venture.
Creating flexible work structures	Entrepreneurship is an unpredictable and uncertain field. Flexible work structures are encouraged to allow flow of ideas in the organisation.

Source: Mmako (2016)

Table 8.2 Skills, expertise and aptitudes.

Skills	Manual work can be learned. Skills are related to a craft, trade or job that requires manual dexterity or specialised training in which a person has competence and experience.
Expertise	Refers to special skills or knowledge in a particular area of specialisation. Expertise can be acquired through work experience and knowledge gained from training.
Aptitude	Aptitudes relate to the inborn patterns of behaviour responsive to stimuli. Aptitudes may be specific talents people have.

Source: Rankhumise (2013: 6)

It is also important for entrepreneurs to be introspective to understand their own strengths and weaknesses.

8.5 ENTREPRENEURIAL COMPETENCIES

In simple terms, competence refers to capability. Competency is the capability of an individual to do something adequately.

Entrepreneurial competencies are the characteristics associated with successfully starting a new venture. These competencies are described as the characteristics of a person that result in effective action or superior performance (Nuthall, 2006; Colombo & Grilli, 2005).

When entrepreneurs have a good set of entre-preneurial competencies they perform tasks successfully. Therefore, competencies are useful in practically transforming knowledge, skills and attitude (Kaur & Bains, 2013). Table 8.3 by McBer and Co (1986) describes common entrepreneurial competencies which are common in successful entrepreneurs.

8.5.1 Main groups of skills required by entrepreneurs

The Organisation for Economic Co-operation and Development (OECD, 2014: 1) states that the greater emphasis placed on entrepreneurial skills has created improved agreement of entrepreneurial abilities and competencies. They identify three main groups of skills required by entrepreneurs as described in Table 8.3.

Table 8.3 Competencies of successful entrepreneurs

Proactiveness		
1	Initiative	Does things before they are asked to or are forced by events.
2	Assertiveness	Confronts problems with others directly. Tells others what they have to do.
Achievement orientation		
3	Sees and acts on opportunities	Seizes unusual opportunities to start a new business and obtain funding, land, work, space or assistance.
4	Efficiency orientation	Looks for, or finds ways of, doing things faster or at a lower cost.
5	Concern for high-quality work	States a desire to produce or sell a top-quality or better-quality product or service.
6	Systematic planning	Breaks large tasks down into sub tasks and sub goals; anticipates obstacles, evaluates alternatives.
Commitment to others		
7	Commitment to work contract	Makes a personal sacrifice or extends an extraordinary effort to complete a job, pitches in with workers or works in their place to get the job done.
8	Recognises the importance of business relationships	Acts to build rapport or friendly relationships with customers, sees interpersonal relationships as a fundamental business resource, places long-term goodwill over short-term gain.

Source: Nieuwenhuizen (2008)

It is worthwhile noting that while these competencies may be general, entrepreneurs need to master particular skills in their specific trade or sector. Knowledge in these areas often improves their credibility among their followers.

8.6 MANAGEMENT SKILLS FOR ENTREPRENEURS

The entrepreneur has to fulfil the intertwined roles of management, leadership and entrepreneurship. These roles often overlap and are enacted simultaneously. Entrepreneurs often wear the manager hat in their businesses until the business grows big enough to employ qualified managers. With what are often limited resources in the entrepreneurial venture, on top of his other tasks the entrepreneur has to execute the management tasks of planning, organising, leading and controlling.

Suteskvi (2009) defines managerial skills as the knowledge and ability of the individual in a managerial position to fulfil some specific managerial activities or tasks.

Robert Katz (1974), in what is considered his seminal work, identified three skills that are essential for successful management processes. These are discussed next. (See also Table 8.4.)

Table 8.4 Management skills required by entrepreneurs

Type of skill	Encompassing factors
Technical	Communication, environment monitoring, problem solving, technology implementation and use, interpersonal, organisational skills.
Business management	Planning and goal setting, decision making, human resources management, marketing, finance, accounting, customer relations, quality control, negotiation, business launch, growth management, compliance with regulations skills.
Personal entrepreneurial	Self-control and discipline, risk management, innovation, persistence, leadership, change management, network building, strategic thinking.

Source: European Union (2014: 1)

8.6.1 Technical skills

Technical skills refer to the knowledge and ability of entrepreneurial managers to do the actual job. These skills are gained through education, training or experience. Technical skills are practical and are also called hard skills. This means that the ability to perform these skills is directly related to the job at hand. Technical skills can also be measured, unlike softer skills, such as conceptual skills and interpersonal skills.

For example, a mechanic needs to know about cars in order to diagnose problems when someone brings in their car for fixing. An accountant needs to know accounting principles and practices in order to do accounting.

8.6.2 Conceptual skills

Conceptual skills refer to the abstract thinking abilities of the entrepreneurial manager. This refers to higher-level thinking, which requires analysis of ideas, processes and predictive abilities. For the entrepreneur, conceptual skills will often be used when strategising for the business, planning direction and setting goals that need to be achieved for the business's sustained existence. Conceptual skills allow entrepreneurs to solve problems, implement ideas and create business processes.

For example, an entrepreneur might come up with a new process of capturing customer preferences based on the items they view on an online shopping website and tailoring these to the business's offerings.

8.6.3 Interpersonal management skills

The entrepreneur will often have to work with people. Interpersonal management skills are related to the entrepreneur's human relations skills. Though intellectual ability is important, it is also essential for the entrepreneur to be able to relate to people inside and outside the business. These interpersonal skills are important as the entrepreneur has to draw employees, funders and other parties to his vision for the business. Without good interpersonal skills, this is not possible. Entrepreneurs need to evaluate their interpersonal skills from time to time.

As an example, employees in an entrepreneurial venture might prefer working with one of the co-owners of the business based on the fact that he is not rude, listens to their concerns and inspires performance in the team.

8.7 MANAGEMENT FUNCTIONS

Entrepreneurs will have to manage themselves and what they choose to invest their time and limited resources in. In addition, they will also have to manage others in the business. Like leadership, management includes understanding the resources in the business and directing how they will be used. The four basic management functions can assist the entrepreneur in doing this. The management functions are planning, organising, leading and controlling. (See also Table 8.5.)

Table 8.5 Management functions and skills the entrepreneur should develop

Management functions	Description of function	Skills to develop
Planning	Creating a detailed strategy to achieve the goals of the organisation	Time management, creativity, goal setting, setting priorities, trade specific knowledge
Organising	Coordinating resources to ensure the successful execution of tasks	Coordination skills, implementation planning, role assessment, analytical thinking, time management
Leading	Providing direction to employees to ensure the successful achievement of organisational goals	Decision making, training and coaching, communication, delegating, problem solving, emotional intelligence
Controlling	Evaluating the achievement of goals against the set standard	Evaluation skills, impartiality, monitoring, critical thinking, taking corrective action

Source: Erasmus, Strydom & Rudansky-Kloppers (2013)

8.7.1 Skills learning versus skills "doing"

Entrepreneurship is fundamentally practical. Academic theories related to entrepreneurship have been criticised for being too theoretical for what is mainly a practical field. The Association of Chartered Accountants (ACCA, 2016) advises entrepreneurs to find a balance between learning skills necessary to build successful businesses and applying these skills. They provide the following guidelines for applying skills in entrepreneurial ventures:

1. Ensure that more time is spent actually conducting business, rather than spending time predominantly in classrooms, incubators and discussion groups.
2. Look for mentorship and practical programmes that can balance academic qualifications.
3. Build an entrepreneurial team to balance your limitations and improve your knowledge.
4. Be curious and willing to learn. Know what competitors are doing as this should help you streamline processes in your own business and reach more customers.
5. View failure as a skill as it also plays a key role in defining your future success.

8.7.2 Entrepreneurial leadership and skills

An entrepreneur exploits opportunities for profits. However, the role of the entrepreneur in the business extends beyond this. An entrepreneur also has to provide direction and leadership to his followers. Leadership and entrepreneurship are not synonymous. Being a good entrepreneur does not make one a good leader and vice versa. Leadership is the ability of the entrepreneur to lead followers towards a desired vision.

No entrepreneur is born with the perfect skill set. Rabinowitz (2013) provides the following guidelines in choosing a leadership style.

- **Start with yourself.** Entrepreneurs need to be introspective. This entails a realistic assessment and evaluation of their weaknesses and strengths. Knowing oneself as a leader and entrepreneur is important as it allows you to make improvements in your personality and business.
- **Think about the needs of the business.** We grow as people and it is only natural to grow as an entrepreneur. You can adapt an initial entrepreneurial style and adapt it along the way. The leadership style should, however, be in line with the needs of the business.

Observe and learn from other leaders. Find a mentor. This can be someone you admire and who is accessible to you. You should not strive to become a carbon copy of your mentor. The goal is to learn from him or her and determine the kind of leader you want to be.

8.8 NETWORKING

In the world of business it is often said that "it is not what you know but who you know". This statement in itself relays the importance of networking. Businesses do not operate in isolation. For a business to grow it is important for the entrepreneur to establish, build and grow mutually beneficial relationships. This is called networking.

CASE STUDY: The young brains behind ReKindle Learning

Our society teaches us to spend a lot of time looking out there for success, but the ability to drive yourself to your full potential starts internally with personal mastery.

Rapelang Rabana is the founder and CEO of ReKindle Learning, an education technology company. Right after obtaining her bachelor's degree in business science and honours in computer science from the University of Cape Town, Rapelang Rabana cofounded her own company, Yeigo Communications. Yeigo is internationally recognised for its pioneering innovations in mobile VoIP and IP communications. In 2008, Yeigo partnered with the Telfree group of companies, allowing it to provide a full range of telecommunications services.

When she started, Rabana didn't really have the experience of running a business, however, she knew that she wanted to come up with solutions to some of the problems she deemed important. She didn't want to be in a work environment where she would be restricted to choose what she wanted. For Rapelang, ReKindle Learning speaks to her dream of making learning easier, accessible, and more effective to South Africans. She believes that the deterioration of South Africa's education system has undermined the much-needed process of what she thinks learning should be. "It is kind of like rekindling a fire. ReKindle Learning is about re-igniting a desire to learn," says Rapelang. ReKindle Learning is a learning technology company that provides digital learning experiences that improve learning efficiencies to deliver stronger performance at school.

Despite her own privileged learning, she could not help but wonder about the inadequacies of South Africa's education system. She imagined an education system where all South Africans had access to the type of good education she had. The founding of ReKindle Learning transported her imagination to reality – she imagined an integrated learning process where young South Africans could easily interact with each other about assignments, homework and ultimately make "learning a lifestyle". Rapelang says that she never imagined she would be an entrepreneur but nevertheless became one at age 22.

Rabana was featured on the cover of Forbes Africa, and named Entrepreneur for the World by the World Entrepreneurship Forum. She was selected as a Global Shaper by the World Economic Forum and was invited to join their annual meeting in Davos, all by the age of 30. Rabana says she now sits on different boards and supports other businesses as a consultant and manages projects.

Kenya and Senegal might be leading the way in mobile learning, but Rapelang's ReKindle Learning and other South African companies in the tech learning space are sure to bridge this gap pretty quickly. Delivering a talk on mobile learning at TEDx Cape Town, Rapelang made a profound statement that educators need to seriously consider.

She asserted:

If we truly wish to address our educational development challenges on this continent, including the need to skill at significant scale, we must ask how to begin articulating a mobile learning experience that effectively imparts core skills and knowledge that improves organisational performance that gets more kids through school.

Sources: Adapted from:

http://www.702.co.za/articles/5071/meet-the-brains-behind-rekindle-learning-an-education-technology-company

http://www.fabulouswoman.co.za/news%20and%20events%20article%2019.html

Questions

1. With reference to Rapelang Rabana's story, discuss the three skills that are essential for successful management processes.
2. Rapelang Rabana displays several competencies of successful entrepreneurs. Describe these competencies.
3. Do you think Rapelang Rabana displays good entrepreneurial skills?

Entrepreneurial networking is defined as "… forging new social ties that lead to information and resources, and, ultimately, increased value creation for the venture," (Pollack, Coy, Green & Davis, 2015: 817). This definition highlights the importance of social ties in helping to create increased value in a business. It neglects, however, two important principles of networking, which are reciprocity and maintenance.

8.8.1 Reciprocity and maintenance

Nieuwenhuzen (2008: 117) assert that networks are built firstly on reciprocity. This means that the relationship should be one of "give and take". Networks should be mutually beneficial. You should be prepared to give something to the other person in return for what they provide you with.

Maintenance mainly relates to the fact that networks are not mandatory relationships. If broken as a result of neglect they are hard to repair.

8.8.2 Guidelines for networking

Rittscher (2012) provides the following guidelines entrepreneurs should practise to strengthen their networking efforts:

8.8.2.1 Start with a plan

Networking should not be left to chance. Ask yourself questions such as "Who do I need to connect with to be successful? Which groups or companies would be beneficial to my success? How can I connect with the relevant people?" It is important to write down your plan and prioritise thereafter. Set priorities weekly, monthly and annually and make a commitment to achieve your networking goals.

8.8.2.2 Be selective with your efforts

Learn to use social networking strategically. For entrepreneurs time is a commodity that should be used wisely. Choose who you reach out to. Target your efforts towards connections that will help your business grow.

8.8.2.3 Learn to work events

Attend relevant events and seminars. Make sure your name is well displayed and that you understand your elevator pitch, which is a short outline description of a business idea or product covering only critical aspects of it. Introduce yourself to a small group of people. Do this often until you become accustomed to it.

8.8.2.4 Make real connections

The goal should not be the number of business cards or contacts you can get. Focus on quality and not quantity. In your interactions be honest and genuine. It is important to bear in mind that a contact is not a connection, but a relationship is.

8.8.2.5 Build and keep your current connection

Social media has made networking easier. Professional networking sites such as LinkedIn can be used to build business contact information. Learn to update your profile on social networks, share useful information without spamming followers, congratulate people on their achievements and make connections.

8.8.2.6 Pay it forward

Learn to help other people achieve their goals too. Success often comes when we help others. Introduce people to relevant people in their networks, recommend people you trust, offer assistance where and when you can and make suggestions that can help others improve their business too. Networking requires sincerity and care and practising networking in this manner will set you apart.

8.9 EMOTIONAL INTELLIGENCE (EQ)

Entrepreneurs often have their plates full with things they need to handle. Although an entrepreneur’s ability to think and reason is important to a venture, emotional intelligence is a distinguishing characteristic of successful entrepreneurs. Emotional intelligence is defined as perceiving, using, understanding and managing emotional information (Caruso & Salovey, 2004). Entrepreneurs will be confronted with conflict, challenging situations and dilemmas in their business journeys. Emotional intelligence is an inherent part of our personality. However, through changed habits and behaviour, emotional intelligence can be improved.

Sullivan (2016), offers the following advice on how entrepreneurs can improve their EQ:

- **Become more self-aware:** take time to meditate, develop a larger emotional vocabulary and regularly stop to reflect and check in with yourself.
- **Manage your emotions:** learn what your emotional reactions to situations are. Develop strategies to counter negative reactions
- **Develop greater empathy:** learn to ask yourself how it would feel to be in someone else’s position. This is done by developing greater presence and curiosity about people.
- **Manage your relationships better:** manage your relationships by remaining curious about people’s motivation and communicating your desires for your business.

8.10 CONCLUSION

In this chapter, the entrepreneurial skills required for successful business start-ups and operations were discussed. These skills include possessing certain entrepreneurial competencies, networking, emotional intelligence as well as entrepreneurial leadership.

Even though the age-old entrepreneurship argument is whether entrepreneurs are born or made, it is undeniable that skills can be learned.

Today, many entrepreneurial opportunities exist. Lack of skills often leads to failure. The importance of a good combination of skills, expertise and aptitudes is essential. This combination should be evaluated based on the entrepreneurial opportunities and talents of the individual.

Since it is established that entrepreneurs wear many hats in a business, management and leadership cannot be left out of the entrepreneur's skill set. Though entrepreneurial ventures are set up differently, many management and leadership functions are still relevant and applicable to entrepreneurial ventures.

An entrepreneur's skill set is incomplete without the ability to network. Networking is essential for business growth and exposure. Guidelines for improved networking are provided in the chapter to assist entrepreneurs in establishing meaningful and beneficial relationships for the business.

The chapter concludes with a discussion on emotional intelligence. Since entrepreneurs have a lot to coordinate, they need to be emotionally equipped for their entrepreneurial journey.

REFLECTION ACTIVITY

You are an entrepreneurship major at university. Having read this chapter, your understanding of the entrepreneur and skills has grown. Many entrepreneurial ventures in South Africa fail for many reasons; the major ones being access to funding and poor skills. Knowing what you know, think of ways entrepreneurs can develop their own skills to learn to manage and grow their own businesses successfully.

Please note: There are no right or wrong answers, just your substantiated opinion.

REVIEW QUESTIONS

8.1 Provide a definition of the term "skills".

8.2 Tabulate the different entrepreneurial leadership tasks.

8.3 Differentiate between skills, expertise and aptitudes.

8.4 Which skills are essential for a successful management process in the business?

8.5 Provide guidelines an entrepreneur can use when choosing a leadership style.

8.6 Explain what emotional intelligence is.

ACTIVITY 1

Take the following self-assessment activity called Entrepreneurial potential self-assessment. Evaluate your areas of improvement and determine where you can better apply yourself and your skills.

Link: https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/business-assessments/pages/self-assessment-test-your-entrepreneurial-potential.aspx

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RECOMMENDED WEBSITES

https://www.entrepreneur.com/article/236128

https://www.entrepreneur.com/article/242327

http://www.mcser.org/journal/index.php/mjss/article/view/2483

http://www.tandfonline.com/doi/abs/10.1080/13504851.2013.797554

9

Creativity and innovation

A. Vlok

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- explain why creativity and innovation are seen as critical elements for entrepreneurial success in emerging economies
- explain the concept of innovation context and its influence on the competitiveness of entrepreneurial enterprises in emerging economies
- identify myths and misconceptions about creativity and innovation as well as their negative implications for entrepreneurs
- describe business as a value-adding entity operating in a system where innovation comprises both value creation and value realisation
- describe the relationship between ambidextrous entrepreneurship and the two cycles of efficiency and disruption
- indicate the need for particular thinking styles in an entrepreneurial venture
- explain why creativity and innovation tools are required and recommend when to use tools
- describe an innovation ecosystem and recognise the players, capabilities, resources and infrastructure elements
- recognise or identify the human principles that underpin sustainable innovation
- recognise and describe elements required for effective innovation management.

KEY TERMS

- Creativity
- Invention
- Innovation

9.1 INTRODUCTION

This chapter aims to equip learners with a broad knowledge and understanding of creativity and innovation as critical elements for entrepreneurial success in emerging economies. The body of knowledge on creativity and innovation has increased exponentially.

Both the developed and emerging economies of the world are experiencing a shift in emphasis from generating and making available new knowledge to the application of knowledge in novel value-adding ways that differentiate competing entrepreneurs.

South Africa's National Development Plan 2030 is discussed as an example of a context in which creativity and innovation is stimulated. This is followed by a reflection on myths and misconceptions that create entrepreneurial blind spots preventing them from noticing idea sources or generating ideas and turning these into value. Business is portrayed as a value-adding entity operating in a system where innovation comprises both value creation and value realisation.

Furthermore, this chapter builds on the overwhelming body of research evidence that entrepreneurs are people with the appetite to start and maintain businesses that are competitive, provide value in the form of new products and services while creating jobs and making valuable contributions to economic growth and socioeconomic development. This chapter emphasises creativity in general across all activities of the small entrepreneurial enterprise and specifically explores the role of innovation in setting up sustainable firms with the innovator/entrepreneur being that causal ingredient in the entrepreneurial equation.

9.2 ENTREPRENEURS AS VALUE CREATORS

There are different routes to becoming an entrepreneur. Both entrepreneurs and innovators may be people with exceptional abilities to conceptualise and exploit opportunities. It is possible to be an entrepreneur without being an innovator. It is also possible to be an innovator without being an entrepreneur.

When we see fruit vendors next to the road we may not be looking at innovators or entrepreneurs because they may be working for someone else who saw the opportunity of selling fruit at a particular spot next to a particular road at a particular time. We might, however, be looking at an entrepreneur who had enough confidence to purchase some fruit with the purpose of reselling the fruit within a reasonable time frame and in that way recover their expenses and hopefully make a bit of a profit.

Innovation offers an alternative route to entrepreneurship, which requires more than a buy-and-sell approach to business. It is about conceptualising and producing something that has not been done in a particular context before or doing something differently and accepting the pioneering challenge because there may not be roadmaps available for this journey. In the case of our fruit vendor, creativity and innovation-driven entrepreneurs are those who create novel ways in which to create, offer and deliver their products, or who source these in innovative new ways or use innovative ways to add value to their fruit. Think of a fruit vendor with a solar-energy-driven cooling device that can sell fruit and cold beverages in the hot sun while the other fruit vendors in the vicinity are trying to compete in conventional ways, which may be to reduce the price of the goods too far to make any profit, thus leaving them without cash to invest in the next parcel of fruit. Our innovative entrepreneur will keep the fruit fresh for longer, have less waste and make a profit if the numbers are done correctly.

9.2.1 Causes of entrepreneur reluctance to innovate

In conditions of uncertainty, most rational people would adopt a conservative or safe stance to emerging new opportunities. Entrepreneurs, however, are people who see the same as other people but prefer to think about it differently. Successful entrepreneurs tend to be those people who are not blind to the risks and uncertainties but take calculated risks based on available knowledge, while anticipating that the rewards will meet or exceed their expectations. Unfortunately for the entrepreneur, in some economies sufficient quality information may not be available to assist the entrepreneur in informed decision making, which increases their uncertainty and, therefore, risks.

Risk is a factor in any organisation today and in most large organisations one would find risk-management programmes. Small emerging entrepreneurs, however, have fewer and less sophisticated means of dealing with risk, which may explain why the rate of entrepreneurial activity in South Africa is very low for a developing economy.

Despite a marginal increase in South Africa’s entrepreneurial activity over 10 years, the Global Entrepreneurship Monitor (GEM) Report 2014 shows a staggering decline of 34 per cent and claims that the perception of opportunities to start a business and the confidence in one’s own abilities to do so remains alarmingly low compared to other sub-Saharan countries. The typical South African entrepreneur is between 25 and 44 years of age, is male, lives in an urban area, is involved in the retail and wholesale sector and has a secondary or tertiary level of education. Business discontinuance levels exceed those of new start-ups, resulting in subsequent job losses. Reasons relating to lack of finance and poor profitability are cited as well as an inadequately educated workforce, inefficient government bureaucracy, high crime levels and onerous labour laws (GEM Report, 2014).

Most successful entrepreneurs have had to conquer uncertainty and risk at some point, resulting in a better understanding of entrepreneurial complexities and heightened confidence levels. South Africa has world-class entrepreneurs who thrive on understanding technical and business risks, and have developed mechanisms to share and manage risks, complexity and resources to confidently enter challenging yet rewarding entrepreneurial occupations. Aspiring entrepreneurs can learn from these role models and available knowledge to overcome some of the challenges of entrepreneurship in developing economies.

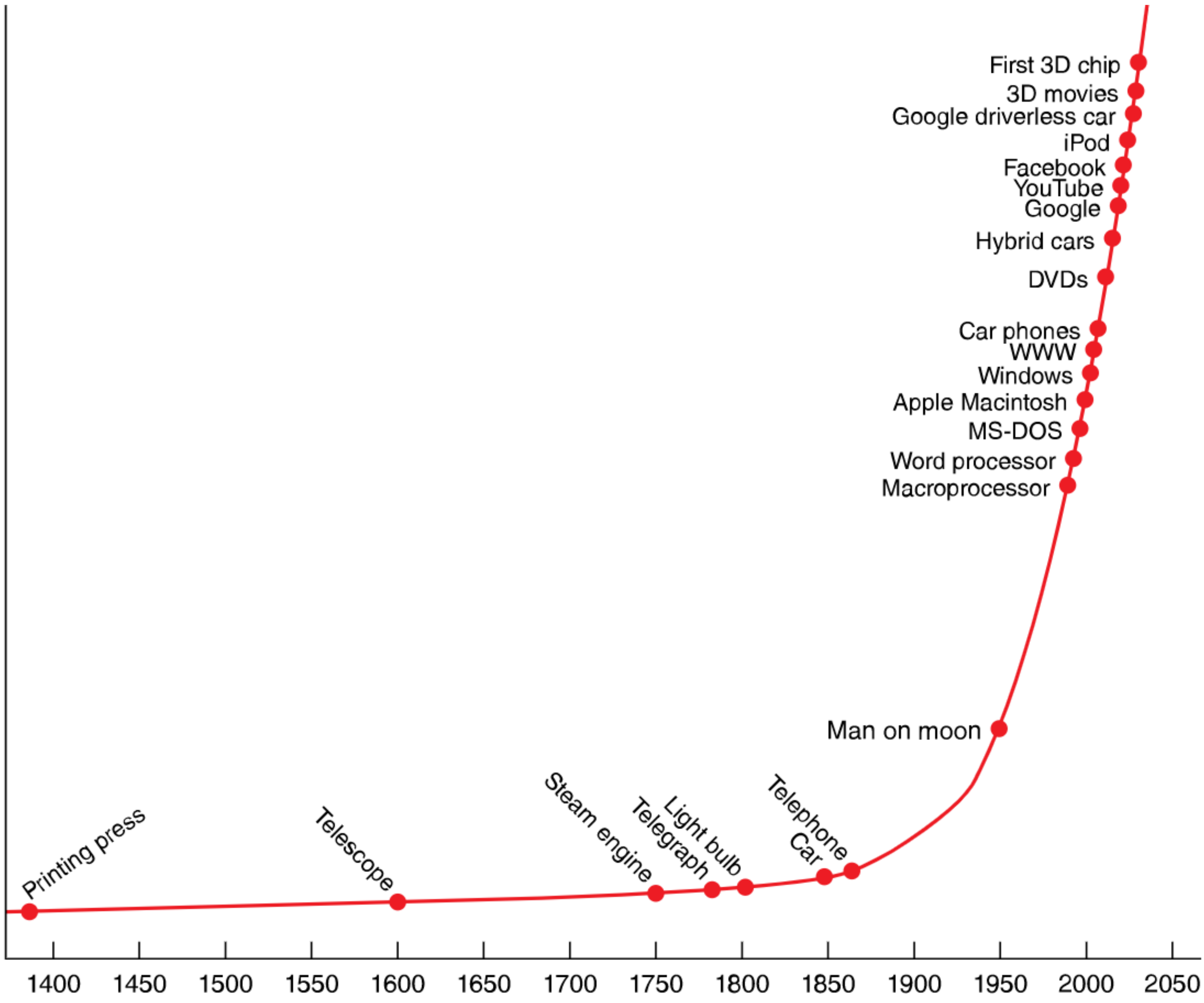
9.3 WHAT IS INNOVATION AND WHY IT MATTERS

9.3.1 Innovation economy perspectives – global and local

Decades ago a world-renowned management scholar, Peter Drucker, emphasised innovation as the tool of entrepreneurs and the means by which entrepreneurs exploit change as an opportunity for a different business or service.

Since Drucker's claim, the innovation landscape has experienced significant changes, such as the introduction of the internet, mobile technologies, social networking and related force multipliers that have shifted ownership and access to individuals and developing economies where this was unthinkable before. The Fourth Industrial Revolution is a phrase used by Schwab (Schwab, 2016) at the World Economic Forum (WEF) to emphasise the increasing speed and impact of technological advancement, which is affecting everything around us and everything that we do. The Second Machine Age is a term used by two MIT professors in their book, articles and videos with the same title, in which they discuss and provide examples of specific technologies that are likely to have even more impact on our lives than steam and electricity (Brynjolfsson & McAfee, 2014).

Figure 9.1 Accelerating growth in technology



Source: Adapted from Brynjolfsson & McAfee (2014: 171)

Futurist Thomas Frey cites the Consumer Electronics Show (CES) held annually in Las Vegas, and other innovation exhibition platforms to alert his global readership of new technologies that are changing the world. Frey makes the point that around 3 600 CES exhibitors (including 375 start-ups) draw around 170 000 attendees and that tens of thousands private meetings are being conducted in the background "forcing more deals to be cut in a shorter period of time than virtually any other event on the planet" (Frey, 2015). Examples of new technologies with disruptive potential include the following:

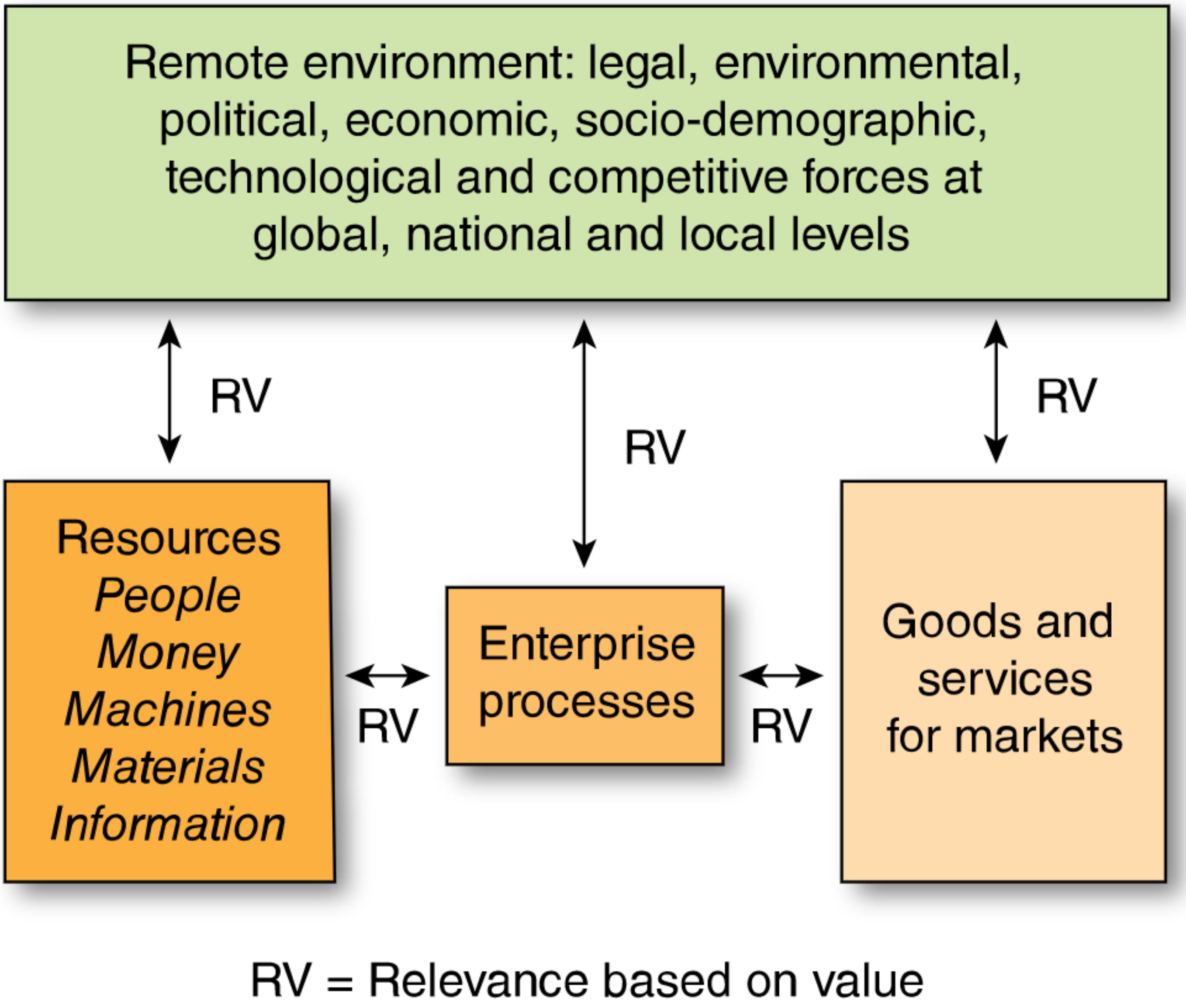
- Drones
- 3D printing
- Cloud computing
- Robotics
- Bio-engineering

These examples are just the tip of the iceberg, or as they say in Africa, the ears of the hippo. Individually and collectively they have the potential to bring about creative destruction, which is an innovation theory postulated by economist Joseph Schumpeter (Schumpeter, 2004).

While these technologies may be created and admired by technology enthusiasts, it is their use for creating and maintaining a competitive advantage that really matters for entrepreneurs. The harsh reality is that a well-established business may be wiped out by competitors using new technologies and that entrepreneurs can no longer ignore technology in their quests to gain competitive advantage or to become technology wise when others use innovative new technology against them.

The pursuit of innovation for entrepreneurial purposes requires that a business be acknowledged by entrepreneurs as being part of a competitive value-linked system in which innovation could take place anywhere in the system. Entrepreneurs use enterprise processes to create value by generating goods and services that others value enough to pay the entrepreneur sufficiently to make a profit, as shown in the RV-arrow in Figure 9.2. RV stands for relevance based on value and the other RV-arrows also indicate value based on linkages. All work together for the entrepreneur to create a sustainable enterprise. Businesses fail when value based on linkages destroys more value than it creates. This interconnected system provides innovation opportunities beyond simply thinking of entrepreneurship as the production of goods and services. Technologies mentioned in the fourth Industrial Revolution and second machine age discussions above are more accessible to entrepreneurs than ever before. In practical terms, the entrepreneur could create or modify technology: for better access to changes in the remote external environment; to use resources on more favourable terms; or to deliver goods and services more efficiently. It should be clear from this basic simplified value-linked model that entrepreneurial creativity and innovation could benefit from: greater awareness of the global innovation landscape; opportunities for leveraging technology; and enhancing the relevance of the entrepreneurial enterprise based on its value creation.

Figure 9.2 Business as a value-linked system



Innovation in emerging economies does not take place in a vacuum and entrepreneurs need to capitalise on the interrelatedness between these economies and the interconnectedness of technologies between them. Business relationship structures across the world have been changing significantly in recent years, resulting in: fragmented production processes; increasing diversity of business models; the involvement of multiple players who are distributed worldwide; and the reallocation of capital flows around the globe. Some developing countries have benefited from this trend, which is changing innovation markets as a consequence. India and China are examples of developing economies in which future scenarios indicate a firm commitment towards, and investment in, increasing the number of researchers, PhDs in science and engineering, patents and scientific publications. Investment in science and engineering and technology related to innovation is anticipated to increase by 50 per cent to 74 per cent, which suggests significant and probably overambitious growth in innovation capacity, competitiveness and being integrated in the global innovation landscape. Instead of adapting innovation models from the developed world, entrepreneurs in emerging economies are changing the nature of innovation by introducing innovations with the aim of reaching the huge markets represented by China and India. Reverse innovation of products by emerging economies can be done at lower costs. Innovative models in distribution, commercialisation and the marketing chain are forcing the restructuring of multinational businesses. This type of innovation, together with lower-priced R&D costs, make it attractive for developed countries to access the capacity of emerging economies. At the same time it also creates opportunities for developing economies to climb the value chain to become R&D providers in complex innovation areas while simultaneously improving the educational levels of those involved. With better education innovators and entrepreneurs can increase income, which means they have more to invest. This results in growth in the emerging economy in the direction of becoming a developed economy itself. It is clear that performance in science, technology and innovation is being strengthened to increase the share in high-technology products and services to grow India and China's economies (Wolf et al., 2011).

In South Africa innovation is also seen as the capacity to generate, acquire and apply knowledge to advance economic and social purposes and that when innovation is supported by government resources, it needs to extend beyond any commercial and economic indicators and should affect local community development and sustainable futures (Wild, 2015). As mentioned before, South Africa's National Development Plan (NDP) 2030 sets the policy direction for the future of innovation and entrepreneurship in South Africa. The NDP 2030 executive summary refers to innovation 70 times to emphasise the progress required in three priority areas, namely: raising employment through faster economic growth; improving the quality of education; skills development and innovation; as well as building the capability of the state to play a developmental, transformative role.

Other innovation references in the NDP 2030 (RSA, 2013) include the following:

- South Africa needs the active support of all citizens and leadership in all sectors to put the country's collective interests ahead of narrow, short-term goals and radically improve government performance. In most cases it is about getting the basics right and implementing government programmes while holding people accountable for the actions and finding innovative solutions to complex challenges.
- Science and technology revolutionise the way goods and services are produced and traded. South Africa needs to use its knowledge and innovative products to compete and expand its global presence in both new and traditional sectors. Innovation is necessary.
- South Africa needs to sharpen its innovation edge and continue to contribute to global scientific and technological advancement. Also Africans should be able to access and use knowledge effectively.
- South Africa can create 11 million jobs by 2030 by: improving economic policy coordination and implementation; building partnerships between the public-sector business and labour to facilitate, direct and promote investment in labour-intensive areas; raising competitiveness and export earnings through better infrastructure and public services; lowering the costs of doing business; improving skills and innovation and targeting state support for specific sectors.

In addition to the NDP 2030, other national-level innovation policies link the domains of technology, innovation and entrepreneurship, which necessitates the evolution of innovation and entrepreneurship required for stimulating development in South Africa.

Entrepreneurship and entrepreneurship policy in South Africa is discussed more extensively by Marcelle (2015) who observes that since 1994, with the advent of a new democratic era, government has taken measures to position small-business development as a key policy focus and describes milestones, such as the 1995 White Paper on a national strategy for the development and promotion of small business in South Africa. Marcelle (2015) also refers to the Small Enterprise Development Agency (SEDA) as a flagship agency created by the Department of Trade and Industry (DTI) as a centralised agency for supporting small business in South Africa in 2004.

Innovation and innovation policy in South Africa is also discussed in more detail by Marcelle (2015) who observes that government economic policy accepts that economic growth is driven by innovation in all sectors of society. Marcelle (2015) also discusses key policies and strategies to improve access to science and technology promoting innovation:

- The White Paper on Science and Technology – preparing for the 21st century, Department of Arts, Culture, Science and Technology (DACST) (Republic of South Africa, 1996)
- The national research and development strategy (DACST, 2002) with its three policy objectives:

– Achieving mastery of technological change in our economy and society (innovation)

– Increasing investment in South Africa's science base (human capital and transformation)

– Strengthening government’s science and technology system (alignment and delivery)

- Indigenous knowledge systems policy (DACST, 2004)
- South Africa’s 10-year national innovation plan, Department of Science and Technology (DST) (Naidoo, 2008) which emphasises five grand challenges for South Africa:

– Farmer-to-pharma value chain to strengthen the bio economy, building on the nation’s indigenous resources and expanding the knowledge base

– Space science and technology

– Energy security

– Global climate change

– Global understanding of shifting human and social dynamics and the role of science in stimulating growth and development

- The Technology Innovation Act 26 of 2008

9.3.2 Innovation myths and misconceptions

The preceding sections convey clear policy, strategy and enabling mechanisms to take the country forward in innovation and entrepreneurship. The conversion of these aspirations into achievements, however, is dependent on a range of factors such as the mental models of those involved. Myths and misconceptions about innovation are based on opinions that became beliefs that may not be conducive to innovation. The following are indicative of mindsets that may have to be challenged in light of the country’s desired future innovation and entrepreneurial destinations.

9.3.2.1 Innovation is research and development (R&D)

Historically this is how innovation happened. Senior management would prioritise areas for development; innovation would be a top-down effort to bring this about. In the entrepreneurial world, innovation is often a bottom-up process.

9.3.2.2 Innovation is new product development

Innovation is often limited to new product development. In recent years innovation is clearly being seen as much more than new product development to include any facet of business where innovation can make a positive difference.

9.3.2.3 Innovation is brainstorming

Some view innovation as the generation of new ideas. In reality most business executives can testify that they have more ideas than they can realistically use and that the real challenge is often how to turn these ideas into value. This requires more than just creative thinking. It also requires a good understanding and knowledge of the technology and innovation landscape in which the business operates as well as specific contextual factors relevant to the business, such as its performance, its values, its ideals and relationships.

9.3.2.4 Innovation can only be done by some people with the right skills

There have been many gifted inventors and innovators that have managed to stand out in history because of what they have achieved. There is growing appreciation today that different people have different skills and complementary assets to contribute.

9.3.2.5 Innovation can only be done by large organisations with resources

This may be true in certain industries and organisations where a lack of resources would hamper people’s ability to innovate. Technological advancements increasingly allow small entrepreneur innovators to complement, or compete with larger resource-intensive organisations or do things in ways that make them attractive to be bought by such organisations.

9.3.2.6 Innovation requires a linear sequential process

This may be true in environments where nature rules but increasingly the emphasis falls on customised processes that accommodate dynamic interaction between people working against time to address particular challenges.

By challenging their own mindsets related to innovation myths and misconceptions, aspiring entrepreneurs may become more receptive to new ideas and let go of mindsets that may be stifling innovation.

9.3.3 Sourcing ideas

Previous sections dealt with policy issues and mistaken beliefs about innovation. The entrepreneur also needs to understand that new ideas are needed for innovation. While some entrepreneurs have demonstrated their abilities to come up with new ideas by themselves, finding ideas from other sources may also be considered. The concept of open innovation suggests that firms utilise external sources to enhance their innovation. This may include building relationships with several other people and entities such as suppliers, collaborators, competitors, regulators and multiple other players to extend the range of idea sources (Chesbrough, 2003). New knowledge and technology as sources of innovation may also serve as sources for new ideas, including scientific breakthroughs and licensing opportunities that may disrupt current markets (Bianchi, Campodall, Frattini & Vercesi, 2010).

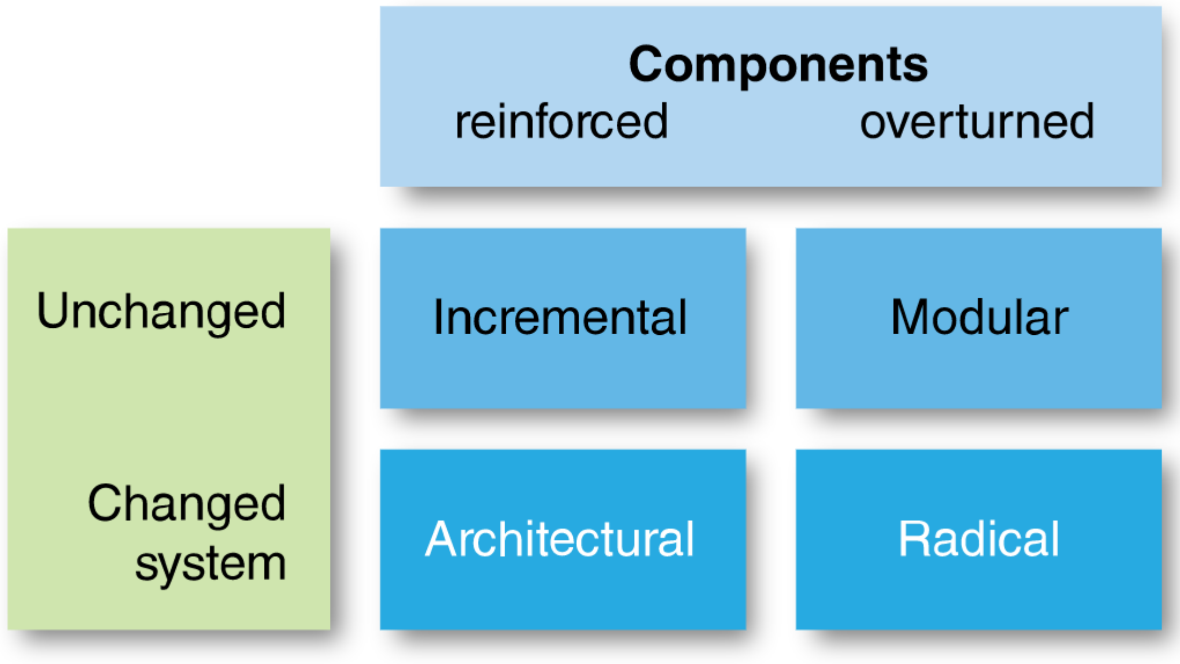
For effective sustainable sourcing of ideas a more systemic approach is proposed to build capabilities that will continue to identify and tap into sources of ideas through innovative intelligence, which is a new focus for leaders to maximise the innovative capacity of their people (Weiss & Legrand, 2011).

It is important for entrepreneurs to understand that the best ideas may not come from them. Other people have diverse backgrounds and perspectives from which entrepreneurs may benefit and there are multiple channels available to tap into the sources already mentioned (Rosenfeld, Wilhelmi & Harrison, 2011).

9.3.4 Innovation types

Not all innovations are the same and the entrepreneur may benefit from a basic understanding of innovation typologies, such as radical, incremental, modular and architectural innovation, as illustrated in Figure 9.3.

Figure 9.3 Innovation categories



Source: Adapted from Henderson & Clark (1990) cited in Smith (2010)

Figure 9.3 could illustrate the four types of innovation based on the flow of innovations conducted by an entrepreneur who wanted to transport his harvest to a market on the other side of a river. When the business was small, his little boat with some packing space added (incremental innovation) would be sufficient. Next a bigger sail or an engine on the boat to go faster (modular innovation) would be necessary. Architectural innovation would be if he then redesigned his ship to carry more and heavier loads. Finally radical innovation would be if he purchased an aeroplane for greater speed and loads.

Innovation also comes in different forms and may include: product (e.g. a new ice-cream type); process (e.g. making the ice cream in a new way or moving it in a new way); service (e.g. new ways of presenting the ice cream to customers); and business-model innovation (e.g. changing the business model for better differentiation and competitiveness).

9.3.5 Innovation defined

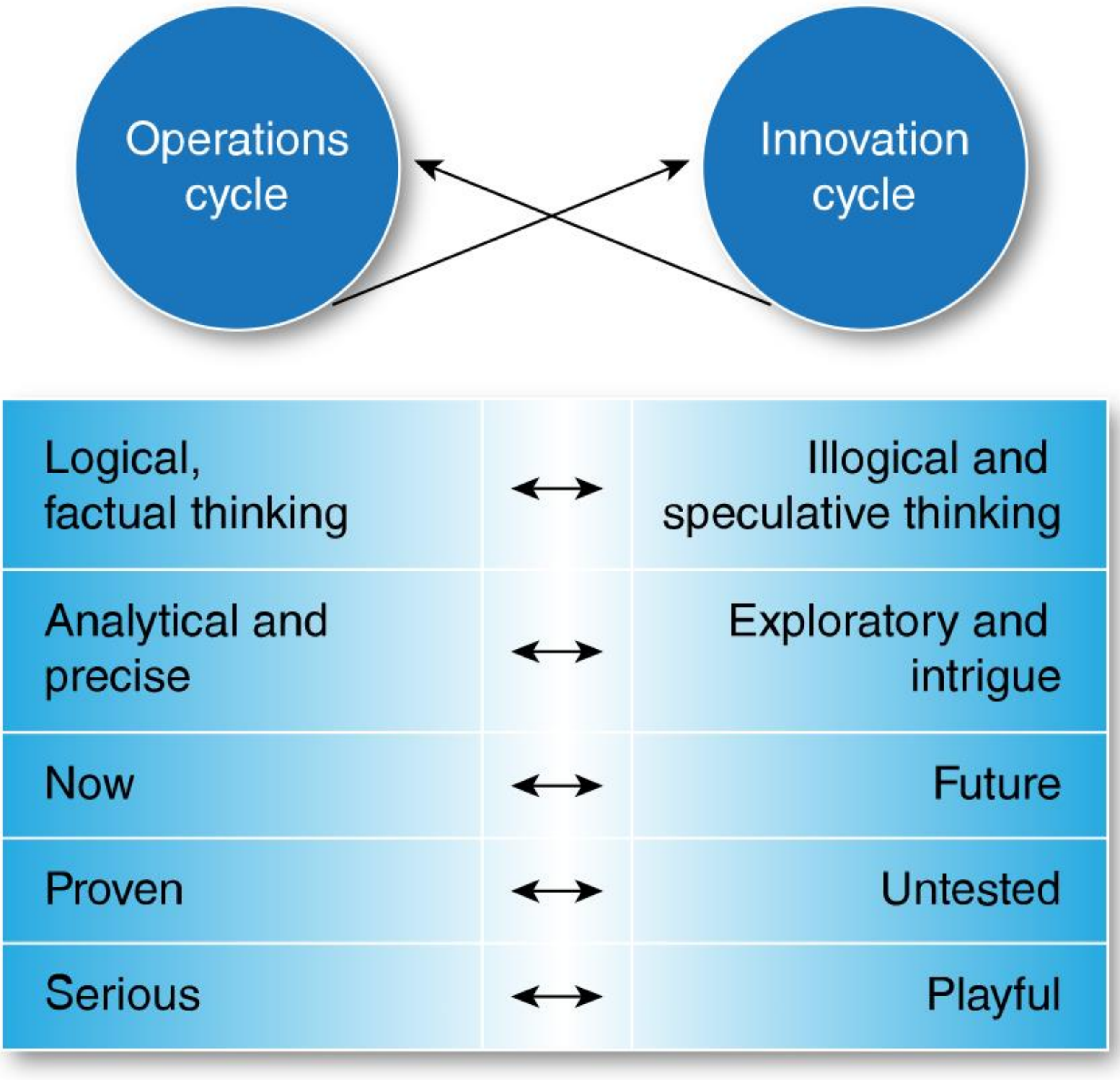
Another key insight for entrepreneurs concerns the definition of innovation. An internet search on the definition is likely to yield millions of definitions but the common denominator or golden thread is that innovation includes not only a great idea or invention but also the implementation or adoption thereof in the marketplace or by beneficiaries.

9.4 AMBIDEXTROUS ENTREPRENEURSHIP

9.4.1 Dual role of entrepreneurs over time

Before and during the business start-up phase the entrepreneur tends to focus on what is needed to get the business established and operational. At some point entrepreneurial firms have to take on an ambidextrous role of supporting both the operational cycle of mainstream exploitation of their offerings as well as the new stream exploration and innovation cycle for producing new offerings. They need to do this to remain competitive for the long term, as illustrated in Figure 9.4. Firms thrive by repeating what they do well but they can only survive in the long term by adapting to the changing environment (Nolan & Williams, 2010). The ambidextrous entrepreneur would thus be someone capable of maintaining a context-specific balance between these two cycles in which paradox plays an important role. This is because the environment may not allow a sequential approach, so events may have to happen simultaneously, as indicated in Figure 9.4.

Figure 9.4 Two-process cycles in harmony



Sources: Adapted from Nolan & Williams (2010); Bot (2012)

9.4.2 The operations cycle of business

The operations cycle mentioned in section 9.4.1 can be described as a world of known solutions, of rules, procedures, routines, efficiency, analysis and logical thinking. This cycle is about exploiting and benefitting from current operations. The entrepreneurial dreams and aspirations of the founding members are being implemented and the focus shifts to profitability and repeatability for maximum gain in some entrepreneurial start-up companies or ventures. The kind of people who find fulfilment in this world tend to be those who prefer predictability, detail, process clarity, control, zero defects and maximum return on investment in whatever form it was made. Some people are able to operate effectively in both cycles and understand what has to be done in both cycles to maximise their mutual contributions. The difference between what can be imagined and what can be done has never been smaller than it is today.

9.4.3 The innovation cycle of business

The innovation cycle can be described as a world of dreaming, imagination, experiments, ideas, exploration, speculation, intrigue, uncertainty, possibilities and fun. The kind of people who find fulfilment in this world tend to be visionaries, free thinkers, have an open-minded ability to approach opportunities from multiple perspectives, take risks and do not necessarily feel themselves pressurised to deliver specific outputs in a specific time frame.

9.4.4 Creativity as a process

Early attempts to describe creativity as a process date back to 1926 when Wallas described four sequential phases (Wallas, 1926). Preparation was first, which is about understanding the problem. Next was incubation – the urge to find a better way. Third was illumination or the aha! or Eureka moment of insight. Finally there is the verification or testing phase. The field has since been extensively researched in different disciplines to produce a body of knowledge that may extend beyond the pragmatic requirements of the entrepreneur. More recent contributions to the study of creativity have placed emphasis on both the thinking and process aspects of creativity. More emphasis is also placed on creativity as a social construct, creation of spaces and work environments that foster creativity and innovation, and stimulation of creative thinking through interaction, visual stimulation and tools (Von Stamm, 2008). For the entrepreneur it is important to understand that being creative involves the use of the imagination to create something. While the imagination or original thinking required to create something may have come from the entrepreneur, the challenge is to also tap into the imagination of others; the entrepreneur can be instrumental in creating the right environment for creativity.

9.4.5 The human brain as an operating system

The heading of this section is made up of words that are likely to cause different responses from different readers because of their individual thinking frames. Thinking frames is an approach to enhance people's thinking by deliberately adding to their repertoire of thinking (Perkins, 1986). In simplistic terms, we all have our own thinking frames based on personal preferences, experiences and many other factors. These thinking frames become our reference points for all incoming information, almost like the operating system of a computer. When incoming information matches the frames with which we are familiar, our frames are reinforced and whether they are right or wrong, they guide our response to situations. When incoming information does not match our thinking frames, the incoming information may be rejected, unless the recipient accommodates the new information by adopting alternative frames. The ability to adopt alternative frames, or to reboot or update the brain's operating system, has been referred to as "kaleidoscope thinking" (Kanter, 2002) and escaping the "intelligence trap" (Cloete, 2013). Metacognition means thinking about thinking and explains why, for example, accountants think like accountants and engineers like engineers (Anderson, 2014). Innovation starts with how we think, and creative thinking can be enhanced by giving people more information than they had before, exposing them to ways of thinking other than their own and increasing their motivation to be creative (Amabile, 1996). This involves personal choices and understanding the different frames of thinking may be required in different innovation situations. Problems, challenges, problems that could be opportunities, challenges and opportunities require different thinking frames. The entrepreneur in Figure 9.5 has a thinking frame based on the assumption that others will be happy to do the work to get the idea to business stage.

Figure 9.5 Your role in the business?

The human brain may be the entrepreneur's friend or foe because entrepreneurial innovation will be constrained or opened up by the boundaries that the brain has been requested to maintain. Self-efficacy (SE) is a term used for the belief in one's capabilities to organise and execute the courses of action required to manage prospective situations (Bandura, 1994). Low SE-people avoid challenging tasks, believe that difficult tasks and situations are beyond their capabilities, focus on personal failings and negative outcomes and quickly lose confidence in personal abilities. According to Bandura (1994), high-SE people view challenging problems as tasks to be mastered, develop deeper interest in the activities in which they participate, form a stronger sense of commitment to their interests and activities and recover quickly from setbacks and disappointments. Entrepreneurs and their people can change their SE levels to change their innovation and entrepreneurial performance. In simple terms they may have to reboot or upgrade their thinking systems by adopting high SE thinking frames.

Innovation in India benefits from their deliberate engagement of Jugaad innovators who are known to be high SE people. Jugaad is a Hindi word that describes frugal innovation or the art of overcoming harsh constraints and improvising effective solutions using limited resources (Brem & Wolfram, 2014).

In the right environment, creativity draws on the whole brain in a dynamic interplay of many different brain regions, emotions, as well as unconscious and conscious processing systems (Gregoire & Kaufman, 2016).

9.4.6 Innovation is a team sport

Innovators/entrepreneurs tend to be relentlessly resourceful themselves or attract such people into their innovation teams. Diversity is vital for gaining new perspectives and team composition can deliberately accommodate heterogeneity or diversity to achieve the desired levels of innovation performance. Some firms employ specialists as well as polymaths. A polymath is a person with a wide knowledge of many subjects (Oxford paperback dictionary and thesaurus, 2009).

Innovation team composition can be used by the entrepreneur to maintain the status quo, sameness, traditions, irrelevant thinking frames or any other factors resisting the creativity and innovation needed for the firm to gain and maintain a competitive advantage in the marketplace. The entrepreneur can, however, use team composition to bring about new thinking. The entrepreneur can also use a range of tools in the process of getting to understand people better and ensure that the team operates from the individual and combined strengths of the team while also crafting the team to overcome weaknesses. ISPI (Innovation Strengths and Preferences Indicator), KAI (Kirton Adaption-Innovation Inventory) and Neethling's Brain Profiling instruments are examples of what is available to the entrepreneur.

9.5 CREATIVITY AND INNOVATION TOOLS

9.5.1 Imagination is more important than knowledge

A more comprehensive version of Albert Einstein's statement is that imagination is more important than knowledge because knowledge is limited, whereas imagination embraces the entire world, stimulating progress, giving birth to evolution (Einstein, 1933) Nonaka (1997) identified two knowledge types that have different management requirements, namely explicit knowledge (published and available) and tacit knowledge (in people's heads). Innovations may come from explicit knowledge when people reconfigure their knowledge and tacit knowledge is hard to get because it cannot be accessed without the permission of the person who has that knowledge. Experience has shown tacit knowledge as a major sources of ideas when people become willing to share. In the innovation economy the emphasis has shifted from having knowledge to what one does with knowledge and in the case of the entrepreneur, it is thus important to place the emphasis on both knowledge and its application through innovation (*Business Week*, 2004).

9.5.2 Tools for creative thinking

Hundreds of structured creative-thinking tools and techniques are available for use by the entrepreneur. These may be used when the entrepreneur experiences a need for more creative thinking by individuals or groups anywhere in the innovation process. Some tools are available on a licensing or train-the-trainer basis, or through trained and accredited facilitators. The use of these necessitates some understanding, however, of the context in which creative thinking is required, the people involved, the complexity of the problem that has to be solved and tool-related factors that should be used to inform the choice of tools.

Some tools are highly structured while others are less structured, thus allowing more flexibility for the entrepreneur. Some started as highly structured but were abused and generalised over time, for example brainstorming. Entrepreneurs may benefit from developing an understanding of creative-thinking tools and their advantages as well as limitations. Mind mapping, creative problem solving, design thinking from Stanford university, Edward de Bono's Lateral Thinking and Six Thinking Hats, SCAMPER and Synectics are examples of tools that are readily available on the internet and YouTube for the entrepreneur to access. Biomimicry is a school of thought that advocates the use of examples from nature in solving problems. There are many other ways too to stimulate original thinking, including emotional, visual, intellectual and social stimulation.

9.5.3 Facilitation for creativity and innovation

Entrepreneurs who prefer to be part of the discussion rather than steering group conversations and participating may benefit from using a facilitator. Facilitators are used to generate the best possible result from a group and are responsible for the process, capturing of ideas, and allowing participants to focus solely on the content. Facilitators start by agreeing on the framework to be used and the engagement rules. Ideally facilitators are neutral to the issues being discussed and should focus on the process while not giving in to temptations to become involved in content or pick sides. The client or decision maker has to agree on the extent to which participants would be allowed to challenge or shape the innovation. This is typically done in the form of terms of reference to the facilitator who is often asked to record workshop notes for further processing after the session or to remain involved as the process owner (Weiss & Legrand, 2011).

9.6 SOUTH AFRICAN NATIONAL INNOVATION ECOSYSTEM

Section 9.3.1 identified innovation-related policy-level drivers in South Africa and emerging economies. To make these policies effective, a range of players is needed to make up what is often referred to as systems of innovation. Such systems may be found at national, regional, provincial, local, sector or special-interest levels and include ministries such as the DST and Department of Trade and Industry (DTI), universities, research councils, specialist advisory bodies like the National Advisory Council on Innovation (NACI) and the National Research Foundation (NRF), vocational training institutions, the private sector and the various processes through which these institutions interact and relate (Marcelle et al., 2015).

Entrepreneurs are encouraged to interact with these institutions to understand how they may be able to engage in the various portfolios of programmes that may provide entrepreneurial opportunities, resources, incentive schemes, tax rebates and support. Terms and conditions are important for the entrepreneur to understand because they may contain requirements that have implications for the entrepreneurs.

9.6.1 The business sector

The GEM Report of 2014 (GEM Report, 2014) claims that few government initiatives contribute to improving entrepreneurship and that most successful entrepreneur-support initiatives are supported by private companies such as Anglo-American's ZIMELE programme and South African Breweries KickStart initiative.

The range of entrepreneurial opportunities and support mechanisms is extensive and the entrepreneur is encouraged to select those appropriate for the firm by exploring the internet or working through people in the field. At the time of compiling this chapter a Google search on "entrepreneur support South Africa" revealed 589 000 hits, listing regional programmes, sector-specific programmes, celebrity-endorsed programmes, professional institutions, incubation centres and more than any one entrepreneur could digest in a reasonable time frame. A Google search on "innovation entrepreneur support South Africa" revealed 14 200 000 hits, which is an even greater number that includes science-, engineering- and technology-related support and innovation centres. A Google search on "innovation support South Africa" revealed 87 million hits listing consultants, multinational enterprises, intellectual property consultants and many others inviting people to share their ideas in exchange for support in multiple forms and with certain strings attached.

9.6.2 Pitching for stakeholder engagement or support

Section 9.3.1 alerted the innovator/entrepreneur to the vast range of policies, support entities and mechanisms of possible relevance to the entrepreneur. This section cautions against indiscriminate engagement of entities claiming to be there for the sole reason of providing support. The innovator/entrepreneur is encouraged to consider such engagements from a systemic synergistic perspective to ensure alignment in terms of complementary assets, motives or agendas, expertise, expectations and the sharing of risks and rewards.

Innovation stakeholders refer to institutions and individuals whose support or lack of support may influence the success of small business and may include idea sources, funders, partners and collaborators.

9.6.2.1 Pitching practice

Entrepreneurs may create or make use of opportunities to present their business case to stakeholders, such as investors or collaborators. Such opportunities usually allow presenters a few minutes to convey their message to one or more decision makers and there may be other entrepreneurs pitching for the same opportunity, which puts pressure on presenters to present their case well enough to win. Feedback from successful presenters, panel members and observers suggest that the following considerations may make the difference between success and failure:

9.6.2.2 Before the pitch

- The purpose of a pitch is to tell your story in an organised way that is understandable to the audience and to meet their criteria for making a positive decision. Knowing your audience and what they will be looking for is good.
- Planning for pitching is case-specific because each case and audience differs. Do your homework and practise.
- It is natural for presenters to be nervous – channel this energy towards your audience and message.
- Know what you want and select a process and get you there in the time allowed, which may be only a few minutes.
- Place yourself in the audience's position and list the questions they might have and have answers for these.
- Understand that presenting a pitch is like selling a story with a strong vision of what the future would look like if the audience bought into the idea. The story covers "why this, why us and why now?" (Warner, 2016) as will be discussed next.

9.6.2.3 During your pitch

- Explain what the idea or business does at a simple level.
- Explain the problem or pain it deals with in the market.
- Convey the features and benefits of your offering and why it is new or different.
- Describe what makes you qualified to alleviate the pain, which may include expertise, skills and infrastructure or other assets.
- Indicate that you know the market, such as its size and how it operates, and what credible share you can attain of it in a reasonable time frame.
- Indicate that competitors in the target market (direct and indirect) are well understood.
- Communicate the business model (Osterwalder, 2010), for making money. Include the intended price and margin if appropriate (sometimes requested separately).
- Demonstrate that your opportunity is a wise investment that offers a good return in light of the risks being taken.
- Describe how the total investment is made up and will be used.
- Should you be interrupted, listen to the question and make sure you address their issues.
- Suggest to the audience what you want them to do next, such as finding out more, going to a website, watching a video, contacting you etc.

The next section brings the previous sections together by emphasising leadership and management issues in innovation.

9.7.1 People innovate – leadership matters

Despite the technological advancements discussed before, innovation remains mostly a human activity that relies on human awareness, sense making and creative conduct in a given context. The effect of leadership practices on innovation performance has been studied and it is becoming increasingly clear from research findings that innovation requires leadership competencies that are not normally associated with operational management and hierarchical power structures (Hill, Brandeau, Truelove & Lineback, 2014).

Innovators/entrepreneurs who wish to establish firms that can sustain innovation over time have to understand their role as leaders. Innovation leaders need to focus on the willingness and the ability of the people to innovate. Willingness relates to a sense of community that the leader needs to establish through clarity of purpose, shared values and the rules of engagement. To enhance the ability of people to innovate, the leader needs to focus on the establishment of creative abrasion, creative agility and creative resolution skills (Hill et al., 2014).

Leadership competence can be linked to the innovation performance of firms. Kodak invented digital photography and filed for bankruptcy when they failed to make the new technology work for them. Apple became world leaders in computing technology, and again leadership competencies played a role. Small innovators/entrepreneurs need to understand that both examples are of multinational firms that once were established by small innovator/entrepreneur-type people who became leaders who had to make choices that affected the innovation performance that followed.

Leaders create the culture in organisations and an innovation culture may not be compatible with a control-driven culture. In some organisations it may be easier to replace the people than change the culture and to come up with a new innovation strategy than make the previous strategy work (Rosenfeld, Wilhelmi & Harrison, 2011).

Entrepreneurs as leaders can benefit from understanding the human principles underpinning sustainable innovation (Rosenfeld et al., 2011). These include that

- purpose, direction, intent is needed behaviour
- culture is the DNA of innovation
- trust is foundational
- colocation allows people communication space
- acknowledging pain and passion phases in innovation is necessary
- understanding that problems influence the quality of ideas generated
- comprehension and acceptance of the system used for processing ideas is needed
- understanding what people value as motivators
- diversity is needed for new thinking
- acceptance that innovation causes disruption.

9.7.2 Absorptive capacity and innovation funnels

Absorptive capacity is the ability of a firm to recognise the value of new, external information, assimilate it and apply it to commercial ends (Cohen & Levinthal, 1990). Absorptive capacity includes awareness and selective accommodation of multiple idea sources for innovation as well as open innovation as mentioned before. Absorptive capacity is a term for how organisations use external knowledge in their innovation process and relates to how organisations locate new knowledge to use in their creation of new innovative new product, service or process (Smith, 2010).

The processing of ideas requires a funnel-type approach for selecting ideas as indicated in Figure 9.6 and may coincide with the project-planning and product-development approach adopted by the entrepreneur. This may be a conventional product development approach as shown in Figure 9.7 or Stage-Gate and other processes (Smith, 2010).

Figure 9.6 Innovation funnel

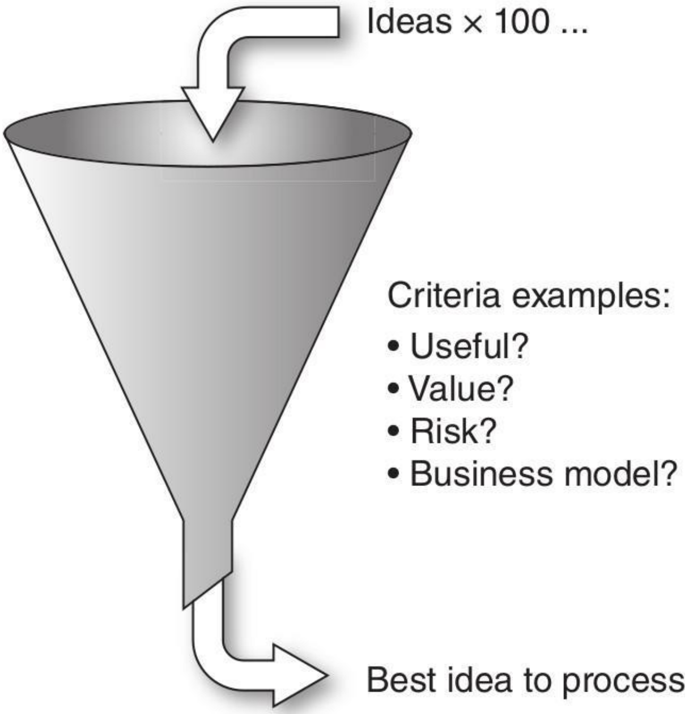
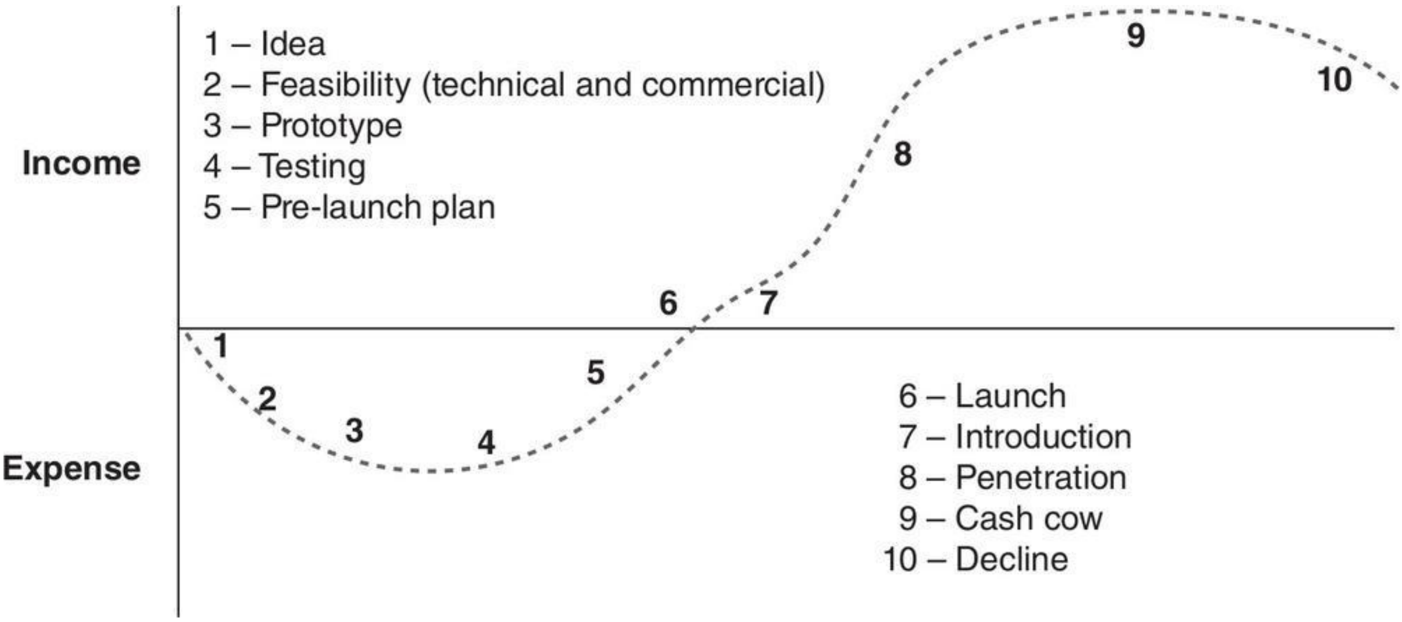


Figure 9.7 illustrates a conventional product-development approach that the entrepreneur could use to design a customised approach. It needs to be mentioned that modern-day models are significantly more sophisticated and may be embedded in enterprise architecture software or available from consulting firms specialising in the field.

Figure 9.7 A conventional product-development approach



9.7.3 Business models for value creation and value realisation

A business model is a tool for entrepreneurs to benefit from their inventions. It allows the entrepreneur to develop exploitation mechanisms to unlock opportunities and consider options where different configurations offer different yields for the entrepreneur's appetite even before a more comprehensive business plan is formulated (Smith, 2010). Osterwalder's business model canvas is a useful approach towards crafting a business model that answers nine questions on one page as indicated in Table 9.1.

Table 9.1 Business model canvas

<table>
<tr><th colspan="2">Infrastructure</th><th>Offering</th><th colspan="2">Market</th></tr>
<tr><td rowspan="2">Key partners
Who works with us to run this business model?</td><td>Key activities
Who does what to run this business model?</td><td rowspan="2">Value propositions
What value does our client receive from us (problems solved or needs satisfied)?</td><td>Customer relationships
What relationships do we pursue with our customers?</td><td rowspan="2">Customer segments
What describes our target customers groups or segments?</td></tr>
<tr><td>Key resources
What skills, equipment and other resources are used?</td><td>Channels
Which channels are used for delivering value to customers?</td></tr>
<tr><th colspan="5">Finance</th></tr>
<tr><td colspan="3">Cost structure
What expenses are required to run this business model?</td><td colspan="2">Revenue streams
What income sources are associated with this business model?</td></tr>
</table>

Source: Adapted from Osterwalder & Pigneur (2010)

9.7.4 Innovation management frameworks and audits

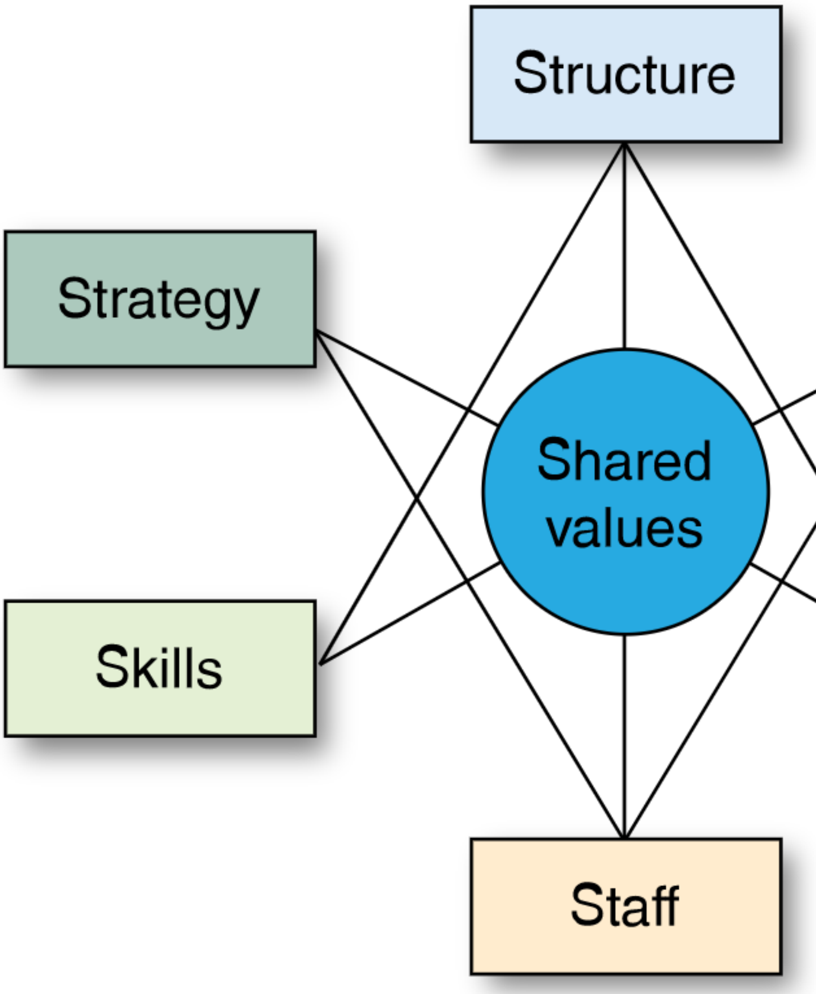
Several studies show that management accepts the significance of innovation and that management has to play a leading role in making it happen. Most managers, however, are not sure what they should do differently to achieve better innovation performance.

Management of innovation comprises well-established functions relating to planning, organising, initiating and monitoring innovation, and includes the sections that follow. Strategy and resourcing are critical in the management function because of the risks and uncertainties involved that may be devastating for entrepreneurs if not addressed by management. Innovation sometimes happens by chance and the intention of this chapter is not to make serendipity unpopular. There are many well-documented examples of ideas that changed the world. Most innovation however, is of an incremental nature and can be accomplished through planning, organising, leading and control. These four functions of management can and should be conducted in a manner that directs and unleashes the creative potential of people towards areas of strategic significance to the organisation.

Innovation management frameworks range from very basic to very sophisticated and successful innovators tend to be those who have customised frameworks and idea management infrastructures for their particular situations.

For the small emerging firm a more generic management framework may help the entrepreneur to focus innovation energy and resources on those areas that are particularly relevant for the future success and sustainability of the firm. As one of the generic frameworks freely available, the McKinsey 7S (Bryan, 2008) is a heuristic model that enables entrepreneurs to manage innovation, enhance alignment between participants and develop a comprehensive, coherent and integrated innovation effort for further refinement based on learning from their successes and failures across the perspectives shown in Figure 9.8.

Figure 9.8 McKinsey 7S model



Source: Adapted from Bryan (2008)

- **Strategy** conveys a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market through innovation.
- **Structure** represents the way in which people, their responsibilities and units are organised in support of the strategy.
- **Systems** are the processes and procedures of how things are done and the decisions made for innovation.
- **Style** is the way the firm is managed and the management style used to achieve innovation.
- **Staff** describes the type and number of employees the firm will need and how they will be recruited, trained, motivated and rewarded.
- **Skills** are the abilities, capabilities and competencies of the firm or innovation team.
- **Shared values** form the core of the McKinsey 7S model and include the norms and standards that guide employee behaviour and company actions. This is particularly important for creativity and innovation that may be in conflict with established routines.

Studies confirm that all elements must be given equal importance and integrated to achieve the best results. Continuous review of all elements is important as well as understanding that changes in one area may affect all the other areas.

An innovation audit is the application of a framework to determine the state of innovation in the firm for the context in which it operates and typically assists the entrepreneur to identify: areas that are not aligned; areas in need of intervention; as well as good practices that may differentiate the firm from competing entities. The format of selected audit tools may differ but the essence is that the entrepreneur has to be able to use it to make a wide-ranging review of the factors affecting innovation success and failure and how management of innovation might be improved (Tidd & Bessant, 2013). Benefits of an innovation audit may include (Mobbs, 2011) the following:

- Enhancement of innovation capabilities at individual and collective levels
- Establishment of innovation-performance baselines across the firm to determine what you did right and wrong, or as a way of understanding why things happened the way they did
- Monitoring of innovation progress over time
- Being able to relate specific interventions to innovation outcomes
- Learning from successes and failures to focus on improvement in innovation management
- Benchmarking baselines to compare units and projects both internally and externally
- Being able to compile checklists to see if you are doing things right as well as focus on other areas
- Establishment of a learning resource to help acquire knowledge and reasons to try new things
- Identification of innovation hurdles and control of barriers that may stifle creativity and innovation
- Alignment across the organisation in terms of common purpose and action

Creativity and innovation, by their very nature, tend to break routine and established practices, which is why the entrepreneur has to be very cautious not to stifle but rather guide and nurture creativity and innovation for strategic advantage.

Snakes and ladders games remain popular and even appear as apps and on other digital media. This may be a good analogy and metaphor for innovation management. Despite having plans and capable people there may be successes and failures along the road. Success and failure traps may be the innovation equivalents of snakes and ladders. A good idea well executed may take the entrepreneur up the ladder and leave everyone involved with a sense of achievement and fulfilment. Unfortunately this may soon become the performance model and people get stuck in practices that no longer yield successful results because the landscape has changed. Similarly the snakes or failures may destroy morale and dreams if not well managed to serve as learning platforms for new insights and improve innovation performance.

9.8 CONCLUSION

From discussions and sources cited in this chapter, it should be clear that there are indeed factors that support entrepreneurs in, or constrain them from, starting and maintaining businesses. It should also be clear that creativity and innovation in entrepreneurship continue to be critical factors for differentiating a sustainable business that brings multiple rewards to the entrepreneur and society. There are programmes being put into place by policy makers and institutions that aim to improve the entrepreneurial performance of South Africa and other developing economies. It should also be clear from this chapter that creativity and innovation remain key for a better future and that innovation starts with how the entrepreneur thinks and that this way of thinking is a personal choice. This chapter cannot decide on behalf of entrepreneurs but may enhance their ability to succeed in harnessing creativity and innovation for business success.

REVIEW QUESTIONS

9.1 Explain why creativity and innovation should be promoted for entrepreneurial success in emerging economies like South Africa.

9.2 Explain the concept of "innovation context" and its influence on the competitiveness of entrepreneurial enterprises in emerging economies.

9.3 Identify myths and misconceptions about creativity and innovation, and their negative implications for entrepreneurs.

9.4 If a business is seen as a competitive value-linked system, describe typical areas where the entrepreneur can use innovation to create and sustain value.

9.5 Describe the relationship between ambidextrous entrepreneurship and the two cycles of efficiency (operations) and disruption (innovation).

9.6 Indicate the need for particular thinking styles in an entrepreneurial venture.

9.7 Explain why creativity and innovation tools are required and recommend when to use these tools.

9.8 Describe an innovation ecosystem and identify the players by indicating their contributions to the system, capabilities, resources and infrastructure elements.

9.9 Identify the human principles that underpin sustainable innovation.

9.10 Describe the elements required for effective innovation management.

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10

Ethics, governance and sustainability

S.G. Mazibuko

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- demonstrate an understanding of the importance of ethics in business
- evaluate the governance structures of a business
- conduct a stakeholder analysis
- discuss legislation that relates to ethical conduct in business
- discuss the measures for business sustainability
- explain measures to encourage ethical behaviour
- critically evaluate the third King Report
- differentiate between the King III and the King IV reports
- discuss world trade organisations
- define the concept of Intellectual property rights.

KEY TERMS

- Ethics
- Ubuntu
- Sustainability
- Stakeholder
- Corporate governance

10.1 INTRODUCTION

In emerging economies small and medium enterprises (SMEs) are faced with situations that could mean they completely close shop if they do not adhere to principles of ethical conduct, good business governance and sustainability. Conducting business is no longer an issue that concerns the owner/s alone. Business conduct has become the concern of everyone, including the workforce, authorities and communities. In South Africa, for example, everybody, including business, is governed by the country's constitution. So, in considering the issues of ethics, governance and sustainability including environmental sustainability, the constitution is fundamental. This raises a lot of issues to be considered in business management. How do we ensure we conduct business to the most acceptable standards and therefore ensure that the business will still be there tomorrow? Particularly in emerging economies, and with regard to the small and medium enterprises (SMEs), this question becomes fundamental.

While we pursue the issues in this chapter, it is also essential that we keep in mind that our subject is about small and medium enterprises in emerging economies. To this effect, the reader has to follow the arguments with the mind of an SME where, in many cases, the owners may not necessarily be able to comply with many forms of legislation for a number of reasons, such as limited funding and limited business training. Furthermore, in other instances there is simply no training at all. These enterprises serve as the only sources of livelihood for the owners who might not wish to work for someone else. Many such enterprises will be found in the informal economic sector while a few will operate in the formal economic sector. However, in spite of wherever the business is, the issues of ethical conduct, good governance and business sustainability can never be overemphasised. Otherwise, even at the most basic level, the family could be left in difficult situations.

In this chapter, we look at the interrelationship between ethics, good corporate governance and sustainability. We link these concepts to the concept of Ubuntu, an old African philosophy that governs relations between people and their environments. It demands that human beings interact with each other and their environments in respectful ways. In so doing, we manage ourselves, business and the environment better and ensure sustainability of our activities and the very natural environment on which those activities depend.

10.2 ETHICS IN BUSINESS

The idea of a socially-responsible company or one that is motivated to behave morally or ethically arose following public outrage over various business scandals. Scandals led to increased regulatory scrutiny which led to companies developing their own business ethics policies (Fountain, 2012).

The pursuit of profits and economic progress is not a license to ignore community norms, values, and standards of respect, integrity, and quality (US Department of Commerce, 2004).

Today it is almost impossible to talk about business governance and ethics (set of moral principles determining the wrong and the right) without referring to the King reports. These are the reports by Judge Mervyn King on corporate governance for South Africa. The reports have become the fundamental documents by which to conduct ethical business in South Africa, taking into consideration the ecological, political and social conditions in the country. The King III Report is ground-breaking because it deviates from the business tradition in that business is only to make profit. The King III compels business to factor in other issues to ensure sustainability. On the other hand, the King IV places emphasis on stakeholder considerations and it is more outcomes based. Among other things, it calls for fairness, transparency and accountability as principles of good corporate citizenship. This reminds businesses that they do not operate in a vacuum, but that they are part of the greater society.

The question is what constitutes an ethical issue? It is not possible to provide a definitive answer to this question because ethics relates to normative conduct. People in different contexts have different views on what is “ethical”. Take for example the concept of Ubuntu. How we treat other human beings (in business, politics, social and culturally in life) and how we relate with our natural environment are issues very pertinent to Ubuntu. In the process of running a business and earning profits, it is always crucial to understand that we should treat everyone and everything with respect. The business depends on people and the natural environment for its own sustainability. In a business sense, the following could constitute ethical factors:

10.2.1 Environmental pollution

The manner in which businesses treat the natural environment has consequences for development and humanity. Business is guilty of environmental degradation on a number of fronts including dumping, producing chemicals that affect the environment negatively as well as noise. All these pollute (make dirty) the environment. In the context of Ubuntu, we should respect and treat the environment with a view to preserving it for the next generations. Ubuntu dictates that the land also belonged to those that went before us and will belong to those that are still to come after us. We should therefore use the natural environment with sustainability in mind.

10.2.2 Conflict of interest

This relates to situations that have the potential to lead to ethical breach, whereby individual interests appear to conflict with those of the entity that a person represents. An example would be when individuals use their official position for personal benefit. Everywhere human beings interact, there are issues that affect them in different ways. In business, it is important to avoid these as they could affect the business and make it difficult to manage. Conflicts of interests, therefore, have an impact on the governance and sustainability of the business. This is due to ethical concerns. Ubuntu demands that in situations of conflict of interest, the individuals concerned declare their interests. Today business requires of all its employees to sign declarations of interest. If an individual or individuals are found to have compromised an organisation, they can never declare ignorance and must explain their actions. It is therefore an element of Ubuntu to do the right thing without having to be pushed from behind.

10.2.3 Quality control

The service (and product) the business offers must comply with the standards for which it is designed. It is unethical to sell people a substandard product. Such behaviour is not only punishable by law but it has negative effect on the sustainability of the enterprise. This is because neither a business's customers nor its stakeholders would wish to be associated with such business. An enterprise that produces something that does not meet with set quality standards also has an effect on the environment from which it extracts its resources. It is only right to ensure good quality service/product to clients and everyone else. To this end, enterprises should spend a lot of money should ensure good quality, and compromising one's standards could cost the business dearly.

10.2.4 Discrimination in hiring and promotion

It is important for the enterprise to be seen to be applying ethical behaviour in terms of the manner it chooses its staff, including with regard to promotions. There needs to be transparency; for example, having clear procedures when advertising jobs, placing these adverts in all publicly accessible media, short-listing candidates and having fair interviewing processes and procedures. In short, it is important to afford everyone equal opportunities to be employed or promoted. Discrimination on the basis of colour, gender, religion or otherwise is simply unfair and it is bad business. All these must be conducted in accordance with the just laws of the land.

10.2.5 Misuse of company information and assets

It happens that employees use information and company assets (e.g. secrets, cars, computers) they obtain from the company either to blackmail it in one way or another, or to use the information and assets to benefit themselves. Many companies have made it compulsory for their employees to sign contracts (or include a clause in the employment contract) on these particular issues. It is unethical for an individual to steal company assets and information for their own private interests.

We have said that ethics relates to normative behaviour. This makes it difficult to define, thus many employees "get away with murder". To educate their staff members, the enterprise should ensure training sessions for everyone to instil the required values and principles. Continuing to deliver a defective service or product is simply unethical and it will cost the company dearly at some stage. In this regard, the following are seen as principles of Ubuntu and are therefore ethical:

- **Honesty:** it is important that everyone in the company remains honest in their dealings with stakeholders. If mistakes are detected with the service or product at some stage, those that the company does business with deserve to be informed accordingly. Similarly, if the stakeholders point out some defect in the service or product, the company must ensure the defects are addressed without delay.
- **Openness/transparency:** rumours can be dangerous to a reputation. The best way to avoid rumours is to be transparent with regard to business activities. It is reassuring to everyone in the company when things are done in an open way, and management allows people space to express themselves though this requires skill to manage because that same space can be easily abused by both parties.
- **Responsiveness:** what happens when employees and/or probably other stakeholders complain and nobody listens? In the end, they all realise their business is not valued – employees leave and stakeholders stop doing business with the company. Then the business might fail to honour its commitments with others. This could risk the company's future.
- **Accountability:** in situations where people are accountable to no one, especially management, everyone is likely to behave in their own way. It is therefore critical that the lines of reporting are clearly explained and understood by everyone in the company.
- **Due diligence:** This principle means that due care is taken in order to complete a task, so that those involved remain safe. This principle simply means that the right person does the right job at the right time and right place.

- **Fairness:** if all these principles can be honoured, then there is fairness and everyone will be satisfied and happy. If we cannot keep our business stakeholders satisfied and happy, then we should not be in business.

In this regard, companies are obliged to conduct business in ethical ways – by being prescriptive on what constitutes a moral act under specific circumstances. Companies can achieve this by (Rossouw, 2002: 414)

- determining stakeholder perceptions and expectations of the business
- codifying ethical standards
- monitoring ethical performance
- communicating and training on ethics
- rewarding ethical behaviour
- reporting behaviour affecting ethics – positively or negatively
- auditing ethical performance.

Taken in totality, business ethics extends beyond employer-employee relations to include extended relations with the customers, shareholders and the community. This is also the emphasis of the King IV Report. Business ethics will then mean those practices and behaviours that reflect societal acceptance. We say societal acceptance because the issues that society considers as moral are ever changing. Consider, for example, the fact that at some stage certain sexual orientations were scorned by society and similarly by business. Today society accepts these matters as a given and discrimination has reduced in comparison to how it was a few years ago. At a social level then, business ethics means behaviour that is regarded as normal by the larger society. It is a situation of always showing Ubuntu in all our dealings. These norms emanate from many sectors:

- **Family:** before people are business owners or employees, they are family members. Their education begins from their childhoods and backgrounds. They are taught certain moral values to live by. These values get transferred to workplaces as individuals from various backgrounds come together. Business leaders must know how to deal with such diversity and use it as a strength rather than something to be avoided.
- **Friends:** besides families, people grow with friends or find them along the way. Through such interactions, new ideas are learnt. These are also brought into the workplace.
- **Professions:** a company employs people from different professions who have been taught differently in accordance with the principles and values of their professions. At company level, they all have to pursue one goal that has been determined by one company with its own norms, values and standards.
- **Geographic location:** in a company, people come from different parts of the country or even the world. They bring with them moral values as determined by their own communities. Again, they have to adjust and adapt to a new environment that may have values different from theirs. But if the company is to survive, its ethical values must triumph.

The important question, then, becomes how we make ethical behaviour possible. One cannot determine the extent to which any particular action will succeed, but the following actions are critical:

- **Senior management:** it should be the duty of senior managers to ensure that the company complies with set ethical standards. Management itself should be seen to be living those ethical standards because any disjuncture has the potential to raise suspicions among other stakeholders, especially the workforce.
- **Ethics training:** there is nothing that binds people to specific ways of conduct. However, if everybody involved is made to account for their actions, then ethical behaviour has a chance to succeed. It also helps to arrange ethical training for all involved.
- **Self-analysis:** a firm/company should be able to institute mechanisms through which everybody can assess themselves. If there are agreed standards of conduct, it should not be difficult for individuals to see when their own actions become contradictory to the set norms and values.

We may also add that to ensure ethical conduct, incentives may go a long way to make corporate ethical conduct possible. Such incentives could be built into a performance appraisal. Individuals who prove to be ethical in the majority of cases are incentivised through a number of mechanisms, such as promotions, pay rises, certificates of merit, or even a simple letter of thanks.

Equally important is to understand why people tend to act unethically even though the consequences could be severe. Unethical behaviour could be informed by factors such as

- pressure to meet goals
- ignorance of the company code of conduct
- job dissatisfaction
- low financial rewards.

Companies can assist employees avoid unethical behaviour in the following ways:

- Cultivating a culture of integrity
- Ensuring a fair and equitable incentive system
- Making opportunities available to all without discrimination
- Allowing individuals to make their own choices where necessary
- Allowing individuals the opportunity for continual improvement and life-long learning
- Giving individuals the freedom to raise concerns without fear of retribution
- Emphasising exemplary leadership in the company

10.3 CORPORATE GOVERNANCE

The South African Companies Act 71 of 2008 governs the functioning of business in South Africa. It prescribes matters of registration, compliance and intellectual property. This Act also requires businesses to follow specific principles, such as transparency and accountability.

The King III and IV reports have also come to constitute the fundamental documents for business governance especially in South Africa. They provide good guide for anyone involved in or wishing to start a business.

The first King Report appeared in 1994 and the second in 2002. The third report came out in 2009 and the fourth in 2017. The reports are on corporate governance. Rossouw (2002: 406) explains the rise of corporate governance as a result of what he calls “agency problems, investor activism and the desire to attract foreign investors and gain legitimacy”. He then defines corporate governance as the internal and external measures with which a company is regulated. This function is vested with the boards of directors and entails 1) strategic direction; 2) executive action; 3) supervision; and 4) accountability. Corporate governance is guided by the principles of 1) fairness; 2) accountability; 3) responsibility; and 4) transparency. Corporate governance relates to the manner in which a business is run. It includes the principles, policies, procedures and responsibilities of management in ensuring that the business is conducted in effective, efficient and accountable ways. Such governance contributes to the sustainability of the business. Corporate governance is therefore aimed at ensuring that conflicts of interests are minimised and that the assets of the business are used properly and productively.

Business governance also means that the rights and responsibilities of directors, managers and shareholders are clearly defined in a transparent, fair and equitable manner. These factors affect business differently depending on the nature of the business, be they sole proprietorships, partnerships or corporates. While business/corporate governance entails the effective running and profitability of the business, environmental (e.g. pollution prevention) and social (e.g. human rights) issues constitute important factors without which the business risks failure. In summary, corporate governance should guard against: incomplete and misleading financial statements (accounting measures); misuse of business assets by managers and directors (asset risk); and over-committing the business in such a way that long-term interests are negatively affected (strategic risk).

The third King Report requires that companies take into account their social responsibilities where they operate in terms of

- black economic empowerment (BEE)
- health and HIV/AIDS
- human development.

Poor business governance could expose the company to litigation. This causes bad publicity, financial costs and moral demotivation among staff. In South Africa companies spend a lot of time and money defending the actions of their managers at courts such as the CCMA and paying lawyers to defend them. Managers then have to spend even more time testifying in court. In the majority of cases, these actions result from unethical business conduct.

Governance also extends beyond the corporate to include civil society and the labour movement. Labour movements or trade unions are an integral part of doing business in almost every country. Labour is further protected at the global level through the International Labour Organization (ILO) which is an agency of the United Nations. This means that labour rights are an international phenomenon and business must respect these.

Corporate governance further depends on the nature and size of the enterprise. While the principles remain the same, there are variations, for example, between a sole trader and a public company with limited liability. Corporate governance is a principled exercise on the part of management. It is to be observed that successful businesses are guided by certain principles in their governance. These include:

- **Role of board and management:** the board is elected by shareholders in a properly constituted meeting of shareholders. The role of the board is to ensure that the interests (profits) of shareholders are realised. To achieve this objective, the board must ensure that the concerns of all stakeholders (employees, customers, suppliers, local communities) are taken seriously. The board also: appoints the CEO; determines the CEO's salary; ensures succession planning; helps the CEO determine the salaries of senior management; reviews and monitors financial and business strategies; and keeps in place processes to maintain the integrity of the company.
- **Qualifications:** the appointed directors must have the highest personal and professional integrity, ethics and values. They should commit to the long-term interest of the owners/shareholders. Directors must not have direct or indirect interests in the business, i.e. directors must be independent individuals.
- **Size:** the composition of the board must be such that it reflects population diversity in terms of gender and race, for example. But diversity in terms of views could also add vigour to the company performance, if handled properly.
- **Policies/articles:** corporate governance covers all the aspects of ensuring that policies are developed, applied and executed in the most appropriate manner. Such policies will, for example, be on compensation, leave, meetings and appraisals.
- **Ethical culture:** specific values such as trust, integrity and honesty play an important role in business. These values must be cultivated among all involved in the business, regardless of level.
- **Transparency:** transparency is related to accountability. The business must be open to constructive engagement with shareholders and provide full disclosures on all matters, especially on financial reporting.
- **Equity and fairness:** it is important that everyone feels they are being treated fairly. The handling of matters of remuneration and promotions, for example, if not properly conducted, could lead to dissatisfaction, mistrust and resentment.

10.4 SUSTAINABILITY

We have said so much about Ubuntu, ethical behaviour and corporate governance because these are essential for the continued survival of the enterprise and therefore its sustainability. What makes a business live for a hundred years and still remain profitable? The question we are asking therefore is: what sustains a business?

The concept of (environmental) sustainability is traceable from the Brundtland Commission of 1980 under the leadership of the former Prime Minister of Norway, Mrs Gro Harlem Brundtland. In 1987 she published a book called *Our common future* on sustainable development. The book and the work of the commission have become known for the definition they gave to sustainable development – "… development that meets the needs of the present without compromising the ability of future generations to meet their own needs". It was the first international commission to address environmental issues to the extent it did. This commission found that big business was also responsible for much environmental degradation. The cutting down of rain forests, in particular, was identified as having a huge impact on global warming. Since then, businesses have been trying to find ways and means to reduce their footprints on the environment and also stay alive. The commission's findings on climate change have since been translated into all spheres of activity, including business, politics, economy and society.

The World Economic Forum (WEF, 2014) argues that incorporating sustainability will ensure the business reduces risks and capitalises on communities, consumers and employees they do business with. Every business should be concerned with the environmental issues in its supply chain. Furthermore, incorporation of the human rights culture should also be core to business practices if business is to benefit its shareholders. Ensuring issues such as fairness, equity and meaningful participation of women in the business should improve the workforce's profitability and growth. A business venture that ignores these factors runs the risk of confrontation with the labour force and local communities. Business sustainability can therefore be referred to as considerations for all the economic, social, political and environmental factors within which the enterprise operates in pursuit of its vision and mission.

To be sustainable, all enterprises, big and small, should be rooted in specific principles, such as the following:

- **Focused leadership with clear direction:** business requires that those entrusted with responsibility execute their duties in focused ways and remain able to provide direction especially under challenging circumstances.
- **Sustained and continuous improvement of strategies:** what worked yesterday will not necessarily work today. This means that the business requires constant evaluation of the manner in which it does business. The *strengths* and *weaknesses* of the business should be assessed constantly. Similarly, new *opportunities* and *threats* appear all the time and the business must be able to address these correctly if it is to survive at all. Thus many businesses still apply the methodology of SWOT to assess their activities.
- **Exploring and grooming capacity in people:** without capable staff, a business will die. It makes sense to employ and constantly train key personnel in particular, but the bottom line is that everyone should receive training on all aspects of their duties. Training must basically be seen as an investment in the business. Small businesses especially stand to benefit from various business workshops and seminars that take place in the vicinity from time to time.
- **Maintaining sustainable values:** we have said so much already with regard to sustainability and values. Correct and relevant values that speak to the customers are a solid ground on which to base a business. Customer loyalty, for example, is highly dependent on the values that a business displays.
- **Conducting business in an ethical way to ensure acceptable standards:** ethical conduct is supreme. It shows the business has respect for all. Because of its ethics, it becomes trusted, reliable and a life-long partner for many.

Sustainability cannot be separated from ethics and governance. These factors are all encompassing. They ensure quality services and products, and create a conducive business environment. Furthermore they ensure the enterprise delivers on its mandate and that it is able to deal with difficult situations without deviating from its core principles. They can be regarded as instruments to achieve Ubuntu in the world of business.

10.5 STAKEHOLDER ENGAGEMENT

The success of every business is dependent on the extent to which it relates to those with whom it has dealings. This is a two-way situation: firstly, it is those that *depend on the business* for their own existence and survival, and secondly it is those that *the business depends on* for its own existence and survival. This is a fundamental relationship and it must inform the existence strategy of the business. The strategy is about why, when and how the company responds to the needs and concerns of the other stakeholders. A company's actions, for example, affect those who use its products and/or services, and similarly the actions of those who use those services and/or products affect the company. Stakeholder engagement is therefore the mutual exercise of a company to keep those with whom it does business satisfied with its own activities.

To ensure healthy stakeholder engagement, a company has to have clear internal management policies that govern management of external relations. The policy lays down protocol in terms of communication channels. Such a policy should include the following aspects:

- It must be very clear that there is only one person who liaises with the media. Every company must be concerned with its own image to outsiders. Bad publicity is bad business. The information that goes out to the stakeholders must always be credible and the company must have the mechanisms to counter information that has the potential to damage company image.
- Critical changes within the company must be reported to the stakeholders. This will include information on new promotions, additions to senior staff, resignations and replacements as well as new acquisitions. Outsiders need to know who they deal with in a company and they are concerned with the manner in which their partners do business.
- Levels of communication must be relevant. This will include specifying who responds to an enquiry by a director from the other company stakeholder. It is disrespectful to assign a junior staff member to meet with a director of another company, for example.

What we have indicated here has huge implications for the sustainability of a business. In a situation where the business shows poor governance and poor ethical conduct in its relations with others, sustainability gets affected. We indicated at the beginning of this section that a business depends on others and that there are others that depend on it in return. A business should not allow its image to be affected by having to do business with unethical partners. If a firm ill-treats its workers and these in turn go on work stoppages frequently, suppliers and customers lose confidence in it and they look elsewhere.

10.5.1 Cross-border stakeholder management

Although we may wish to treat this as a separate aspect, it is not. Here we refer to stakeholders in other countries. Many businesses also have customers and suppliers in other countries. What happens if there is suddenly political instability in our country? How do we get our trade partners in other countries to trade with us? In situations of political instability, business also becomes a casualty. There are many examples of countries in emerging economies that are today characterised by economic upheavals. There is unemployment and poverty because business has left.

But it is not only political instability that is bad news for business. In instances where authorities have no sense of ethical conduct, where corporate governance is unpredictable, stakeholders get shaky knees and business sustainability suffers. How do you do business, for example, in a situation where every official asks for a bribe for everything you do or ask for, even if it is a legal and normal business activity? How do you pay tax when you have been taxed illegally at every turn?

These kinds of issues may be very difficult to manage. It is nonetheless the responsibility of the company to have a clear stakeholder management policy to guide it in such situations. There is, therefore, a clear need for the business to have a strategic policy on how to deal with public officials even across the borders of one's national territory.

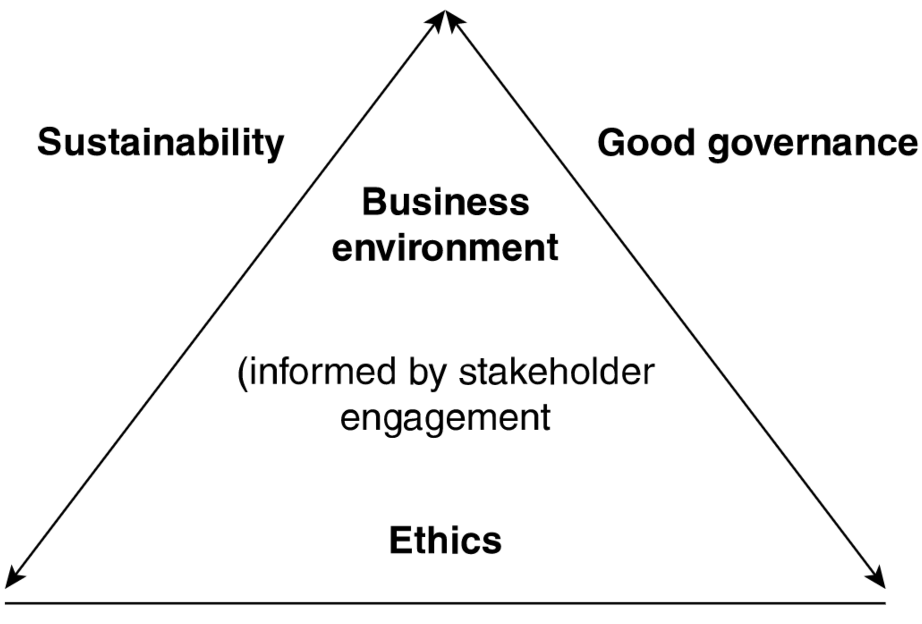
Problems are not only with public officials. In some countries business is also guilty of unethical behaviour. Above we referred to the activities of the ILO. It happens frequently that you discover your suppliers somewhere have no respect for human rights and the working conditions of their labour force are abhorrent, such as child labour. It requires ethical consideration also on your part to decide if you continue doing business with such partners or you look elsewhere.

10.6 CONFLICTING INTERESTS

The link between ethics, governance and sustainability should be seen as the pillars of any business enterprise. Missing any one of them could spell the end of the business. Ethical conduct is so imperative that other business entities may find it difficult to conduct business with a partner who behaves unethically. South Africa has a very good example of such a case with the Indian Gupta family that came to invest in the country. The events led to major banks and some auditing firms cancelling business deals with all the companies owned by the Gupta family (City Press, 10 April 2016). None wished to be seen as an accomplice in the matter.

The Gupta case is an important ethical matter in the world of business. It did not require any court intervention to judge whether their conduct was indeed unethical or if they had ever influenced government in any specific way. Business took a decision on its own to protect its own integrity. This case has practically proven the link between good governance, corporate citizenship, sustainability and ethical behaviour. This relationship can be better represented as in Figure 10.1.

Figure 10.1 The relationship between ethics, good governance and sustainability



We are arguing here that sustainability, good governance and ethics constitute the pillars for the business environment. The fall of any one pillar has a direct impact on the business environment, including on specific entities. The Gupta case comes into play again. Due to their unethical conduct, they found themselves in a situation where it affected their business environment negatively, and doing business in South Africa became unsustainable for them.

10.7 INTELLECTUAL PROPERTY RIGHTS

We have just indicated above that the World Trade Organization (WTO), among its other duties, ensures that countries adhere to the intellectual property rights principle. It is important that we understand what intellectual property (rights) entails.

Intellectual property refers to principles or policies (even rules) that govern the use of other people's ideas and insignia. These rights are contained in the Universal Declaration of Human Rights, Article 27 and they date back to the 1883 Paris Convention for the Protection of Industrial Property and the 1886 Berne Convention for the Protection of Literary and Artistic Works (WIPO, 2004). These can be divided into

- copyright, which protect original forms of expression as in books, music, movies and computer software programs
- patent rights, which protect new inventions or discoveries
- trademarks, which protect words and symbols associated with business entities
- trade secrets on commercial information.

Intellectual property rights are important in various ways including

- enabling individuals to benefit from their inventions
- encouraging individuals to further their innovations and creativity as well as economies to grow, creating new jobs and improving quality of life.

ACTIVITY

Refer to the WIPO website: http://www.wipo.int and write brief notes on the following intellectual property rights:

- Mission of the WIPO
- Definition of intellectual property
- Copyrights
- Trademarks

10.8 CONCLUSION

It is important to understand that the issues we address are in other instances dependent on the size of the organisation. In situations such as in emerging economies where many enterprises are small family businesses, management is completely different from that of a multinational company. But also, it is in these businesses that cultural expressions such as Ubuntu are found in abundance. It is also here that most aspects of legislation simply do not exist. It is not that they refuse to comply, but that it is simply impractical to do so due to a number of factors.

Although the issues we address here may appear to be applicable only to big business, we are confident that they are indeed pertinent to small and medium enterprises. Be it a small informal family business or a medium formal business, ethics, governance and sustainability are issues that can make a difference between success and failure. This is because it is too easy for everyone to notice when things are not done procedurally in a small business. Poor governance and lack of protocol, among other things, are quick to come to the fore when management displays poor values and lacks principles.

In emerging economies, the issues of ethical conduct, good governance and sustainability for the SMEs cannot be overemphasised. It is these entities that provide much needed job opportunities for the many unemployed. SMEs therefore have a critical role to play in these situations.

REVIEW QUESTIONS

10.1 Using relevant examples, write brief notes on the following aspects with regard to the King Report III:

10.1.1 The link between governance principles and law

10.1.2 The relationship between good governance, sustainability and corporate citizenship

10.1.3 The impact of ethics on corporate citizenship

10.1.4 The major aspects of a stakeholder engagement policy

10.2 Discuss the ILO's position with regard to child labour.

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SECTION B

Enterprise functions

11

Small-business marketing

L. van Scheers

LEARNING OUTCOMES

After you have studied this chapter you will be able to

- define the concepts “marketing” and “sales”
- define the marketing environment of the South African small-business sector
- understand factors that influence consumers when making purchase decisions
- describe factors that influence consumers in making a purchase, and relate it to effective marketing-strategy formation
- identify and describe the SWOT analysis
- provide detailed information referring to the marketing mix, its effective deployment, and impact on how to utilise the steps involved in marketing planning
- understand the importance of the marketing plan
- identify the components of the marketing plan.

KEY TERMS

- Marketing environment
- Marketing
- Sales
- SWOT analysis
- Marketing plan
- Marketing mix

11.1 INTRODUCTION

Marketing and sales are essential components of a small business’s survival efforts in the market. Marketing involves creating a product with the needs of customers in mind, then offering it with a competitive price to the consumer. Sales are the activities that sell that product to the customer. Marketing and sales functions are therefore both needed for successfully selling products to customers. Sales form part of the total marketing effort of a small business. Effective marketing is one of the most demanding challenges for small businesses, not only because of a lack of marketing knowledge but also because of limited budgets. Marketing includes sales, advertising, promotional activities, pricing and packaging. According to Van Scheers (2011), small businesses are imperative to economies and they need to offer their products or services in a way that make them more attractive than their competitors to be able to survive. They need to satisfy customers’ needs by the selling of a specific product or the rendering of a specific service. They should also continuously research the marketing environment to look for attractive marketing opportunities. The purpose of marketing efforts is to establish customers’ needs and combine the capabilities of the small business to fulfil these needs effectively to enable it to make a profit. The narrow concept of marketing is “selling and advertising”, while more broadly stated it is the “creation and delivery of a standard of living”.

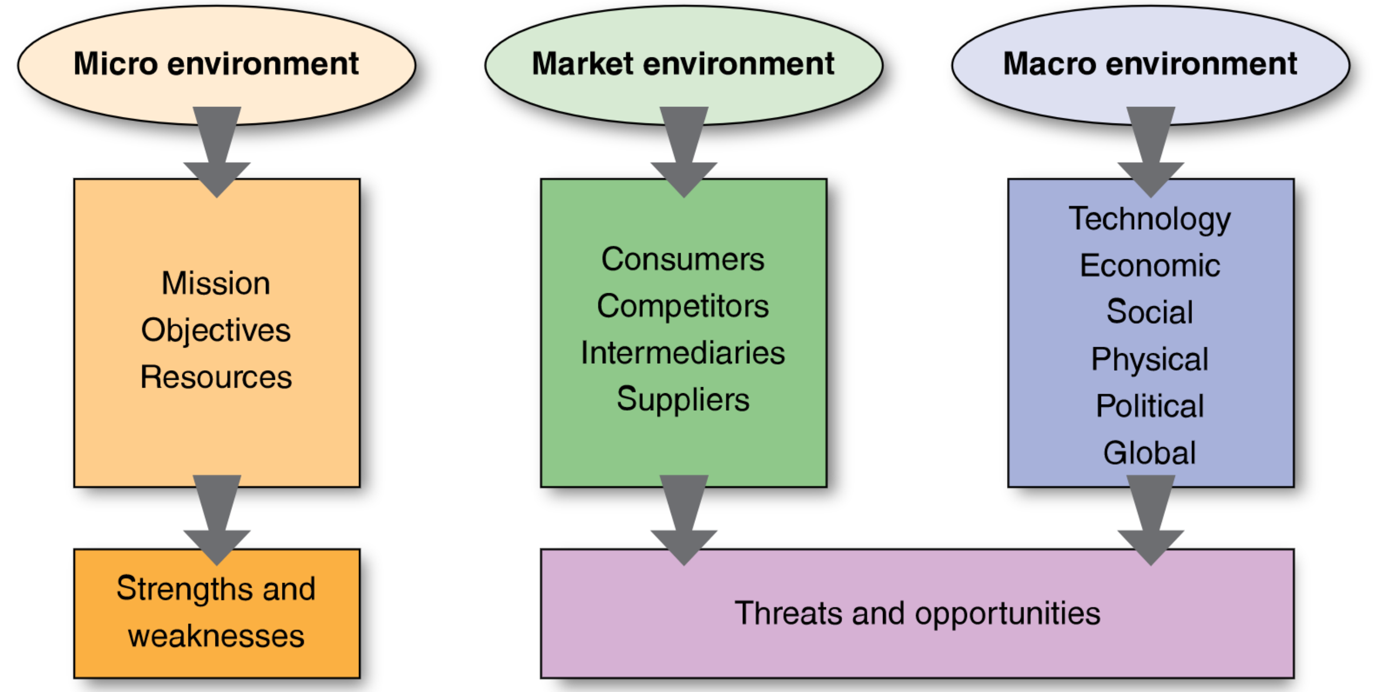
Small-business owners need to decide about a specific product or service; how it will be distributed; the best marketing communications and the amount they will charge to make a profit. Bowler, Dawood and Page (2007) mention that these four factors, namely: product or service; distribution; marketing communication; and price, are known as marketing-mix elements. Small-business owners, as Dockel and Ligthelm (2012) observe, also have to decide who to offer the product to in the market as it may only appeal to a certain type of consumer, for example, a particular age group, gender or people earning a specific level of income. Therefore they have to decide which group of customers will form their target market. This means that they have to divide the market into separate groups according to age, income, gender and geographic area; this is called market segmentation.

In this chapter the marketing efforts of a small business will be outlined. The South African small-business marketing environment with its micro and market environments; the marketing concept; the marketing mix; developing a marketing strategy; and lastly marketing planning for the South African small business will be described.

11.2 THE SOUTH AFRICAN SMALL-BUSINESS MARKETING ENVIRONMENT

The marketing environment of a small business can be defined as all the internal and external variables that may influence the continued and successful existence of it, as well as the micro environment and the market environment, as illustrated in Figure 11.1.

Figure 11.1 The marketing environment of a South African small business



11.2.1 The marketing environment of the South African small business

The marketing environment surrounds and has an impact on the small business. There are three key perspectives on the marketing environment, namely the macro environment (described in Chapter 2) in section 2.7. The elements of Figure 11.1 will be outlined next.

11.2.1.1 The micro environment

The micro environment or internal environment as Fuller (2012) explains consists of the mission statement and objectives of the small business. It also focuses on small-business management, which includes marketing, financial, purchasing and production functions and resources such as manpower, capital, know-how and information on the product or service offerings. The mission statement provides a short description of the product or services offered by the small business while the objectives are practical methods to achieve these objectives. Micro marketing, as Jobber (2010) explains, is concerned with the performance of those activities that seek to accomplish a business's objectives by anticipating customers' needs and directing a flow of need-satisfying goods and services to customers.

Small-business owners can influence decisions regarding resources and have direct control over marketing activities and marketing instruments such as product, distribution, price and marketing communications.

Typically, marketing objectives for a particular product might include: increasing product awareness among targeted consumers; providing information about product features; and reducing consumer resistance to buying the product. The marketing objective of a small-business arts-and-crafts shop would be to distinguish its art products from similar shops in the area. Objectives may also include: new products for existing markets; existing products for new markets; and new products for new markets. When small-business owners identify marketing objectives to support long-term objectives, they should be specific, relevant and measurable.

Small-business owners should be capable of measuring sales volume, sales value, market share and profit. Next the market environment, which includes the customer, competitors and suppliers, will be defined.

11.2.1.2 The market environment

The market environment of a small business consists of the consumer, competitors and suppliers of the small business, which will be discussed next.

The customer

The customers of the small business are consumers using products or services, typically purchasing or renting goods. They have a specific need, purchasing power and behaviour, and have a major impact on business performance through procurement of products and services. Small-business owners need to realise that they have to add value to their products to be competitive in the market. The customers of small businesses are usually local but because of technology advances they can also be global, for example, the customers of a small boutique hotel in the Western Cape. Their customers reserve rooms via social media. Therefore the characteristics of these customers can be described as connected, borderless and mobile.

Competitors

Small businesses usually have to compete for customers. The competitors of a small business are other small businesses that are also doing business in the specific market; for example, the competitors of the small boutique hotel can be self-catering accommodation and other hotels in the area. For small businesses to be successful, they need to develop marketing strategies that offer unique advantages over the competition. They should create a competition grid to establish competitors’ products or services; small businesses’ strengths and weaknesses as well as potential treads. The main goal of the small-business owner is to maintain or improve its position by increasing the business’s market share.

Suppliers

Suppliers are companies that supply raw material, products, services and finance to the small business. Small-business owners need to develop close working relations with them because they are important for the survival of the small business.

This environment influences the small business directly. It includes suppliers that deal with the business directly or indirectly, customers and other local stakeholders. In this concept, market environment describes the relationship between firms and the driving forces that control this relationship. It is a more local relationship and the firm may exercise a degree of influence. Marketing knowledge, timely information and market research are imperative for a small business as the prediction of future marketing trends will assist in developing effective marketing strategies to survive.

A small business cannot function in seclusion and without interaction with its business environment it will not continue to exist. Environmental changes will continue to determine its success or failure. The SWOT analysis is a valuable tool for the small business to use during strategic planning and will be discussed next.

11.2.2 The SWOT analysis

The SWOT analysis is a tool for auditing internal factors in the small business and its environment. It is the first stage of planning and helps small-business owners to focus on key issues such as marketing new products (see Figure 11.2).

Figure 11.2 SWOT analysis

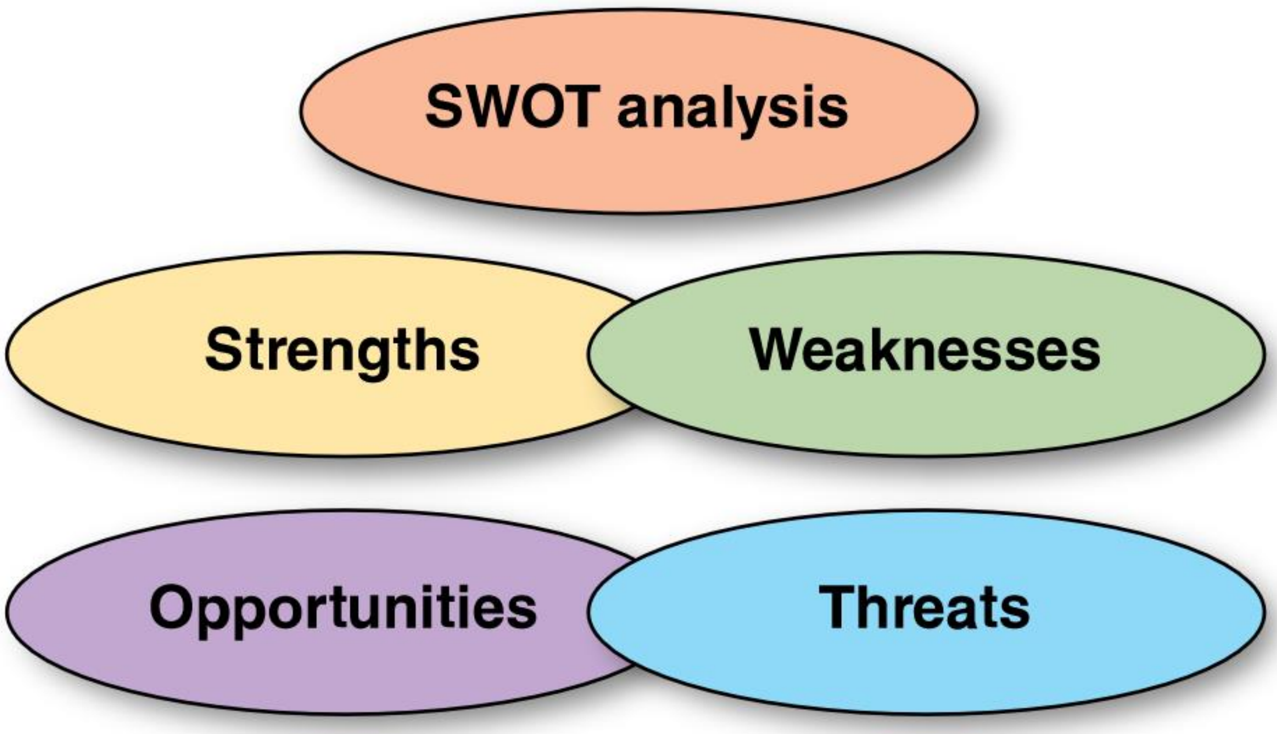


Figure 11.2 shows the four components of the SWOT analysis. The acronym "SWOT" stands for strengths, weaknesses, opportunities and threats. Strengths and weaknesses are internal factors and opportunities and threats are external. It is a valuable tool to use during strategic planning and it serves as a forerunner for any business action, for example exploring new products, making decisions concerning marketing policies, identifying areas for change and directing marketing action plans. The strengths of the SWOT analysis are internal factors including the business vision and mission, human resources and in-house skills as well as effective and adequate financial and human resources. The following are examples of strengths of the small-business owner:

- Small-business owner's technical expertise
- Financial reserves
- Any IT systems driving value
- Market research abilities
- New, innovative product or service
- Location of business
- Any other aspect of the small business that adds product or service value

The weaknesses of the SWOT analysis are internal factors such as the small-business owners' lack of managerial and marketing skills, funding problems and understaffing and weak human resources policies. A weakness may include

- small-business owner's lack of marketing expertise
- undifferentiated products and services in relation to competitors
- location of small business
- poor quality goods or customer service
- small business's damaged reputation.

Opportunities offer a small business the means to improve its performance and competitive advantage in a market environment. Threats are factors from the business's external environment that can adversely affect its performance and achievement of its objectives. Opportunities and threats are external factors. An opportunity for a small business may be

- a developing market tool such as the internet
- industry, market and lifestyle trends
- global influences and import/export challenges
- seasonal business trends
- economies of scale and production volumes
- moving into new market segments that offer improved profits
- new global market opportunities to expand business.

Threats to the small business include changes in competitors, government regulations and customer attitudes. A threat to a small business may be:

- new competitor in the market
- changes in market demand
- new legislative regulations
- political, environmental and economic effects
- strengths of competitors
- changing customer trends in the market
- evolving technology, for example online shopping
- price wars with competitors
- a competitor has a new, innovative product or service
- competitors have superior access to channels of distribution.

11.3 THE MARKETING CONCEPT OF THE SOUTH AFRICAN SMALL BUSINESS

Each small business needs a concept to guide its marketing and selling efforts in order to achieve its marketing objectives. The marketing concept explains how it aims its efforts at satisfying its customers to acquire a profit. There are five different marketing concepts namely: production oriented; sales oriented; marketing oriented; consumer oriented and relationship marketing. These are concepts which were developed as consumers' needs and focuses change. These concepts will be outlined shortly.

11.3.1 Production-oriented concept

The focus is on producing as many products as possible and little thought is given to the marketing of these products because few competitors exist and consumers are eager to buy. Some small businesses are still production orientated, for example, arts-and-crafts small businesses. These small businesses are still producing items without addressing their customers' specific needs.

11.3.2 Sales-oriented concept

The focus in this concept is on selling. Whether the consumer really needs the product or whether it really met his or her needs is not important. This can sometimes lead to unethical sales practices and false promises in order to persuade the consumer to buy. The company's main focus seems to be to get rid of the products, for example door-to-door products.

11.3.3 Marketing-oriented concept

In this concept the focus is still on selling, but in a more integrated way. The packaging, distribution, quality and advertising have to be integrated to create a certain product image. The marketing concept was adopted and it includes three principles, namely: consumer and profit orientation and organisational integration.

11.3.4 Consumer-oriented concept

The focus in this concept shifts away from marketing to the consumer. It begins with product design. Questions asked are: What are the needs of the consumer? How should the product, quality, distribution, etc., be designed to meet the needs of the consumer? This concept includes the concept of marketing orientation, but broadens it considerably.

11.3.5 Relationship-marketing concept

This concept is an extension of the consumer-oriented concept, but places even more emphasis on a long-term relationships with the consumer, supplier and competitor. This concept extends into the field of public relations where a positive relationship with the community itself is fostered.

Unfortunately, many small-business owners are still stuck at the beginning of the production era when there is shortage of most products. They show little interest in the customers' needs and are still production orientated, for example small businesses in the arts-and-crafts sector, which create products that are easy to make and then try to sell them. Well-managed small businesses, however, have replaced the production-orientation concept with marketing orientation. Instead of trying to get customers to buy what the business has produced, a marketing-oriented small business offers customers what they need. The marketing concept holds that the key to achieving small-business objectives is to determine the needs and wants of the target markets and delivering these more effectively and efficiently than competitors.

11.4 THE MARKETING MIX FOR SOUTH AFRICAN SMALL BUSINESSES

The purpose of the marketing mix is to effectively communicate with the target market of the small business. The small-business owner needs to define each element of the marketing mix, which includes product, price, promotion and place. According to Mackintosh and Tynan (2011), the relationship between these elements and how they are used to create targeted strategies and action plans for the marketing of products or services must be clearly understood. The elements are the marketing "tactics" and are known as the "four Ps" – price, place, product and promotion, as illustrated in Figure 11.3.

Figure 11.3 Marketing mix

As indicated in Figure 11.3, the customer is placed in the centre of the four Ps because the customer should be the focal point of all marketing efforts and all business efforts.

In popular language, “marketing” is the promotion of products, especially advertising and branding. However, in professional language the term has a wider meaning that recognises that marketing is customer centered. Products are often developed to meet the desires of groups of customers. The four Ps, namely product, price, promotion and place, will be discussed next.

11.4.1 Product or service of the small business

Product or service means the need-satisfying offering of a small business to its target market. Many small-business owners get wrapped up in the technical details involved in producing a product but never stand still to reflect on how customers view the product. Most customers view a product in terms of the total satisfaction it provides to them. That satisfaction may require a total product offering, which is a combination of excellent service, a physical product with the right features and useful instructions. In essence, the product offering has to reflect the market in which it operates and should be considered carefully. Attention should also be given to product quality, packaging and valued-added services such as loyalty schemes.

A product may not be a physical item; it may be a service or may be a combination of goods and services. Goods are tangible and services are not. For example, a sweater is a tangible product, but the dry-cleaning service for the sweater is an example of an intangible product.

Product management and product marketing include aspects of the marketing deal, when the specifications of the actual item or service and how it relates to the consumer’s needs and wants, are given. The small-business owner needs to answer the following questions when marketing a product or service.

- What features of the product or service are important to meet customers’ needs?
- How does the product differ from products or services offered by the small business’s competitors?

11.4.2 Price

Pricing is one of the four aspects of the marketing mix and presents many challenges to the small business. Small-business owners experience difficulties when pricing their products or services. Pricing is the process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign.

The price of the product is the amount that a customer is prepared to pay for it. It must be relevant to the product/service and the competition in the market. When estimating the price of the product or service, the small-business owner needs to consider value and benefits to the customer and differentiate its product from the competition. Knowing the competitors and their practices is essential as is pricing the product. The small-business owner needs to answer the following questions when establishing a price:

- How much did it cost to produce the product?
- What is the customers' perceived product value?
- Can the current price of the product keep up with the price of the product's competitors?

For the marketing mix to be right, the price must also be right! The right price comes from properly managing the pricing process, starting with an understanding of the overall marketing strategy and having the right price objectives. The pricing process is just as complex as the management process and needs to consider the following:

- Flexibility of the price
- Life-cycle status of the product
- Product discounts
- Location and geography of the small business

11.4.2.1 Different pricing strategies

Premium pricing

The small-business owner will set a high price where there is uniqueness about the product or the service it is selling. This approach is used when a substantial competitive advantage exists. High prices are charged for luxury items.

Penetration pricing

Small-business owners will price the products and services at an artificially low price in order to gain market share. Once this is achieved, the price is increased.

Economy pricing

The small-business owner may consider a no-frills low price. The cost of marketing and manufacture are kept to a minimum. Small supermarkets often have economy brands for items like soups and spaghetti, which are priced low.

Price skimming

The small-business owner can charge a high price because its product has a substantial competitive advantage in the market. However, the advantage is not sustainable because the high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply. Small manufacturers of digital watches used a skimming approach in the 1970s but once other small manufacturers were tempted into the market, the watches were produced at a lower unit cost, and the prices for these watches had to drop. Premium pricing, penetration pricing, economy pricing and price skimming are the four main pricing policies/strategies for the small business.

Psychological pricing

This approach is used when the small-business owner wants the consumer to respond on an emotional, rather than rational basis, for example when a "price point perspective" is 99 cents and not one rand.

Product-line pricing

Where there is a range of products or services, the pricing reflects the benefits of parts of the range. This encourages people to buy more from a range when there are special offers. An example would be a small business offering car washes. A basic wash could cost R40, and a wash and wax R100, but customers might be incentivised to take the whole package for only R120 and receive both a wash and wax for this price.

Optional product pricing

The small-business owner will attempt to increase the amount customers spend once they start to buy in their shop. Optional "extras" increase the overall price of the product or service and the small-business owner can benefit from the customers' increased spending.

11.4.3 Promotion

Promotion, marketing communication and advertising are all tools that are implemented by small-business owners to differentiate themselves and their products from their competition. Promotion is one of the four aspects of the marketing mix and includes advertising, sales promotion, publicity and personal selling. It refers to the various methods of promoting the product, brand or service. The small-business owner needs to decide which promotion methods to use to successfully reach its aimed target market. Promotion refers to those promotion activities, other than advertising, publicity and personal selling, that stimulate interest, trial or purchase by final customers or others in the channel. Advertising and sales promotion are often important parts of a promotion blend but in most blends personal selling also plays an important role. Promotion is only a part of the total marketing mix a small-business owner has to develop to promote a product offering to target customers.

11.4.3.1 Promotion techniques

According to Perreault and McCarthy (2013), examples of sales-promotion techniques aimed at consumers include the following:

Samples

Samples are given out free to customers or retailers to enable them to try a new product of service. For example, a butcher may braai boerewors outside the butchery to let potential customers taste his or her boerewors.

Premiums

With premiums customers get something free in, or attached to, a pack or by returning something to the manufacturer. For example, a real-estate agency may offer free books to those customers who visit a new apartment complex selling units.

Price deals

A price deal is any short-term discount given to customers. For example, a hardware store may offer an extra 10 per cent discount to the builders at a new construction site in the area for a period of months. Remember though that price deals are easily copied, must be handled with care and should be for a short period of time only.

Rebates

In terms of rebates customers get some of their money back by filling in a form. For example, a curtain manufacturer may offer a certain cash amount back to purchasers when they send in a card included in a ready-made curtain pack.

Coupons

Coupons allow customers to save money or get a free item. For example, a catering small business may offer a coupon for a free bottle of wine if the customer buys the first bottle.

Sponsorship of special events

Sponsorship of special events aims to build a positive image for, or expose customers to, the business. For example, a clothing small business may sponsor the local high school soccer team and gain exposure for the business.

Special sales

Special sales include such popular sales as back-to-school, anniversary and clearance sales. Small retailers often use this sales promotion technique.

Contests and games

Contests and games are an attempt to build customer loyalty by getting customers to make repeat visits. For example, a video small business may offer a free video contract as a prize for those customers who enter by signing their receipts from the store and putting them in a special container: the winner is drawn from the container at a certain date. Care needs to be taken by the small-business owners because using contests and games in sales promotion has legal implications.

11.4.3.2 Emarketing

Emarketing involves using electronic methods, which affects traditional marketing in two ways. First, it increases efficiency in established marketing functions and, second, the technology of emarketing transforms many marketing mix elements, resulting in new business models that add customer value and/or increase company profitability. The internet is described as the SME’s gateway to global markets and e-business is expected to allow SMEs to gain capabilities that were once the preserve of their larger competitors. There are different emarketing communication methods that can be used, for example word-of-mouth (electronic and traditional), buzz marketing and viral marketing.

Word of mouth

Word of mouth, both traditional (WOM) and electronic (e-WOM), is a cost effective advertising method suited to the small business. With traditional WOM, satisfied consumers spread positive information about the business, whereas e-WOM is when electronic communication is posted on the internet that influences consumers’ judgement of reviewed SME products. Both are excellent forms of advertising and can be more effective than formal advertising because they are more credible and are trusted by other potential clients.

Buzz marketing

Buzz marketing is when the SME creates an outstanding event that generates publicity and excitement, and gives information to the consumer. It focuses on maximising the WOM potential by discussions on social media platforms.

Viral marketing

Viral marketing is when an SME uses viral marketing to advertise its product. An email with a marketing message is sent from a portal such as Hotmail and spreads very quickly among consumers.

11.4.4 Place (distribution)

According to Perreault and McCarthy (2013), place or distribution refers to how the product gets to the customer, for example a pointof-sale placement or local small business sale. This fourth "P" refers to "where" a product or service is sold, for instance in which geographic region or industry and to which segment the buyers belong (young adults, families, business people, women, men, etc.).

Distribution is one of the four aspects of the marketing mix. A distribution small business is the middleman between the manufacturer and retailer, or (usually) in commercial or industrial, the business customer. After a product is manufactured by a supplier/factory, it is typically stored in a distribution company's warehouse. The product is then sold to retailers or customers. The other three parts of the marketing mix are product, pricing and promotion. Traditionally, distribution has been seen as dealing with logistics: how to get the product or service to the customer. The place forms the last of the four decision-making areas of the marketing mix.

Some authors increase the mix to the "five Ps" to include people. Others will increase the mix to "seven Ps" to include physical evidence (such as uniforms, facilities or livery) and process (i.e. the whole customer experience, e.g. a visit to Disney World).

An example of a marketing mix for a small fashion shop is indicated in Table 11.1.

Table 11.1 The marketing mix within the retail industry

Elements of the marketing mix	Description
Customer-service capability	The level at which the small fashion shop delivers quality service, provides quality products and handles its customer complaints. It is always essential that any promises, or perceived promises through advertising, are delivered upon.
Store-image differentiation	The degree that the small fashion shop's external store image and its merchandising image are unique and consistent with the image portrayed to the target market.
External market-level knowledge	The extent of a small fashion-shop owner's understanding of current and potential customers, competitors and industry trends.
Promotional capability	How does the small fashion-shop owner differentiate his or her store through advertising and promotions?

Source: Strydom (2009: 78)

Considering the intensity of competition that fashion-shop owners face from season to season, strengths and capabilities in each of these areas combined into an overall strong strategy will assist the small fashion-shop owner in meeting the needs of the targeted customer.

11.4.5 Benefit of the marketing mix

The small business does not operate in isolation; it relies on the wants and needs of consumers in the market environment, therefore it needs to consider the components of the marketing mix to be able to know how and when to promote products and services. For example, a cleaning small business will want to promote its service at a strong price point before major holidays when demand is higher, but when the timing or place is different, it might consider increasing the amount of business it receives by offering a low price incentive.

After creating a marketing mix, the small-business owner may want to consider the pricing strategies depending on the product type and product-cycle stage.

11.5 DEVELOPING A MARKETING STRATEGY FOR A SMALL BUSINESS

Marketing strategy planning can be defined as finding attractive opportunities and developing profitable marketing strategies. As Parrot, Roomi and Holliman (2010) explain, strategic management includes strategic planning and strategic control. Strategic planning describes the marketing activities performed by the small-business owner to address changes in its external environments. It involves formulating and evaluating alternative strategies, selecting new strategies, and developing detailed plans for implementing the strategy. Strategic planning consists of formulating strategies from which overall plans for implementing the strategy are developed, whereas strategic control ensure that the chosen strategy is being implemented properly and that it is producing the desired results. Marketing strategy, according to Pearce and Robinson (2010), refers to the unique and differentiable positioning of the small business towards its customer's needs. The small-business owner needs to clearly understand the market environment within which it operates, know the customer, and recognise the competitor's strengths and weaknesses. It needs to tactically align its own resources and capabilities to meet customers' needs profitably. Ries and Trout (2012) observe that marketing strategy is a process of: identifying customer needs; conceptualising those needs in terms of an organisation's capacity to produce; communicating that conceptualisation to the appropriate laws of power in the organisation; conceptualising the consequent output in terms of the customer needs identified earlier; and communicating that conceptualisation to the customer. Ries and Trout (2012) assume that the small business with the best marketing research capability will win the marketing war. This marketing philosophy is based on a singular notion of customer focus, an obsession withwhich becomes problematic particularly when every small business becomes customer-oriented and seeks to serve the same customer needs. In this scenario the race for marketing becomes a defeatist one-prize-race, where there can only be one winner. Kotler and Sawhney (2012) take the dimensions of marketing-strategy innovation further as they look at the new marketing concepts for our times, as indicated in Table 11.2.

Table 11.2 Dimensions of the marketing strategy for a small fashion shop

Conventional marketing strategy	The new marketing strategy
Organise by product units	Organise by customer segments
Focus on profitable transactions	Focus on customer lifetime value
Judge performance primarily by financial results	Look at marketing metrics as well as financial ones
Focus on satisfying shareholders	Focus on satisfying several stakeholder groups
The marketing person does the marketing	Everyone in the company does marketing
Build brands primarily through advertising	Build brands through company behaviour
Emphasise customer acquisition	Emphasise customer retention
Measure customer satisfaction	Measure customer value and loyalty

Conventional marketing strategy	The new marketing strategy
Over-promise to get the order	Under-promise to over deliver
Make the small business the unit of analysis	Make the value chain the unit of analysis

Source: Sawhney & Kotler (2012)

Table 11.2 shows the new concept of creating a marketing strategy. An important point mentioned is that everyone in the small business should market their products or services.

11.6 MARKETING PLAN FOR A SMALL BUSINESS

An important procedure involved in any successful small-business operation is creating and implementing a marketing plan. A marketing plan is an essential plan to implement and control the marketing activities of a small business.

11.6.1 Marketing-plan planning

A marketing plan is a written statement or market strategy and the time-related activities for carrying out this strategy. Before writing the marketing plan for the small business, it is necessary to define and understand the needs of the target market. This involves conducting market research by using customer circulation records, user surveys, focus-group interviews and information interviews to provide insight on what the customers really want. It should spell out the following:

- What marketing mix will it offer, to whom (i.e. the target market) and for how long
- What company resources (shown as costs) will be needed and at what rate
- What results are expected (sales, profit and customer satisfaction levels)

The plan should also include control procedures to control the marketing-plan activities. After a marketing plan is developed a small-business owner will know how to implement the plan. The marketing plan is generally undertaken for one of the following reasons:

1. The marketing plan is needed as part of the yearly planning process within the marketing functional area.
2. The marketing plan is needed for a specialised strategy to introduce something new, such as new product planning, entering new markets, or trying a new strategy to fix an existing problem.
3. The marketing plan is a component within an overall business plan, such as a new business proposal to the financial community.

Therefore before writing the marketing plan, small-business owners should answer the following questions:

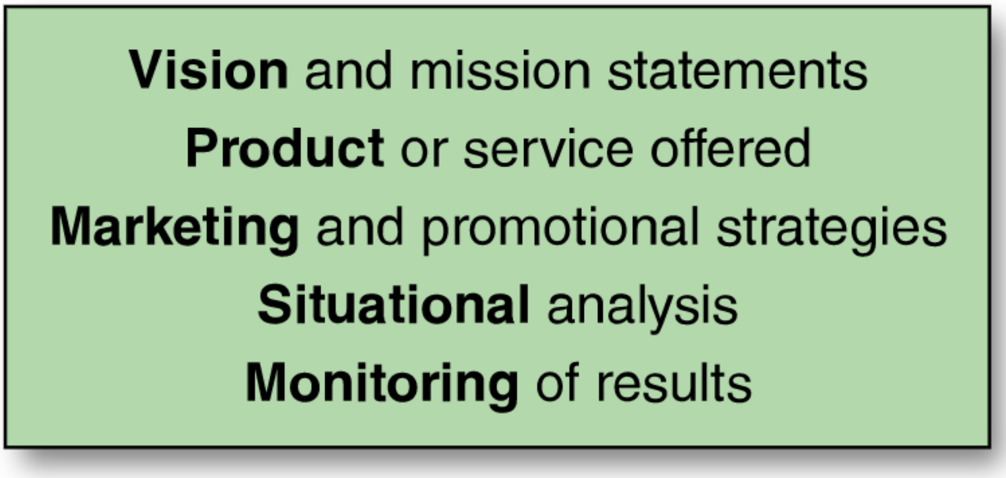
1. What is the product or service they are selling?
2. Who is their market that will buy the product or service?
3. What need does the market have for their specific product or service?
4. What is the basic message that they would like to send to this market with regard to their product?
5. What is the best way of getting in contact with their projected market? (For example, which advertising media such as TV, radio, print or online should be considered?)

After answering the above questions they will be ready to start their marketing plans. When, answering question five, small-business owners should keep in mind their budget limitations.

11.6.2 Components of the marketing plan

A marketing plan outlines the specific actions the small business intends to carry out to interest potential customers in its product and/or service and persuade them to buy the product and/or services it offers. The marketing-plan components describe the small business's marketing strategy. The marketing strategy provides the goals for the marketing plans and serves as a roadmap to achieve goals as indicated in Figure 11.4.

Figure 11.4 The components of the small-business marketing plan



In Figure 11.4 the components of the marketing plan are illustrated and they will be discussed next.

11.6.2.1 Mission and vision statements

The mission statement clearly and succinctly describes the nature of the business, services offered and target markets. It is combined with the vision and mission statements of the small business. A mission statement clarifies the "what" and "who" of a small business, whereas a vision statement explains the "why" and "how" as well. For example, SmartChoice, which is an online shop, will have the following vision statement:

Our vision is to give our customers the best online shopping experience with a user-friendly searchable website, easy-to-follow instructions, secure payment methods, and quality delivery.

When designing a mission statement, the small business should keep in mind the following. It should be

- realistic
- specific
- related to a specific market environment
- based on distinctive competencies
- motivating.

An example of a mission statement for the above-mentioned SmartChoice online shop might be:

Provide an online shopping experience with good-quality products.

11.6.2.2 Product or service offered

Identify the services the customers of the small business need; the current services offered and then establish new services it wishes to provide. The small-business owner also needs to determine whether it can provide the services in terms of staff, expertise and costs.

11.6.2.3 Marketing strategies and objectives

The small-business owner needs to understand what makes a customer want to use or buy a product or service and also what type of marketing strategy would be appropriate. It needs to establish the needs, problems, industry trends and environment that will affect and influence the customer. The following are strategies, which could be implemented by small-business owners.

- Network, either in person or electronically, by participating in discussion groups online where their target markets congregate.
- Direct marketing involves sending out sales letters, capability brochures, flyers, or special offers on a regular, repeated basis to the same group of prospects.
- Advertise in print media or directories, often with a specific offer to reap the benefit of an immediate response or sale. Advertising lends credibility (image advertising) and, like direct marketing, must be continuous.
- Devise training programmes that increase awareness about their services.
- Write articles for the local media or professional journals and newsletters that describe the benefits of their services.
- Direct or personal selling is called one-on-one selling and is often done on site at a prospect's office or company. Direct sales are a particularly costly form of marketing since only one person is reached at a time.
- Send out publicity and press releases through local newspapers, radio and television stations.
- Participate in trade shows at a local or regional level.

11.6.2.4 Situation analysis

The situation analysis includes a market analysis, SWOT analysis and a competitive analysis.

The competitive environment of the small-business's market is outlined in this section. This includes any competitors, whether they are in direct or indirect competition. The situation analysis looks at the macro environmental factors that affect many small businesses within the environment and the micro environmental factors that specifically affect the small business. The purpose of the situation analysis is to indicate to a small business the business situation and product position. The overall survival challenges of the business within the environment are also indicated. Small-business owners should be able to summarise opportunities and problems within their environment so they can understand their capabilities within the market. Several methods of analysing can be used, such as the 5Cs analysis, SWOT analysis and Porter five forces analysis. Small businesses need a detailed marketing plan to survive in increasingly competitive markets.

11.6.2.5 Monitor results

Small-business owners need to monitor results after implementing their marketing plan. They need to determine which marketing strategies are generating sales. This involves tracking and evaluating customers' responses to each marketing strategy. Surveys or interviews can be used to get this information from regular customers.

11.7 CONCLUSION

Marketing and sales are essential marketing components of a small business's survival efforts in the market. In this chapter, the marketing programme of the small business was outlined. The small business blends all the marketing-mix tools into a comprehensive marketing programme that communicates and delivers the intended value to target customers. In this chapter, the South African small-business marketing environment, the marketing concept, the marketing mix, marketing strategy development, and lastly the marketing plan were outlined.

REVIEW QUESTIONS

11.1 Define the marketing environment of a South African small business.

11.2 Draw a diagram of the marketing environment of a small business.

11.3 Small-business owners need to decide about a specific product or service; how it will be distributed; the best marketing communications and the amount they will charge to make a profit. Describe the elements of the marketing mix.

11.4 Write short notes on the marketing environment of a small business. In your answer, provide practical examples as applied to South Africa.

11.5 Review section 11.2 and debate the different components of the SWOT analysis. In your answer, provide practical examples of the components of the SWOT analysis.

11.6 Conduct research in your community and identify examples of strengths of small-business owners. In your answer, provide practical examples.

11.7 Conduct research in your community and identify examples of opportunities for small-business owners. In your answer, provide practical examples.

11.8 Pat has her own small business, Fashion First. She operates her business from the Pretoria CBD and sells fashion items such as dresses and handbags. Assist her in identifying threats to her small business. In your answer, provide practical examples.

11.9 The marketing concept explains how a small business focuses its efforts on satisfying its customers' needs in order to make a profit. Write short notes differentiating between the various marketing concepts. In your answer, provide practical South African examples.

11.10 Patrick is thinking of starting a small arts-and-crafts shop in the small-business centre in his area. Conduct an online search and assist him to in distinguishing between the different marketing mix elements for his business.

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RECOMMENDED WEBSITES

http://pestleanalysis.com/swot-analysis-template/

http://pixelpusher.co.za/tag/standard-bank-personal-loans-blacklisted/

https://www.thedti.gov.za/agencies/seda.jsp

12

Communication and building relationships with stakeholders for the small business within developing economies

L. van Scheers

LEARNING OUTCOMES

After you have studied this chapter you will be able to

- define relationship marketing
- identify the stakeholders of the small business, both internal and external
- describe the role of marketing communication in stakeholder communications
- identify the elements of small-business marketing communication
- describe marketing-communication methods
- define concepts such as promotion, advertising and public relations
- label the advantages and disadvantages of advertising
- identify factors to consider when choosing an advertising medium
- define the concept of public relations
- describe internet marketing and social media for small business.

KEY TERMS

- Relationship marketing
- Small-business stakeholders
- Marketing communication
- Promotion
- Advertising
- Internet marketing and social media
- Public relations

12.1 INTRODUCTION

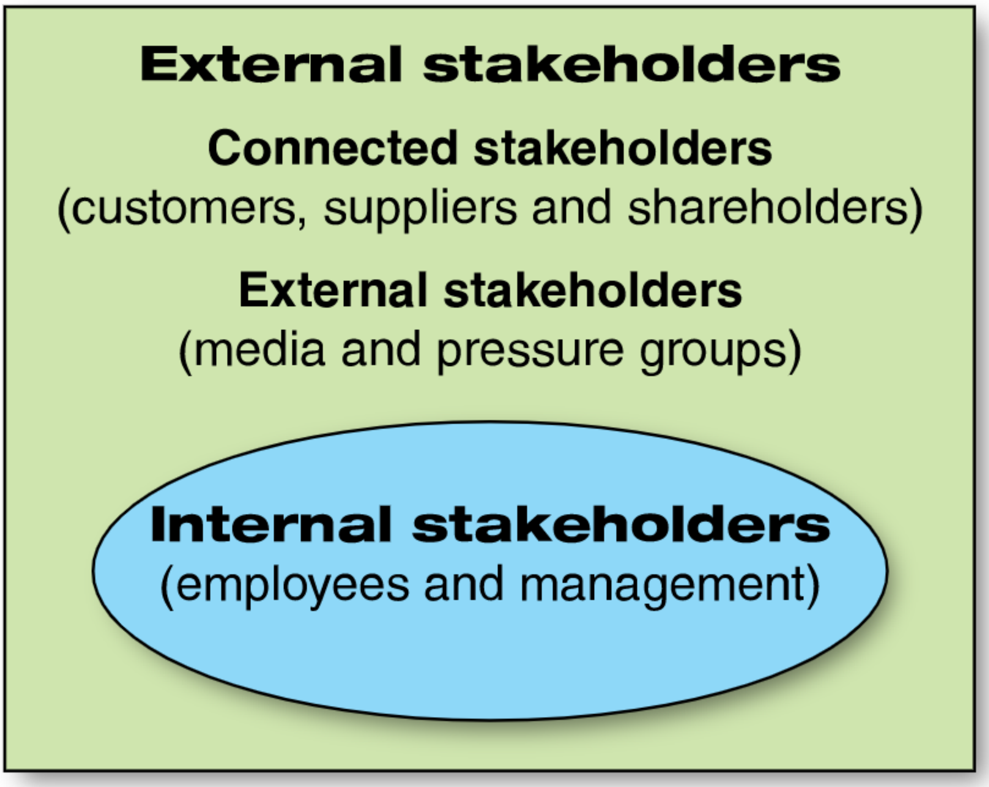
Stakeholders of a small business are individuals and institutions that have an interest in the well-being of the business. They have interests that affect the business and can also be affected by the activities of the small business. Stakeholders include employees, labour unions, suppliers, customers, business partners, investors and shareholders, the local community, government authorities and regulators. It should be clear to the small-business owner that various stakeholders have different interests, attitudes and priorities and that communication methods should be tailor-made for each group. This will guarantee that they receive information that is applicable to their different needs, and which will create positive attitudes towards the small business. Small-business owners should always be working on developing and sustaining long-term relations with their stakeholders. As such, relationship marketing needs to be encouraged.

Relationship marketing involves creating, maintaining and enhancing long-term relationships with all stakeholders of the business to obtain mutual benefits. It is imperative for the small-business owner to communicate with stakeholders. This will assist in generating a positive understanding of the small business. Communicating regularly with customers, for example, will keep the small business in the front of the customer's mind when they make purchasing decisions. On the other hand, open communications with suppliers will help to develop a supply chain aligned with the small business's needs. Small businesses should focus on marketing communications to communicate these different messages to stakeholders. Marketing communications are defined as messages and related media used to communicate with a specific stakeholder market. It is the small business's ultimate objective to ensure that all the elements of marketing communications (advertising, sales promotion, public relations, direct marketing, personal selling, online communications and social media) support each other and work together. Marketing communications is the promotion part of the “marketing mix” or the “four Ps”: price, place, promotion and product, discussed in Chapter 11. In this chapter, stakeholder communications and building relationships for small a business will be described. The role of marketing communications in stakeholder communications, the elements of small-business marketing communications and lastly, internet marketing for a small business will be reflected on.

12.2 SMALL-BUSINESS STAKEHOLDER COMMUNICATIONS AND BUILDING RELATIONSHIPS

A small-business stakeholder can be defined as any party that is involved with the business, whether internal or external, that can be affected by the outcome or impact of the business’s actions, as illustrated in Figure 12.1.

Figure 12.1 Small-business stakeholders



As illustrated in Figure 12.1, the small business has different groups of stakeholders. Internal stakeholders, such as stockholders, customers, suppliers, creditors and employees are those within the small business who benefit financially from their contributions to the business’s success. External stakeholders consist of the following groups, namely: the general public, engaged communities, activist groups and the media. Marketing communications are used to communicate messages to the different stakeholders. They can be divided into internal flows and external flows directed at different target stakeholders. Marketing communications assist the small-business owner to focus efforts in acquiring, retaining and developing relationships with customers and other stakeholders. Perceptions that customers have of the small business are created by messages they receive through: media advertisements; price; package design; direct-marketing efforts; publicity; sales promotions and websites.

The stakeholder's marketing-communication plan assists the small-business owner in communicating the correct information to the correct target group on time. It also creates a communications events list to guarantee that stakeholders are well informed. Small-business owners have to:

- List the communications stakeholders
- Define each stakeholder's communications needs
- Identify the required communications events
- Determine the method and frequency of each event
- Allocate resources to communications events
- Build a communications events schedule.

This will assist in monitoring communications; getting feedback on communications events and improve communications processes in the future.

12.2.1 Customer relationship management in the context of the small business

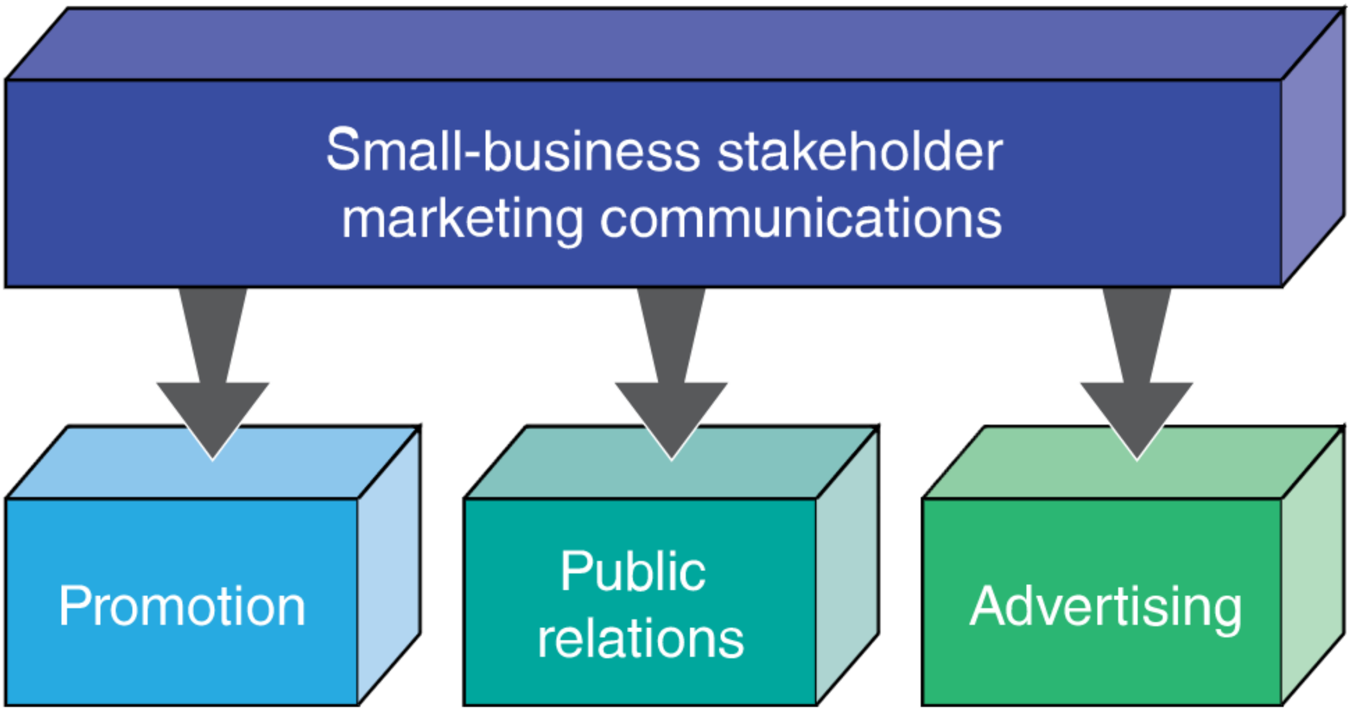
Customer relationship management (CRM) combines all aspects of sales, marketing and service-related activities that an SME can use to promote its products to customers. CRM is beneficial to SMEs because it can improve customer relations and loyalty.

It can also assist the SME to learn the value of its customers and improve relationships with them. The SME can find out customers' purchasing habits and preferences, and profile them, which will increase marketing efforts and sales. The benefits of CRM include a personal approach to customers and also that marketing communications can be aimed at specific customer needs.

12.3 SMALL-BUSINESS STAKEHOLDER MARKETING COMMUNICATIONS

Small-business stakeholder marketing communications can be described as a cross-functional process for creating a profitable relationship with customers and other stakeholders. This can be done by strategically controlling or influencing all messages sent to these groups and encouraging data-driven, purposeful dialogue with them. The small-business owner conveys the information about the product or service with a view not only to inform the customer, but also to persuade or remind them to adapt a favourable attitude towards the product or service. Marketing communication is also a process whereby information about an organisation and its offerings is disseminated to selected stakeholder groups.

Figure 12.2 Small-business stakeholder marketing communications



12.3.1 Marketing communication methods

Marketing communication methods may vary depending on the situation of the individual small business. Marketing communication has evolved from production and sales centred to customer and relationship-focused marketing. The small-business owner should strive to establish long-lasting relationships with its stakeholders. The most widely cited marketing communication method for small business is networking. Networking has been identified as vital to develop small-business marketing strategies. Hill and Wright (2009) suggest that the marketing communication of a small business is centred on customer engagement, networking and word-of-mouth communication with web-based marketing emerging as a key area. Small businesses execute a significant number of marketing activities, ranging from traditional marketing communication, such as trade and consumer press advertising, to viral marketing and website search engine optimisation. They also engage in promotional activities such as customer networking, exhibitions and the use of databases for customer identification. Marketing communication factors include factors such as persuasion, marketing communication objectives and contact points, all of which will be discussed next.

- Marketing communication tries to persuade the target audience to change attitudes and also provides information. The small business can persuade a customer in a variety of ways, including providing incentives, giving reasons why a product should be purchased or supplying information on a certain product's uses.
- Marketing communication objectives involve creating brand awareness, delivering information, educating the market and advancing a positive image for the business or product.
- Contact points are points where the customer and small business's product come into direct contact with each other. Successful marketing requires managing and coordinating marketing message at every contact point. Although marketers can plan and relay messages to target audiences frequently, they need to ensure that messages at every contact point work together so that they persuade consumers to purchase products.

Promotion, advertising and public relations are marketing-communication methods that small businesses can utilise to differentiate themselves and their products from their competition. These marketing-communication methods will be outlined in this chapter.

12.3.2 Promotion

Promotion refers to activities that create awareness, and generate sales and brand loyalty for the small business. Traditionally these activities included advertising, personal selling, sales promotions, direct marketing, public relations and sponsorships, but new technologies and activities such as websites, social media and emails are implemented nowadays as well.

Promotion forms part of the marketing mix (product, price, promotion and place), which needs to be developed for specific target customers. Sales promotions can generate sales by implementing sales-promotion techniques such as organising contests, attending trade shows and distributing sales brochures.

12.3.3 Sales-promotion techniques

According to Hill and Wright (2009), sales-promotion techniques are the following:

- **Contests:** in terms of contests, you award a prize to the person who sells the most products/services. For example, the top salesperson might win a prize of a free weekend at a holiday resort.
- **Trade shows:** make use of display booths set up by small-buisiness owners to display their products to prospective customers. The Pretoria Show often has many small-business people presenting their products. Specific areas of business have their own trade shows, and small-business owners should find out if these are available in their areas. Examples of these shows include Decorex (interior decorating), Buildex (builders) and Computer Faire (computers and related technology).
- **Sales brochures:** allow small-business owners to provide information on their products to customers. For example, a hiking-boot manufacturer may print a brochure explaining the qualities and special features of its boots and distribute these to those who are interested. It is always difficult to judge the effectiveness of the sales promotion, but there are a number of areas that can establish whether or not the sales promotion was successful (Marx & Van der Walt, 2003: 448) such as

– positive reactions by the sales force

– increases in sales patterns

– increase in market share

– positive opinion of customers

– high number of queries received from customers.

It is very important to keep a record of the effect of sales promotions on the small business. Keep track of results before, during and after the promotion. These results need to be analysed to determine if objectives were reached and which method, or combination of methods, was most effective. Next advertising as a marketing-communication method will be discussed.

12.3.4 Advertising

Advertising can be defined as any non-personal form of mass communication about a product or service, which is paid for by an organisation or an identified sponsor. Bowler, Dawood and Page (2007) agree with this and mention that adverting is usually delivered through mass communication. The key differentiating elements that define advertising are that it is a paid-for message, and the message is controlled by the advertiser. Advertising is a marketing activity that uses creative marketing techniques to design persuasive communication in mass media. It promotes ideas, goods and services in a manner consistent with the achievement of the advertiser’s objectives, the delivery of consumer satisfaction, and the development of social and economic welfare. Before spending vast amounts of money, businesses must understand the value, advantages and disadvantages of advertising. Advertising costs money and therefore the advantages and disadvantages must be analysed to see if it is worth it for a small business to advertise.

12.3.4.1 Value of advertising

The value of advertising is that it helps people identify and remember the value and function of a product or service. This is done by providing positive information on the product, service, brand, manufacturer of the product and its uses. The major value of advertising is that it helps to sell products and helps companies build a product brand.

12.3.4.2 Advantages of advertising

The advantage of advertising is that it can reach a large target market and help a small business build a larger demand for the product. Advertising helps in the customer decision-making process by providing customers with the necessary information to make a purchase. It also helps customers compare products from other organisations. Other advantages are that advertising allows small-business owners to reach potential customers when personal selling is not possible. Using advertising also allows small-business owners to advertise a product in a creative way, thereby allowing them to create an image in the customers' minds in a way that sales personnel are not necessarily able to do. Bowler, Dawood and Page (2007) also claim that another advantage of advertising is that it can be used in the creation of brand awareness and brand preference.

12.3.4.3 Disadvantages of advertising

Despite the advantages described in section 12.3.4.2 there are several disadvantages of advertising. Customers often feel that advertising is intrusive and many people will block out what they hear and see on adverts and will not retain the information they have seen. There are many small businesses advertising every day, many of these products are extremely similar, and a small business's product can be lost in the mass of competing products being advertised. Du Plessis and Boon (2014) call this "advertising clutter". Advertising can be very expensive and smaller companies often cannot afford it. Measuring whether advertising has been effective is also very difficult, mainly due to the fact that it does not lead to an immediate response or buying action from customers. However, advertising can also reach the wrong target audience, which is a waste of money.

12.3.4.4 Advertising objectives

Advertising objectives are important to a small business because they will encourage the introduction and selection of consistent advertising alternatives and they offer the firm a standard against which the results of the advertising can be evaluated. Advertising can also be used to support other elements in the marketing mix. This can improve the effectiveness of the firm's total marketing strategy with the ultimate objective of increasing sales.

Advertising objectives are specific outcomes that are to be accomplished through advertising. The following are different objectives small-business owners might want to obtain from their advertising campaigns:

- **Increasing the number of customers:** advertising can help a small business to be able to turn non-users into users, attract users from competitor's brands and help former users to become interested in a particular product again.
- **Increasing total demand:** a small business may use an advertising campaign in order to increase the total demand for a product so that the small business's share will generate sales volumes.
- **Attracting non-users:** a small business's advertising campaign's objective may be to attract non-users in an effort to increase the number of customers.
- **Maintaining current sources:** a small business can achieve an increase in sales by creating brand loyalty or by discouraging brand switching. Reinforcing a positive purchase experience or helping to avoid a negative experience can achieve this.
- **Rekindling interest in a mature product:** advertising campaigns can be used to rekindle interest in a mature product and encourage an increase in sales.

- **Rediscovering former users:** a small business may find many former users no longer want their product or switch to a generic product.
- **Attracting users of competitor's brands:** small-business advertising can imply that their product is better than the competitor's product, thereby attracting customers from the competitor.
- **Increasing the usage rate:** a small business can make use of advertising in order to increase the usage rate of companion products. A small business can generate an increase in sales by increasing the usage rate of their product.
- **Increasing the frequency of use:** advertising can be used by a small business to make consumers aware of the fact that their product can be used more often. For example, advertising can make people aware of the fact that the product can be used once a week and not only once a month.
- **Reducing the time between purchases:** advertising can be used by a small business to convince people to buy their product sooner than they usually would.
- **Marketing-mix objectives:** when a small business wishes to introduce a new product, a product modification, or a new package, an advertising campaign is usually prepared to provide support.

12.3.4.5 Factors to consider when choosing an advertising medium

A small business's choice of advertising media will depend on why it is advertising. Choosing the best media for a small business's advertising depends on four factors. According to Du Plessis, Bothma, Jordaan and Van Heerden (2009), these factors are:

1. **The objective:** what a small business wants to achieve from advertising and in what time frame. The objectives of the advertising must be clearly documented. These objectives must be realistic, achievable and should be something that advertising can accomplish.
2. **The target audience:** who and where the people are that the message should reach through advertising. The audience the small business would like to reach must be carefully selected and then an advertising medium chosen that would best appeal to that target audience. Narrowing down the audience can aid the small business in making wise and cost-efficient media choices.
3. **The message and frequency:** what does the small business want to say and how often does it need to be said? The most effective medium that will carry the message must be chosen. For example, if a small business has a large amount of information to convey about a product or service, a 30-second radio spot would be not feasible.
4. **The budget:** budget is probably the single most influential factor in an advertising plan. For an advertisement to be effective, it needs to be displayed frequently. Thus an advertising medium must be chosen that will allow for regular exposure. The medium chosen must be cost-effective enough for the small business to use it several times. It will not be beneficial, for example, for a small business to spend all its advertising expenditure on one TV advertisement.

According to Baines, Fill and Page (2008), every rand that is saved is precious for small businesses and an advertising medium that will give the greatest return for their investment should be chosen. An advertising campaign should translate into greater sales and more profit. There are three important questions a business owner must answer when choosing an advertising medium for an advertising campaign:

1. Where are the target buyers?
2. What is the best medium to reach them?
3. Can the small-business owner afford to launch an effective advertising campaign using this medium?

Selecting the right advertising medium to send out the message is an important step in developing a sales and marketing plan.

12.3.5 Advertising mediums

Media is defined as a communications channel or a group of channels used to convey information, news, entertainment and advertising messages to an audience (Du Plessis et al., 2009). Choosing the right medium to carry a small business's message is critical for the success of a small business's advertising.

There are two major advertising media: broadcast media such as television and radio, and print media such as newspapers, magazines, billboards, direct mail and leaflets (Du Plessis et al., 2009). Television, radio, newspapers, magazines, out-of-home advertising, direct response and direct-mail advertising are all forms of advertising media. Mass media such as newspapers, magazines, radio and television are especially well suited to delivering advertisements. Mass media is important because it is able to deliver to large audiences at a relatively low cost. It can deliver advertisements to special types of audiences who are attracted to each medium's editorial or programming, and media tend to develop strong loyalties among audiences who return to them with a high degree of regularity.

Advertising is transmitted through channels that permit the message to reach a large audience simultaneously. These channels are called mass media and are broadly classified as print or broadcast. Cohen (2008) claims that the largest share of advertising expenditure is allocated to newspapers. The largest expenditure for national advertising, however, occurs in television. Direct mail is the third-largest medium in terms of advertising expenditure.

12.3.5.1 Television

Television was introduced into South Africa as a mass medium in 1975, but only in 1977 was it used as an advertising medium (Du Plessis et al., 2009). Television is the single most powerful medium on which a small business can advertise. Seventy per cent of people in Soweto watch television regularly; therefore television is a very good advertising medium for a target market such as Soweto (Morris, 2002: 92).

Table 12.1 Advantages and disadvantages of television

Advantages	Disadvantages
• High impact • Stimulates most of the senses • Carries a certain prestige • Can reach a large audience • Delivers to multiple household • Good for demonstrations	• Message is temporary – requires multiple exposure • No reference back to message • Repetition may irritate the viewer • Advertising is expensive • Viewers may channel-hop or leave during ads • Advertising “clutter” • Reaches general audience

Source: Bowler, Dawood & Page (2007)

Table 12.1 indicates the advantages and disadvantages of television. Television is one of the best advertising mediums because it can combine visual images with sound, motion and colour (Du Plessis et al., 2009). No other advertising medium offers more creative flexibility than television. Another advantage is that television is very popular and reaches a large target audience. Television is able to reach the largest target audience with one advertising message. Since television has such an extensive circulation the cost per exposure for each advertising message is relatively low. Television allows for a large amount of creative freedom. It offers the use of sight, sound, motion, colour and demonstrations. Cohen (2008) explains that audience selectivity can be achieved on television in a variety of ways. The advertiser can select a specific market segment by choosing the day of the week, the time of the day and the programming material.

12.3.5.2 Radio

Radio is one of the few mediums that actually reach the majority of the black population at any one time. Radio is effective as an advertising medium in both urban and rural areas and has a very cost-effective reach. Radio advertising is very flexible; it offers businesses the best mix of formal advertising, infomercials and sponsorships (Du Plessis et al., 2009). Radio has become an extremely viable media option for companies to advertise, both locally and nationally. Table 12.2 illustrates the advantages and disadvantages of radio as an advertising medium.

Table 12.2 Advantages and disadvantages of radio

Advantages	Disadvantages
• Cheaper than television advertising • Cheaper to produce than television • Easy to reach a specific target market • Can reach people on the move • Geographically selective • No literacy necessary	• Allows for target market selection • No illustration possible • Only short messages • Limited availability • No reference back to message • Radio has no visuals • There is no hard copy • Radio is a background medium

Source: Du Plessis, Bothma, Jordaan & Van Heerden (2009: 58–60)

Radio commercials are not too costly to make and the cost of radio time is much lower than that of television. Radio also allows the marketer to direct the advert at a more specific target market due to the fact that it can be used nationally or locally. Another advantage of advertising on radio is that it is the most large-scale of all advertising media. Most houses have at least one radio; the average household owns up to six radios (Baines & Page, 2007). Virtually every new car comes standard with a radio; practically every person will listen to the radio at least once in a day. Radio can deliver both high levels of reach and frequency as well as narrowly targeted market segments. Radio reaches a large audience – approximately 95 per cent of all adults listen on a weekly basis.

In comparison to television, radio is a relatively low-cost medium. Compared to other media, radio has a fairly low cost per thousand listeners (Cohen, 2008). Radio is generally inexpensive in terms of investment costs as well as cost per thousand. Because of its low cost and the ability radio has to contact specific target markets, radio can often be used as a supporting medium to round out a media plan. Radio can give a business personality through the creation of advertising campaigns that make use of sounds and voices.

12.3.5.3 Print media

Print media such as magazines and newspapers have been in existence as advertising media for more than two centuries (Du Plessis et al., 2009). Even though there has been an increase in competition from broadcast media, newspapers and magazines have remained important to both their readers and advertisers. Newspapers and magazines are the most predominant type of print media.

Magazines

Magazines have become a more specialised form of advertising medium (Du Plessis et al., 2009), and reach specific target audiences in both consumer and business markets. According to Morris (1992: 93), magazine advertising is very good for long-term brand building. Most black people do not discard magazines and the retention value of advertising in these is exceptionally high. The life of magazines is one of the longest of all media, and passing it on to others increases its life. Magazines can be used to reach a specific target audience. Magazines, therefore, have the ability to reach most consumer interests. In South Africa advertisers rely heavily on print media such as magazines to reach target audiences. Table 12.3 refers to the advantages and disadvantages of magazines as an advertising medium.

Table 12.3 Advantages and disadvantages of magazines

Advantages	Disadvantages
• Have a specific target audience • Offer a wide array of editorial formats • Have a longer life than newspapers • Better quality paper than newspapers • Good colour and photo reproduction • Can reach a large number of people • High reader involvement	• Expensive • Not geographically selective • Little flexibility due to long read time • Do not offer sound/motion • Long lead times, advertiser has to plan long in advance

Source: Anon (2011)

Companies use magazines to advertise because of the audience selectivity they offer. Magazines are one of the most selective of all media in terms of being able to pick out particular target groups. Magazines allow for better targeting of audience, as a business can choose magazine publications that cater to their specific audience or whose editorial content specialises in topics of interest to their audience.

The problem magazine advertising has in South Africa is that a large percentage of the population is still illiterate or semi-illiterate. The biggest drawback of magazine advertising is that it is expensive. Many small businesses have to place advertisements in numerous different magazines in order to reach their target markets. Because of long printing time, magazine advertisements must be prepared long in advance. Due to lengthy printing time, magazine advertising tends to be inflexible when reacting to changes in the market environment. The deadline for placing an advert in a magazine is usually one month or more before the publication.

Newspapers

Newspapers are the largest advertising medium in terms of both advertising revenue and the number of advertisers. Newspapers are not only an important advertising medium for local advertising, but national advertisers also find newspapers to be a valuable advertising medium. Table 12.4 provides the advantages and disadvantages of newspapers as an advertising medium.

Table 12.4 Advantages and disadvantages of newspapers

Advantages	Disadvantages
• Provides illustrations and explanations • Suitable for high frequency • Adaptable to change • Relatively cheap per reader • Geographically selective • Wide array of editorial environments • Permanence of the advertising message • Can reach a large number of people • Lower advertising production costs • Higher local-market penetration than magazines • Consumers often look for ads in newspapers	• Limits specific audience targeting • Reproduction of photos • Not popular with all age groups • Do not offer sound/motion • Newspapers are short lived • Many advertisers have little chance of dominating

Source: Surmanek (2013)

Newspapers allow for the presentation of detailed information and the information can be processed at the reader’s own pace. Newspaper advertisements are more effective than television if a large amount of information needs to be taken in by the customer (Du Plessis et al., 2009). Newspaper adverts can be read more than once by the consumer, therefore increasing the retention of the information the marketer wants them to store. Advertising in newspapers can be used to target a specific audience on both a demographic and geographic basis.

There are a number of factors that limit the growth of newspapers as an advertising medium. The quality of newspapers' paper is not of the same standard as that of magazines. Because of this limitation, newspapers do not allow advertisers the same creative freedom as magazines do. The coarse paper used by newspapers creates a less impressive effect than that achieved by the smooth paper used in magazines. Newspapers may provide large geographic selectivity but they do not offer much selectivity in terms of all socioeconomic groups. Newspapers also have a short lifespan; most newspapers only last a day before being thrown out. Due to this, the opportunity for exposure to the advertising message is limited to one reading.

Outdoor media

According to Cohen (2008), "outdoor advertising refers to all advertisements displayed out of the home with the exception of those appearing on transportation facilities". There is a variety of very effective forms of outdoor media that can be used in advertising. These include using buses, shopping carrier bags, posters, bin panels, bus-stop shelters, wall paintings and supermarket trolley panels. Taxis can also be used as a form of outdoor media and are especially useful when wanting to advertise in the townships. Point-of-purchase displays can be placed outside retail outlets in the townships. Other forms of outdoor media are billboards, rolling boards, mobile advertising boards and aerial advertising (Du Plessis et al., 2009). A poster provides a cost-effective advertising medium while outdoor advertising is an advertising medium that continues to grow and has been found to be very successful.

12.4 PUBLIC RELATIONS

Public relations (PR) relates to managing, through the communication of perceptions, strategic relationships between a small business and its internal and external stakeholders. Therefore, the public's perception of a small business is very important, whether based on fact or fiction. PR personnel should be able to present a small business to the world in its best light. In this era of social consciousness, a small business is expected to operate with a high level of ethics, with every regard for the needs, desires and feelings of the community with whom it deals. A small business is expected to operate in the public interest and to respect and observe good manners and sensitivity. Four major PR models can be identified:

1. Promotion and publicity (one-way communication/hype) of products and services
2. Applied journalism (one-way communication/credibility) which is when an article is written about a specific business
3. Research and persuasion (two-way communication, win/neutral) which are used to influence the customer to buy a specific product
4. Dialogue, mutual solutions (two-way communication, win/win) which can be used to inform the customer about specific products

Next, internet marketing for the small business will be outlined.

12.5 INTERNET MARKETING AND SOCIAL MEDIA FOR THE SMALL BUSINESS

Internet marketing or online advertising consists of activities using the Web or email to drive direct sales via e-commerce, or creating sales leads from websites or email marketing (Dockel & Ligthelm, 2012). Internet marketing is a diverse area with many tools to bring customers to the small business's products and services. The use of internet marketing in South Africa is increasing and plays an important role in development. According to Herath and Mahmood (2013), the internet has many potential applications, including "e-mail, games, shopping, banking and real time news". In South Africa, the challenge is that access to the internet is still limited for most rural populations. According to Kshetri (2011), the distribution of telephony services in South Africa continues to reflect the highly uneven development of the infrastructure of the past, with 18 per cent of black households and 82 per cent of white households having telephony service. The generalist nature of managers' and employees' skills within small businesses result in limited knowledge about how various computer technologies could contribute to an overall emarketing strategy.

12.5.1 Internet marketing and social-media tools

Internet marketing is when a small business only uses the internet to market the business. Internet marketing is a diverse area with many tools such as social media to bring customers to the small business's products and services. Internet marketing consists of online advertisements to drive traffic to an advertiser's website. These include banner advertisements, pay-per-click (PPC) and targeted email lists. Social media is an internet marketing tool that facilitates social networking by means of media including blogs, podcasts, message boards, video blogging, wikis and Twitter.

Social media is a function of internet marketing, which can promote a small business. Internet usage is the measurement (expressed in bytes, kilobytes, megabytes or gigabytes) of the amount of data flowing through the computer of a small business and the internet network for a defined period. These data are transferred in both directions: from the internet network to the computer (download), and from the computer to the internet network (upload). Whether surfing the Web, sending emails, playing online games, downloading various items, or using network gaming consoles, any activity on the internet generates usage. Internet marketing usage is the measurement of the amount of data used to promote an SME. Social media is the collective of online communications channels dedicated to community-based input, interaction, content sharing and collaboration. Websites and applications dedicated to forums, microblogging, social networking, social bookmarking, social duration and wikis are among the different types of social media. Social media usage is the use of these tools to promote the marketing of a small business. The main tools for internet marketing and social media are the following:

1. Search engine marketing (Google, Bing, Yahoo, etc.)
2. Directories and listings
3. Email marketing
4. Social-media marketing
5. Public relations
6. Online advertising

Think of the internet as a tree; the internetmarketing tools are the branches. The main part of the tree is made of a website where customers come to read and be converted to a sale. The following are important:

- **Development:** the approach and technology here is crucial to ensure all internet users are reachable and servable.
- **Design:** ensuring the customers' experience of the small business's processes and branding is user-friendly is crucial to conveying the marketing message, which facilitates the conversion of a lead to a sale.

The roots of the tree show the methodologies and practices that ensure any internet-marketing approach is successful and are as follows:

- Conducting research to understand the target market and the marketing message to enable a conversion from leads to sales, as well as on the competition's approach and its influence on the strategy
- Strategising to attract the target market that will buy the product or service
- Communication strategies to engage and convert potential leads to a sale
- Branding of the products and the medium used to reach the target market
- Relevant, value-added driven information, not just to win over customer or clients' trust, but also to inform them about the product

Small businesses use social-media platforms to power their success. Social media is becoming an integral part of life online, as observed by Witzig, Spencer & Galvin (2012). They use social media to market products, promote brands, connect to current customers and reach new business. Examples of social media are discussed next.

- According to statistics gathered by the Nielsen Group (2015), internet users within the US spend more time on Facebook than any other website. Facebook is a popular free social networking website that allows registered users to create profiles, keep in touch with friends, family and colleagues, and post pictures, videos and messages to them.
- Twitter is a microblogging service that allows registered members to freely broadcast short posts. These short informational posts are called tweets. Twitter members can follow other users' tweets by using multiple platforms and devices.
- Google's social networking project, Google+ (pronounced Google plus), is designed to replicate interaction people demonstrate offline more closely than is the case in other mainstream social networking services.
- Wikipedia is an open-content, online encyclopaedia created through the collaborative effort of a community of users known as Wikipedians. It is free to the public. Any registered individual on the site can create an article for publication. Registration is not required to edit articles, but any editorials made are reviewed before publishing. Wikipedia was founded in January 2001 and is a non-profit organisation dependent on donations from the public.
- The social networking site designed specifically for the business community is LinkedIn. This site allows registered members across the globe to establish and document networks of people they trust professionally. The site also allows members to set up groups to discuss professional work-related issues or approaches.
- Reddit is a social news website and forum where news items are socially circulated and promoted by site members. The site is composed of hundreds of subcommunities, each with a specific topic such as technology, politics or music. Reddit site members can submit content, which is then voted upon by other members with the goal to send well-regarded news stories to the top of the site's main page.
- Pinterest is a social website where registered members can add, share and categorise images. It is mainly a visual discovery tool that enables users to find images regarding their interests. Each visual is accompanied by a brief description, and clicking on an image will take members to the original source of information.

Mutula and Mostert (2011) indicate that both domestic and global marketing sales depend on the targeting of specific groups, which usually involves the use of internet search engines and display companies providing advertising and routing to the small business's sales page or contact details. Tan and Teo (2010) observe that although most small business have access to the internet, they still seem to experience challenges in using it. There are five main issues that previous studies (UN, 2012) noticed with traditional internet advertising using search engine and display networks:

1. The cost and the difficulty in targeting specific groups according to the business's funnel.
2. Understanding and applying keyword search methodology and search engine optimisation (SEO) – most small businesses do not have the knowledge or the time to gain the knowledge to apply keyword and SEO successfully.
3. Most sites set up by small businesses do not provide adequate customer or consumer experience to ensure high conversion.
4. Most small-business owners do not understand how to approach internet marketing and internet customer interaction technologies.
5. Even small businesses that have budgets to outsource the building of a website do not usually get the service and technology to enable them to fully service both the desktop, tablet and mobile market.

Social-media tools facilitate social networking by means of media such as blogs, podcasts, message boards, video blogging, wikis and Twitter (Witzig et al., 2012: 113). Social networking is a meeting of mostly like-minded individuals on a social media site to discuss a matter of interest amongst the group (Lacho & Marinello, 2010: 128). The business community took note of the customisation of individual pages by adopting and incorporating the customisation into their own social networking pages where an organisation is able to share information, pictures, videos and advertising (Lacho & Marinello, 2010: 128). By customising social media pages, thereby attracting customers and engaging with them, customer loyalty can be fostered. It should be noted that social media is also a means of fostering and preserving customer loyalty, and improving the engagement and contact between the customer and the business. According to Witzig et al. (2012: 114), this increases loyalty with customers and ensures that a long-term relationship is built and conserved. Additionally, social media can serve a number of functions within the business community well. Functions of social media include the following (Lacho & Marinello, 2010: 129; Witzig et al., 2012: 114):

- Managing information that is publicly available about your professional profile
- Locating and becoming acquainted with potential customers, service providers and recommended experts in your field
- Creating and collaborating on organisational projects, gathering data, sharing files and providing solutions
- Being visible and indicating availability of potential business opportunities and partnerships
- Gaining valuable insights into an area of interest with like-minded professionals
- Making beneficial connections that may enable business deals
- Advertising job opportunities to find excellent human capital for the organisation

12.5.2 Is internet-marketing usage crucial for small businesses?

Internet marketing refers to a set of powerful tools and methodologies used for promoting products and services through the internet. Internet marketing is ideal for small businesses, as they, more so than larger organisations, focus on drawing the attention of customers. In other parts of the world, the small business has been slower to adopt social media as a marketing tool (Bakeman & Hanson, 2012: 106). Theunissen (2012) suggests that organisations should implement a basic yet effective social media and internet-marketing strategy involving Facebook, Twitter, a blog and an updated and user-friendly website. The social-media strategy variables can be used to create brand awareness, promote offers, provide information and provide interaction opportunities with consumers and a means to engage with customers.

However, designing and implementing an attractive website does not guarantee individuals will visit it; regular updates, value-added content and marketing of the website online are important elements to draw potential clients to a small business's website. Theunissen (2012) mentioned that: "The vital part of any Internet-marketing activity for small business is that it enables entrepreneurs to have one-on-one discussions with people who actively express an interest in their companies. As such, if they're managed properly, they can act as a 'call centre' for their operations." However, the questions remains as to what challenges exist when adopting internet marketing in a small business.

Marx and Van der Walt (2003) indicate that small businesses can use the internet for marketing products and services by providing online quotes, advertising in more markets with less marketing expense, and using email as a marketing tool to enlarge their reach to potential target markets. This approach decreases the costs of printing materials such as catalogues and glossy brochures, as well as the expenses related to delivery mechanisms such as postal services or courier services. Marx and Van der Walt (2003) have identified motivation drivers such as the opportunity to promote their company better; lower operating and marketing costs; enrich their overall marketing communications mix and sales funnel effectiveness; and increase sales and profits. A recent study conducted by World Wide Worx (2012) in Britain shows that 79 per cent of the SME respondents felt it was critical to their marketing to have a website to represent their brand and showcase their products or services. The same study also highlighted the following:

- Small-business owners are familiar with social-media marketing, email marketing and SEO.
- Over 50 per cent manage their digital activities in-house and one-third have some sort of agency support.
- The least familiar online marketing tactics are content marketing, affiliate marketing and inbound marketing.

Summarising the research study findings, Friedlein (2014: 21), founder and managing director at Browser Media, remarked:

It's heartening to find that small businesses understand that their website can be a valuable business asset but equally concerning that only half invest in promoting it more broadly. It's a bit like setting up a new retail outlet and then only telling family and friends how to find you. In order to attract new customers and grow their businesses, these small businesses need to think like a big brand and make more noise online.

South Africa has one of the largest internet economies in Africa. A report by Goldstuck (2012) shows that South Africa had approximately 8.5 million active internet users at the end of 2011. This represented a 25 per cent increase over the 6.8 million recorded in 2010. This high growth rate is the result of the proliferation of smartphones in the South African market – making internet available to more people without ADSL or another physical connection. South African internet penetration grew to approximately 17 per cent, but it is by no means the biggest percentage of internet penetration in the African continent: Nigeria, with its 45 million users, has a 29 per cent penetration. Egypt has a user base of 21.6 million users with a 26 per cent penetration, while Morocco's 15.6 million users represent a 49 per cent penetration. Kenya has an estimated 10.4 million internet users with a 25 per cent penetration.

12.5.3 Small-business challenges adopting internet marketing and social media

The small business does not have the same resources as large organisations to promote the use of internet marketing. Larger organisations have human capital and financial means to create and implement a social-media strategy to enable internet marketing (Bakeman & Hanson, 2012: 107). Internet marketing has taken advertising to a whole new level by using social-media activities. In a study carried out by (Bakeman & Hanson, 2012) on the barriers affecting the implementation of internet systems and procedures in different countries, it was revealed that the high cost of installing infrastructure; the high price of technology, large investment requirements and liquidity constraints form the largest barrier. Other concerns are: uncertain returns on investment (ROI); limited worker expertise caused by a general shortage of highly skilled workers and insufficient training; lack of management vision, support and enthusiasm in the adoption of internet technology; an inability to outsource IT expertise; and bad experiences in the past. Therefore, despite the affordability of social-media networks, the time factor, lack of skills and the learning factor, which requires a time investment to learn and manage the social-media page, internet marketing may still be out of the small business's reach. However, small-business owners do understand the value of internet marketing in enhancing productivity and competitiveness (Bakeman & Hanson, 2012: 107). Previous studies (Dlodlo & Dhurup, 2010) confirm that small businesses perceive the following as challenges to using social and internet marketing:

- Start-up investment costs for the internet, which are high due to the necessary tools and expertise required
- Inadequate access to technologies, ineffective selling techniques and limited market research
- Security of information
- Unauthorised access to sensitive or proprietary information, and limited verification of authorship of messages
- Lack of management support and encouragement
- Resistance to change
- Lack of resources

Perhaps the most important statistic to come out of the small-business survey (World Wide Worx, 2012) is that 63 per cent of formal small businesses in South Africa have a website, which leaves more than a third of small businesses without an online global presence.

12.6 CONCLUSION

In this chapter, stakeholder communication and building relationships for small business were described. In addition, the role of marketing communication in stakeholder communications, the elements of small-business marketing communication and lastly, internet marketing and social media for the small business were reflected on.

REVIEW QUESTIONS

12.1 Define the stakeholders of the South African small business with practical examples.

12.2 Illustrate the different groups of stakeholders of a small business. In your answer, provide practical examples as applied to South Africa.

12.3 What are the benefits of a stakeholder's marketing communication plan? Develop a stakeholder's marketing communication plan for a small grocery shop in your area.

12.4 Write short notes on small-business stakeholders' marketing communications. Illustrate your answer with South African examples.

12.5 Distinguish between promotion and the other three Ps. In your answer provide practical examples as applied to South Africa.

12.6 Promotion, advertising and public relations are marketing communication methods that small businesses can utilise to differentiate itself and its products from the competition. Discuss the different communication methods, providing practical examples in your answer.

12.7 Pat owns a small business, Fashion First. She operates her business from the Pretoria CBD and sells fashion items such as dresses and handbags. Assist her to identify sales promotion techniques she can use to promote her small business. In your answer provide practical examples.

12.8 Identify the areas that can help a small business to establish whether or not the sales promotion efforts of the small business were successful. In your answer, provide practical South African examples.

12.9 Patrick is thinking of starting a small arts-and-crafts shop in the small business centre in his area. Conduct an online search and assist him to distinguish between advertising and public relations, and how he can use them to promote his shop. In your answer, provide practical South African examples.

12.10 Write short notes on the advantages of advertising for a small business. In your answer, provide practical South African examples.

12.11 Give a summary of the marketing communication elements of a small business. In your answer, provide practical South African examples.

12.12 Write short notes on the main tools for internet marketing. In your answer, provide practical South African examples.

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RECOMMENDED WEBSITES

http://www.businessdictionary.com/definition/sales-promotion.html ixzz457muwok0

http://www.marketingteacher.com/introduction-to-marketing-communications/

http://pixelpusher.co.za/tag/standard-bank-personal-loans-blacklisted/

http://www.professionalacademy.com/blogs-and-advice/stakeholder-mapping---marketing-theories

http://smallbusiness.chron.com/benefits-stakeholder-communication-38875.html

https://www.thedti.gov.za/agencies/seda.jsp

http://ul.netd.ac.za/bitstream/handle/10386/525/mashaphu%20m%20m.dev.pdf?sequence=1&isallowed=y

13

Human resources management

M.F. Rangongo

LEARNING OBJECTIVES
After you have studied this chapter you will be able to

- describe what human resources management and its link to the overall business strategy of the small business is
- define human resource planning
- discuss job analysis and distinguish between a job specification and job description
- detail the recruitment and selection process
- explain training and development and differentiate between the different types of training
- define performance management and its challenges
- understand the importance of compensation
- describe the role of health and safety
- describe the impact of South African legislation on the different stages and/or functions of human resources management

KEY CONCEPTS
- Human resources management
- Human resources planning
- Job analysis
- Job description
- Job specification
- Recruitment
- Selection
- Employment contract
- Orientation
- Training and development
- Compensation
- Health and safety
- Job termination

13.1 INTRODUCTION

CASE STUDY Trouble at Modiselle Shopping Centre

Lerato Modiselle, armed with an MBA degree from one of the most prestigious universities in the UK, walked into the cell-phone and accessories retail store of the Modiselle shopping centre in the township of Nkowankowa near Tzaneen in Limpopo. She was excited and looking forward to her job, grinning from ear to ear in her well-polished suit. Her enthusiasm was so sharp it was infectious. Not for long though. Her father was the owner of the newly built Modiselle small shopping centre. He also owned the shop that sold and repaired cell phones in the shopping centre. Lerato was going to manage the whole shopping centre, but she thought she should visit one store first. In just two hours of observation, she saw five customers complaining of poor service, especially after-sales service. Repairs were not done timeously or satisfactorily, according to one of the customers. Lerato could also see that the shop was understaffed, so the two employees who were there, Matome and Mmakoma, were hardly coping and looked exhausted before half of the day was gone. They also did everything from sales to repairs. What exactly did they specialise in? Lerato learned from Matome, the longest-serving employee, that in the past six months two employees had resigned, complaining of being overworked. “What is going on here?” Lerato asked herself.

Lerato went back to her father, Mr Modiselle himself, because the cell-phone shop was his, to discuss her observations. She had to think about what to do for the little cell-phone shop as well as the overall shopping centre.

Unfortunately Modiselle shopping centre’s situation is not unique. Small businesses are particularly plagued by challenges of having to work with employees who do not necessarily have the requisite knowledge and expertise, and at times the managers/owners are not even aware of labour legislation. Hence there is a need to pay specific focus to human resources management (HRM) for the survival and sustainability of all organisations in the face of competition.

13.1.1 What is human resources management?

Small businesses play a very significant role in the economic development of any country, including those in emerging economies. Emerging economies are characterised by growing market orientation as well as growing economic activities. One of the essential keys to this increase in economic activity is entrepreneurship and small-business management. Small businesses contribute to economic growth through the creation of employment opportunities as well as their innovation. Like all sizes of businesses, small businesses exist in order to be productive and have a sustained competitive advantage over time (Kongolo, 2010). To be sustainable, organisations depend on robust human resources (HR) and capabilities that should also not be easy to duplicate or replace. These resources include capable human capital that can craft organisational strategies that will help organisations to survive and be sustainable (Ismail, Rose, Uli & Abdullah, 2012).

Hiring and retaining talented and capable human resources is a major challenge for organisations. This is why managing human resources has to be done effectively and diligently. Gone are the days when the human resources department used to be called the personnel department, dealing basically with administrative issues. According to Daft and Benson (2016), nowadays HR assumes a more strategic role in the organisation, to help the organisation to

- become more competitive in the global business environment
- improve quality, innovation and customer service
- understand and apply new information and communication technologies.

There are many definitions of "human resources management (HRM)". Basically HRM encompasses everything organisations do to get the best from their most valuable resource, their employees. Daft and Benson (2016: 446) define HRM as "the design and application of formal systems in an organization to ensure the effective and efficient use of human talent to accomplish organizational goals". The systems that are designed are specifically to attract a talented and capable workforce, place them in the correct positions within the organisation, maintain and develop them, and retain them.

13.1.2 The phases of human resources management

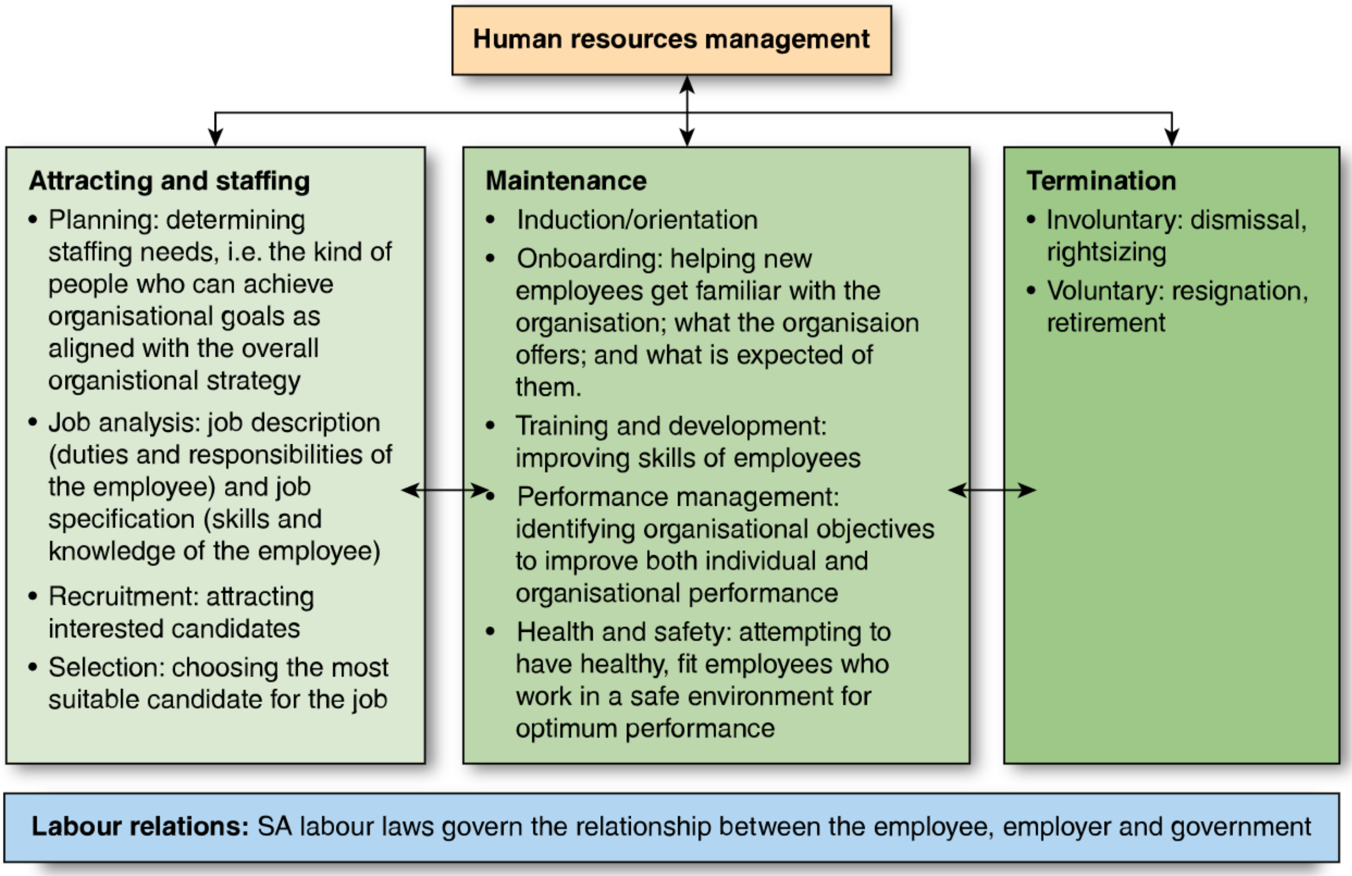
Managing human resources involves three main phases:

1. Firstly there is the initial phase **attracting and procuring** employees, which encompasses planning, i.e. aligning human resources goals with those of the overall organisation and then conducting a job analysis. This determines the kinds of business/job activities required by the organisation to be productive and sustainable as well as who will perform those activities, that is, the skills required to achieve organisational goals. Once the required skills have been determined through job analysis, the organisation can then engage in the recruitment and selection of the most appropriately qualified candidate for the organisation. The selected candidate is then offered a position in the organisation and then appointed, should that person accept the offer.
2. Secondly, upon the candidate's appointment, the second phase of human resources management, the **maintenance phase**, commences. This involves staffing and induction, which is conducted to familiarise the selected incumbent with the way the organisation is structured, including: reporting roles and responsibilities; the way the organisation operates; remuneration/compensation; and the employee benefits (discussed in detail under section 13.3.4 of this chapter). Together with remuneration and benefits to keep/retain employees, it is important to train and develop employees, manage their health and safety and carry out appraisal and performance management.
3. The last phase is that of ***termination*** of employment, which can either be voluntary on the part of the employee or involuntary. Voluntary termination includes resigning or quitting while involuntary termination incorporates processes like dismissal, right-sizing, downsizing or retirement. Dismissal can be due to (i) employment or work-related challenges like poor performance or the negative attitude of an employee or (ii) more serious offences like theft, fraud, insubordination and/or other offences that

can also be of a criminal nature. Figure 13.1 represents the three phases of human resources management.

Figure 13.1 indicates that labour relations run throughout the human resources management process. This indicates that managers of all businesses, small and big, should always keep in mind the rules and regulations that govern the relationship between employees, employers and organisations in order to avoid expensive and unnecessary legal actions that can be brought against their organisations.

Figure 13.1 The Human resources management functions



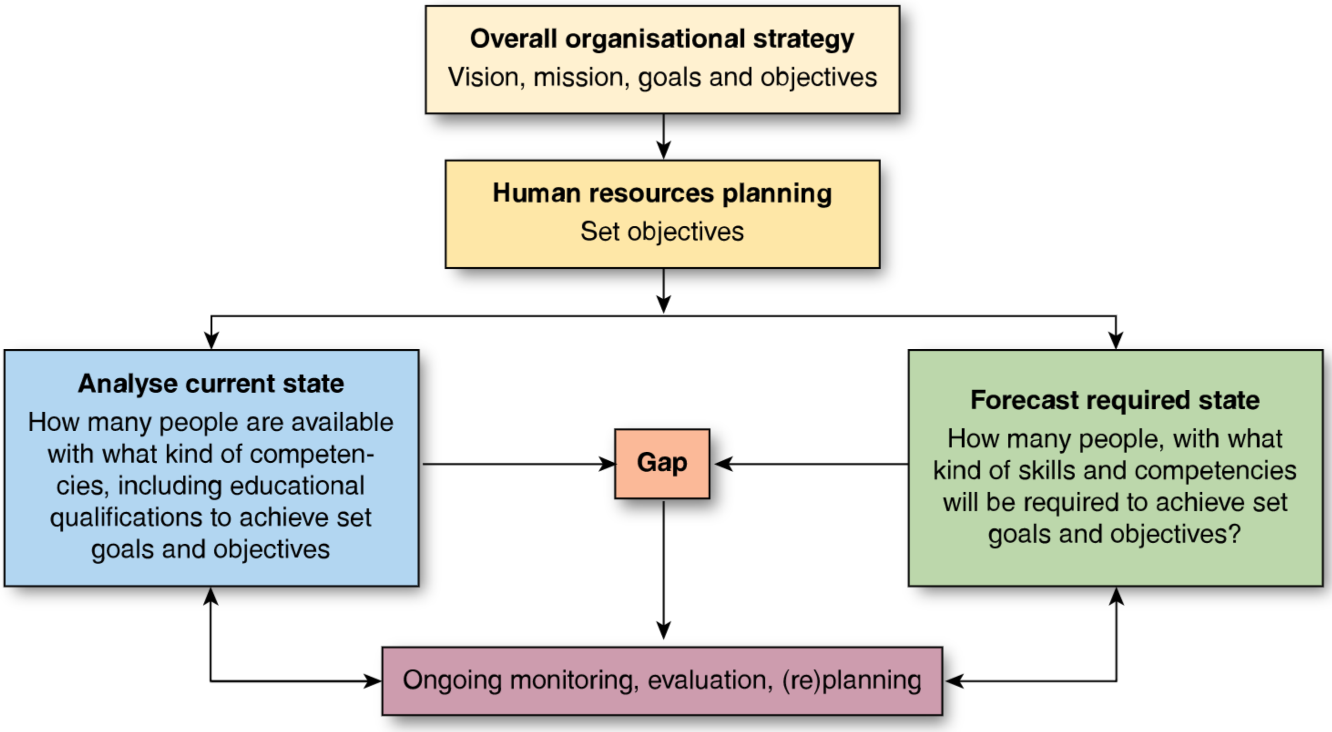
13.2 ATTRACTING HUMAN RESOURCES AND STAFFING ORGANISATIONS

13.2.1 Strategic human resources planning

In every organisation, the human resources function is part of the overall organisational structure with its mission, vision and objectives. As a result, the human resources strategy should be linked with the general strategy of the overall organisation. Strategic human resources management, if done well, can help the organisation in achieving its objectives and in gaining and maintaining a competitive advantage. Following and/or linked to the overall organisational vision, mission and objectives, HR will embark on its own analysis and crafting of objectives. The duties that need to be accomplished in order to achieve the set organisational objectives, the kind of employees' skills, knowledge, abilities and competencies that are available to perform those duties; and eventually the skills, knowledge, abilities and competencies that are still required by the organisation will then be assessed. The gap between what is available and what is required will help managers decide whether there is a need to recruit other employees or not.

The definition of strategic HR planning by Warnich, Carrell, Elbert and Hatfield (2015: 119) gives a comprehensive definition of the whole process as follows: "The process by which company goals, as put forth in the mission statement and company plans are translated into HR objectives to ensure that the company is neither over- nor understaffed, that employees with the appropriate talents, skills and desire are available to carry out their tasks in the right jobs at the right times". The human resources planning process is outlined in Figure 13.2.

Figure 13.2 Human resources planning

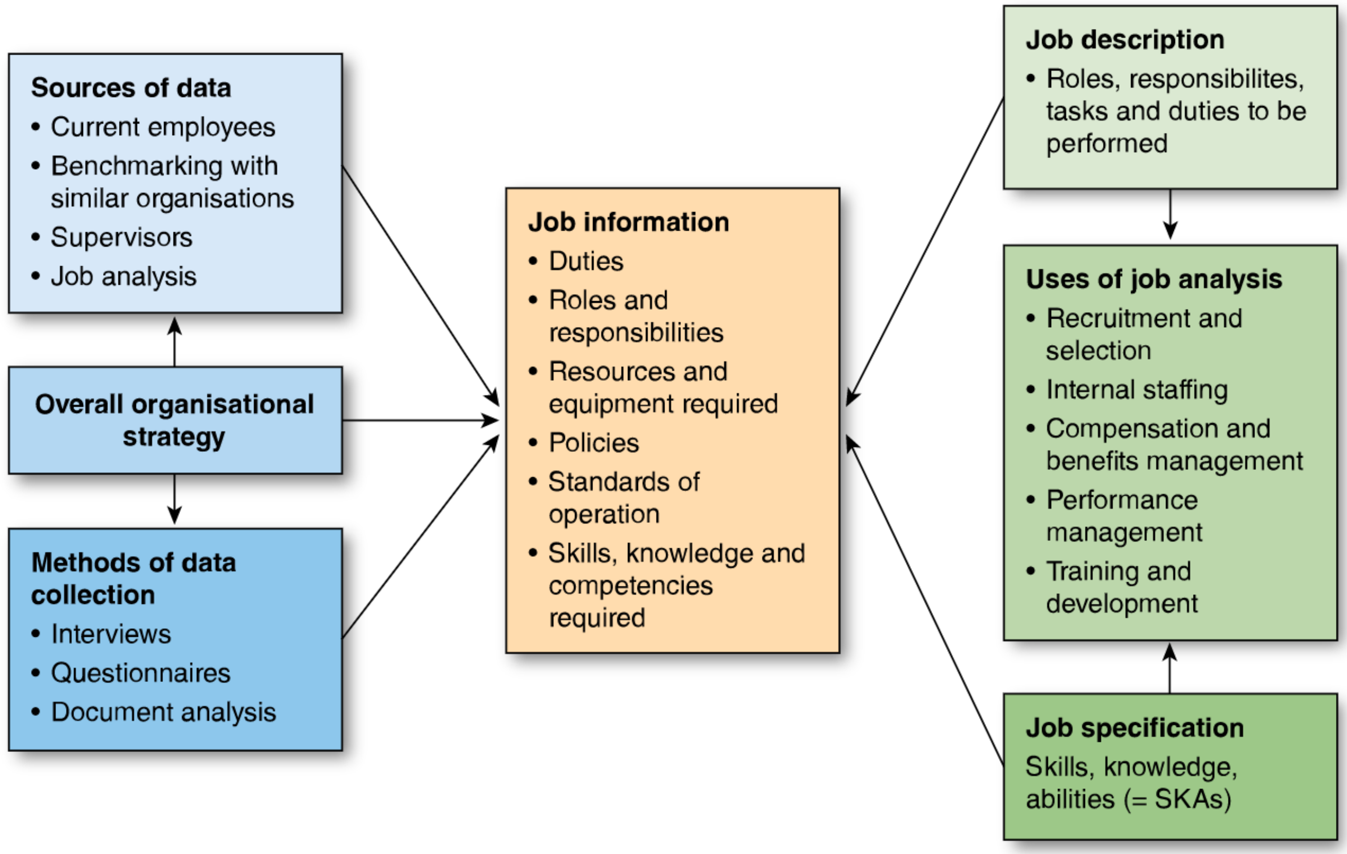


13.2.2 Job analysis and design

Job analysis involves reviewing a job in terms of the type of duties and tasks required for that job, the resources that will be needed, as well as the amount of time it will take to accomplish that job. It is defined as "a systematic way to gather and analyse information about the content, context and the human requirements of jobs" (Warnich et al., 2015: 162). The process of conducting a job analysis requires, firstly, a review of the organisational objectives to determine the type of tasks required to effectively accomplish those objectives. This means collecting information about the job that will be performed by employees in a certain position. That type of job information can be collected through the use of questionnaires or holding interviews with several sources. These include employees who are currently holding those positions or similar positions, the supervisors of those employees or the professional job analysts. Collection of data can also be through observations of job incumbents and/or scrutinising records about what those positions entail. It is possible that some positions may not be available in small businesses as they may perhaps be in the process of being created. In that case, the organisation can benchmark with similar positions in other organisations.

The process of job analysis is presented in Figure 13.3 below.

Figure 13.3 The job analysis process



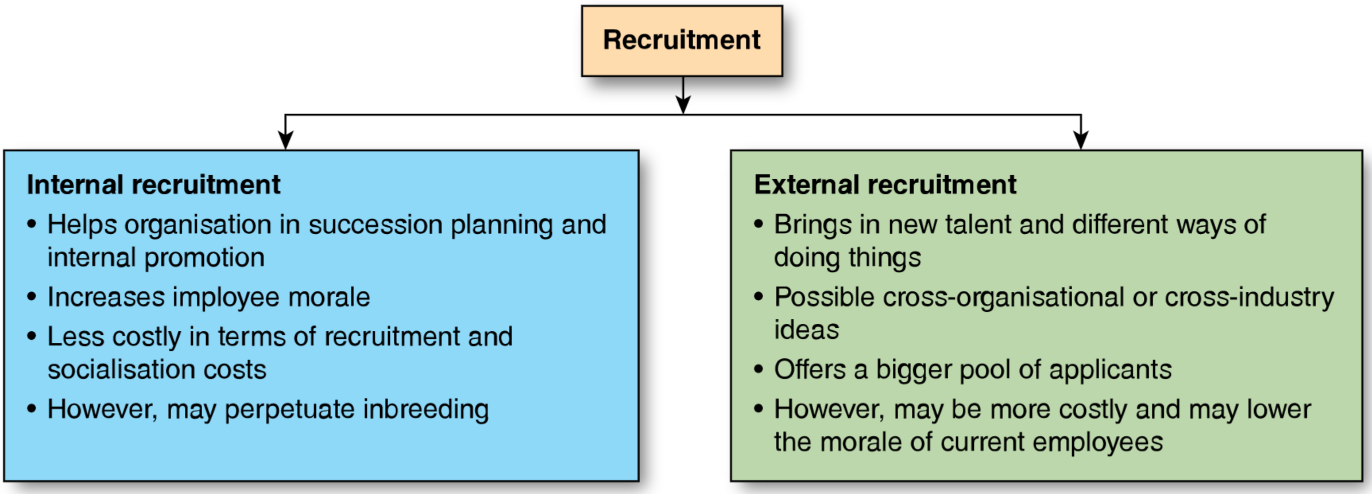
Information that is collected through the job-analysis process is subsequently utilised to design the jobs that were assessed in a process of job design.

13.2.3 Recruitment

The information from job analysis can then be utilised to attract prospective employees through the process of **recruitment**, also known as **talent acquisition** to put emphasis on the fact that an organisation looks for people who have certain targeted competencies to achieve predetermined organisational goals. Recruitment can be defined in different ways that can include “activities or practices that define the characteristics of applicant to whom selection procedures are ultimately applied” (Daft & Benson, 2014). Recruitment considers information about available skills, identified in the planning phase, and where the non-available skills can be acquired.

Recruitment can be done either internally or externally. **Internal recruitment sources/media** for dissemination of information about the required candidates/employees include the intranet, notice boards and so forth. In most cases, internal recruitment will result in promotion of employees. External recruitment, on the other hand, will end up bringing new talent and different thinking from outside the organisation. **External recruitment sources** that can be utilised include, for instance, newspapers, the internet (e-recruiting), employment agencies, professional organisations, educational institutions, referrals by employees and walk-ins (Warnich et al., 2015; Nel et al., 2014). Figure 13.4 illustrates a comparison between internal and external recruitment.

Figure 13.4 Internal vs. external recruitment



It is crucial to remember that whatever source of recruitment is employed, it should not discriminate against any member of society who could be eligible to apply for the advertised position. The following prescripts should be taken into consideration:

- **The Constitution of the Republic of South Africa** (as amended), through its Bill of Rights, prohibits any unfair discrimination against any person based on their race, gender, age, sexual orientation, ethnic or social origin, religion.
- **The Labour Relations Act (LRA) 66 of 1995** (as amended) also prohibits discrimination. The act specifically states that from the time an organisation advertises a position, it should not unfairly discriminate against candidates based on their gender or race unless they are trying to attract candidates from designated groups as part of their equity targets.
- Employment equity is guided by the Affirmative Action (AA) programme in terms of Chapter 3 of the **Employment Equity Act** (EEA) **55 of 1998**. In addition, the EEA also specifically states that "No person may unfairly discriminate, directly or indirectly, against an employee, in any employment policy or practice, on one or more grounds, including race, gender, sex, pregnancy, marital status, family responsibility, ethnic or social origin, colour, sexual orientation, age, disability, religion, HIV status, conscience, belief, political opinion, culture, language and birth".
- **The Basic Conditions of Employment Act** (BCEA) **75 of 1997** (as well as the **BCEA Amendment Act 20 of 2013**) was promulgated mainly to promote fair labour practice in the workplace, in line with section 23(1) of the Constitution. The Act gives minimum prescripts/guidelines, to both the employer and employee, in terms of the number of working hours; leave, type of leave and the minimum number of days that can be taken for each type of leave; particulars of minimum remuneration/compensation; conditions under which employment can be terminated by either the employer or employee; non-employment of children; as well as guidance in terms of violation of any of the outlined minimum prescripts.

However employers who are aiming to achieve their employment equity targets or are choosing a person based on job-inherent characteristics are not considered to be discriminatory.

The above prescripts of non-discrimination against any candidate apply to any organisation, big or small, and apply all the more so during the selection phase.

During recruitment the employing organisation should specify the following:

- The type of application forms that should be submitted when applying for the advertised position
- Any other required attachments, like a curriculum vitae (CV), certificates of qualifications, referee reports and a copy of the identity document (ID)
- The date by which all applications should be sent for consideration by the advertising organisation.

When applicants have sent in their applications, the selection process will ensue.

13.2.4 Selection

Selection, "the process of choosing the most qualified applicant recruited for a job" (Lussier, 2009: 238), follows after applicants have sent in their applications and there is a pool of applicants from which the most appropriate candidate for the advertised position can be chosen. Selection occurs in several steps as follows:

13.2.4.1 Step 1: Initial screening

The first step is to conduct the initial screening of candidates by scanning through the application forms to eliminate candidates who obviously do not qualify for the position due to several possible reasons that may include:

- Not having the requisite skills (i.e. minimum requirements) for the position
- Not having completed the application forms fully or correctly
- Not having included all the requested information/documents.

Some candidates may be contacted telephonically or by email for them to verify and/or send more information.

13.2.4.2 Step 2: Pre-employment testing

Testing should be job inherent (e.g. number of words typed per minute when looking for a typist) and should not in any way be construed as discriminatory. It should be noted that testing is a highly contentious issue and should be conducted with caution and consideration of labour legislation. Chapter 2 (section 8) of the EEA specifically mentions psychometric testing. It explicitly states that: "Psychometric testing and other similar assessments of an employee are prohibited unless the test or assessment being used-

a) has been scientifically shown to be valid and reliable;

b) can be applied fairly to employees; and

c) is not biased against any employee or group".

So it is probably a good idea, should it be essential to conduct psychometric testing, to make use of appropriately qualified professionals who are able to comply with the stipulations as well as rules and regulations of psychometric testing, as outlined by the Professional Board for Psychologists.

Following determination of the appropriateness of testing, those candidates who make it through the initial screening may then be invited for pre-employment testing. Testing is dependent on the nature and level of the job. In the case of positions at managerial level, assessment centres may be employed to carry out a process of evaluation of candidates. This process is usually carried out away from the premises where employment will take place, by trained professionals who use various assessment tools such as simulation exercises, case studies, observation and role plays to evaluate the candidates. This process is costly and as a result may prove to be too difficult, especially for small businesses.

13.2.4.3 Step 3: Interviews

The next step after testing will be interviews that can be held in one or a combination of several ways:

- Individual interview of a candidate by one interviewer
- Individual interview of a candidate by a panel (group) of interviewers
- Group interviews of several candidates (usually better if conducted by a panel for better observation and recording of all information: verbal and non-verbal)

As interviews tend to be cumbersome for both the interviewer(s) and interviewee(s) as well as highly subjective, it is suggested that some structuring should take place to decrease the bias. Accordingly, it may be prudent to follow the suggestions below:

- **Contacting candidates:** candidates should be conducted (by letter, phone, email) in order to give them the date, time and venue of the interview. A contact name (person) and their contact details should also be given in case there are any questions on the part of the candidate.
- **Review of information:** information about candidates, i.e. their application form and CV (where applicable), the job specification and job description as well as the advertisement of the position candidates are being interviewed for should ideally be available to all interviewers. It is also suggested that this information should be made available in advance so that the interviewers can familiarise themselves with it beforehand.
- **Structuring the interview format:** if a panel interview format is followed, one of the interviewers should be designated as the chairperson of the team and, if necessary, another one should be the time-keeper. Ideally, to standardise the kind of questions asked of each interviewee, questions should be prepared in advance. In the case of a panel interview, the panel should also determine who will ask which questions. The interviewers should be careful not to ask questions that are not job-related or illegal. The system of scoring and recording information that transpires during the interview process should also be established in advance.
- **Preparation of the interview setting:** a convenient venue that is conducive to conducting interviews should be prepared and reserved for the interviews. The setting should also make the interviewees feel at ease. Adequate time should be allowed for each interview, including time to deliberate upon the interview information and usher in the next interviewee.
- **Set an agenda:** an interview is a meeting, and like all meetings, a clear agenda is required. It is important to start any interview session by outlining what will happen during the interview, and by introducing the interviewer(s) to the candidate.
- **After the interview:** candidates should be given an opportunity to ask questions should they want/need to. They should then be informed about the approximate amount of time it will take to give them feedback, the channel of communication that will be used to give them feedback and who they can contact should they want to find out about the outcome of the interview. Finally, it is courteous to thank them for taking the time to come for the interview.

13.2.4.4 Step 4: Background and referee information check

Checking the background of the prospective candidates is crucial particularly to verify their qualifications. It is also necessary to check with their previous employers and colleagues

- previous issues that involve discipline
- the type of people the applicants are as individuals, employees and co-workers and/or team players
- their behaviour and attitude towards themselves, their fellow employees and supervisors and to the work itself.

Interviewers should, however, be careful not to use reference checks as the sole basis upon which to ground their hiring decisions as there can be bias and questionable validity in terms of who gives information about the applicant and especially their relationship with the applicant.

13.2.4.5 Step 5: Medical examinations

Depending on the type of job, it may be necessary to do medical examinations. Chapter 2 (section 7) of the EEA specifically states that

1. “Medical testing of an employee is prohibited, unless-

a) legislation permits or requires the testing; or

b) it is justifiable in the light of medical facts, employment conditions, social policy, the fair distribution of employee benefits or the inherent requirements of a job.

2. Testing of an employee to determine that employee’s HIV status is prohibited unless such testing is determined justifiable by the Labour Court in terms of section 50 (4) of this Act”.

The EEA does not apply to members of the

- "National Defence Force;
- National Intelligence Agency; and
- South African Secret Service".

13.2.4.6 Step 6: Job offer

If a candidate goes through all the stages successfully, i.e. fulfilling all the requirements, then they may be recommended for employment. This will be followed by a job offer. The job offered should ideally be in writing and should clearly outline the following:

- Job title, rank and where the position is located
- To whom the candidate will report, and who will be reporting to the candidate
- When employment will start
- The nature of the job, as detailed in the job description, for instance

– compensation and benefits offered by the organisation

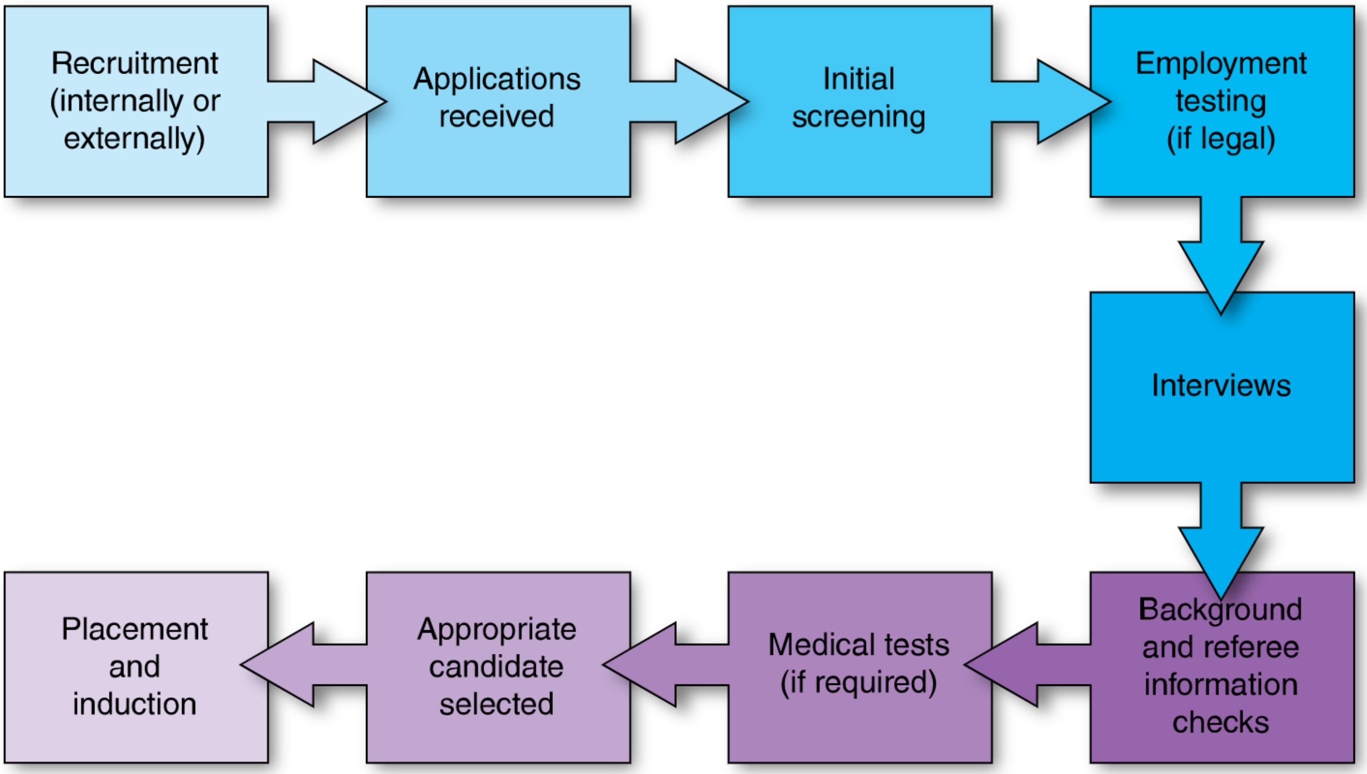
– whether employment is permanent or on contract (period of contract also to be specified), part-time or full-time

– hours of work and leave

– termination of employment (under what circumstances can the employer or employee terminate their contract).

If the candidate and the employer agree on the terms spelled out in the job offer, they can then enter into an employment contract that will be binding to both parties. The above information is also important to be included in the **employment contract.** Chapter 4, section 29 (on written particulars of employment) of the Basic Conditions of Employment Act (BCEA) 75 of 1997 states that upon employment of a candidate, the candidate should be given an employment contract with detailed information that includes: compensation; number of working hours to be worked and leave. An employment contract should be worded in such a way that the employee understands it and it must be signed by both the employer and employee. Figure 13.5 outlines the selection process.

Figure 13.5 The recruitment and selection process



13.3 MAINTAINING EMPLOYEES

13.3.1 Onboarding and orientation

Onboarding and orientation are two interlinked processes that are crucial for the successful integration of employees into the organisation, the organisational culture and acquainting employees with all the details of their job for them to be effective and productive members of the organisation. Onboarding is "a process that starts before the employee joins the organisation, continuing for several months and which aims to develop employee behaviours that will ensure long-term success and commitment of the employee to the organisation"; while orientation refers to "the process of integrating the new employee into the organisation and acquainting them with the details and requirements of the job" (Warnich et al., 2015: 233). For effective onboarding and orientation the following factors should be considered:

Welcome pack: upon acceptance of a job offer, the employer should send a welcome pack to the candidate. This pack should give details about the first day of work, i.e. the date and time on which the candidate will commence duties, who to report to, the office number and what to bring with him or her. The detailed employment contract should also be presented to candidates before they commence with their duties.

Who should perform the orientation: numerous people have different roles and responsibilities in the orientation process. Some of the information may overlap but may be necessary to help incumbents to be effective and for them to get settled in the organisation.

13.3.2 Performance management and appraisal

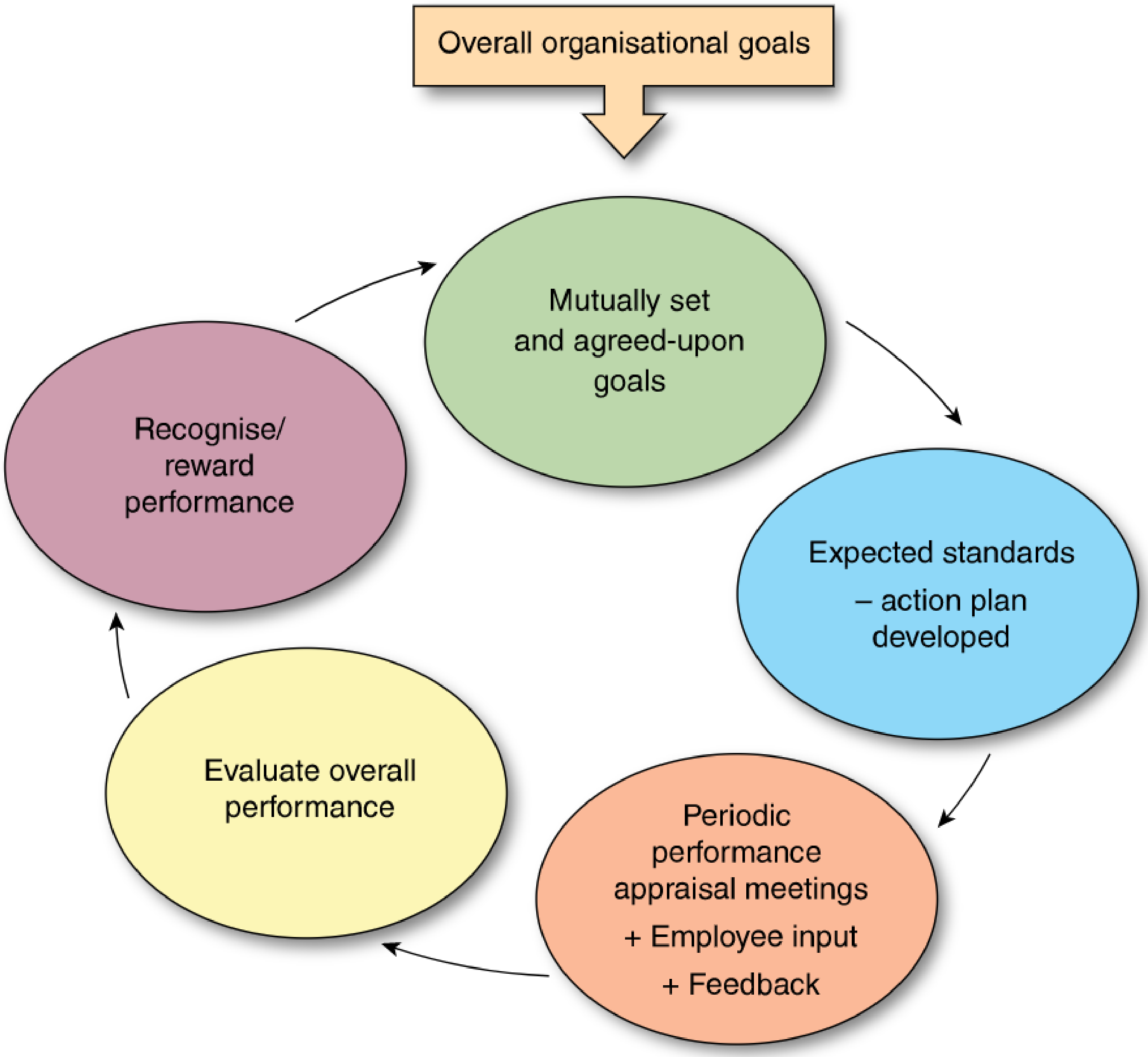
The purpose of any organisation, profit making or non-profit making, is to have sustainable productivity. Sustainable productivity is even more crucial for small organisations that are trying to survive in the face of global competition. It can be achieved through competent human resources whose performance is appraised and managed well. Through effective performance management, organisations can ensure achievement of their overall goals. Nel et al. (2014: 219) define performance management as "a process of creating a work environment or setting in which people are enabled to perform to the best of their abilities for the achievement of shared goals".

Performance management helps the organisation in making decisions about internal staffing, that is, placing the right people with the right qualifications and competencies in the right positions, succession planning and promotion; seeing what resources are available and which ones are needed. The two main purposes of performance management are development of employees and remuneration. To a certain extent, employers and employees tend to overemphasise the remunerative aspect of performance management and by so doing disadvantage employee development for enhanced production.

Performance management has to start by identifying the people who will appraise, usually managers/supervisors, as well as those who will be evaluated. All people, appraisers and those who will be evaluated, should be properly trained on the appraisal instrument that the organisation chooses to use. Then managers and subordinates should jointly set clear goals of performance, which are aligned to the overall organisational objectives, and have a common understanding of standards of performance. The goals should be SMART, i.e. specific, measurable, achievable/action oriented, realistic/results oriented and timely/time bound. A plan of performance should then be developed based on these identified goals. This plan of action should be known and understood by all involved personnel.

Then there should be a periodic review of performance, i.e. appraisal against the set standards. The periodic review should ideally involve formal meetings where there are discussions between the appraiser and the employee. Performance appraisal should be followed by feedback. Any deviation from the standards should be carefully analysed and measures be put into place to improve future performance. Measures that can be put into place may include: training and development; coaching and mentoring; purchasing or updating equipment and/or infrastructure. Performance evaluation can also inform HR decisions. Annual performance evaluations should be followed by the identification of new goals and replanning. The performance management cycle is presented in Figure 13.6.

Figure 13.6 The performance management cycle



Performance management challenges for any organisation include the following:

- Managers and employees not trained on performance appraisal
- Performance management not well-aligned with overall organisational goals, or not properly aligned with resources (human, infrastructural, financial, technological)
- Little or no feedback provided after each appraisal session
- Little or no training and/or development offered to employees after performance appraisal
- Performance reviews reactive versus proactive
- Appraisal is often manual, therefore cumbersome and time consuming
- Rewards that are based on performance reviews often causing misunderstandings and in-fights

13.3.3 Training and development

HR planning, where there is an analysis of the type of skills that are available in the organisation versus those that are not available, as well as information from performance management, can help the organisation in deciding whether or not it needs to train and/or develop its employees. Nel et al. (2014: 194) state that "development is the formal education, job experiences, relationships, and assessment of personality and abilities that help employees prepare for the future". Development is directed at managers or employees who aspire to be managers. On the other hand, "training is primarily directed at improving an employee's job performance in the short run, according to a specific job standard. The job standard can be drawn from the job description. Should the decision be to train, then proper analysis of who should receive what kind of training should be carried out. This should guide the training objectives that ought to be clearly outlined to develop a distinct training programme. The organisation, guided by the kind of training that is required, can then decide whether the training will be done away from work or at work.

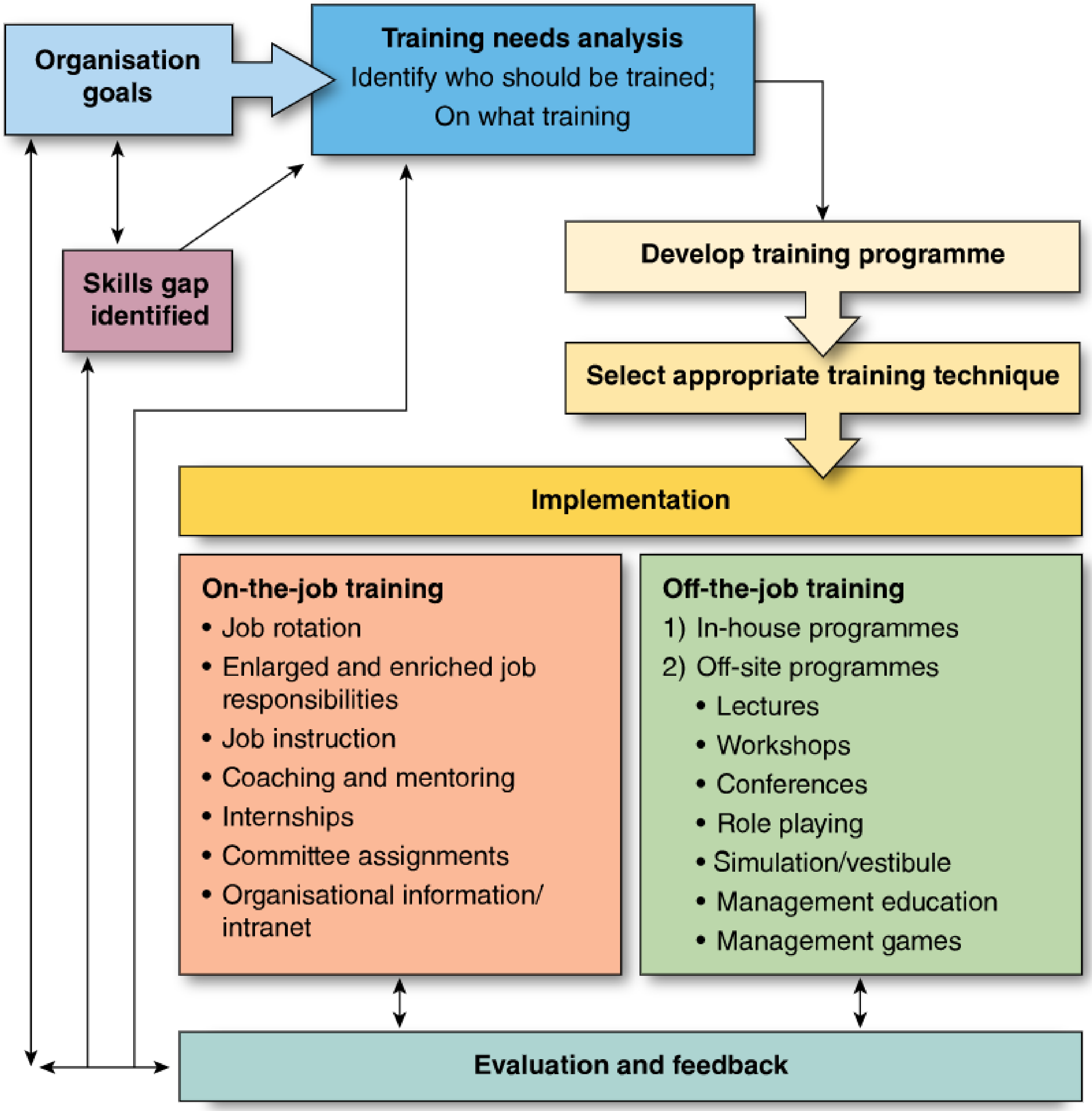
After any kind of training is completed, it should be evaluated to see if it accomplished what it set out to achieve. Feedback following the evaluation will feed into a reformulation of organisational objectives and/or identification of new training needs. The organisation should also provide the employees with an environment that is conducive to applying what they learned for them to realise the outcomes of their investment in training.

13.3.3.1 Training and development and the law in the South African context

The National Qualifications Act 67 of 2008

The South African educational system prior to 1994 was subdivided where different sectors did not receive education of equal quality. So organisations, especially small businesses, usually find themselves facing skills shortages or they may have people with qualifications whose quality may be questionable at best. As a way of establishing a body that will oversee the quality of education and training in the country, as well as accrediting institutions that offer education, the South African Qualifications (SAQA) Act 58 of 1995 was promulgated and started operating in May 1996. SAQA's main mission was to institute the National Qualifications Framework (NQF). The NQF provides a platform for a nation-wide system of learning that assesses and integrates all levels of education and training in the country.

Figure 13.7 The training process



By 2001 the NQF was under review, resulting in the SAQA Act being replaced by the National Qualifications Framework Act 67 of 2008. The primary objective of SAQA is to promote an education and training system that is of high quality and encompasses lifelong learning. The authority promotes access to quality education as well as skills development for all South Africans, thereby improving their lives. "SAQA is committed to the development of an NQF that facilitates articulation, recognition, access and redress across education, training and workplace learning; where learners, especially the youth in rural and the poorest communities, are adequately served by the SAQA through its NQF advocacy, qualification and career development and advice services" (SAQA, n.d.: 7). Through communication and collaboration with different stakeholders in different countries, SAQA is also able to recognise other forms of learning and experience through a process of Recognition of Prior Learning (RPL) that can help candidates to access formal learning. They also evaluate and align qualifications obtained in different countries with their NQF.

The Skills Development Act

In 1998, following the realisation and acknowledgement of the high unemployment levels and shortage of skills in South Africa, the government promulgated the Skills Development Act (SDA) 97 of 1998. The main purposes of the Act encompass the need to improve the skills of the country's workforce, thereby increasing their quality of life, self-employment prospects, service delivery, productivity and the ability to compete globally. The Act further wanted "to improve the employment prospects of persons previously disadvantaged by unfair discrimination and to redress those disadvantages through training and education". Other aims were to encourage employers to provide employees with learning opportunities and/or learnerships while at work; and improve the quality of education and in so doing increase employment chances of new entrants to the labour market or any other people who might have been unemployed. A learnership means "a learning programme that leads to an occupational qualification or part qualification and includes an apprenticeship and cadetship" (Skills Development Act 97 of 1998).

To realise the goals of the SDA, some bodies were established.

- **The National Skills Authority:** acts as an advisory body to the minister of labour on the development and implementation of the National Skills Development Strategy and policy as well as advice on the administration of subsidies of the National Skills Fund. The National Skills Development Strategy III (2011–2016) has contributed to quality lifelong education in the working environment. This has been done by tackling the need to improve national skills by emphasising the improved use of learning linked to occupationally directed programmes. The strategy also advocates for the practice of worker-initiated training initiatives to eventually improve service delivery. The NSDS especially encourages and supports the development of cooperatives and SMMEs.
- **The Sector Education and Training Authorities** (SETAs) were also established to develop sector-skills plans linked to the NSD and to promote and establish learnerships. SETAs also distribute grants to participating, registered organisations on the condition that those organisations have crafted and submitted reports on workplace skills plans and how they were implemented.

The Skills Development Levies Act

According to the Skills Development Levies Act 9 of 1999, all employers are required to pay 1 per cent of all their employers' pay as a skills development levy towards the National Skills Fund every month. Some public service and some non-profit-making institutions like religious organisations are excluded from this. Small businesses whose total annual pay to all their employees is less than R250 000 and are exempt from registering for tax are also excluded. So it is important that small businesses verify their situation so as to comply with legislation.

13.3.4 Compensation and employee benefits management

Compensation refers to all payments and benefits that can be monetary or non-monetary and are used to reward employees for satisfactory performance. It is crucial for organisations, big and small, to develop effective compensation systems as they help in attracting and retaining talented employees.

13.3.4.1 Salaries and/or wages

Monetary payments to employees include wages, base salaries as well as pay bonuses, and pay rises that can be determined by factors such as the type of organisation (in terms of industry and size, i.e. small or bigger businesses), the type of job an individual does and the level of the employee within the hierarchy of the organisation. Organisations usually have to decide on pay levels and pay structures. The amount of money paid to employees, i.e. the pay level, describes how the organisation's payment of its employees compares with other similar jobs and/or organisations within the same industry. Organisations can either have high or low pay levels. The pay levels are also linked to the need for sustainable competitiveness and the overall strategy of the organisation, e.g. a low-cost strategy may call for lower employee salaries. High pay levels can have an added advantage of attracting and retaining employees, in most cases talented employees. Small businesses may struggle to attract highly qualified workers if they have limited funds and thus might offer lower pay levels than the bigger and more established businesses.

Pay structures classify jobs according to different categories. These can include their relevance to the organisational goals (e.g. core job versus supplementary jobs) and the level of required skills. Pay ranges are determined for each job category/class. Within each category the pay of employees is determined by the position of the jobholder, as well as performance or skill/educational level. In big organisations, top managers and CEOs are often paid large salaries that small businesses may not be able to afford, putting them at a disadvantage to compete for talented employees.

Wage and salary systems

- **Job-based pay** is one of the wage and salary systems that can be utilised and it is the most common approach employed by organisations. Job-based pay links compensation to specific tasks that employees perform. It is also linked to the position of an employee within a specific category of jobs. Unfortunately this type of pay system does not necessarily acknowledge nor develop individual performance and puts emphasis on organisational hierarchies and centralised decision making.
- **Skill-based pay** systems, also called competency-based pay, put emphasis on remunerating employees according to their level of competency. This type of system encourages employees to develop their skills, thereby increasing their employability should they leave their current employer.
- **Pay-for-performance** also aligns remuneration with employee effort and productivity. Remuneration can then be through merit-based pay, bonus payment when certain goals or targets have been achieved, commission, team incentives and numerous gain-sharing or profit-sharing plans. This means that remuneration is linked to the behaviours that employees exhibit to achieve organisational goals (Daft and Benson, 2016).

Whichever system an organisation decides to employ, it should ensure that their employees perceive their pay as fair and equitable. If compensation is perceived as not equitable, the employees will not be satisfied with their jobs and as a result productivity may suffer or employees might leave the organisation. Employers should take note of the specifications of remuneration that are stipulated in Chapter 4 of the BCEA that talk about remuneration, calculation of remuneration, deductions and employer payments for employee benefits.

13.3.4.2 Benefits

Any compensation package necessitates including more than money for it to be fully appreciated by employees (Daft & Benson, 2016). According to Nel et al. (2014), employee benefits are things that employers offer their employees, on top of salaries, to increase the employees’ motivation and overall wellbeing. In South Africa, the employee benefits are divided into those that are required by law, also known as mandatory benefits, and those that are voluntary on the part of the employer. Voluntary benefits include

- medical aid and health insurance
- housing subsidy
- meals at work
- day-care centres or fitness facilities.

Benefits that are mandated by the law are as presented in Table 13.1.

Table 13.1 Benefits that are required by the law

Type of benefit	Applicable act
1. Employees are entitled to have rest days in the form of leave. There are different types of leave depending on the reason the employee wants to be off work. Types of leave include • annual leave • sick leave • maternity leave • family responsibility leave	The Basic Conditions of Employment Act 75 of 1997, Chapter 3, describes the minimum number of days that employees are entitled to under the different circumstances.
2. Unemployment insurance	According to the Unemployment Insurance Act 63 of 2001, employers (with some exclusions as stipulated in the act) and employees are supposed to contribute to the unemployment insurance fund that employees, or their beneficiaries, can benefit from in case they become unemployed, they are on maternity leave or they adopt, or they have temporary illness/incapacity that renders them unable to work.
3. Compensation for accidents and injuries at work (insurance)	Compensation for Occupational Injuries and Diseases (COIDA) Act 130 of 1993 (with some exclusions) spells out how employees can claim for diseases or injuries incurred in the line of duty.

13.3.5 Health and safety

It believed that employees who are healthy will perform well at work. *Health* in this context is defined as a general state of wellbeing in terms of physical, psychological/ mental and spiritual fitness, i.e. health in totality. Thus employers should do their utmost to help their employees keep healthy and maintain a working environment that is safe and conducive to productivity. Employee support can be through Employee Assistance Programmes (EAPs) or the more rounded, broader-focused programmes such as the Employee Wellness Programmes (EWP). These programmes, which can be established by employers, help in promoting a healthy lifestyle and identify potential problems or detect problems early; treat employees with health challenges as well as other life challenges (e.g. battling with finances, substance/alcohol abuse); and follow up with all employees, healthy or unhealthy. EWPs are therefore proactive and go beyond the traditional programmes that assist employees only when they present with problems, i.e. reactive programmes.

Safety in the workplace implies maintaining an environment that is free from hazards in order to protect employees' well-being. Organisations should minimise hazards in the workplace through advocacy, training and sensitisation of employees for them to adopt safe working practices. Depending on the type of work and organisation, employees should be provided with protective devices/equipment to minimise injury/hazards.

The Occupational Health and Safety (OHSA) Act 85 of 1993 was promulgated to replace the Machinery and Occupational Safety Act 6 of 1983 to ensure that employees are healthy and they work in environments that are safe. The Act stipulates the functions of employees and employers to ensure health and safety as well as make provision for safety representatives at work and an advisory council on occupational safety. The Compensation of Occupational Injuries and Diseases (COIDA) Act 130 of 1993 regulates the payment to persons who get injured at work or contract diseases while working, or who die from those injuries or illnesses.

13.4 EMPLOYMENT TERMINATION

As indicated in section 13.1.2 of this chapter termination of employment is the last stage of the HRM process. Factors that have to be included in the employment contract are regulated by the BCEA, which also regulates the termination of employment contracts. The employing organisation should also stipulate conditions under which contracts may be terminated and the period that should be given by either the employer or employee when terminating a contract. Termination of employment is when the employment contract entered into comes to an end. On the part of the employee, this termination can either be voluntarily through resignation or involuntarily through death. Termination can also come from the employer through processes such as rightsizing or retrenchments, as well as dismissals. Where applicable, small-business owners should consult trade unions when planning to retrench so that they get their cooperation as much as possible. Furthermore, in the case of retrenchments and dismissal, organisations should try to be consistent in their procedures and should endeavour not to be seen as discriminatory in their practices. Small businesses and all other organisations should take care not to discriminate against employees when they dismiss them. In cases of disputes following termination of contracts, the LRA can be consulted on procedures that can be followed to address such disagreements.

13.5 CHALLENGES OF HR FOR SMMEs IN EMERGING ECONOMIES

The human talent in any organisation is the backbone of that organisation; it can make or break the organisation as it is the core of productivity, the organisation's competitive edge and long-term sustainability. However, it is always a challenge to attract the right candidates, maintain and retain them. The challenge seems to be even more for small businesses that are often characterised by:

1. **Lack of a person/department dedicated specifically to human resources management:** quite often the owner/manager handles the HR function, without any written standards of operation or even an HR plan (Werner & Herman, 2012). The reliance on the owner may also suggest that processes will be done the way the owner prefers, opening up possibilities for irregularities. Lack of an HR plan is also often coupled with a lack of job descriptions, which end up being determined by the owner/manager on an ad hoc case-by-case basis. Eventual performance may be negatively affected.

Not having a department that focuses specifically on HR functions can be to the detriment of small businesses as we live in turbulent times. Planning for anything business-related, including planning for human talent, needs continuous monitoring and adjustment of business processes so that goals and objectives remain competitive

2. **Lack of, or limited finance:** several researchers have shown that SMMEs often do not have the type of finance that larger businesses have, which is a constraint in so many ways (Lekhanya & Mason, 2014; Abor & Quartey, 2010; Kongolo, 2010). As a result, they are often faced with several challenges within the HRM process that include:

- **Recruitment:** during recruitment, small businesses often rely on the methods and/or media that are convenient and less costly, like newspapers, referrals, word of mouth, and boards and signs outside their premises that encourage walk-in applicants. It is believed that these methods may be effective in attracting certain types of employees, especially those who are unemployed and tend to walk around with their CVs. These employees may not necessarily be the most qualified or skilled (Hargis & Bradley, 2011).
- **Selection:** in the course of selection, small businesses tend again to use the cost-effective methods of face-to-face interviews mostly as the basis for their selection decisions. Bigger businesses with better financial muscle may use other methods like assessment centres, for instance, helping them to make better-informed decisions during the selection of candidates (Hargis & Bradley, 2011).

- **Compensation packages:** these are some of the main factors that organisations utilise to attract and retain capable and talented personnel. In an ideal situation, prospective employees are often attracted to an organisation by the remuneration package offered. So it is very challenging for the often cash-strapped SMMEs to compete effectively against big businesses as they cannot offer the large salaries that big business can offer. As a result they often have to settle for those employees who are willing to settle for lower salaries, mostly while they still search for better opportunities. These types of employees often leave as soon as such awaited prospects present themselves. Consequently, SMMEs often have to struggle with recruitment costs and/or working with inexperienced employees and training new employees. Not being able to compete financially also makes them a training ground for bigger companies, as they employ inexperienced people who leave them for better salaries once they have gained the requisite experience that big companies often look for.
- **Training and development:** the lack of finance also often implies that there is very little money that can be utilised to train and develop their employees, further confounding the problem of lower competencies within SMMEs. Again due to restricted finances, small businesses may frequently opt for on-the-job training as the only source of training and development (Hargis & Bradley, 2011). This may therefore imply that employees miss out on opportunities to learn from different environments, experiences or the rich knowledge that can be gained from interacting with fellow workers in conferences or lecture sessions.
- **Equipment and/or infrastructural development:** small businesses usually have to contend with insufficient resources either within their organisations or in the environment where they operate (Lekhanya & Mason, 2014). Internally they may at times have to settle for older or outdated equipment that may present health-and-safety hazards. Alternatively they may decide to outsource services as they may not have the requisite equipment and/or infrastructure. At times outsourcing is of core functions, increasing the small businesses' costs and in that way decreasing their profitability and likelihood of long-term growth and sustainability.
- **Policies:** unfortunately small businesses often function without any formal policies (Werner & Herman, 2012) such as those on recruitment and selection; remuneration; performance appraisal; or training and development. This suggests that these procedures may then be conducted in an informal, ad hoc way that can be open to inconsistencies, which can lead to inadvertent discriminations.

3. **Advancements in information and communication technology (ICT):** in terms of ICT small businesses are disadvantaged in two ways. Firstly, advancements in ICT have made it easy for organisations globally to find information about any other organisation, including information on organisational talent and competencies, so it is easy for bigger organisations to poach employees from smaller businesses and head-hunt them. Conversely, it is also easy for employees of smaller businesses to take a moment to look for work all over the world even during office hours. The second way in which small businesses are at a disadvantage is that due to lack of finance they often do not buy the most sophisticated or up-to-date technology that can help their businesses in terms of marketing themselves and reaching bigger markets. Most importantly, small businesses are unable to hire people who are technologically competent enough for these small businesses to be able to compete with bigger corporates.
4. **The global economy:** due to competition in the global world, both big and small businesses are forced to produce goods and services of high quality that can compete globally. Quality production requires competent, talented personnel. South Africa still has challenges regarding lack of skills, which is worse for small businesses that are struggling financially. Again quality production requires the use of high-quality, technologically advanced equipment, which small businesses usually do not have.
5. **Quality of working life:** an average working person spends more time at work than at any other place, so it is important that the quality of life at work is perceived to be good. According to Warnich et al. (2015), quality of working life (QWL) "refers to the extent to which employees' personal needs are met through their work". A strong supportive work environment is essential to enhance the QWL. Among some of the programmes that bigger corporates put into place are the wellness programmes already mentioned as well as some of the benefits that are included in the remuneration packages. A lot of the time these are some of the perks that small businesses unfortunately cannot afford, which can act as a serious demotivator, leading to low job satisfaction and turnover.
6. **Legislation and regulatory framework:** the South African working environment, especially since 1994, has been impacted by many Acts, policies, strategies, rules and regulations that control the employer-employee-government relationship. In addition to these labour-relations policies, the small-business sector has also seen promulgation of laws that regulate and support the development of small businesses in the country. Unfortunately, not all small business owners/managers are fully aware of the

plethora of Acts, policies, strategic frameworks and standards of operation. They may therefore miss out on some of the enabling opportunities on the one hand, while on the other hand they may find themselves facing problems if they do not observe some of the regulatory directives that the country has.

13.6 CONCLUSION

Small, medium and micro enterprises (SMMEs) can be key to the economy in developing economies of all countries, emerging ones included. For them to contribute effectively to the economy, they need to be competitive and sustainable. Competitiveness and sustainability can be achieved through the employment and effective use of talented and competent human resources. Recruiting and selecting the right candidate who possesses such requisite skills is crucial to all organisations, especially small businesses as they are still primarily striving to establish themselves in a competitive business environment. Acquiring the correct skills and competencies is only the first step; it needs to be followed by placing these competencies in the right positions, at the right time. Having people with talent and skill, who are inappropriately placed, i.e. put in the wrong positions during staffing, may defeat the purpose of attracting and acquiring them in the first place.

To maintain the recruited talent, it is important to orientate them well to the organisation, compensate them well and offer them opportunities for further improvement of skills through training and development programmes. Employees' performance should be appraised and well managed to assist in the further compensation and development of employees. Organisations also need to ascertain that their employees are healthy for them to continue to be productive. It is unfortunate that small businesses are often inundated with high turnover rates as they do not have enough finance to offer all the developmental perks and incentives that can motivate employees to be committed to their employers.

An important aspect to always keep in mind throughout the HRM process is the impact of labour legislation on all practices and procedures undertaken. For the SMME sector, there is an addition of small-business legislation that supports and/or regulates the sector. Diligent and effective HRM, and also compliance with all the regulatory framework are crucial for SMMEs to be able to contribute effectively to their local economies.

REVIEW QUESTIONS

13.1 Look back at the opening case study in this chapter in terms of HRM. Advise Lerato on what to do for:

13.1.1 the cell-phone retail and repair shop

13.1.2 the overall shopping centre.

13.2 You have just opened a small catering shop in Tembisa township, Gauteng. Outline the steps you will follow to recruit a cleaner for the shop. Specifically focus on the specific media you will use to advertise the position and give reasons for using them.

13.3 In your own words discuss an employment contract and the factors/information you think should be included in one.

13.4 Which South African Act regulates the standard number of hours an employee can work per day/week? In the opening case of this chapter, Lerato also realises that Mokgadi is eight months pregnant and both Mmakoma and Matome's exhaustion is because they have been working excessively long hours. What advice should Lerato give to Mr Modiselle in terms of the provisions of this Act?

13.5 Why should a training programme be evaluated at the end of training?

13.6 In some organisations, performance appraisal is conducted by the supervisor/manager of the employee while in others the subordinates, customers and colleagues are also included in the appraisal. What would the advantages and disadvantages be of including all the other people in a performance appraisal?

13.7 “A healthy workforce guarantees better performance”. Do you agree or disagree with the statement? Discuss.

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14

Entrepreneurial finance

C.C. Ngwakwe

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- understand the distinct nature of entrepreneurial finance in emerging economies
- understand and describe the financing sources for an entrepreneur in an emerging economy
- know how to determine the financial needs of an emerging market entrepreneur
- understand and be able to calculate a basic entrepreneurial investment valuation

KEY TERMS

- Financial bootstrapping
- Angel investors
- Internal finance
- Time value
- Future value
- Present value
- Investment evaluation
- Financing sources

14.1 INTRODUCTION

This chapter provides a snapshot of entrepreneurial finance with a bias towards developing economies. It thus provides an overview of the following: the nature of entrepreneurial finance in developing economies; entrepreneurial financial needs; sources of finance and capital; and financial investment decisions.

14.1.1 The concept and distinctiveness of entrepreneurial finance in emerging economies

Although in some instances the concept of entrepreneurial finance might include technical expertise, this chapter's focus is on financial availability to emerging-market entrepreneurs and the valuation method. The funding environment for entrepreneurs in emerging countries is an amalgam of financing choices including business angels, financial bootstrapping and venture funding. Business angels are rich individuals or a group of rich individuals (equity crowd funding) who privately invest their wealth or funds to assist start-up or beginner entrepreneurs to establish their businesses with a view to having a share of the firm's profits. Venture capital funders, on the other hand, are companies that collect funds from wealthy individuals and invest such funds on behalf of the owners in entrepreneurial businesses in return for shares. Venture capital funders are more interested in established entrepreneurs but may sparingly fund beginner entrepreneurs if such businesses are in high-tech operations with promising returns (The Business Angel, 2016).

Current research findings indicate, paradoxically though, that the conventional institutional economics approach for enhancing entrepreneurial growth through an improved business environment may not unequivocally hold for emerging economies (Reynolds, Bygrave & Erkko, 2004; Lingelbach, De La Vina & Asel, 2005). Opportunities for entrepreneurship venturing are still enormous in developing and emerging markets and some experts think that many of these opportunities are untapped. However, prospects of the speedy development of growth-oriented entrepreneurship in emerging countries is limited by the low level of individual and family savings coupled with an apparent dearth of financial innovation (Lingelbach et al., 2005). Apart from personal or family financial assistance, emerging market entrepreneurial finance is heavily reliant on informal sources of financing and research indicates that more than 80 per cent, and in some instances, 100 per cent of finance is raised from informal sources. Moreover, beginner entrepreneurs may hardly succeed in accessing bank or venture financing (Bygrave, 2003; Lingelbach et al., 2005). The difficulty in raising formal finance for emerging market entrepreneurs is somewhat cushioned by the low level of capital that is required to start up a new business. Hence internal sources of finance would include savings from salaries and retained earnings from previous entrepreneurial businesses.

14.1.2 The nature of entrepreneurial finance in South Africa

Entrepreneurial finance in South Africa follows the nature of entrepreneurship in the republic. Therefore, given the embryonic nature of entrepreneurship interest in South Africa, it is not surprising that financing is also diminutive in comparison to other emerging economies.

Accessing entrepreneurial finance has proved difficult for entrepreneurs and potential entrepreneurs in developing economies including South Africa (Co, 2015; Bruton, Khavul, Siegel, & Wright, 2015). The conventional financing systems in South Africa do not offer low-cost financing to business visionaries looking for little amounts of money to boost or to start new businesses.

The average South African has a low penchant for savings with a high consumption appetite that comes with urbanisation. Additionally, the low saving rate in South Africa is exacerbated by an unrestrained penchant for credit overload that results in heavy indebtedness (see, for example, Trading Economics, 2016). Under this condition, individuals and/or families may hardly save enough private finance to start up a small business. “South Africans are renowned for being big spenders and not savers” (Thomas, 2015).

According to the *Financial Mail*, as of 2015, a shockingly high proportion of households was unable to save.

Access to entrepreneurial finance in South Africa is uneven for all groups. Research indicates that while race and gender affect access to finance, women in particular are at the bottom of this access (Naidoo & Hilton, 2006), and this is worrying in the current national and global dispensation where gender equality is a priority for the United Nations Millennium Development goals.

14.2 FINANCING SOURCES FOR AN ENTREPRENEUR

A new entrepreneur requires funding, which may transcend the money supplied by family, friends and personal savings or bank overdrafts, including credit cards. However, as the entrepreneur develops courage and veers into somewhat higher-return and riskier projects, a higher level of financing is needed. The first choice for a more financially demanding entrepreneurial project is angel financing (as discussed in section 14.2.2.1), and research indicates that angel-financed beginner entrepreneurs have a high potential for success. In addition to angel financing, venture capital offers two important resources to the entrepreneurs. The first is the much needed finance for high-growth businesses, and the second is the skill and expertise to support the strategic planning and operations of the business to ensure that anticipated high return is achievable.

This section presents some common sources of financing for entrepreneurs (these include: internal and external sources of financing).

14.2.1 Internal financing sources (or financial bootstrapping)

Entrepreneurial financial bootstrapping constitutes all sources of finance through which entrepreneurs can raise finance without any reliance on institutional (or market) sources (see, for example, Winborg & Landström, 2001: 247). Looking inwards to begin a business is a source of competitive advantage for the beginner entrepreneur. This is because knowing that “I am doing it for myself” instils a humble and cherished astute financial usage skill where the slogan of the entrepreneur might be “any cent in this business may not drop to the floor because it counts”. Bootstrapping is becoming increasingly important considering the low economic growth in many countries, the credit crunch and rising financial costs. This form of entrepreneurial finance sourcing is advantageous in that it is somewhat easy. It also has no financial costs and does not require the filing of any paper and is devoid of collateral. Furthermore, financial bootstrapping offers a greater degree of independence to the entrepreneur.

14.2.2 External financing sources

While progressing on a growth trend, some entrepreneurial businesses may frequently require more capital than the entrepreneurs can afford to provide. Consequently, they would normally source financing from outside the business and consider investment speculators such as from venture capitalists and angel investors. Although there might be other pockets of external finance, business-angel financing and venture-capitalist finance are the major sources of finance available to the entrepreneurs and these are discussed in the following sections.

14.2.2.1 Business-angel financing

A business angel is a private speculator who contributes some portion of his or her own particular riches and time in early-stage inventive organisations. Aside from getting a decent return, business-angel investors also strive to have a fabulous time with the entrepreneurial business by spending useful advisory time with the entrepreneurial business. Research indicates that business-angel funders make up to three times more investments than venture capital investors. Finance historians and finance law experts (see Ibrahim, 2009: 717; Leslie & Kargon, 1996), indicate that the emergence of business-angel financing can be traced to Frederick Terman, broadly credited to be the father of Silicon Valley (together with William Shockley). History indicates that Frederick Terman – an American engineer and professor who lived from 7 June 1900 to 19 December 1982 – was reckoned to have facilitated the beginning of a renowned company started by Bill Hewlett and Fred Packard through his $500 contribution.

14.2.2.2 Venture capital financing

Perhaps it is pertinent to provide a grassroots description of venture capital, often abbreviated as VC. In entrepreneurship finance, venture capital refers to the cash that is made available to seed start-ups, potentially emerging high-profit oriented entrepreneurs. Venture capitalists are interested in high-profit-return entrepreneurships, therefore venture funders put resources into potential financially credible businesses in return for value in the organisations in which they put resources. More often than not, these businesses have a novel innovation or plan of action in high-innovation commercial ventures, for example, information and technology businesses. The normal funding speculation happens after a seed-financing round as the first round of institutional money to propel and cushion the development of the new business.

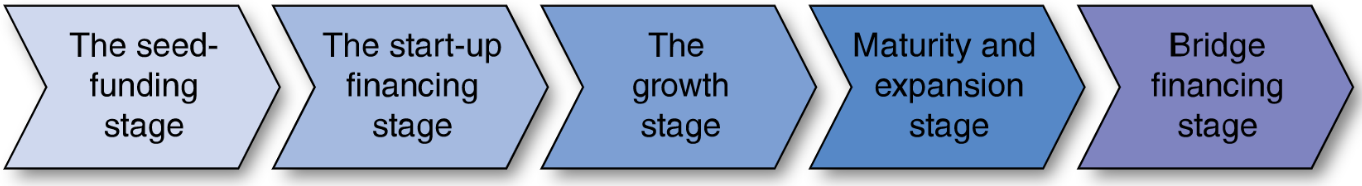
14.2.2.3 Financing stages of venture capital

There are varied opinions about the venture-capital financing stages or processes. The stages are succinctly explained next. It is believed that the stages of venture capital may approximately relate to the stages of an entrepreneurial development, however, documented stages differ according to authors' perceptions. These are not sacrosanct stages, nevertheless, because different researchers and authors believe that each business may present unique characteristics that are associated with the type of business, location, time, weather, culture, economy and ownership. However, the following five stages of venture financing is worth noting:

14.2.2.4 The-seed funding stage

The seed-funding stage is the entrepreneurial financing stage where seed subsidising happens. It is considered as the setup stage where the entrepreneur connects with the business-angel investor or a venture-capitalist funder to seek funding for a proposed entrepreneurial project. This is considered an important stage where the entrepreneur should apply convincing and credible strategy to persuade the investor that the entrepreneurship project, as formulated, has potential growth and profitability, and warrants funding and risk.

Figure 14.1 Stages of venture financing



A brief case illustration of the seed-funding stage

A typical example of events at this stage is a South African entrepreneur, whose business we will call Vusi School Uniforms. On completion of tailoring training, Vusi wanted to start his own business. He conceived a good idea to supply uniforms to primary schools in the rural areas of Limpopo province. A good business indeed, but as an orphan he had no relatives to provide family finance and, of course, few friends as he was confined to the orphanage where he eventually learned tailoring. To begin this business, Vusi needed finance and some knowledge of marketing functions to create awareness and to research the marketability of school uniforms to the rural schools. He approached a known South African bank with his well-crafted ideas on paper including some samples of school uniforms with badges; his expected annual sales; and projected profits. The bank executives were moved by Vusi's professional presentation and after a month of internal consultation, the bank sent their team of experts to some rural schools to do some brief research into the potential demand. Subsequent to the bank's private expert investigations, the bank invited Vusi to a meeting and communicated the bank's decision to provide Vusi with a seed fund, a market reasercher and an appointed overseer from the bank's head office to monitor the periodic operations of Vusi's business to assist it in realising projected operations and profit. Hence, Vusi did not only secure seed finance, but also secured non-financial resources.

Risk at the seed-funding stage

Note that this stage of financing is fraught with risk and investors are advised to diversify it. (For further reading on the risk of seed funding see Wright, Liu, Buck & Filatotchev, 2015; Khoury, Junkunc & Mingo, 2015; Ruhnka & Young, 1991; 1987).

Venture capital investing decisions are complicated by a general lack of quantifiable financial and market data for early-stage ventures, and investment decisions remain hostage to unanticipated competitors, market shifts, and financial cycles. Some observers have suggested that venture capital investment decisions are primarily subjective assessments.

14.2.2.5 The start-up financing stage

When the initial project presentation by the business is accepted for funding as in the case above in Vusi School Uniforms, the financing sequence proceeds to the next stage, referred to as the start-up stage. During this period, a more formalised presentation of the business plan is tabled and defended before the management of venture funders. In addition, it becomes pertinent here also to formalise the management of the business, as seen from the Vusi case study, the team from the bank could form part of the management team at Vusi School Uniforms coupled with Vusi's managers. With the aid of the marketers, researchers and overseers from the venture-capital firm and the effort of the entrepreneur, production and the initial sale of the main product could kick off here. This would test the market, the product or service and the entrepreneurial management initiatives and capabilities.

A brief case illustration of the start-up financing stage

For a good understanding of the topic, let us focus again on the Vusi School Uniforms entrepreneurial project. During this phase, in conjunction with the bank experts in marketing and research, Vusi makes a broader market inquisition by visiting the schools with the bank experts. They try to determine the extent and regularity of demand for uniforms. Using the results obtained, Vusi develops a detailed current and projected business plan for revenue, expenses and potential profit. Accordingly, since the bank experts believe in the project, the bank engages in a further analysis of the current practical-based plan with the forecasts. Being convinced that the business is worth the investment, the bank continues to develop it further.

Risk at the start-up financing stage

The venture capitalist's risk of investing in the business is expected to have shrunk by at least half after the start-up stage. This is because many of the uncertainties prevalent in the seed stage would have been clarified after start-up. For instance, the risk intrinsic in product acceptability, the risk of rejection by large, established competitors and the risk of low demand, etc. are cleared at this stage. However, certain major risks, such as: unplanned product shifts by the consumers, social unrest that may lead to school closures or school relocation, may still exist. In addition, the venture financier may have, out of enthusiasm, underestimated the risks of investing (Simon, Houghton & Aquino, 2000). Research indicates that, in most instances, the venture funders inadvertently underestimate the amount involved and that these risks are most prevalent in the funding of biotech businesses (Baeyens, Vanacker & Manigart, 2006; Pereiro, 2015).

14.2.2.6 Growth-stage financing

During growth-stage financing, the entrepreneur's plan, strategies and prototype product/s service/s becomes operational. If it is a product, the normal production commences with product sales making a first formal appearance in the competitive market. The main objective at this stage is to capture a significant market share and to keep the costs of operation and sales as low as possible to hit at least a breakeven point (if not profit). At the breakeven point, the entrepreneurial total costs are equal to total revenue; this means the point where there is no loss and no profit (Klychova, Zakirova, Zakirov & Valieva, 2015).

A brief case illustration of growth-stage financing

At the growth stage, Vusi School Uniforms is ready to package the clothes to industrial and market-design standards. However, Vusi's training is limited regarding the finishing that is required to beat the competition, hence the bank provides expert cloth designers to support Vusi's standard design production. However, despite the additional support, the investor is not satisfied with undue delays, which affected planned sales. The bank withholds the disbursement of anticipated funding and gives Vusi a month to meet the bank's standard design. In addition the bank provides Vusi with consulting fashion designers to take over the design and finishing. Things turn positive and within one month, Vusi has completed the first batch of designed uniforms, which the school principals confirm are outstanding in comparison to other suppliers. Following this, the bank releases some funds to Vusi's business to enable continued production. It should be noted that at the growth stage of financing, the risk of the venture capitalist losing its investment drops significantly. The reason is that the product is now in the market. What is needed now is effective promotion and sales strategies.

14.2.2.7 The expansion and maturity stage

At the growth and expansion stage of venture-capital financing, the entrepreneur strives to make more sales by using persuasive promotion campaigns to capture more market segments. Knowing that the venture investor will participate in the profit, the business strengthens cost efficiency to further reduce the cost of operations and sales – this is possible because the more experience the entrepreneur gains, the more he or she is able to devise cost-reduction techniques to improve the profit level. One way to achieve this is to apply the SWOT analysis (strengths, weaknesses, opportunities and threats) of progress so far.

14.2.2.8 Bridge-financing stage

The bridge-financing stage is often the last phase of venture financing for an entrepreneurial business. Bridge financing is normally made available by existing venture capitalists to the entrepreneur. The main purpose of bridge funding is "to provide the entrepreneur with sufficient cash to 'bridge' the time gap between running out of earlier raised capital and the closing of a round of new funding for the company" (Payne, 2016, 2). Bridging finance is necessary because subsequent investors want their money to be used purely to develop the business and not to repay debts, therefore the bridging finance might be converted to formal debt if the business decides to source equity financing in succeeding rounds of investment.

14.3 FINANCIAL PLANNING FOR AN ENTREPRENEUR

14.3.1 The importance of financial planning

Entrepreneurs should prepare financial plans to enable them to conceptualise how much cash they might be able to generate from their business and the quantity of production they will have to produce to be able to break even and make the anticipated profit. The level of production to make a profit is treated in the subsequent sections under section 14.4.5 – the breakeven of an entrepreneur. Therefore, in the absence of a sound financial plan, an entrepreneur might be misinformed about the likely profit of the business and this misinformation may lead to two negative actions. On the one hand, if profit is wrongly estimated; the entrepreneur could take the wrong decision of going into business with a high probability of failure and loss of invested capital. On the other hand, if the plan wrongly gives a loss, the entrepreneur could take a wrong decision of quitting from an otherwise profitable venture. A credible financial plan is not only for the entrepreneur's personal decisions, it also assists funders or investors in knowing if the business is potentially worthwhile to warrant the investment and risk. As an example, a hypothetical cash flow plan for Vusi School Uniforms is presented in Table 14.1. From this, we can see that the cash burn rate (cash spent per day) for the first month in the first quarter of 2017 for Vusi (in days) would be 14 565/30days = R456 per day – a fairly good cash burn rate considering the rising prices in South Africa.

Table 14.1 Vusi School Uniforms – first quarter projected cash flow

Vusi School Uniforms				
Projected cash flow for the first quarter of 2017				
Expected cash receipts		**Jan**	**Feb**	**March**
	Opening cash balance	11 000	14 565	3 727
	Cash receipts from debtors	16 000	14 000	25 000
	Loan from the bank	22 000	0	0
Total expected cash receipts		**49 000**	**28 565**	**28 727**

Vusi School Uniforms				
Projected cash flow for the first quarter of 2017				
Expected cash payments				
	Purchase of raw materials and/or finished goods	7 000	6 000	6 000
	Manufacturing expenses	3 000	3 000	3 000
	Promotions/marketing	4 000	500	500
	Insurance	225	225	225
	Fees/licences	300	300	300
	Food/entertainment	1 500	800	800
	Office expenses	200	200	200
	Consultants' services	100	100	100
	Miscellaneous expenses	250	250	250
	Wages and salaries	3 500	3 500	3 500
	Rental expenses	5 800	5 800	5 800
	Internet & telephone	200	200	200
	Motor vehicle maintenance	100	100	100
	Utility bills	400	400	400
	Travel costs	4 000	500	600
	Payment on leased sewing machines	350	348	348
	Bank loan repayment (principal)	600	605	605
	Bank loan repayment (interest servicing)	280	280	280
	Vusi's drawings	620	620	620
	PAYE taxes	210	210	210
	Employee benefits	800	800	800
	Fees to accounting firm for advice	1 000	100	100

Vusi School Uniforms				
Projected cash flow for the first quarter of 2017				
Total expected cash payments		**34 435**	**24 838**	**24 938**
	Closing cash balance for January (receipts less payments)	14 565	3 727	3 789

14.3.2 Determining financial needs

A good financial plan should enable entrepreneurs to understand the amount of capital they would seek to obtain from the various sources discussed in the preceding sections. This means, therefore, that the future success of the business would depend on the ability of the entrepreneur to: forecast the need for capital; strategise toward the sourcing of this finance; and implement the sourcing strategy to acquire the funds in advance of the time that the funds are needed for production. It is widely believed that the major determinants of entrepreneurs' financial needs include, among others, the appropriate estimation of sales with the associated revenue and profit at each stage of growth; effective determination of commencement costs and the variable costs that relate to the operations; and effective estimation of working capital to determine the potential liquidity of the venture. Entrepreneurs' financial planning may be smoother if entrepreneurs endeavour to understand that financing is a process in the life of the business. This suggests that entrepreneurs should understand the various stages of financing to be abreast of what is required at each stage. This is important because raising finance takes time, hence being aware enables the entrepreneur to prepare a persuasive plan in advance. However, entrepreneurs in developing countries face some problems that may limit effective financial planning.

14.3.3 Financial-planning problems

While dealing with most of the aforementioned sources of finance, developing countries' entrepreneurs are beset with numerous problems that limit their financial-planning success and thereby also affect their growth potential. Being aware of these problems is the first step in planning toward overcoming them. The financial plans of developing countries' entrepreneurs are often viewed with scepticism, and this tends to diminish the momentum of most entrepreneurs. In addition, many developing or emerging countries still have dauntingly stringent regulationsfor entrepreneurs, and empirical research makes it clear that these regulations concerning hiring of labour, appropriation of profit and exit from the market all affect the decision of capable entrepreneurs to enter into business or not to do so (Levie & Autio, 2011). Entrepreneurs also face uncertainties that limit their financial planning and growth (Von Gelderen, Frese & Thurik, 2000). Uncertainties that are likely to affect entrepreneurial financial planning, include, inter alia, industry-level uncertainty, uncertainty in the firm or personally (Von Gelderen, Frese & Thurik, 2000: 7).

However, this can be overcome by reading and asking questions on the financial-planning trajectories of one's predecessors and sometimes mentors are willing to assist new or potential entrepreneurs. The preceding issues make entrepreneurship and the relevant funding risky and therefore entrepreneurial finance valuation will be discussed next.

14.4.1 The role of time value

The entrepreneur has to appreciate that time increases the value of the investment. This subsection explains, in a simple term, the future and present values of cash that is put aside for future use or that will be received in future. The future value of money is the value of an amount in a certain future period (say two or three years) that entrepreneurs put aside for their use in business. The present value of money is the value of an amount today of cash that would be received in future.

14.4.1.1 The future value of savings

The future value of a single amount

Example

Vusi invests R1 000 at an interest rate of 10 per cent per annum and leaves it in the bank for four years.

Question: how much would Vusi have in four years?

Suggested solution

Future value (FV) of a single amount = PA x $FVIF_{in}$ = R1 000 x $FVIF_{10\%,4}$ = R1 000 x 1.464 = R1 464

Where: PA = the present or current value

FVIF = future value interest factor (from the table in interest factor table in Annexure A, at the end of this book)

i = interest rate

n = number of years

How to check the present value factor from the tables

Determine the number of years and interest rate, proceed to the relevant interest factor tables (see Annexure A, at the end of this book). Place your pencil on the applicable year on the year column, and then move your pencil horizontally (on that row) toward the right-hand side of that row to a point that intersects with the required interest rate. The factor at that point is the ***relevant interest factor to use***.

14.4.1.2 Equal annual savings

If the entrepreneur saves an equal amount of money at the end of each period (end of each year or end of each month), it is referred to as "ordinary annuity". However, if the amount is put aside at the beginning of each period, it is referred to as "annuity due". Since it is a common practice to put aside some money at the end of a period when income is normally earned, the following example illustrates the future value of ordinary annuity where the entrepreneur puts aside a certain amount at the end of each period.

Example

Vusi School Uniforms deposits R1 000 at the end of every year for four years at a 10 per cent interest rate. Determine how much Vusi would have saved at the end of four years.

Suggested solution

Steps: refer to the future value interest factor of annuity (FVIFA) table in Annexure A, at the end of this book. The simplest approach to the above problem is by using the formula such that:

Future value of annuity = AI x $FVIFA_{i,n}$ = AI x $FVIFA_{10\%4}$ = R1 000 x 4.641 = R4 641.

Where:

AI = amount invested now (or the present value)

FVIFA = future value interest factor of annuity

i = interest factor = 10 per cent

n = number of years = 4 years

14.4.1.3 Future value of mixed stream of investments

Example

In order to derive the future value of a mixed stream of cash flows, the separate cash flows would be treated as in the single cash flow and all added together.

Example: Vusi invest the following mixed amounts over a four-year period:

Year	Amount
2013	R10 000
2014	R4 000
2015	R6 000
2016	R10 000

Question: Determine the future value of Vusi's investments at the end of the four years.

Suggested solution

Future value of mixed streams:

= R10 000 x $FVIF_{8\%,4}$ + R4 000 x $FVIF_{8\%,3}$ + R6 000 x $FVIF_{8\%,2}$ + R10 000 x $FVIF_{8\%,1}$

= R10 000 x 1.360 + R4 000 x 1.260 + R6 000 x 1.166 + R10 000 x 1.080

FV = R13 600 + R5 040 + R6 996 + R10 800 = **R36 436**

Note: the year-one cash stream is multiplied by year four (last year) interest factor; the year two cash stream is multiplied by year three interest factor; the year three cash flow is multiplied by year two interest factor; the year four cash flow is multiplied by year one interest factor.

14.4.1.4 The present value of an entrepreneur's future cash flows

Entrepreneurs might want to know the present value of expected future cash inflow or outflow for their financial planning. Similar to the future values, the present value should be determined for a single amount, annual equal amounts (annuity) and annual mixed amounts.

The present value of a single future amount

Example

The present value (PV) of an expected single future cash inflow or outflow for an entrepreneur is = PV = FA x PVIFi,n (where: FA = future amount; PVIF = present value interest factor; i = interest rate; n = number of periods.

Note: PVIF can be obtained from the interest factor table (present value interest factor) (see Annexure A at the end of this book).

Assume that Vusi expects to receive R2 000 in four years from now at an interest rate of 10 per cent. How much is it worth now?

Suggested solution

Present value of a single amount = PV = FA x PVI – $F_{i,n}$ PV = R2 000 x 0.683 = R1 366

The present value of a yearly equal future stream of cash flows (annuity)

Example

Vusi School Uniforms expects a future equal cash stream of R2 000 every year for four years at a 10 per cent interest rate. Determine the present value of these equal cash streams now.

Suggested solution

Steps: refer to the present value interest factor of annuity (PVIFA) table on Appendix A4. The simplest approach to the above problem is by using the formula such that:

Present value of expected annuity = FEA x $PVIFA_{i,n}$ = FA x $PVIFA_{10\%4}$ = R2 000 x 3.170 = R6 340

Where:

FEA = future equal amounts = R2 000

PVIFA = present value interest factor of annuity (derivable from Annexure A, at the end of this book)

i = interest factor = 10 per cent

n = number of years = 4 years

Present value of mixed stream of expected future cash flows

Example

In order to derive the present value of an expected mixed stream of future cash inflows or outflows, the separate cash flows would be treated as a single cash flow but, in this case, all added together.

Example: Vusi expects the following future mixed amounts over a four-year period at an interest rate of 8 per cent:

Year	Amount
2017	R10 000
2018	R4 000
2019	R6 000
2020	R10 000

Question: Determine the present value of Vusi's expected future cash flows now.

Suggested solution

Present value of mixed streams: = ΣFMA x $PVIF_{i1-4}$

= R10 000 x $PVIF_{8\%,1}$ + R4 000 x $PVIF_{8\%,2}$ + R6 000 x $PVIF_{8\%,3}$ + R10 000 x $PVIF_{8\%,4}$

= R10 000 x 0.926 + R4 000 x 0.857 + R6 000 x 0.794 + R10 000 x 0.735

PV = R9 260 + R3 428 + R4 764+ R7 350 = **R24 802**

Where:

Σ = Summation (addition of four year's computations); FMA = future mixed amounts; 1–4 = period 1 to 4.

Note: the year-one cash stream is multiplied by the year-one interest factor, the year-two cash stream is multiplied by the year-two interest factor …, etc.

14.4.2 Risk and return

Certain environmental factors, if unknown and unplanned for, might wreak havoc and thus thwart the entrepreneur's objectives. These factors are called risks. Entrepreneurial risks could come from inside the business (internal risks) or from outside (external risks). Internal risks include, inter alia, risk of profit or loss; risk of not honouring debt-finance obligations; risk of not raising expected finance to meet business demand. Internal risks could be controllable through effective planning. External risks include, competition, and political and economic risks. Though these are largely beyond the control of the entrepreneur, through planning, the entrepreneur can learn to cope.

14.4.2.1 Entrepreneur's risk measurement

An investor would analyse the risk of investing in various entrepreneurs' businesses, similarly, entrepreneurs should analyse the risk of business or project options available to them. The approach to risk measurement is the same – either from the investor's position or from the entrepreneur's standpoint. The following example illustrates the measuring of risk from the entrepreneur's position (it can also be applicable to an investor's position).

Example

Vusi School Uniforms is considering two tailoring projects with a view to accepting the alternative with lower risk. The rate of return (RR) and the probability (P) for both projects are as bellow:

		P	***RR***
Boys school			
	Term 1	0.4	10
	Term 2	0.4	15
	Term 3	0.2	20
Girls school			
	Term 1	0.4	20
	Term 2	0.4	30
	Term 3	0.2	–12

You are required to

- determine and compare the expected return (profit) for both projects and the extent of risk using the standard deviation and the coefficient of variation
- decide which project Vusi should accept based on the risk measurement and Vusi's risk-averse investment position.

Suggested solution: Note: ER = (P) × (RR)

Vusi's expected rates of return for the boys school and girls school projects							
Alternative projects		**Probability (P)**		**Rate of return (RR)**		**Expected return [ER]**	
Boys school							
	Term 1		0.4	10		4	
	Term 2		0.4	15		6	
	Term 3		0.2	20		4	
			1			**14**	
Girls school							
	Term 1		0.4	20		8	
	Term 2		0.4	30		12	
	Term 3		0.2	–12		–2.4	
			1			**17.6 =18**	rounded up

Measure of risks (standard deviation) & (coefficient of variation [CV])						
Boys school	RR	ER	(RR – ER)	P	$(RR – ER)^2$ x P	
	10	14	–4	0.4	6.4	
	15	14	1	0.4	0.4	
	20	14	6	0.2	7.2	
				variance: σ^2	14	SD:$\sigma=\sqrt{\boxed{14}}$

Girls school	RR	ER	(RR - ER)	P	$(RR - ER)^2$ x P		
	20	18	2	0.4	1.6		
	30	18	12	0.4	57.6		
	–12	18	–30	0.2	180		
				variance: σ^2	239.2	SD:$\sigma=\sqrt{\boxed{239.2}}$	
							= 15.466

	Coefficient of variation				
Boys school	σ/ER	3.742/14	0.267286	=27%	
Girls school	σ/ER	15.466/18	0.859	=86%	
Although the girls school project would offer a higher expected return (profit) to Vusi, the risk as measured by standard (s) deviation and coefficient of variation (CV) is higher in this project. Therefore a consideration of risk would make Vusi consider project A (the boys school project) rather than B (girls school project). Note that the greater the standard deviation and variance the greater the risk associated with a project or investment.					

14.4.3 The cost of entrepreneurial capital

As the business grows, a time comes when it expands its sources of finance to the official or market sources, which include, among others, ordinary shares and long-term debts (exhaustive discussions of these and other sources are available in finance textbooks). Therefore, the cost of capital is how much it would cost the entrepreneur to raise funds. This section shows how to compute the cost of two major sources of market or official sources of capital (ordinary shares and long-term debts).

14.4.3.1 Cost of long-term debt

The costs of obtaining long-term debts are the cost of the loans, which the entrepreneur will pay to the bank. This can be calculated by using the following formula:

Cost of debt (C_d) = C_{bt}×× (1 – *t*).
Where: C_d = cost of debt; C_{bt} = before tax cost of debt; *t* = tax rate

Example

Vusi School Uniforms has obtained a big project that requires a loan from the bank, and Vusi approached Nedbank to negotiate a R400 000 loan. The bank granted the loan at a cost of 14 per cent (interest) per annum after considering the viability of the entrepreneur. Vusi's venture has now matured and pays a tax rate of 38 per cent. You are required to determine the cost of Vusi's debt capital.

Suggested solution

Cost of debt (C_d) = C_{bt} x (1 – *t*). = 0.14 (1 - 0.38) = 0.09 or 9%

14.4.3.2 The cost of ordinary shares

The cost of ordinary shares is the cost of raising funds by issuing ordinary shares. The cost of ordinary shares can be obtained by applying the constant growth model formula, this is known as the Gordon's constant growth model. Therefore the cost of ordinary shares (C_s) can be obtained as follows:

$$C_s = \frac{D_{ps}}{P_s} + g$$

Where: C_s = cost of ordinary shares; D_{ps} = dividend per share; P_s = price per ordinary share; g = constant growth rate in firm's dividend.

Example

Vusi is considering an expansion into the stock market with an anticipated price per share of R20 and a forecast dividend per share of R2. Vusi hopes that the dividend will grow annually by 8 per cent. Determine the cost of Vusi's ordinary shares by applying the constant growth model. Suggested solution

Suggested solution

$C_s = 2/20 + 8\%$

$= 0.100 + 0.08$

$= 18\%$

14.4.4 Capital budgeting techniques

The term "capital budgeting technique" refers to the methods used to make capital investment appraisals. These appraisals involve current investments that are made in expectation of a future inflow of cash benefits. Investment decisions are most vital for the business as they involve the commitment of a significant portion of the firm's wealth. A detailed discussion of capital investment techniques is available in finance textbooks. This section presents straightforward and easy-to-understand basic techniques for entrepreneurial capital investment appraisal. The following example is used to illustrate three capital investment appraisal techniques: the net present value technique (NPV), the payback period technique (PP) and the average rate of return (ARR). Despite the availability of numerous techniques for evaluating potential investment choices, the NPV remains the preferred choice for evaluating investment alternatives.

14.4.4 Capital budgeting techniques

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Example

Vusi School Uniforms has received an offer of three projects to sew and supply uniforms to the navy, the army and the air force. Vusi's current resources only enable him to select the project with the best prospect of profit. Vusi's current cost of capital is 15 per cent, the projects' respective investments and cash flows over seven years are:

	Initial investment	**Annual cash flow**
Navy	R400 000	R110 000
Army	R400 000	R105 000
Air force	R400 000	R120 000

Question

Present the above investment analysis using the net present value (NPV), the payback period and the average rate of return techniques.

Navy					Army			
Year	Cash flows	$PVIF_{15\%}$	Present value		Year	Cash flows	$PVIF_{15\%}$	Present value
1	110 000	0.87	95 700		1	105 000	0.87	91 350
2	110 000	0.756	83 160		2	105 000	0.756	79 380
3	110 000	0.658	72 380		3	105 000	0.658	69 090
4	110 000	0.572	62 920		4	105 000	0.572	60 060
5	110 000	0.497	54 670		5	105 000	0.497	52 185
6	110 000	0.432	47 520		6	105 000	0.432	45 360
7	110 000	0.376	41 360		7	105 000	0.376	39 480
Present value of inflows			457 710		Present value of inflows			436 905
Less initial investment			400 000		Less initial investment			400 000
NPV			57 710		NPV			36 905

Air Force			
Year	Cash flows	$PVIF_{15\%}$	Present value
1	120 000	0.87	104 400
2	120 000	0.756	90 720
3	120 000	0.658	78 960
4	120 000	0.572	68 640
5	120 000	0.497	59 640
6	120 000	0.432	51 840
7	120 000	0.376	45 120
Present value of inflows			499 320
Less initial investment			400 000
NPV			99 320

In the three NPV calculations above, the Navy, the Army and the air force projects have positive NPV. Therefore the three positive NPV projects are acceptable, but Vusi has resources for only one project, hence Vusi would select the air force project with the maximum NPV.

Payback period

	Calculation: =InvestmentAnnual/ cash inflows	Payback period
Navy	400 000/110 000	3.636 years
Army	400 000/105 000	3.810 years
Air force	(120 000+120 000+120 000+120 000) / 12 × 4	3.4 years

Based on the payback criterion, the air force project offers the shortest payback period, hence Vusi would prefer to proceed with this one. The payback period might serve as an initial project selection process where all shorter period projects are selected first before the NPV of such projects is determined. In this case, Vusi might use the payback period to make an initial selection of air force and Navy projects after which he would use the NPV to select the air force project given that it has the highest NPV.

Average rate of return (ARR)

	Calculation: =Average cash flow / Initial investment	ARR
Navy	Average cash flow 110 000 / Initial investment 400 000	27.5%
Army	105 000 / 400 000	26.25%
Air force	75 714.286 / 400 000	18.93%
Based on the ARR decision criterion, Vusi would choose the navy project because it offers the highest ARR.		
Note that ARR can also be calculated by using an average investment as the denominator. In this case, the ARR would be doubled, e.g. the navy project would be: Average cash flow 110 000 / Initial investment 200 000=55% (which is double 27.5%); the decision remains the same whether the average or the initial investment is used as the denominator.		

14.4.5 Leverage and breakeven

In the previous sections, it was highlighted that the entrepreneur must know the level of production that would result in profit for the business. Here lies the importance of breakeven analysis. The breakeven point is the point or units of production where all the costs of operations are recovered and the profit is zero. This means the level where the sales revenue and costs are equal. This thus implies that the firm might begin to make profit after the breakeven point. Given the importance of profit, it therefore means that entrepreneurs must determine the company's breakeven point before venturing into production.

Furthermore, the entrepreneur should also know the effect of changes in sales on earnings (operating leverage). The operating leverage of a firm is derived by dividing the percentage change in earnings before interest and tax by a percentage change in sales.

An example of a breakeven point is presented for a single-product and a multiple-product entrepreneur. It is now common for businesses to diversify and produce more than one product or offer more than one service.

Example of single product breakeven point analysis:

Mlangeni Manufacturing (Pty) Ltd single product data

	Gallic Juice
Anticipated production and sales (units)	6 000
Sales price per unit	R50
Variable cost per unit	R30
Fixed costs	100 000

Required

You are required to determine:

a) The breakeven point in units

b) The breakeven point in rand value

c) The margin of safety and the implication thereof

Then:

d) Assume the normal sales volume of the company increases by 20 per cent from the current 6 000 units. Determine the operating leverage if the company's fixed costs are R100 000.

Suggested solution

a) Breakeven point in units: BEP in units

Contribution margin	= sales price per unit – variable cost per unit R50 – R30 = R20
BEP in units=Total fixed costs / Unit contribution margin	R100 000 /R20 BEP in units=5 000 units

b) Breakeven point in rand value

BEP in rand value =	BEP in units × sales price per unit
BEP in rand value =	5 000 units × R50 = R250 000

c) The margin of safety

The margin of safety ratio =	(Anticipated sales volume – breakeven sales volume) / Anticipated sales volume
The margin of safety ratio =	(6 000 – 5 000) / 6 000=16.667%

Note: margin of safety indicates the percentage with which sales may decrease before a loss occurs. In the above case, the margin of safety is very high and is preferred because it will take sales to decrease by 16.67 per cent before the business will incur a loss. The margin of safety could also be calculated using the sales values.

d) Operating leverage

Operating leverage =	Percentage change in EBIT / Percentage change in sales volume
Operating leverage = Note: Variable costs response with the same degree with changes in sales volume	<table><tr><td></td><td>Current sales</td><td>20% Sales increase</td></tr><tr><td>Sales: 6 000 × R50</td><td>300 000</td><td>360 000</td></tr><tr><td>Variable costs (R30 × 6 000)</td><td>180 000</td><td>216 000</td></tr><tr><td>Contribution</td><td>120 000</td><td>144 000</td></tr><tr><td>Less fixed costs</td><td>100 000</td><td>100 000</td></tr><tr><td>EBIT</td><td>20 000</td><td>44 000</td></tr></table>
% change in EBIT =	(44 000−20 000) / 20 000=120%
Operating leverage =	20% / 1.2%=17
This indicates that a 20 per cent increase in sales would result in EBIT responding to a 17 times increase (as much as on a percentage comparison to sales increase).	

Example of multiple product breakeven point analysis

Mlangeni Manufacturing (Pty) Ltd produces three products – Gallic Juice, Butternut Juice and Pear Juice. Having been in business for many years in the city of Johannesburg, profit has been constantly realised as envisaged, and management has not thought it worthwhile to engage in a breakeven analysis of its products. However, a new management accountant, Mr Philip (CA, SA) who took over from Mr Smit who is retiring has frowned on management's policy of not engaging in a periodic breakeven analysis. He has argued that, although the firm might be making profit, it could make even more of a profit if it knew the breakeven ability of individual products, which he said might assist the firm in arriving at the most profitable combination of products.

Presented below is the information for the first quarter of 2013:

	Gallic Juice	**Butternut Juice**	**Pear Juice**
Anticipated production and sales (units)	6 000	4 000	5 000
Sales price per unit	R50	R30	R40
Variable cost per unit	R30	R15	R22
Allocated fixed costs	1 000	600	400

Furthermore there is a common fixed overhead for the first quarter to the amount of R10 000. You have been invited to assist Mr Philip in determining the breakeven position of Mlangeni Manufacturing.

Required:

a) Derive the breakeven point (in rand) for Mlangeni (Pty) Ltd, and determine the production mix at breakeven point.

b) Determine the margin-of-safety percentage.

Suggested solution

		Gallic Juice	Butternut Juice	Pear Juice	Total
a.	Anticipated production and sales (units)	6 000	4 000	5 000	15 000
	% sales	40	27	33	100%
	Sales price per unit	R50	R30	R40	
	Variable cost per unit	R30	R15	R22	
	Contribution margin (CM)	20	15	18	
	Weighted average CM	8	4.05	5.94	17.99
	Total FC 10 000 + 2 000				12 000
	Product mix BEP (12 000/17.99) (units)	267	180	220	667
	Product mix BEP (in rand)	13 350	5 400	8 800	27 550
b.	Margin of safety %				
	Planned sales	300 000	120 000	200 000	620 000
	Margin of safety in %: (620 000 – 27 550)/620 000				96%

4.5 CONCLUSION

This chapter presented a synoptic discussion of entrepreneurial finance from a developing country's perspective. Entrepreneurial finance in emerging markets is somewhat distinct from the developed markets especially from the less-developed and/or functional supportive institutions, hence entrepreneurial finance in emerging countries is still more dependent on informal sources. The financing problems of entrepreneurs in developing countries draws a cushion from a comparatively low level of capital needed to start an entrepreneurial business. The funding environment for entrepreneurs in developing countries is made up of an amalgam of financing choices from business angels, to personal financial bootstrapping to venture funding. After a discussion of applicable financial planning and sourcing problems, this section also presented basic issues in entrepreneurial finance valuation, such as cost of capital and investment appraisal techniques for the entrepreneur. The chapter examples have been complemented with further review questions, which are presented at the end of chapter questions. Supportive case studies and answers to the review questions are in the lecturer support resources.

REVIEW QUESTIONS

14.1 Multiple breakeven analysis at Vusi School Uniforms

Vusi School Uniforms has secured a project to sew and supply sports uniforms to a high school in Turfloop, Polokwane, South Africa. At the high school, sport is organised into five competitive houses (house A, B, C, D and E) and each has requested assorted designs and colours. Vusi indicates that the leftovers from the contract can be sold on the open market without any problem as Vusi's brand has made a name. Vusi has supplied the following cost and revenue information to enable an analysis of the breakeven for the different uniforms.

	A	**B**	**C**	**D**	**E**
Anticipated production and sales (units)	6 000	4 000	5 000	2 000	8 000
Sales price per unit	R50	R30	R40	R20	R35
Variable cost per unit	R30	R15	R22	R12	R15
Allocated fixed costs	R1 000	600	R400	R500	R600

Vusi School Uniforms has a general fixed cost of R40 000, and Vusi has sought your assistance to establish the following:

14.1.1 The breakeven point (in rand) for Vusi School Uniforms as well as the production mix at breakeven point

14.1.2 The margin of safety percentage for Vusi

14.2 Single product breakeven point at Tomato Small Holder Farms

	Tomato puree
Anticipated production and sales (units)	8 000
Sales price per unit	R60
Variable cost per unit	R40
Fixed costs	R200 000

Required:

You are required to determine the following:

14.2.1 The breakeven point in units

14.2.2 The breakeven point in rand value

14.2.3 The margin of safety and the implication thereof

14.2.4 Assume the normal sales volume of the company increases by 40 per cent from the current 6 000 units. Determine the operating leverage if the company's fixed costs are R200 000.

14.3 The present value of a yearly equal future stream of cash flows (annuity)

14.4 Determine the present value of Vusi's expected future cash flow now.

14.5 What is the present value of Vusi's expected future cash flow now?

Vusi School Uniforms expects a future equal cash stream of R2 500 every year for four years at a 10 per cent interest rate. Determine the present value of these equal cash streams now.

Table for questions 14.4 & 14.5

Question 14.4 Table: Vusi expects the following future mixed amounts over a four year period at an interest rate of 8 per cent:

Year	Amount
2017	R15 000
2018	R4 000
2019	R2 000
2020	R10 000

Question 14.5 Table: Vusi expects an alternative future mixed amounts over a four year period at an interest rate of 16 per cent:

Year	Amount
2017	R12 000
2018	R8 000
2019	R9 000
2020	R14 000

14.6 Capital investment appraisal at Vusi School Uniforms

Vusi School Uniforms has just won two tenders to supply graduation gowns to one of the national universities in South Africa or to supply league match uniforms to the national soccer team for seven years. Vusi's current resources only enable him to select the project with the best prospect of profit. Vusi's current cost of capital is 15 per cent. The projects' respective investments and cash flows over seven years are:

	Initial investment	Annual cash flow
Graduation gown	R400 000	R125 000
League uniform	R400 000	R115 000

Question: Prepare a capital investment appraisal of the table above using the NPV approach and recommend the most viable project to management.

14.7 Cost of long-term debt at Vusi School Uniforms

Vusi School Uniforms has obtained a big project that requires a loan from the bank of R600 000. The bank granted the loan at a cost of 18 per cent (interest) per annum after considering the profitability of the business. Vusi School Uniforms pays a tax rate of 40 per cent. You are required to determine the cost of Vusi's capital.

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15

Entrepreneurial growth

K.S. Boya & G.E. Chiloane-Tsoka

LEARNING OUTCOMES

After you have studied this chapter you will be able to

- define what entrepreneurial growth entails
- differentiate between the various types of growth
- understand the stages of entrepreneurial growth
- understand the barriers to entrepreneurial growth and how to deal with them
- understand the strategic planning processes as a propeller for growth
- understand the various entrepreneurial growth strategies
- identify possible support organisations that can enable entrepreneurial ventures to grow.

KEY TERMS

- Barriers to entrepreneurial growth
- Business support
- Entrepreneur
- Entrepreneurship
- Entrepreneurial growth
- Growth strategies
- Strategy
- Strategic planning

15.1 INTRODUCTION

It is widely known that "everything that is not growing is deemed to die". This is also applicable to business ventures. This means that entrepreneurial growth should be seen as an indispensable objective of all organisations since the opposite is undesirable. Moreover, growth does not happen by accident; it requires premeditated and meticulous acts, which have to be guarded with great vigilance.

In this section, various definitions of entrepreneurial growth will be considered. This enables you to make sense of what entrepreneurial growth entails. Moreover, attempts have to be made to define what growth in entrepreneurial terms means. Entrepreneurial growth can be defined as an expansion in terms of the organisation's size, resources, information and experience, which emerge as a result of entrepreneurial efforts. This means that the growth cannot happen by accident. However, entrepreneurial efforts are required in order for growth to occur. Wickham (2006) suggests that all business organisations have the potential to grow but none is entitled to such growth. Nieman and Nieuwenhuizen (2014: 295) as well as Crijns and Ooghe (1997: 56) outline the characteristics of growth. These can be but are not limited to market domination, differentiation, product leadership, flexibility innovation, future orientation, export activity and related growth. These characteristics of growth will be briefly explained.

15.1.1 Market domination

Market domination may be measured in terms of the relative market share in the niche market. The organisation may have to be a high performer in order to be declared as dominant in the market. However, this may have a negative impact in terms of how some stakeholders such as employees, trade unions and governments perceive the organisation. In the long run a negative effect is likely to dent the image of the organisation.

15.1.2 Differentiation

An organisation is regarded as a differentiator if it sells something that may be regarded as unique relative to its competitors. It is essential to note that this uniqueness is often perceived more than may actually be the case. Some differentiators rely on their product/service packaging and offering. This means consumer behaviour and perception may play a role in consumer buying patterns and loyalty/disloyalty towards the organisation and its brands.

15.1.3 Product leadership

Growth organisations that are product oriented do have potential to grow through their emphasis on quality, branding and value for customers. Once more the issues of perceived value affect the organisation's ability to become a leader with regard to a particular product. This notion of perceived value seldom happens overnight. It requires a large amount of investment made on popularising the organisation and its products in its key markets.

15.1.4 Flexibility

Flexibility indicates the speed and ability to change direction to gain advantage from new opportunities and to counter and/or reduce threats. A rigid organisation is bound to fail given the rapid pace of changes that occur within the business environment. Such strategic flexibility is a prerequisite for growing organisations as it propels constant analysis and eliminates pockets of complacency.

15.1.5 Innovation

Innovation is a way of life for growing firms and this is done through the introduction of technology at a very rapid pace. Innovation has to do with the ability of the organisation to add tangible and intangible value for its customers with the aim of making meaningful and sustainable changes in their lives. Innovation must be such that it will enable the organisation to maximise its returns in both the short and the long term.

15.1.6 Orientation towards the future

Greater focus is often given to future projects. Growth-prone organisations invest a great deal of effort, time and other resources in the future.

15.1.7 Export activity

Growth can also be realised by the organisation's desire to serve the global market. Many growing firms in emerging economies, especially in BRICS (Brazil, Russia, India, China, South Africa) countries, are encouraged to enter the global markets. However, it is to be noted that not all of organisations that enter the global market are actually huge. On the contrary, Small, medium and micro enterprises (SMMEs) are beginning to enter the global market. In the pipeline is the establishment of the BRICS Bank, which is set to allow business organisations within the BRICS community to access funds which may be used to start or grow their businesses.

15.1.8 Related growth

It is believed that growth organisations strive for active, cognisant growth as opposed to uncontrolled growth and this in achieved by utilising opportunities and thereby achieving the goals they have set. This means that the decision for an organisation is rather a conscious one, and not merely accidental. A planned series of stages towards a growth trajectory have to take place.

15.2 TYPES OF GROWTH

In the previous section, growth was defined and explained in terms of what it is and what it may entail. According to the Global Entrepreneurship and Development Index (Acs & Szerb, 2009), growth can be identified in four ways, namely the newness of the product and of technology; internationalisation; high growth ambitions; and finance among entrepreneurially active individuals in a country.

15.2.1 Newness of the product and of technology

When growth is being pursued, modern organisations may rely heavily on their technological innovation and capabilities. Technology is able to fast-track growth to unprecedented heights. This technology can enable the organisation to provide relatively competitive products and services to the market. That said, for growth to be realised technology ought to play its part and in order for proper technology to be realised some form of investment needs to be in place. Moreover, through the use of technology, organisations can introduce new ways of producing products and rendering services that are required by the market.

15.2.2 Internationalisation

Internationalisation also refers to globalisation, which is a strategy upon which an organisation may embark. This method of growth is common in large corporates. However, more and more SMMEs, particularly those that are situated within developing economies are pursuing an international trajectory. When pursuing internationalisation, organisations are, however, confronted with various challenges, such as foreign laws, tax implications, cultural diversity, climate change, terrorism, pandemics, poverty and social unrest. These aforementioned challenges have direct and indirect effects on the growth prospects of organisations.

15.2.3 High growth ambitions

High growth ambitions are in essence strategies and intentions which organisations may employ in order to fast-track growth. The setting of ambitions and strategies is the main responsibility of top managers of the organisation (Lazenby, 2014). The strategies ought to be inspiring and not lacking the necessary incentives for the various key stakeholders. The triple bottom-line approach, which caters for financial growth, social responsibility and environmental care must be reflected in the strategic ambitions of growth-prone organisations.

15.2.4 Finance for entrepreneurial activity

A significant amount of money should follow any strategy or growth ambition that the organisation seeks to pursue. Access to finance in order to finance growth initiatives is an ideal situation that may not always be realisable. Investors are more often than not more likely to back corporate organisations than SMMEs. As such, SMMEs are compelled to produce proposal documents, which are growth friendly and appealing in order to win the hearts of investors.

15.3 STAGES OF GROWTH

Growth emerges at various stages. It is essential to always remember that growth is never constant. Moreover, an organisation that is not growing is more often than not on the decline.

15.3.1 Stage 1: Pre-start-up (incubation)

Incubation, or the pre-birth process, means taking all the steps necessary to reach start-up. This is really the entrepreneurial process. The entrepreneur should take note of factors influencing growth in this pre-birth stage as many decisions made now will be critical at a later stage.

15.3.2 Stage 2: Start-up (infancy)

In the infancy or start-up stage, entrepreneurs may struggle to break even as they introduce their new product. In this stage they are close to their ventures, and can spot obstacles and act quickly to remove them. Growth is relatively slow and thus patience is required.

15.3.3 Stage 3: Breakthrough or growth

In the breakthrough stage, the rate of growth accelerates and resources are under major pressure. Growth is quite often so fast that the entrepreneur cannot keep up with it.

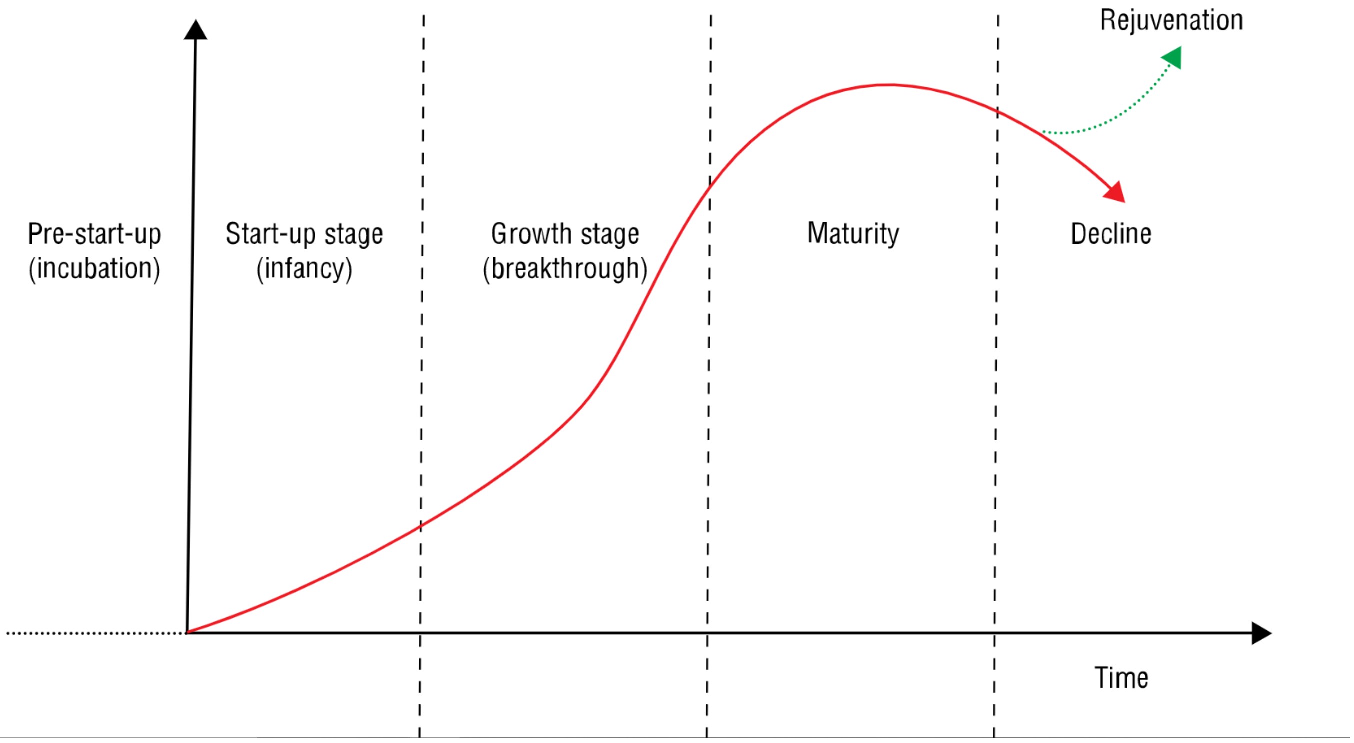
15.3.4 Stage 4: Maturity

In this stage, the entrepreneur must learn to manage time and to delegate. The number of decisions and activities outstrips the time available, and the entrepreneur must rely increasingly on other people to perform major functions.

15.3.5 Stage 5: Decline/rejuvenation

One of the criticisms of the life-cycle approach is that it (falsely) suggests that organisational decline is inevitable. It does, however, serve to warn the entrepreneur against complacency as the venture becomes successful.

Figure 15.1 The stages of venture growth



15.4 BARRIERS TO ENTREPRENEURIAL GROWTH AND HOW TO MANAGE THEM

Bartlett and Bukvicˇ (2001: 180) suggest that there are several barriers to growth, which business organisations ought to guard against. These barriers include the following: institutional barriers (including the legislative framework, and the degree of corruption and bribery a firm encounters); barriers due to the external market position of a firm (the sector in which the firm operates, the degree of competition, whether a firm is facing strategic behaviour by competitors, the extent of network alliances to support growth); financial barriers (including the availability and cost of capital and finance); internal organisational barriers (including managerial capacity and capability, the objectives of the firm, principal-agent difficulties; skills), and social barriers (to do with the support, or lack of it, from local actors and agencies). These barriers are discussed below.

15.4.1 Institutional barriers

These barriers emerge from formalised bureaucratic arrangements, which are often government regulations that dictate how SMMEs may interact with their stakeholders. The laws of the country provide institutional frameworks within which SMMEs may interact with their customers, government and each other.

This has a profound influence on the economic performance and subsequently entrepreneurial growth of such an SMME. This challenge is also realised in developed economies, such as those in both West and East European economies even though institutional barriers are regarded as a high-risk factor for economic development.

15.4.2 Barriers internal to the firm

Human resources management and labour-related restrictions as well as conditions of employment may serve as some key internal barriers. There is a limit to hiring fixed-term labour. In addition, issues such as lay-offs and the dismissal of the less productive workers may frustrate the growth potential of an organisation. More often than not the owner-manager struggles to diversify control over business functions to professional managers and this can be regarded as a key internal constraint on the growth of SMME (Storey, 1994).

The degree of competition in the market and the sector of activity constitute a core determinant of external barriers. The growth of organisations may be hampered by factors such as: low demand for the product; access to raw materials; difficulties in exporting; public procurement rules; and in some instances the late payment of bills by business customers.

15.4.3 Financial barriers

Several financial barriers may affect SMMEs, some of which are: the high cost of credit; a lack of venture capital; bank charges and fees; and high collateral requirements. These challenges could serve as indictments on the part of financial services providers given their reluctance to offer packages that are SMME friendly. These result in credit constraints, which subsequently affect the growth agenda of SMMEs in both the short and long run. As such, the underdeveloped capital market often forces SMMEs to rely on self-financing or borrowing from friends, which is often their last resort (Pissarides, 1998).

15.4.4 Social barriers

Trust issues among business partners play a significant role in building or dismantling the social barriers of business. Trust can easily be broken and may take a long time before it is fully established. Moreover, trust is subject to beliefs, culture and social status, which affect how business partners perceive one another. There could be instances where trust has to be placed on anonymous trading partners or on casual acquaintances in the absence of open networks. As such, an institutional support network is needed in order to address the issues, which may raise barriers to growth.

15.5 DEALING WITH THE BARRIERS TO ENTREPRENEURIAL GROWTH

Richter (2013: 457) argues that there are several fundamental principles that an organisation must pursue in order to overcome barriers to growth.

- **Value proposition:** refers to the bundle of products and services that creates value for the customer and allows the company to earn revenue
- **Customer interface:** comprises the overall interaction with the customer; it consists of customer relationship, customer segments and distribution channels
- **Infrastructure:** describes the architecture of the company's value-creation process; it includes assets, know-how and partnerships
- **Revenue model:** represents the relationship between costs to produce the value proposition and the revenues that are generated by offering the value proposition to customers
- **Strategy:** the word "strategy" has been used loosely in recent times. As such the meaning thereof has been diluted. Sometimes people refer to a mere idea, a short-term wish or a temporary tactic as strategy and this can never be the case. It is therefore imperative to define what strategy really is. In actual fact, strategy originates from a Greek word "strategeo", which means military commander (Lazenby, 2014: 3). As such, "strategy" has a military background (Louw & Venter, 2013). Moreover, strategy can be regarded as a well-calculated "game plan", which the organisation can put together in order to achieve its objectives. It is thus safe to say that strategy is a derived activity (a means to an end and not an end in itself), which seeks to enable the organisation to achieve its objectives. This means that strategy does not

exist for its own sake, but with the quest of realising the objectives in mind. As introduced earlier in this section of this chapter, strategy has to do with planning; hence some authors refer to strategic planning.

15.6 STRATEGIC PLANNING

Miller and Cardinal (1994) view strategic planning as standardised planning guidelines or written plans, which the organisation can pursue to realise its objectives. Louw and Venter (2013) regard strategic planning as the means to achieve an agreed view of how the enterprise will succeed in the future. Lazenby (2014: 6) credits strategic planning for its ability to expose hidden opportunities and unseen solutions. In summary, strategic planning has to with how an organisation organises its limited resources to respond to the needs from its environment and stakeholders, with particular emphasis on customers' demands. Strategic planning is also referred to as the thinking stage, as this is where ideas are generated and conceptualised.

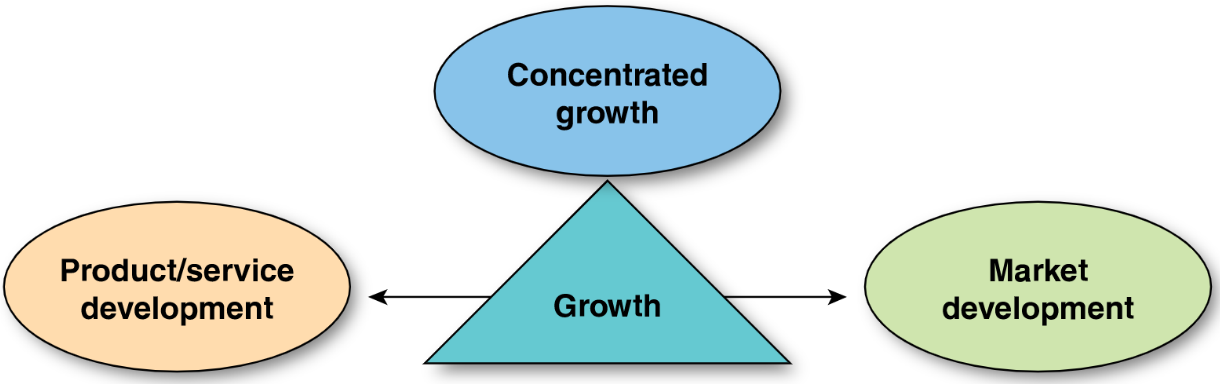
15.7 ENTREPRENEURIAL GROWTH STRATEGIES

Growth cannot occur without effort. This effort includes an organisation putting strategies in place. It follows that there are various strategies that an organisation can employ. In broad terms organisations can employ internal and/or external growth strategies.

15.7.1 Internal growth strategies

These strategies are also known as organic growth strategies, since they represent the growth from within. At the heart of these strategies is innovation, research and development. At least three internal growth strategies may be found, which are concentrated growth, product/service development and market development.

Figure 15.2 Internal growth strategies



15.7.1.1 Concentrated growth

This strategy relates to the concentrated marketing efforts that the organisation may undertake in its quest for expansion and growth. As such, concentrated growth is also known as market penetration. In this instance, the organisation focuses on meeting the expectations of its consumers relatively better than its rivals. Intensive marketing campaigns often characterise this strategy.

15.7.1.2 Product/service development

Product/service development is employed through the considerable modification of the organisation's current products and/or services with the view to satisfying the existing consumers' needs. This means that the organisation seeks to retain its exiting consumers by seeking to improve its product/service offering. This also requires intensive research, and, based on the results of this research, market-relevant products and services may be rolled out.

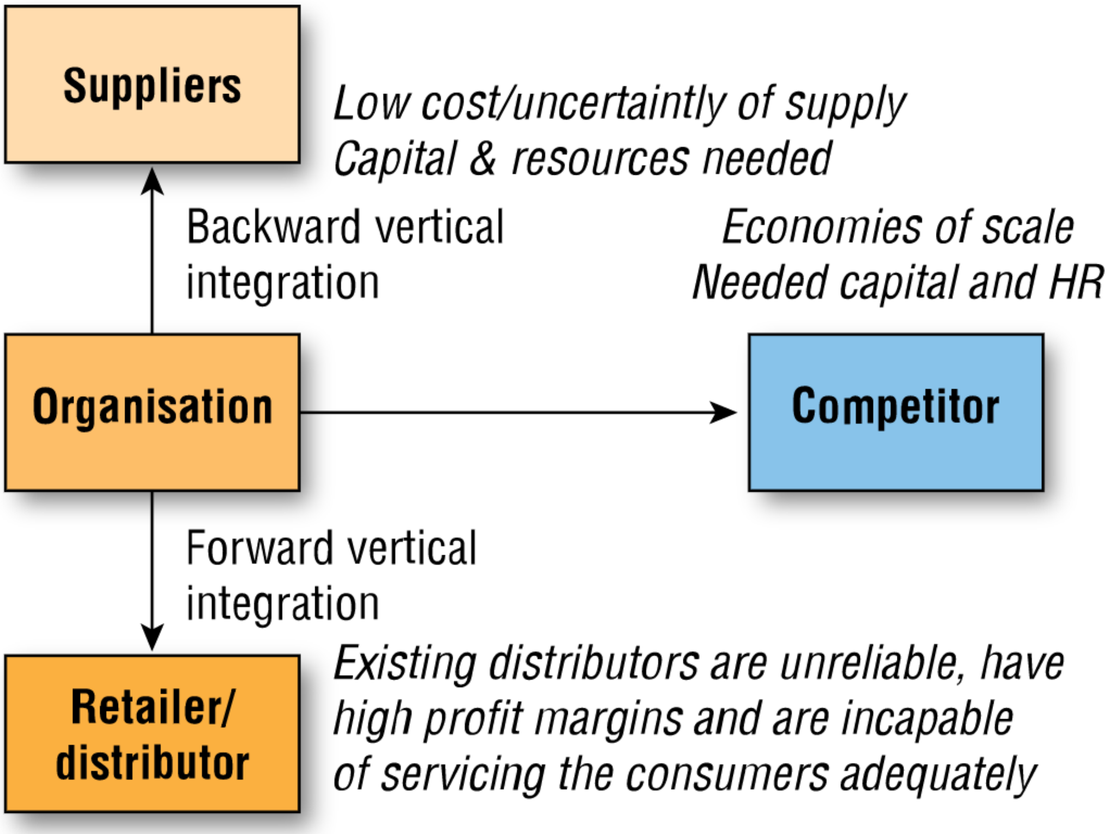
15.7.1.3 Market development

Market development involves the expansion of the organisation's products and/or services to other geographical areas that were not traditionally served by the organisation. In this instance, the organisation retains its product/service offering but is compelled to move out of its comfort zone in its endeavour to expand and grow its market base.

15.7.2 External growth strategies

External growth strategies are put in place when the organisation seeks to enhance its competitiveness by collaborating with distributors/retailers, suppliers or competitors. Inevitably, hard decisions need to be made that are in the best interests of those involved. External growth strategies can either occur in a horizontal or vertical manner. Furthermore, three external growth strategies are commonly known: horizontal integration; forward-vertical integration; and backward-vertical integration. These strategies are illustrated in Figure 15.3.

Figure 15.3 Integration strategies



Sources: Adapted from Lazenby (2014: 185); Ehlers & Lazenby (2010: 209)

Figure 15.3 suggests how and who is involved in the integration strategies of an organisation. This means the key stakeholders of the organisation are identified and their roles defined.

15.7.2.1 Horizontal integration

Something that is horizontal is at the same level as something else. As such, when an organisation follows a horizontal integration, it does this in order to take over and thereby eliminate its competitors. The business space of competitors is often "suffocated" and reduced so as to render them irrelevant and demoralised. Only then can an offer be tabled to buy the competitor out of business.

> *Extract*
>
> ***Physician markets***
>
> Horizontal integration occurs when individual physicians join group practices, or existing groups merge with each other. There are numerous theoretical reasons to expect that this type of integration might lead to improved quality and cost savings, including enhanced operating efficiency and economies of scale. When groups consist of physicians across multiple specialties, there may also be gains from economies of scope, including improved coordination and quality of patient care, in-house or within-network referrals, and the capture of high-revenue services, such as outpatient surgeries and imaging services.
>
> *Source:* http://thehealthcareblog.com/blog/2014/04/25/the-way-forward-for-integrated-care-what-weve-learned-from-horizontal-and-vertical-integration-of-physicians/

Horizontal integration can thus be regarded as lateral integration. This is when two competitors come together to form one formidable organisation. Their resources, technology and expertise are put together so as to take advantage of their strengths and eliminate weaknesses.

It should be noted, however, that this type of integration is prone to challenges including: personality clashes; conflicting views and ideologies as well as cultural mismatch between the two organisations that are seeking to come together. As such, patience, communication and trust building can go a long way toward addressing these challenges.

15.7.2.2 Forward-vertical integration

When wanting to take over its distributors or retailers, the organisation may employ forward-vertical integration as a strategy of choice. Distributors and retailers often have access to a greater market pool, and as such, have to maximise profits and returns at the expense of the organisation's products, services, reputation and brand. Therefore the taking over of distributors or retailers may present the organisation with an opportunity to increase its monetary and other returns and thereby widen its market base.

> *Extract*
>
> As an example of forward integration, News Corporation purchased DirectTV through acquisition. DirectTV was a satellite TV company, and its purchase enabled News Corporation to use it as a medium to distribute more of its news, movies and television shows by managing the process itself.
>
> *Source:* http://smallbusiness.chron.com/example-companys-forward-integration-37601.html

Extract

American Apparel (AA) is a classic example of a company that employs forward integration by controlling every aspect of the distribution of its products. AA manages every form of distribution in-house, including the high-rent, high-profile retail stores, its wholesale operation selling clothing, its screen printers and boutiques, and the online store that sells throughout the United States and internationally.

Warehousing and distribution is also managed internally from the company's Los Angeles factory.

Source: http://smallbusiness.chron.com/example-companys-forward-integration-37601.html

Forward-vertical integration is one way of rapid expansion that the business organisation may consider. The pros and cons thereof have to be thoroughly investigated as these may have unintended consequences to the growth prospects and the long-term survival of the organisation.

It follows that retailers and distributors are not the only stakeholders that the organisation may turn to, since backward-vertical integration is another alternative.

15.7.2.3 Backward-vertical integration

Backward-vertical integration is employed when the organisation seeks to take over its suppliers. This strategy may only be employed if it makes business sense to do so. The organisation ought to consider the cost of long-term aspects of the business, which were originally assigned to the designated supplier before a takeover happens. This requires rigorous research of the supplier and the supplier's suppliers.

Extract

A cheese-making company, Gouda Fresh, decided to take over a dairy farm, which used to supply it with milk. By so doing, Gouda Fresh got direct access to its raw materials in the form of milk. Moreover, Gouda Fresh took control of its supply-chain processes and as a result managed to lower the cost of accessing its ingredients.

Source: http://xplaind.com/339290/backward-integration

Extract

In another instance, if Apple Incorporated (electronics company) integrates with Intel, it will be a backward integration. Apple is a manufacturer of computers and falls at a later stage in the supply chain while Intel is a supplier of processors and falls earlier in the supply chain. From the definition we follow that acquisition of a supplier by a manufacturer is backward integration.

Source: http://xplaind.com/339290/backward-integration

When the business organisation is able to take control of its supply-chain process it can have a competitive advantage over its competitors in terms of the costs of production as well as quality issues. However, the business organisation should avoid falling into the trap of having to deal with hidden costs and other realities, which may only emerge after the takeover of a supplier has occurred.

15.8 CONCLUSION

In this chapter, organisational growth, its ingredients and pitfalls were considered. Strategic management was seen as one of the powerful tools, on which organisation can rely in terms not only of survival, but also growth, sustainability and profitability. It was discussed that growing the organisation can never happen by accident, automatically or without effort from those at the helm of the organisation. Moreover, growth is seen as a necessary good for any modern organisation especially those located within developing countries, for example members of the BRICS community. This is significant in that the BRICS members constitute some of the countries, which are considered to be emerging economies.

REVIEW QUESTIONS

15.1 Define what entrepreneurial growth entails.

15.2 Discuss the stages of entrepreneurial growth.

15.3 Discuss the barriers to entrepreneurial growth.

15.4 Explain the four ways in which the barriers to entrepreneurial growth may be overcome.

15.5 Discuss the various internal entrepreneurial growth strategies.

15.6 Discuss the various external entrepreneurial growth strategies.

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RECOMMENDED WEBSITES

http://www.brains.org

http://www.businesspartners.co.za

http://www.idc.co.za

http://www.landbank.co.za

http://www.sawen.org.za

http://www.seda.org.za

http://smallbusiness.chron.com/example-companys-forward-integration-37601.html

http://www.tep.co.za

16

Enterprise development

W. Sambo

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- understand the concept of enterprise development
- demonstrate sufficient knowledge of the SME environment in emerging economies (Brazil, India, China and South Africa)
- understand the business life cycle in an entrepreneurial environment
- demonstrate an awareness of some enterprisedevelopment initiatives in emerging economies
- describe business incubation and its benefits
- outline the steps to follow when setting up a business incubator
- show an understanding of a growing venture
- understand the listing process and the requirements in different markets.

KEY TERMS

- Entrepreneurship
- Incubation
- Clusters
- SMMEs
- JSE
- SMEs

OPENING CASE STUDY Chesa Nyama

When Gold Brands Investments, which owns the popular Chesa Nyama franchise, listed on the JSE in February 2016, they took advantage of one of the strategies available for companies seeking growth. Stelios Nathanael, CEO of Chesa Nyama and COO of Gold Brands Investments explained that the listing, through which the company was able to raise R25 million, would be used primarily for the expansion of its flagship franchise. Their expansion strategy has seen the traditional flame-grilled meat franchise become one of South Africa's fastest growing national brands with almost 300 franchises across South Africa and employing over 3000 people. Gold Brands followed their listing on the JSE's AltX market with news that they would be taking the Chesa Nyama brand to the US.

Hughes says business owners should keep in mind that once the business is listed, it is in a regulated environment where certain disclosures need to be made, your share price is traded and people understand the market value of your shares.

"People are able to do better evaluation of your company because of the financial information that is disclosed. You have other governance matters, which you need to comply with in order to remain listed, so being listed should make your company in many respects more attractive to investors because of the requirements for listing and to maintain a listing."

"Once you are listed, your stakeholders, from a shareholders' and from a regulators' perspective, all change. So once you list, your shareholder base obviously changes. Your stakeholders now include other institutional investors, other regulators that may not have been part of your business prior to the listing," Hughes says.

Source: Adapted from http://www.goldbrands.co.za/News/default.aspx?pjID=3

16.1 INTRODUCTION

Enterprise development (ED) is a phenomenon that many emerging economies adopted in order to foster economic growth. The spirit of enterprise development is embodied in the growth of small and medium-sized businesses (SMEs) through the provision of finance and non-financial support in order for them to graduate and become big participants in the economic space. This support can help overcome obstacles, and increase competitiveness in the market, with the end result being job creation and poverty alleviation. Enterprise-development programmes aim to pass on knowledge, experience and business support. This aim will provide start-ups with the essential tools and resources that can then be used for the development, survival and success of a business.

16.1.1 Definition of enterprise development

Enterprise development is defined as activities undertaken by government, the private sector, an enterprise-development organisation, a private consultant and/or a combination of two or more to assist or accelerate the development, sustainability and ultimately financial independence of the programme beneficiary. The process is ultimately followed by business growth as measured by its financial and competitive position in the market.

ED is further defined by Raizcorp (2011) as investing time, knowledge and capital to help SMEs to establish, expand or improve businesses, including empowering modest incomegenerating informal activities to grow and contribute to the local economy.

16.1.2 The concept of enterprise development

Enterprise development has become imperative and an important part of South African business (in both government and the private sector). With ED, the general population can potentially earn a living and miraculously turn from job seekers to job creators in the ecosystem. Over a period of time, these people turn into entrepreneurs and create jobs, making meaningful contributions to the communities in which they live and do business. ED encompasses finance, entrepreneurial development, investment in small, medium and micro enterprises (SMMEs), including initiatives that range from enabling the start-up of small businesses, to providing business skills to existing enterprises through training and mentorship. ED requires one to understand where the business is and determine the strategies required at each stage of the business. Therefore, the next item focuses on the business life cycle for entrepreneurs to keep track of, and apply, the appropriate strategies for each stage.

16.1.3 The life cycle of an enterprise

The life cycle of an enterprise is similar to that of a human being and a product. A product progresses through a sequence of stages from birth to growth, maturity, and decline and then death or until it is revitalised with new features and shape. This sequence of stages is known as the product life cycle and is associated with changes in the marketing approach applied by the enterprise, thus influencing the whole marketing strategy of the business over time. Similarly so, the business life cycle usually includes its birth or incorporation stage, its initial growth stage, its expansion stage as it moves into new markets, its mature operation stage, and its eventual decline as consumer interest in its products slow down and key employees and other stakeholders depart. The reason these stages constitute a life cycle is that in the entrepreneurial world, we'll often do things that change our position and start the cycle afresh. Each of the stages is accompanied by costs, risks and opportunities that the enterprise needs to respond to through a series of strategies, which are discussed after each phase.

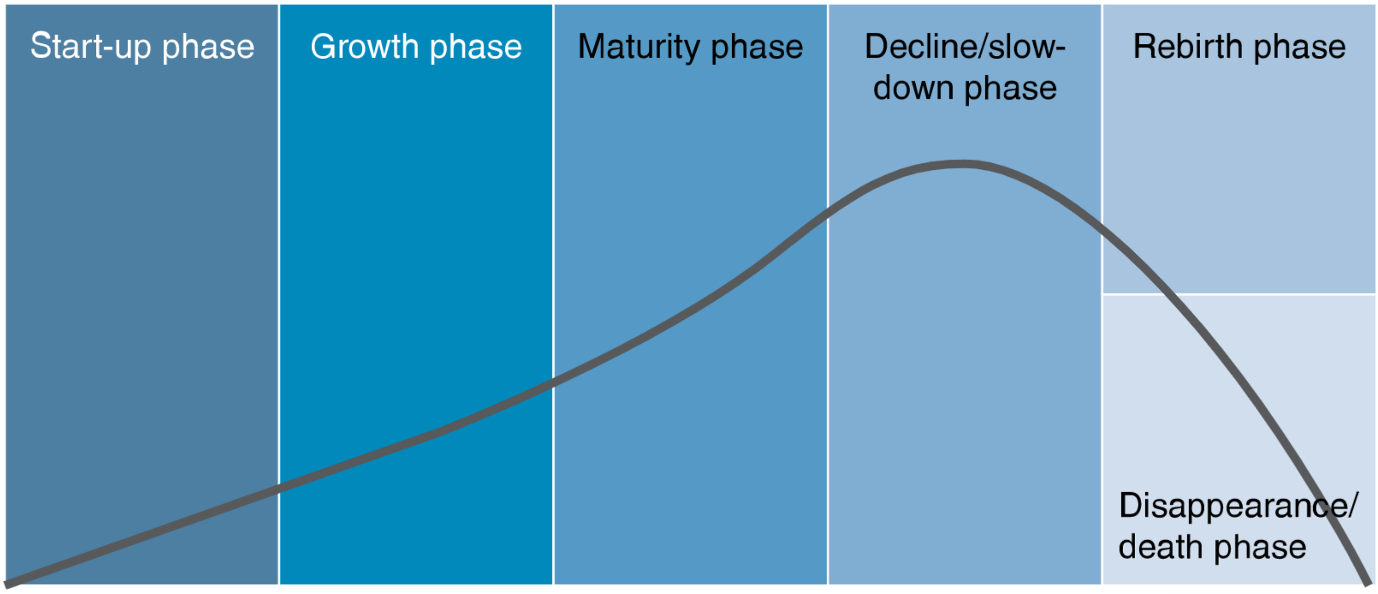
16.1.3.1 Start-up/entry phase

In this phase, the entrepreneur decides on a start-up and actively looks for a market and offers. The entrepreneur might have no customers or market during this phase but decides not to sit on the fence any longer and become an entrepreneur.

Strategies to deal with the challenges

- Begin preparations for any potential cash problem with some savings.
- Build a good credit profile.
- Develop aggressive marketing strategies to capture the markets.
- Attend entrepreneurial and other relevant courses to develop the management skills needed.
- Do some research on recent legislation that may affect the business.

Figure 16.1 The business life cycle



16.1.3.2 Acceleration/growth phase

The growth stage is characterised by a rapid increase in sales. This is as a result of market awareness of the enterprise and its products. This phase requires careful management to respond to a number of challenges. The rapid increase in sales puts a lot of pressure on the enterprise's existing resources. The entrepreneur is constantly on call to respond to customers' needs. At this stage, it is best for the entrepreneur to default on personal needs when deciding on the business's needs in order to support this phase.

Strategies to deal with the challenges

- Work hard.
- Update the credit policy to maximise the collection of debts more efficiently.
- If needs be, consider factoring to meet the immediate cash needs.
- Employ professional managers when needed.

16.1.3.3 Maturity phase

During this stage, growth in sales begins to leveloff. The business has reached stagnation and continues to sell the same products year after year and possibly at the same price because the market is already saturated. A classic example would be with the sale of a LED television set. It is a durable product and once everyone who needed one has acquired one, there is little demand. The only time sales become possible is when people are forced to replace the one they have due to theft or any unforeseen circumstance. Businesses that lack creativity and innovation at this stage should think of new ways to grow the value of their business. The need for corporate entrepreneurship arises, as is the case in many businesses in today's commercial environment.

Strategies to deal with the challenges

- Look for ways to cut the costs of doing business.
- Pay attention to everything in the value chain to reduce costs.
- Apply either both related and/or unrelated diversification strategies, if required.
- Look for alternative ways to increase the value of the enterprise.
- Employ qualified and capable managers to run the business.
- Should the need arise, sell the business and exit.

16.1.3.4 Decline/slow-down phase

This stage is critical in the life cycle of an enterprise. An enterprise will begin to see some warning signs before the eventual collapse. A quick and strategic response should become a priority for the CEO or the responsible executive to save the business. Ideally, it means the business has failed to respond to increased competition and starts showing some signs of decline in sales and a potential loss of market share. In most cases, the business has reached a stage where it becomes unprofitable and cash flow becomes a serious problem. Unless urgent life-saving action is taken, the business is likely to fail.

Strategies to deal with the challenges

- Improve the competitive position of the business through cost-cutting measures.
- Use corporate entrepreneurship to revive the organisation by introducing new ventures.
- Appoint a new management team with fresh ideas.
- As a final option, effective and ethical management of the exit to try to maximise the benefits.

16.1.3.5 Death/disappearance phase

This stage is not ideal for any business. However, we have seen many enterprises like Kodak slowly disappearing. The most common reasons for businesses to reach this stage include the following factors:

- **Negligence:** this occurs when managers or the entrepreneurs themselves do not pay adequate attention to their own business. They become too busy "working in" the business rather than "working on" it.

a) Working in your business simply means doing business.

b) Working on your business is an act of building a business.

- **Lack of experience:** this is regarded as one of the best teachers in life, yet this does not necessarily always have to be our own experience. Leveraging on others' expertise can prove to be a beneficial exercise for the enterprise. It is for this reason that smart entrepreneurs always surround themselves with experts, consultants, coaches and other professionals who are generally smarter than they are with regard to the critical areas of their business.
- **Greed:** it has always been said that any attempt to bite off more than one can chew is a sure-fire way to kill the business.

Strategies to deal with the challenges

Companies do not move to more organic structures until they face the problems of increased costs and reduced quality. Many large companies downsize before adopting organic structures. Greiner's model suggests that organisations grow through collaboration until a new, unknown crisis arises. Other strategies include: rebranding; selling off unprofitable business units; rehiring with new performance contracts; selling off some of the fixed assets; reducing operational expenses and seeking strategic alliances.

The success of SMEs in any economy largely depends on the ecosystems and the support structures brought to them by the authorities. It is therefore imperative that this chapter pays attention to the SME environments of different emerging economies.

16.2 THE SME ENVIRONMENT IN EMERGING ECONOMIES (BRAZIL, INDIA, CHINA AND SOUTH AFRICA)

16.2.1 Introduction

The explosion of entrepreneurship in both India and Brazil is taking place notwithstanding the high levels of red tape that businesses in these two countries still face when starting up. For instance, according to rankings from the *World Bank's Doing Business 2011* report, Brazil ranks 127th and India at 134th on the ease of doing business, while South Africa was ranked far higher at 34th out of 183 countries, as shown in Table 16.1.

16.2.1.1 Why Brazil and India?

While the populations and land areas in Brazil and India are far larger than those in South Africa, the three economies have a lot of similarities in that they are grappling with similar developmental issues. These include poor educational quality; a lack of enabling infrastructure; and a low share of international trade. Furthermore, they all form part of the India, Brazil, South Africa (IBSA) initiative. This was established in 2003 with the aim of creating a platform to share information regarding economic developments, technologies and skills to complement each other's strengths; and they ultimately form part of the BRICS economy (Brazil, Russia, India, China and South Africa). Nevertheless, Brazil is particularly similar to South Africa in that the two countries are among the most unequal in the world. There is therefore a case for contrasting South Africa with Brazil and India. One reason to look to India and Brazil rather than at the Newly Industrialising Economies (NIE) of Southeast Asia as many developmental economists are prone to do is that the NIE model is not directly comparable to the policy context of South Africa. In contrast, China's economy is bigger than the other three combined and therefore its stage of development is far ahead and equally so is Russia. This justifies the exclusion of these two countries despite being part of the BRICS economy.

16.2.2 Small-business policies in South Africa, India and Brazil

16.2.2.1 South Africa

According to Timm (2011), small-business policies in South Africa have not done much to create effective agencies to help support business owners to start up and grow their businesses. Added to this, an awareness of many of the government's support schemes has also been very low. The Department of Small Business Development (DSBD) is currently hosting a national stakeholder consultation session on the review of the National Small Business Act 102 of 1996 in order to improve the regulatory environment for SMMEs in South Africa. The regulatory framework is not only a South African challenge but also one facing many emerging economies.

16.2.2.2 India

On 9 May 2007, subsequent to an amendment of the Government of India (Allocation of Business) Rules, 1961, the erstwhile Ministry of Small-Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (M/o MSME). This ministry designs policies and promotes/facilitates programmes, projects and schemes and monitors their implementation with a view to assisting MSMEs and help them to scale up. The primary responsibility of the promotion and development of MSMEs is the state governments.

The Micro, Small and Medium Enterprises Development (MSMED) Act was ratified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector (MSME, 2016). The Act seeks to facilitate the development of these enterprises and also enhance their competitiveness. It provides the first ever legal framework for recognition of the concept of "enterprise", which comprises both manufacturing and service entities.

16.2.2.3 Brazil

According to Timm (2011), this sector is fairly well developed in Brazil and the policies and institutional framework are aimed at further developing and strengthening SMEs to contribute further to job creation, innovation and inter-industry linkages. Schlemm (1999) has noted that the number of SMEs in Brazil is not only large but also growing. Apart from policies in support of SMEs, there is strong cooperation between research institutes/universities and Brazilian industries including the SME subsector (Meneghel, Mello, Gomes & Brisolla, 2004). The Brazilian government's policy on small businesses is contained principally in Lei Geral, a law passed in 2006, which has simplified taxes for small and micro firms and boosted government procurement, among other things.

Most of Brazil's support for small business falls under its small business support agency SEBRAE, the Ministry of Development, Industry and Commerce (MDIC), as well as under its development finance institution BNDES and state banks.

16.3 SMALL-BUSINESS SUPPORT

16.3.1 South Africa

Despite numerous initiatives over the last 15 years aimed at both high-end enterprise development and the encouragement of micro enterprises, government-support agencies and initiatives "have been less successful than intended" (Timm, 2011). As small businesses in South Africa (as in other emerging economies) are recognised as a driving force for economic growth and the creation of jobs, enterprise-development programmes offered by government and corporates offer black entrepreneurs the opportunity to find support and training to further develop their small businesses. In South Africa government-sponsored initiatives to support entrepreneurship are administered under the Department of Trade and Industry and the Department of Small Business Development. Key institutions with national footprints include the following:

- **Small Enterprise Development Agency (SEDA):** provides non-financial, business advisory services and technical support to SMMEs in South Africa.
- **Small Enterprise Finance Agency (SEFA):** provides a range of funding in the form of direct loans ranging from R500 to R5 million for SMMEs in South Africa.
- **South African Bureau of Standards (SABS):** supports entrepreneurs to access conformity assessment services of the SABS during the process of developing their innovations. Where there are no standards, they facilitate the establishment of such standards together with the industry role players. According to Moeng (2012), conformance to standards is a key challenge facing inspired young entrepreneurs in South Africa. The SABS has been established through an Act of parliament and is the only institution established specifically to promote quality assurance by developing, promoting, certifying and maintaining standards in South Africa.
- **National Empowerment Fund (NEF):** assists growing businesses with capital-raising services to support them in their growth stage. The NEF's funding ranges from R250 000 to a maximum of R20 million with an investment horizon of five to seven years.
- **National Youth Development Agency (NYDA):** previously operated as the Umsobomvu Youth Fund. The NYDA was established in 2008 to help deal with the challenges facing the youth in South Africa that lead to their high levels of unemployment. The entity provides grants in the form of both financial and non-financial support to youth entrepreneurs starting from R1 000 to a maximum of R100 000. Non-financial support includes mentorship programmes, market linkages, entrepreneurship development programmes, youth cooperative development programmes, and other business support services relevant to the youth.

Furthermore, there are a number of parastatals that also support small businesses, though mainly at the upper end of the spectrum. A parastatal is a state-owned organisation that operates separately from the government, but whose activities serve the state, either directly or indirectly. These include the following:

- **Independent Development Corporation (IDC):** provides funding for various industrial development programmes.
- **Council for Science and Industrial Research (CSIR):** offers support with product improvement and manufacturing assistance to SMMEs through their National Manufacturing Centre.
- **Riversands Incubation Hub:** the hub is located north of Fourways in Johannesburg. Riversands has custom-designed premises, self-directed training and coaching, as well as great market access to incubate SMMEs.

Private initiatives include, among others, business partners and commercial banks, and will be discussed later in the chapter.

16.3.2 India

One sector that has emerged as highly vibrant and dynamic in the Indian economy over the last five decades are the MSMEs. According to the Ministry of Micro, Small and Medium Enterprises (2008), the MSME in India has two divisions called the Small and Medium Enterprises (SME) division and the Agro and Rural Industry (ARI) Division. The ministry clarified that part of the SME division's role is administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd, a public-sector enterprise, and the three autonomous national-level entrepreneurship development/training originations. The ARI Division is responsible for the administration of two statutory bodies, viz the Khadi and Village Industries Commission (KVIC), Coir Board and a newly created organisation called Mahatma Gandhi Institute for Rural Industrialization (MGIRI). It is also responsible for the supervision of the Prime Minister's Employment Generation Programme (PMEGP).

Khadi and Village Industries Commission

The Khadi and Village Industries Commission (KVIC), established under the Khadi and Village Industries Commission Act 61 of 1956, is a statutory organisation engaged in promoting and developing khadi and village industries to provide employment opportunities in rural areas, thereby strengthening the rural economy (MSME, 2008).

National Small Industries Corporation Limited (NSIC)

The primary responsibility of the corporation is to promote, support and foster the growth of micro and small enterprises in the country on a general commercial basis. NSIC provides a variety of support services to micro and small enterprises catering to their different requirements in the areas of: raw-material procurement; product marketing; credit rating; acquisition of technologies; and adoption of modern management practices.

16.3.3 Brazil

According to White (2005), part of the success of the SME strategy in Brazil was that it both defined and categorised its SMEs. To date, SMEs represent a large sector of the Brazilian economy. The creation of SEBRAE in Brazil illustrates how the Brazilian government helped bring small business into the mainstream by fostering a "self-help" attitude in entrepreneurs. SEBRAE offers a large number of courses and seminars that help to train entrepreneurs in Brazil. It also stresses the importance of maintaining both the flow of information and of intellectual growth.

SEBRAE is a development agency in Brazil offering the following services to SMEs:

- The promotion of a more productive and competitive environment
- Entrepreneurship education – from primary education up to the university level. This happens in companies via elearning and in many educational institutions through the offer of specific content
- Business linkages, which support and mediates the creation of business linkages between small and large companies
- Capacity building, which opens new and important markets to small enterprises that want to supply big demands, leveraging the productivity and competitiveness of all

SEBRAE has developed a partnership with the national component manufacturers' association, Sindipecas, with the aim of combining the resources of both organisations to develop the auto-component sector into a cluster that is highly competitive by international standards. Another area where SEBRAE has made some progress is in technology, in particular ecommerce support for SMEs. Providing technical assistance and ecommerce training to SMEs helps to improve their capabilities and operational progress (Timm, 2011).

16.3.4 Comparison

A table of comparison between India, Brazil and South Africa is detailed in Table 16.1.

Table 16.1 Ranking on doing business in India, Brazil and South Africa (2006, 2009; 2010)

	Brazil	India	South Africa
Overall (2010)	127	134	34
Starting up (2010)	128	165	75
Procedures to start up (2009)	15	12	6
Procedures to start up (2006)	18	13	8
Time in days (2006)	152	33	31
Employing workers (2009)	138	104	102
Getting credit (2010)	89	32	2
Closing a business (2010)	132	134	74

Sources: Data for 2010 from World Bank (2011); data for 2006 from World Bank (2007)

In Brazil, entrepreneurs face mountains of red tape; uncertainty over constantly changing regulations; and difficult regulations, for example on setting up new businesses, on employment and working overtime, and on minimum wages. Starting a business takes about 16 procedures, which is more than double the six steps required in South Africa and more than the 13 required in India. It can take almost six times longer to start a business in Brazil (120 days) than it does in South Africa, and four times longer than the average 30 days needed in India. Yet despite this, Brazil still produces entrepreneurs at a rate of almost double that of South Africa, according to the 2009 *Global Enterprise Monitor Report*. According to Timm (2011), all three countries have similar levels of infrastructure development. Both Brazil and South Africa suffer from high crime rates, a poor quality of education, restrictive hiring and firing practices and similar high levels of market dominance by large firms, while India and South Africa share similar levels of access to finance and similar spending on research and development. Nevertheless, despite South Africa being an easier place to start up a business according to the World Bank Survey, the country's favourable business climate is undone by the disastrous consequences of apartheid (1948–1994).

Presently, the SEDA is one of the major public agencies in South Africa that provides non-financial, business-advisory services to SMEs. The Brazilian government, together with the private sector and various institutions, has developed an SME body (SEBRAE) to oversee and represent the growing SME sector and add structure and regulation to these enterprises. This organisation has been central to Brazil's successful SME campaign. India has developed the Khadi and Village Industries Commission and the National Small Industries Corporation Limited (NSIC) (Timm, 2011) to assist its small businesses. The development of SMEs has become a national imperative among many governments in emerging economies. Many government departments have specific strategies in place, for example, developing SMEs in the tourism sector, or developing small-and-emerging contractors by Housing and Public Works, Land and Agriculture, Arts and Culture and so forth. As part of the National Skills Development Strategy in South Africa, the Sector Education and Training Authorities (SETAs) are also supposed to develop programmes that help grow small businesses in their respective sectors.

16.4.1 Financial support

According to small-business researchers SBP, despite numerous initiatives over the last 15 years aimed at both high-end enterprise development and the encouragement of micro enterprises, government-support agencies and initiatives "have been less successful than intended". According to Heemskerk (2005), formal financial intermediaries, such as commercial banks, are not willing to serve poor households and micro enterprises because of: the high cost of small transactions; lack of traditional collateral; lack of basic requirements for financing; and geographic isolation. By doing so, these institutions ignore the enormous potential in talents and entrepreneurship of this stratum of society. Providing access to financial services will stimulate the independence and self-development of poor households and micro entrepreneurs. In recent years, two major trends have drawn attention to the potential market opportunity associated with low-income individuals and small businesses in particular. Widespread publicity around the United Nation's international year of micro credit in 2005 and Muhammad Yunus's Nobel Peace Price in 2006 have increased overall public awareness of micro finance (Sutton & Jenkins, 2007).

16.4.1.1 Financial support to SMEs

The problem of limited access to loan finance has been identified repeatedly by the governments of developing economies as the top impediment to business. One reason why SMEs in historically disadvantaged areas are still unable to access funding is a lack of information and knowledge, which leads to SMEs' weak bargaining positions in terms of: interest paid; asset and liability disclosure; misuse of loan funds; and generally poor preparedness when applying for business loans. Other reasons include

- lack of collateral
- lack of a sound or bankable business plan
- the conditions imposed by the financial institutions
- high transaction costs.

16.4.2 Funding agencies in South Africa

While many organisations (both private and public) have been established to support SME development in South Africa, lack of access to finance from these organisations remains a problem and continues to affect people who want to start or grow their own businesses. In SA, commercial banks generally do not regard the majority of people as bankable or creditworthy. An important part of the national small business strategy is therefore to create an enabling environment for entrepreneurs and small businesses to access finances. Although a number of institutions have been set up, there is still a very long way to go. South African government funding and grants are focused on providing funding for business ventures that can make a difference to the economy. Below are some of the institutions providing financial support to SMEs in South Africa.

16.4.2.1 Department of Trade and Industry (DTI)

The DTI has a range of funding schemes for qualifying enterprises from a range of sectors of our society. Financial assistance by the DTI covers areas such as manufacturing activities, business competitiveness, export development, market access and creating a platform for foreign direct investment (http://www.thedti.gov.za).

16.4.2.2 National Empowerment Fund (NEF)

This organisation is aimed at supporting broad-based black economic empowerment (B-BEEE) and previously disadvantaged individuals and communities with both financial and non-financial assistance. It offers funding for start-ups and growing enterprises as a loan; equity funding; funding black-empowered businesses; assistance with business planning; mentorship support; and early-stage investments (http://www.nefcorp.co.za).

16.4.2.3 National Youth Development Agency (NYDA)

The NYDA provides youth enterprise grants for young entrepreneurs aged between 18 and 35 year and aims to assist them in starting a business or growing an existing one. The model for accessing their financial support is available on their website: http://www.nyda.gov.za

16.4.2.4 Isivande Women's Fund

The Isivande Women's Fund is an exclusive funding scheme established to specifically empower women with existing businesses. With the funding scheme, education programme and training they offer to women, the Isivande aims to accelerate women's economic empowerment with affordable and reliable financial solutions (http://www.thedti.gov.za).

16.4.2.5 Land Bank

As the name suggests, the Land Bank offers a wide range of loans to cater for all financial needs, including buying land, equipment and working capital for agricultural projects. One of the requirements that must accompany the application is a business plan (http://www.landbank.co.za).

16.4.2.6 Technology Innovation Agency (TIA)

The Technology Innovation Agency (TIA) was established in 2008 with the purpose of stimulating and intensifying all technological innovation in South Africa to support economic growth (http://www.tia.org.za).

16.4.2.7 Development Bank of South Africa (DBSA)

The DBSA focuses on financing infrastructure development projects; the South Africa financing division primarily provides long-term debt solutions for infrastructure projects (http://www.dbsa.org).

16.4.2.8 Gauteng Enterprise Propeller (GEP)

Gauteng Enterprise Propeller (GEP) is an agency of the Gauteng provincial government established as a vehicle to drive economic growth in the province. The main objective of the agency is enterprise development within the Gauteng province of South Africa. This includes financial and non-financial support to small, medium and micro enterprises (SMMEs) and cooperatives (http://www.gep.co.za).

16.4.2.9 Other non-government institutions

- **Commercial banks:** have specialist SME divisions, providing finance for qualifying entrepreneurs. Though they have funding available, it remains difficult for many SMEs to access funds from commercial banks due to the stringent criteria set by the banks.
- **Business partners:** is a specialist risk-finance company that provides customised financial solutions, sectoral knowledge, mentorship, business premises and other added-value services for formal SMEs in South Africa and selected African countries.

The non-financial support offered by the above institutions cover a wide range of business management support services to entrepreneurs and small enterprises, such as:

- Developing business plans
- Doing market research
- Managing a small business
- Legal requirements of small businesses
- Marketing
- Business development
- Advice on government tender processes, etc.

Two of the most popular and effective non-financial support mechanisms to SMMEs are incubations and clusters, which are discussed in section 16.5.

16.5 SMALL-BUSINESS INCUBATION

Small-business incubation is a unique and highly flexible combination of business-development processes, infrastructure and people designed to nurture new and small businesses by helping them to survive and grow through the difficult and vulnerable early stages of development (Menon & Malik, 2016). No doubt, incubators provide small businesses (particularly start-ups) with the enabling environment most needed to develop and grow their businesses, offering everything from virtual support, rent-a-desk through to state-of-the-art laboratories and everything in between. Incubators create direct access to hands-on intensive business support, as well as to finance, experts and other entrepreneurs and potential suppliers for the small business to prosper.

Business incubation is basically a location in which entrepreneurs can receive proactive, value-added support, and access to critical tools, information, education, contacts, resources and capital that may otherwise be unaffordable, inaccessible or unknown.

16.5.1 Purpose of business incubation

In emerging economies, business incubation is one of the tools that gives confidence to the nation to create new entrepreneurial businesses with support guarantees for the duration of the incubation period. The purpose of incubators is to increase the chance of success for start-up businesses, and help reduce the cost of start-up and growing the business. The incubation process improves the survival rate of start-up companies by assisting them to become financially viable, usually within two to three years. The whole activity of establishing and maintaining a business incubator is both exhausting and exciting at the same time.

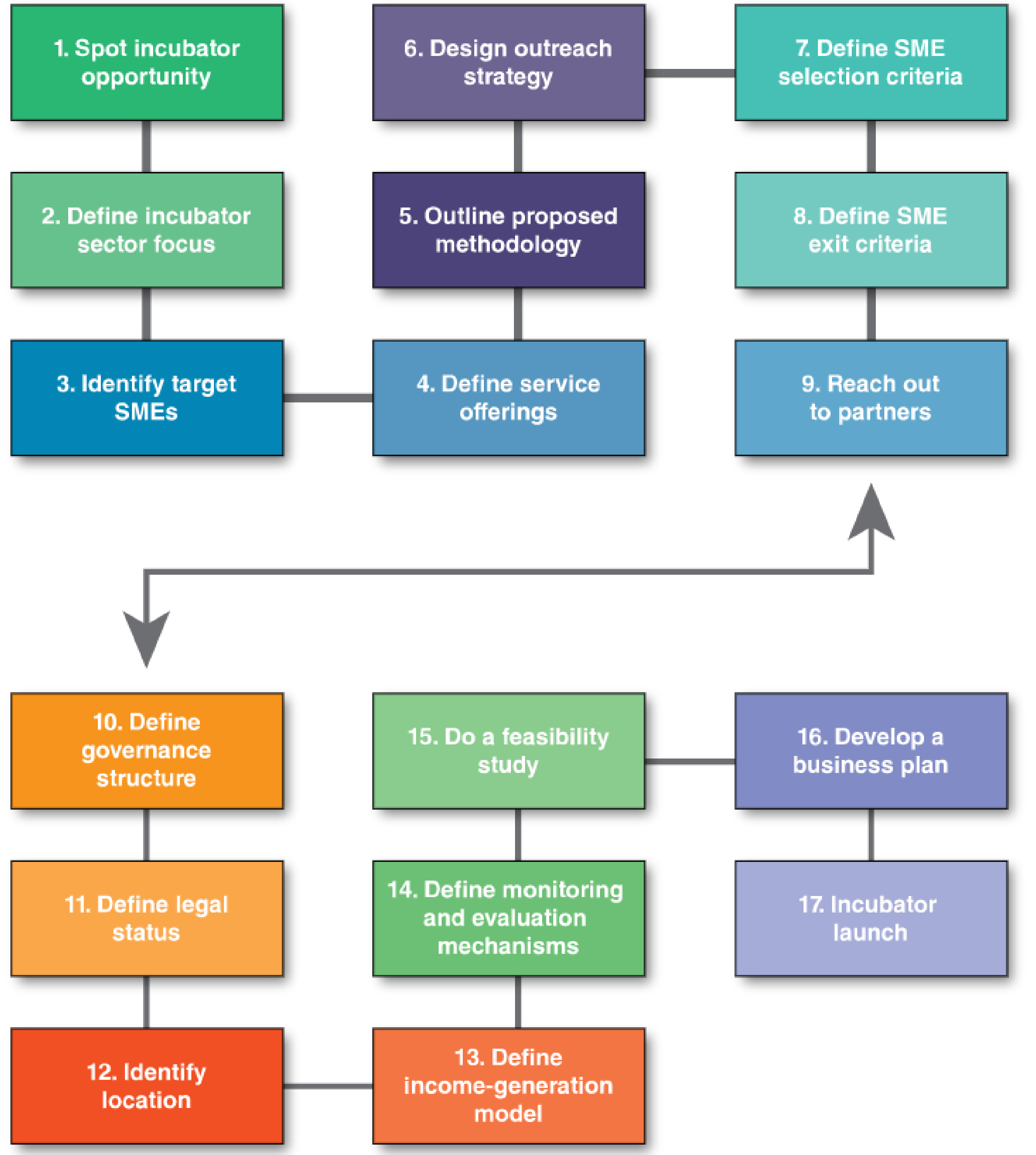
The following steps help understand the whole start-up process until the incubator is fully functional.

16.5.2 Different incubation programmes

- **Government incubators:** incubators in South Africa are largely funded by the government.

- **University-based incubators:** as could be expected, university-based incubators also provide training opportunities for students and serve as commercial outlets for faculty research. Among the university-related services, student employees, faculty consultants, library/information databases, labs/workshops and sophisticated equipment, and technology-transfer programmes were used more by clients and perceived to be adding value to their partnership.
- **Public-private partnership incubators** (PPPs) (Innovation Hub and UFS Science Park): the growing professionalisation of role players has encouraged governments, local development agencies, private economic interests and academics to play an active role in the incubation space.
- **Private incubators** (Raizcorp, Aurik, etc.): incubators that invest and build small businesses into medium- and large-sized businesses and at times sell them.

Figure 16.2 Steps in setting up an incubator



Source: Adapted from SA Business Incubator Establishment Handbook (DTI, 2014)

16.5.3 Benefits of using business incubators

- Small-business owners enjoy immediate availability of resources, technical support and know-how to assist them in optimal growth and development.

- Incubators provide administrative support to entrepreneurs needing to grow – this normally comes in the form of a general assistant, interns (especially if the incubator is related to a university), affordable bookkeeping, CPA and legal services, as well as access to basic office gadgets and supplies.
- It provides a nurturing, entrepreneurial and friendly learning environment for the entrepreneur.
- Entrepreneurs are surrounded by experts who can provide mentorship and professional support.
- It is a playground for investors in search of innovations or take overs.
- Incubators have access to different markets.
- Provides access to capital – all types of early-stage investors – angels, seed funds, venture capital – have their radars on incubators, especially the ones with a successful record of spinning good companies.
- Incubators provide better access to connectivity – other than connecting with fellow incubated companies and proximate resources, there are several national, regional and even global incubator networks and programmes, such as Brazil's Anprotec and World Bank's global infoDev. This means that if one intends to go global with the business, find new strategic partners in different countries, or benchmark experiences, being in an incubator space can also be very useful.

16.5.4 The incubation process

Entrepreneurs who wish to enter a business incubation programme need to be aware of the following process:

- Application for admission
- The acceptance criteria which vary from programme to programme and from one incubator to another

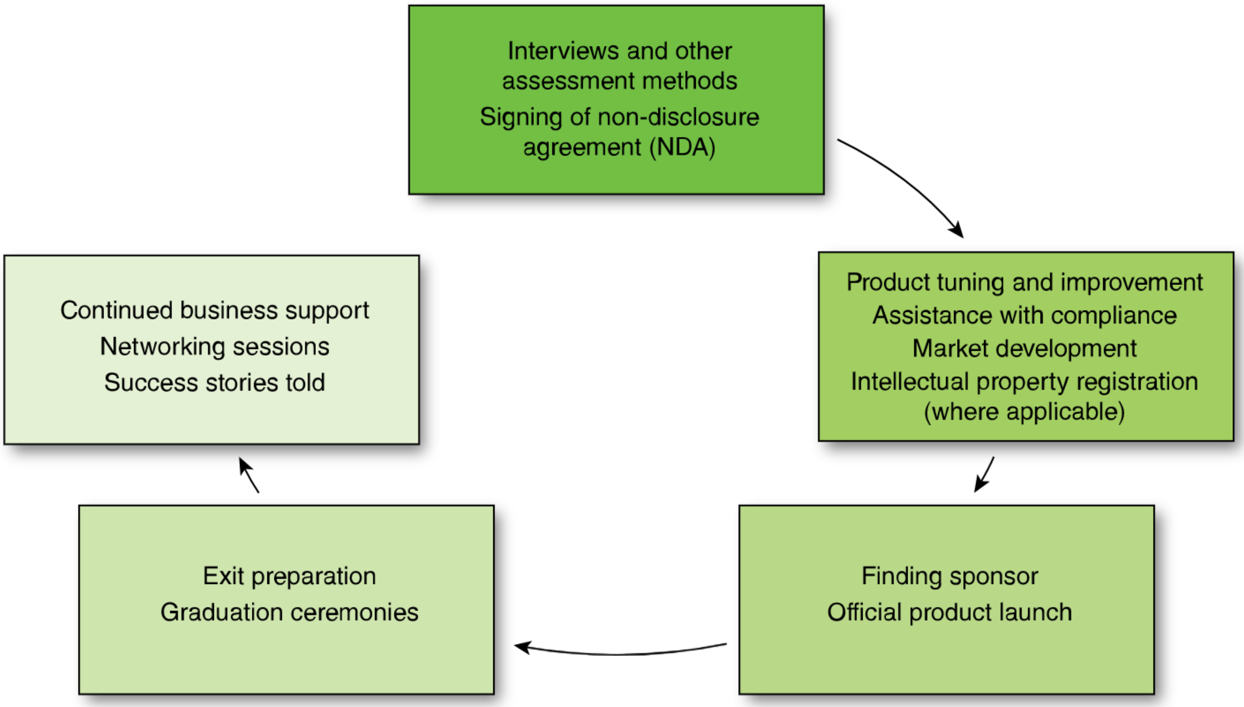
Generally only those who meet the requirements (either feasible business ideas or a workable business plan) are admitted.

16.5.5 The basic model for SME incubation

According to Tambudze (2012), South Africa has a thriving SME sector and there are many companies offering a variety of incubation programmes, with the majority of them structured according to sectors of the economy. Below is a list of business incubators in South Africa provided by Tambudze (2012), and the list could be endless.

- **The African Rose Enterprise Development** provides support to emerging essential-oil farmers and agroprocessing business.
- **Aurik** invests and builds small businesses into medium-sized businesses and then sells them.
- **Bodibeng technology incubator** is a virtual and real-estate incubator, which supported high-tech entrepreneurs in starting and growing their businesses by offering innovative products and services.
- **Chemin** supports the start-up and growth of SMEs in the downstream chemical industry. Chemin is located in Port Elizabeth, Eastern Cape province, but operates nationally.
- **Endeavor** is a non-profit organisation that identifies and assists high-growth entrepreneurs in emerging markets around the world by providing support for entrepreneurs who are transforming their communities, their industries and their countries with their visionary ideas.
- **The Downstream Aluminium Centre for Technology** is located in Richards Bay, Kwa-Zulu-Natal Province and focuses on training, skills development and the incubation of small enterprises in the aluminium casting industry.
- **Egoli Bio** assists entrepreneurial life sciences and biotechnology ventures, helping them to survive and grow during the start-up phase.
- **Furntech** provides training, skills development and business-incubation support to potential entrepreneurs and small enterprises involved in furniture manufacturing.
- **The Innovation Hub** is a science and technology park whose main aim is to increase the wealth of its community by promoting the culture of innovation and the competitiveness of its associated businesses and knowledge-based institutions. It has created a unique space for high-tech entrepreneurs, world-class businesses, academics, researchers and venture capitalists to meet, network and prosper.

Figure 16.3 The basic model for incubation



- **Shanduka Black Umbrellas** is a non-profit company involved in enterprise development and more specifically the support of emerging black business. Black Umbrellas provides a supportive, incubator-style environment for emerging, wholly-owned black businesses.
- **Mpumalanga Agri-skills incubator** promotes sustainable agricultural empowerment, and the development and entrepreneurship of previously disadvantaged individuals and communities in Mpumalanga to create sustainable small agricultural enterprises and lower the risk of financiers, thereby making funding more accessible to small-scale farmers.
- **Mpumalanga Stainless Initiative (MSI)** is an incubator funded by the DTI and it deals specifically with SMEs operating in the manufacturing sector.
- **The Nelson Mandela Bay Incubator** focused on small ICT enterprises within the Eastern Cape Province. It hosts entrepreneurs and supports them with services such as mentorship, physical infrastructure, and sectoral and investor networking.
- **SEDA Automotive Technology Centre** aims to develop technology-influenced products or services for the automotive industry. Through its partnership with Tshwane University of Technology and the CSIR, the centre provides technical as well as business-development support services to entrepreneurs and small enterprises.
- **The SEDA construction incubator** provides business-support services, office infrastructure and other resources to eligible businesses in the construction sector. It focuses specifically on the development of small contracting firms classified under the Construction Industries Development Board (CIDB) as grade 3.
- **SEDA essential oils business incubator** empowers emerging farmers to produce, and in some instances process, high-value essential oils. The incubator transfers appropriate technologies to emerging farmers in order to facilitate starting or increasing commercially viable essential oil production.
- **SEDA Limpopo jewellery incubator** develops entrepreneurial jewellers in the Limpopo Province.
- **SEDA Maphura-Makhura incubator** is a training-and-technology demonstration incubator, which trains local farmers to plant sunflower and soya beans to produce biodiesel.
- **SEDA platinum incubator** is a platinum beneficiation and jewellery training and manufacturing incubator, which aims to create an internationally recognised centre of platinum beneficiation excellence and is dedicated to the advancement of skills in the beneficiation of platinum group metals.
- **Soft-Start business and technology incubator** is a real-estate incubator, which assists innovative early stage information and communication technology (ICT) entrepreneurs with mentoring and support in the strategy and practice of growing a sustainable business.

- **Soshanguve Manufacturing Technology Demonstration Centre** demonstrates small-scale manufacturing machinery and equipment to train entrepreneurs to operate and maintain technologies and to establish new small-scale manufacturing and services ventures. Its vision is to accelerate the establishment and development of low-cost small manufacturing enterprises.
- **Timbali technology incubator** aims to create a centre for the establishment and support of emerging farmers in the cut-flower market.

16.6 CLUSTERS

Clusters are geographic concentrations of interconnected firms, specialist suppliers, service providers, firms in related industries and associated institutions (Porter, 1998).

Clusters are a concentration of firms that are able to produce synergy because of their proximity and interdependence, even though their scale of employment may not be pronounced.

16.6.1 Benefits of operating in a cluster environment

- Transaction and transport costs are reduced.
- Industry stakeholders can easily come face-to-face with one another.
- This face-to-face provides an opportunity for information sharing.
- There is easy access to training services and industry research outputs.
- Provedes access to a large workforce with skills in the industry.
- Provides access to suppliers of raw materials and, at times, industry clients.
- Provides an opportunity for informal interaction and learning, and a strong market focus.
- Decreases production costs due to mass production.

Tavassoli (2009) has identified four ways of cluster foundation. Among the four ways, which can lead to the foundation of a cluster, the first three can be perceived as the stimulus to the firms (and other actors) to be engaged in a cluster. The last way can be perceived as a means for cluster initiation.

- First, clustering of firms in a particular location can happen in order to gain proximity to an original large customer or large market, such as financial services near the stock exchanges in New York City.
- Second, clustering can happen because of the attraction of specific resources and natural advantages in a specific geographical region for the firms. Some examples of such natural advantages are ore deposits, transportation routes, climate, labour with specific skills, or low-cost labour. The cluster of Montebelluna in Italy is composed of about 420 companies specialising in the design, development, production and distribution of sport shoes and the California wine cluster, which includes 680 commercial wineries as well as several thousand independent wine grape growers are two examples of this kind of cluster.
- Third, concentration and origination of a specific technology in a region and relevant demand or skill means that technology can also be a way for firms to work with a cluster. The SMIL cluster in Sweden is one good example. SMIL network, supported by the university and the Centre of Innovation and Entrepreneurship (CIE), has subsequently developed a portfolio of highly recognised activities designed to promote the growth and development of knowledge-intensive firms (LaurCorrespondenceinessa.laur@liu.se, Klofsten & Bienkowska, 2012).
- Fourth, a typical cluster can be initiated by an entrepreneur who starts a particular industrial activity in a particular location. If the new venture is successful, a cluster can begin to grow and prosper.

One classic example of a functional cluster in South Africa is the Automotive Supplier Park (ASP), which is owned and managed by the Automotive Industry Development Centre (AIDC). The ASP is located in Rosslyn and spans an area of 130 hectares, with a pool of tenants comprising mainly component manufacturers and suppliers to OEMs, which require a continuous supply of components to assembly plants. Owing to ASP's locality, manufacturers of automotive components, suppliers and service providers enjoy the benefits gained from synergies and cost-saving opportunities.

16.6.2 ASP cluster benefits

According to Gwala (2014), here are some of the possible benefits:

- **Strategic location:** the ASP is strategically placed in close proximity to major OEM plants including the likes of BMW (3.3km), Nissan/Renault (1.3km), TATA (0.5km) and Ford/Mazda (35km).
- **Shared infrastructure, services and facilities:** ASP tenants enjoy the benefit of shared infrastructure and value-added services including facilities management, ICT services, centralised security, logistic services, conference facilities, a canteen and healthcare facilities.
- **State-of-the-art ICT infrastructure:** ASP provides advanced ICT infrastructure and services. Tenants are offered a wide range of services including affordable routing IP telephony service, broadband internet and email, server access, back-up and data-recovery services, ICT support, access control and CCTV monitoring.
- **World-class production environment:** the design of the ASP is modern with aesthetically-appealing gardens and common areas.
- **Turnkey buildings developed to tenant requirements:** factories are developed to tenant requirements and legislative approvals. The design and finishes of the buildings are governed by the ASP's architectural guidelines and meet international automotive standards.
- **Logistics networks:** ASP tenants benefit from warehousing and distribution services that are rendered by independent service providers. A significant benefit to ASP tenants is a centrally-located container depot, which is able to handle all inbound and outbound container traffic.

16.7 GROWING AN ENTREPRENEURIAL VENTURE

A business is differentiated by its ability to grow and create more jobs over a period of time. A business is said to be growing when it begins to sell more products or generate more income. When a business is able to cut costs and net more money from raising profitability, it also grows. Every entrepreneurial business aims at growing above the inflation targets. It is for this reason that this chapter highlights important growth issues.

16.7.1 Characteristics of a growing firm

- **Good governance:** this has eight major characteristics; it is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law.
- **Healthy cash flow:** this provides the comfort and capabilities a business needs to invest in growth.
- **Strong marketing team:** the strong foundation of modern marketing builds towards a team culture with integrity, character, creativity and loyalty. This will help provide the vision for where your brand is going and it attracts the "A players" you want on your marketing team.
- **High ethical standards:** a business that exemplifies integrity in its products, services and actions holds itself up to high ethical standards.

16.7.2 Different growth strategies for an enterprise

- **Increase sales to your existing customers:** providing superior customer service, excellent quality and loyalty programmes cannot only help you maintain your existing customers but also help you secure repeat business and increase sales volume. In addition, satisfied customers can also help sell your business by telling others about your products and services.
- **Expand to other markets:** this may include opening another location, expanding your target market, or exporting to a foreign market.
- **Diversification strategies:** these include a multiplication of income streams to maximise profitability and fill any seasonal voids.
- **Franchise:** this is a great way to find talented people to manage your locations and give them an incentive to work hard. The beauty of this strategy is a win-win situation for both the franchisor and franchisee.

Franchising allows the business to distribute its offerings to a much wider market through the use of franchises.

- **Forming a strategic alliance:** this is an agreement between two or more parties to pursue a set of agreed-upon objectives needed while remaining independent organisations. This form of cooperation lies between mergers and acquisitions and organic growth.
- **Cost-maintenance strategy:** the more efficient the production methods, the lower the cost per unit. In addition, it is important for a business to explore ways of reducing costs of supplies without compromising the quality of any product or a service.
- **The use of technology:** the internet can assist with other methods of appealing to existing or new markets, or marketing the products and services online.
- **Licensing strategy:** licensing of a product or any other form of intellectual property to others can be an effective way to grow a business. It enables one to receive upfront fees and ongoing royalties while taking advantage of the production and distribution methods already established by another company.
- **Mergers and acquisitions (M&A):** these are transactions in which the ownership of companies, other business enterprises or their operating units are combined or acquired. As an aspect of strategic management, M&A can allow enterprises to grow, shrink, change the nature of their business or improve their competitive position.

16.8 LISTING ON THE STOCK EXCHANGE MARKETS

16.8.1 Brief summary of the stock exchange market

Listing is usually an investment instrument, thus taking a non-public owned enterprise and inviting shareholders to invest in the business in a manner that they can hold or trade their investment in that particular business on a stock exchange. Generally, the role of any stock exchange is to create a regulated and orderly marketplace where providers of capital and organisations that require capital can equally transact to their mutual benefit. In South Africa, the JSE fulfils this role by creating a mechanism through which providers of capital can earn a return on their investments by way of dividends, interest and/or capital growth, while the organisations in which they invest provide employment opportunities and economic development (MacLeod, 2008). According to Tsele (2016), the JSE is an ideal listing destination for companies looking to raise capital by tapping the large pool of local, global and institutional investor capital.

16.8.2 The history and role of the JSE in South Africa

- **1887:** The JSE was established as a stock exchange to enable new mining ventures to raise funds for the development of the then fledgling mining industry.
- **1947:** The Stock Exchanges Control Act was promulgated to regulate the operation of exchanges in South Africa.
- **1963:** The JSE became a member of the World Federation of Exchanges.
- **1995:** Formation of the South African Institute of Stockbrokers.
- **1996:** The open-outcry trading floor was closed on 7 June and replaced by the electronic JET system.
- **1997:** The Securities Exchange News Service (SENS) was introduced to ensure early and wide dissemination of all information that may affect the prices of securities trading on the JSE (http://www.jse.org.za).

16.8.3 Listing categories

Historically, the JSE had three listing categories;

- **The Main Board:** well-established companies who want to grow their business exponentially are listed on the JSE's Main Board. This is where you will find the JSE's top 40 stocks, as well as securities like exchange-traded funds (ETFs), exchange-traded notes (ETNs) and warrants.

- **The Development Capital Market (DCM):** this was created in 1984 in recognition of the need to encourage the growth of small companies not able to list on the Main Board. However, the emergence of the AltX seems to have caused the DCM to decline.
- **The Venture Capital Market (VCM):** this comprises companies specialising in the holding of portfolio investments in venture-capital projects and/or single-venture companies.

16.8.3.1 The new small enterprise market on the JSE (AltX)

The Alternative Exchange (AltX)

Launched in October 2003 as an additional market for SMEs, the AltX is the new market specifically tailored to accommodate entrepreneurial SMMEs on the JSE. It is the intention of the JSE that the AltX will become the preferred market in place of the DCM and the VCM. However, for now the DCM and VCM will continue to operate.

For companies to be listed on any of the four boards of the JSE, they need to meet specific criteria.

Table 16.2 summarises the key criteria needed to meet these requirements.

Table 16.2 Summary of key criteria for listing on the JSE

Criterion	Main Board	DCM	VCM	AltX
Number of shares	25 000 000	1 000 000	1 000 000	2 000 000
Value of subscribed capital	R25 000 000	R1 000 000	R500 000	R2 000 000
Profit history	3 years audited	2 years audited	not required	not required
Public spread	20%	10%	10%	10%
Number of shareholders	500	75	75	100

Source: https://www.jse.co.za/…/JSESpecificationsItems/Guidelines%20to%20Listing%20on%…

The JSE updated its listing requirements in 2003 to take account of global trends towards greater levels of corporate governance and compliance with Statements of Generally Accepted Accounting Practice (GAAP). Accordingly, all companies seeking admission to the Main Board, DCM and VCM must appoint a JSE-registered sponsor. Please visit http://www.jse.org.za for more information regarding the JSE.

16.8.3.2 The benefits of listing a business

- Local analyst coverage as well as high media interest
- Helps improve your corporate reputation and profile
- Businesses can potentially attract international investors
- Helps improve the company’s capital-raising ability, which can be used for funding organic growth or acquisitions
- Listing can enhance dealings with banks, suppliers, distributors and customers due to the greater transparency, regulation and monitoring that companies are subjected to
- Allows businesses to increase liquidity for investors and allows shareholders to realise the value of their investments through a public trading platform and facilitate B-BBEE deals.

16.8.3.3 Disadvantages of listing a business

- There is an annual listing fee to pay to maintain a listing in addition to the costs of listing.

- Upon listing, the company is also bound to comply with the listing requirements of the JSE.
- Listing compels the company to improve the quality of its reporting and so improve the quality of information available for decision making.
- Compliance can be expensive in terms of cost and management time.
- Listed companies can be sanctioned by the JSE if they breach the listings requirements.

16.8.4 Requirements for listing

The listing requirements of the JSE apply to all companies listed on the Main Board or the AltX. According to MacLeod (2008), these relate to the following:

- Publication of financial results
- Issue of cautionary announcements
- Directors dealing in shares of the company
- Acquisitions or disposals
- All matters relating to the listing requirements and the continuing obligations of listed companies

16.9 MIGRATION FROM ALTX TO THE MAIN BOARD

The AltX board was developed to serve smaller companies and 114 companies have listed on the board since its inception in October 2003. A company decides internally at what stage it wants to move from the AltX to the Main Board once the company can comply with the requirements of a Main Board listing. This includes that the company must have subscribed share capital of R25 million and the requisite pre-tax profits.

16.9.1 The merits of migrating from the AltX to the Main Board

According to MacLeod (2008), the AltX was created to provide SMEs with an opportunity to raise capital without being subject to the rigorous regulatory requirements and costs that characterise the Main Board. Companies listing on the AltX therefore have smaller capital requirements for listing than their Main Board counterparts, require fewer shareholders, do not require a profit history and have lower annual listing fees. The key differences between the two exchanges are presented in Table 16.3. This means that a small business in the AltX market simply needs to fulfil the requirements presented in the Main Board in order to qualify for a migration to it. In terms of benefits, AltX offers many of the same benefits as the Main Board, enabling businesses to raise funds and gain public exposure while enjoying favourable regulation and reduced fees relative to their Main Board counterparts. The high-growth and high-risk nature of these firms, however, makes them a niche investment choice for many investors.

Table 16.3 Listing requirements for the AltX versus the Main Board of the JSE

Listing requirements	Main Board	AltX
Share capital	R25 million	R2 million
Profit history	3 Years	None
Pre-tax profit	R8 million	N/A
Shareholder spread	20%	10%
Number of shareholders	300	100

Listing requirements	Main Board	AltX
Publication in the press	Compulsory	Voluntary
Annual listing fee	0.04% of average market capitalisation	R22 000

Source: Kruger (2014)

According to MacLeod (2008), all AltX companies must retain the services of a designated Advisor (DA) who is responsible for determining the suitability of the company for listing, advises the company on the listing process and provides ongoing oversight for the company's continued listing. DAs therefore enjoy a significant degree of control over which companies are allowed to list and the fact that the listing requirements for AltX companies are so much less rigorous means that it is far easier for these companies to obtain a listing.

16.9.2 Listing time frame

The listing time frame normally covers between nine and 13 weeks, depending on the method of listing, the competence of the professional advisors and the complexity of the listing.

The typical time frame has been summarised in Table 16.4.

Table 16.4 Typical time frame for listing on the JSE

Company	Co	Corporate advisor	CA	Accountant	A
Sponsor	S	Legal advisor	LA		

WEEK	ACTION	RESPONSIBILITY
0	Appoint advisors Meet to consider: legal, financial and tax implications Method of listing Prepare timetable for listingAfrica's top ten franchises, look at Table 18.1 and consider where Commence preparation of accountants report Commence drafting of documentation	Co A, LA, CA and Co CA A and Co CA
1-3	Drafting meetings to finalise draft documentation (prospectus, prelisting, statement) Finalise accountant's report	CA, LA, A, S and Co A and Co
4	Draft documentation submitted to the JSE for informal comment and registrar (if public offer)	S and CA
5-8	JSE formal approval, and registrar's approval (if a public offer) obtained	S and CA

9-10	Listing commences if an introduction, or placing or public offer commences	
11	Placing closes	
12	Listing commences if a placing or public offer closes	
13	Listing commences if a public offer	

Source: http://www.jse.co.za

16.10 CONCLUSION

In this chapter we introduced you to the concept of enterprise development. It is evident that enterprise development is not an event but a chain of activities aimed at accelerating economic growth through SMEs. Understanding business incubation and its processes should have enhanced your knowledge and it is envisaged that you will have developed some interest in the topic. The expected results of ED programmes and activities are for the business to begin its listing on the AltX and ultimately migrate to the Main Board. For small businesses to be listed it is important to understand the markets, the requirements for listing and also how long it takes for the business to be listed on the stock exchange.

REVIEW QUESTIONS

16.1 Identify non-financial support that SMEs can enjoy from support institutions.

16.2 At what stage do certain warning signs begin to appear, alerting entrepreneurs of the need to reinvent the business?

16.3 Provide the reason why companies listing on the AltX have smaller capital requirements for listing than their Main Board counterparts, and why they require fewer shareholders, do not require a profit history and have lower annual listing fees.

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RECOMMENDED WEBSITES

Department of Trade and Industry: http://www.thedti. ogr.za

Development Bank of South Africa: http://www.dbsa. org.za

Gauteng Enterprise Propeller: http://www.gep.co.za

National Empowerment Fund: http://www.nefcorp. co.za

National Youth Development Agency: http://www.nyda.org.za

Isivande Women's Fund: http://www.thedti.org.za

Land Bank: http://www.landbank.co.za

Technology Innovation Agency: http://www.tia.org.za

SECTION C

Types of business focus

17

Tourism

U.S. Henama & P.P.S. Sifolo

LEARNING OUTCOMES

After you have studied this chapter you will be able to

- understand the tourism sector as a complex discipline
- demonstrate substantive knowledge regarding the tourism system
- define tourism
- explain tourism as a product offering
- differentiate between three types of service (self-service, remote service and interpersonal service)
- explain the nature and characteristics of tourism services
- represent the role of people in the tourism production process
- distinguish between tourism services versus goods
- identify the benefits and the challenges of the tourism industry.

KEY TERMS

- Tourism
- Multiplier effect
- Heterogeneity
- Tourism Red Tape Initiative

17.1 INTRODUCTION

The aim of this chapter is to introduce the tourism industry as a cross-cutting and multisectoral industry that has become the world's biggest and largest industry – it is dominated by small medium micro enterprises (SMMEs). The chapter presents compelling reasons why tourism, as a vital economic industry, must be developed through entrepreneurship, and presents the critical success factors that are necessary to ensure that the industry attains a positive growth trajectory. The concept of entrepreneurship is famous for bringing innovation and value creation to all sectors in general and it has received increased attention within tourism research, reflecting the important role of entrepreneurs and new startups within the tourism industry for innovation and value creation (Alvedalen & Boschma, 2017). Tourism is the world's largest industry and is full of opportunities for communities and entrepreneurs to exploit. SMMEs in tourism are famous for making an economic contribution and providing employment to local populations (Buhalis & Peters in Buhalis & Costa, 2006). This chapter will equip you with a detailed understanding of the tourism industry, its intricacies and its dynamic nature. This will result in a better understanding and appreciation of tourism as a sector and an economic force.

The visitor and consumption economy that is tourism is considered to be an important economic sector from the most advanced economies to the Third World countries. Tourism as a people's industry, where the majority of the service is provided by people, places a high premium on superior customer service. In tourism, the customer is king, and customers vote with their feet by returning to tourism establishments that give superior customer service. The tourism industry and entrepreneurship in general require superior customer service delivery from not just the tourism product providers but from related companies that may not be in the tourism industry, such as safety and security, and how citizens conduct themselves towards tourists. A service culture therefore remains at the centre of delivering the superior customer service that is necessary to satisfy customers of the tourism product offerings.

The consumption economy is very different from the production economy as there is no physical product but there is a service that is consumed. Tourism has been used as a means to transform urban and rural spaces to cater for the needs of the visitor economy. While on the other hand, entrepreneurship is a critical ingredient for economic growth and addresses unemployment.

17.2 DEFINITION OF TOURISM

There are several definitions of tourism that are used. This section will start by unpackiing tourism, followed by tourism entrepreneurship. According to Saayman (2013), tourism can be described as the total experience that originates from the interaction between tourists, job providers, government systems, and communities in the process of providing attractions, entertainment, transport and accommodation to tourists. Tourism has further been defined by Chaudhuri and Ray (2018) as comprising the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year, for leisure, business and other purposes. The usual environment of a person consists of a certain area around his or her place of residence, plus all other places he or she frequently visits. It is clear then that tourism includes some of the following elements:

- A temporary movement of people from their place of residence to visit a destination
- An element of journeying to and back from the destination
- Any pastime that is not for purposes of taking up employment at the destination area
- An economic contribution on the journey to the destination and from the destination to the tourist's home
- An escape from routine that is practised at home

The journey is influenced by motivation. Cooper, Fletcher, Fyall, Gilbert and Wanhill (2008) note that the "pull" to visit destinations energises the whole tourism system and creates demand for travel in the generating region.

A tourist is therefore the human actor who consumes the tourism product offerings, and the tourists are coproducers of the experience they consume. The production of the tourism experience requires the active participation of tourists and staff members during the "moment of truth" when service has to be simultaneously produced and consumed. Saayman (2013) explains that a tourist is a person who voluntarily visits a place away from his or her normal abode for a period of at least 24 hours. According to Cooper et al. (2008), tourists can be classified according to the purpose of their visit, which includes

- holidays that include leisure, recreation, sports, cultural activities and visiting friends and relatives (VFR)
- other tourism purposes, including study- and health tourism
- business and professional travel including meetings, conferences, missions, incentives and business tourism.

Tourists are further classified into the following categories, according to Saayman (2013):

- **Domestic or local (national) tourists:** this refers to the inhabitants who travel from one province or area within a country to another for vacation or business purposes.
- **International tourists:** this refers to local inhabitants who visit a country other than their home country for a period of at least 24 hours.
- **Excursionists (day visitors):** excursionists stay in the location for less than 24 hours. Excursionists are, in essence, day visitors and thus are not tourists. It must be understood clearly that excursionists can also be domestic and/or foreign; in other words, they are people who travel from one country or area to another as day visitors.

Tourism is developmed because of the positive economic impacts such as labour intensive jobs and stimulating small businesses. Tourism is associated with entrepreneurship as the arrival of "new money" into the local economy and encourages people to start businesses. Tourists at the destination are, are market ready to have their needs met using their cash laden wallets. The subject of both tourism and entrepreneurship has been researched widely. While tourism is famous for stimulating local entrepreneurship and mediating in the global–local divide (Ateljevic & Page, 2009), entrepreneurship has been characterised differently across different sectors. For example, other studies refer to tourism entrepreneurs differently. According to Rusu, Csorba, Cureteanu and Isac (2014), tourism entrepreneurship means a lot of commercial activities done by firms (at micro- and macroeconomic level) which operate in urban or rural areas owned by small individual business owners, by groups of business partners or private/public companies with limited liabilities, which offer a wide range of tourism services. Sifolo and Anyi (2018) claim that tourism entrepreneurship involves a process whereby an individual or firm sees an opportunity in the tourism supply chain by taking a risk and opening a legal entity to deliver a service or product, or participating in tourism-related activities, thereby contributing to economic development and making a profit. Hence Adiyia, De Rademaeker, Vanneste and Ahebwa, (2017), assert that tourism acts as a catalyst for small enterprise development in the local economy without inducing major skill leakages and can enlarge people's capabilities, awareness and assets to control their own well-being.

17.3 THE TOURISM SYSTEM

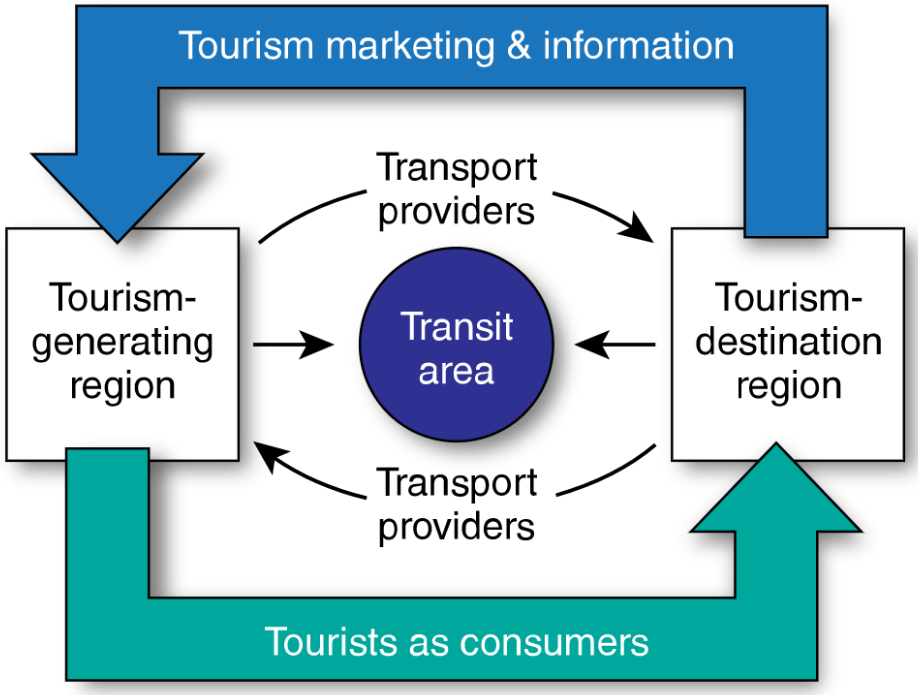
Tourism consumption that is the hallmark of the visitor economy is defined by an element of travel that the tourist(s) undertake to a tourism destination. The travel may be within the area of residence or further away, requiring them to be away from home for more than 24 hours. Saayman (2013) identified that the tourist experiences can be divided into five phases:

1. The planning phase
2. The journey to the destination
3. The destination experience
4. The return journey
5. The memory phase

Tourism is considered to be a system, hence the application of the tourism system. For one to recognise entrepreneurial opportunities that exist within the tourism industry, it is crucial to refer to the tourism system. Inskeep (1991) notes that although complicated, cutting across sectoral categories, tourism is and should be viewed as a single system comprising interrelated parts. As a system, it can be defined, analysed, planned and managed in an integrated manner. According to Leiper (1979), spatially tourism involves three elements. There is an origin or tourism-generating region, the place where the tours begin and end (home). There is a tourism-destination region or host locality, where tourists stay temporarily. Thirdly, there is a transit region or route, which connects the two and through which tourists travel. The tourism system constitutes the following three geographical areas:

- The tourism-generating region, according to George (2008), is the area (e.g. country, province, city) from which the tourist originates, and is also referred to as the market or origin region.
- The tourism-destination area is where the majority of the tourism consumption occurs, and is the primary reason that motivated the travel in the first place.
- The transit region, according to Visser (2008), refers to those places, routes and areas tourists pass through, and the mode and means by which they travel to the destinations.

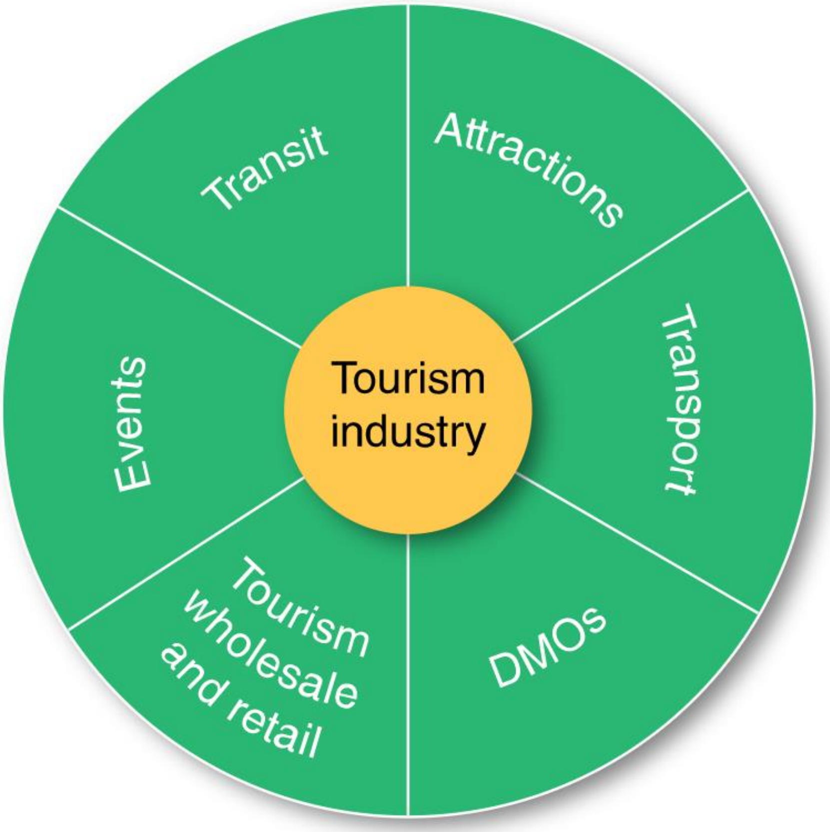
Figure 17.1 Henama's tourism circulation system



The geographical elements of tourism

The tourism industry is difficult to define because it is a collection of various businesses that provide direct and indirect operations to the tourists. The tourism industry is divided into eight sectors and subsectors involved in delivery of the tourism product offering. The eight sectors of the tourism industry include travel organisers, transportation, accommodation providers, support services, visitor attractions, destination management organisations, and commercial and industrial policymakers.

Figure 17.2 The sectors and subsectors of the tourism industry



Source: Hermann & Du Plessis (2016)

17.4 TOURISM PRODUCT OFFERING

Henama (2013) states that the tourism industry combines primary (land, labour, etc.) and intermediaries (hotels, shops, mode of transport, etc.) inputs to produce intermediate outputs such as accommodation, meals or performances. The intermediate outputs are used to produce intangible experiences that are the final products that are valued. In the process of offering products or services in the tourism industry, there is an entrepreneur who is waiting to identify a window of opportunity in the entire tourism value chain. This is called the tourism production process. The tourism product is the result of a complex production process. The process begins with primary inputs of resources, raw materials and other components such as construction material, fuel and agricultural product to create the facilities and equipment needed by the tourism industry. These are then converted through additional processing, manufacturing or construction into intermediate inputs or tourism facilities. Intermediate inputs include attractions such as national parks, museums, galleries, historic sites and convention centres, as well as tourism support and facilities such as hotels, restaurants, gift shops and car rental companies. The intermediate inputs are further refined through managerial expertise, technical services, scheduling and packaging into intermediate outputs. Intermediate outputs are those services normally associated with the tourism industry such as commercial accommodation, tour services, food services and festivals. In the final stages, the tourist utilises the intermediate outputs (services) to generate the final output: intangible but highly valued experiences such as recreation, business and social contacts as noted by Smith (1994). The tourism product offering is essentially a service that is simultaneously produced and consumed, in as much as the product offering is a service, which has physical attributes that are necessary for the delivery of the service aspects of the product to be performable. Tourism provides a unique context in which to examine the function and purpose of an entrepreneurial network as a catalyst through which small businesses work together in a cooperative manner to achieve destination synergies. Services are defined by Wilson, Zeithaml, Bitner and Gremler (2012) as all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are necessary intangible concerns of its first purchaser.

"The tourism industry is highly dependent on guest experiences with respect to customer service and delight" (Mohsin, Ramli & Alkhulayfi, 2015). Customer service, therefore, becomes paramount in the delivery of the tourism product offering, which includes service and product attributes. Kotler, Bowen and Makens (2006) explain that in today's hospitality/travel industry, the customer is global and is king or queen. Customer service is defined by Hudson and Hudson (2013) as the practice of delivering products and services to both internal and external customers via the efforts of employees or through the provision of appropriate servicescapes. Hudson and Hudson (2013) acknowledge that customer service is increasingly becoming a differentiator in this sector. In the analysis of the tourism product offering, which is unique when compared to physical products, much attention has been given to the service elements against the physical attributes.

Equal importance must be placed by entrepreneurs on both the physical attributes (which are tangible) and the service attributes (which are intangible) of the tourism product offering. The tourism product offering has unique characteristics and physical evidence is one of the three of the extended marketing mix, which includes people, physical evidence and process. Because of the intangible nature of the tourism product offering, the physical evidence becomes a form of "proof" of the nature and character of the service that will simultaneously be performed and consumed. Service marketers should make an effort to provide their prospective customers with evidence that will help make the services tangible. Promotional materials, employees' appearance, and the service firm's physical environment all help to do so. Everything about a hospitality company communicates something (Kotler, Bowen & Makens, 2006). Therefore, the physical elements of the tourism product offering attain greater importance when compared to manufactured products that do not share the unique characteristics of services. The physical attributes of the tourism product offering can be successfully used by an entrepreneur to tangibilise the tourism product offering. This can be related to the fact that tangibilising is the process of adding "evidence" and "proof" in the physical attributes to give evidence and proof to the customers of the service they will receive, which they can't measure before the simultaneous production and consumption of the service.

The tangible aspects of the physical attributes of the tourism product offering are therefore available for scrutiny by the customers as an indication of the service that they will receive, when the service is delivered. Servicescape refers to the use of physical evidence to design the service environment and according to George (2014) includes three types of servicescape: self-service, remote service and interpersonal service.

Table 17.1 Elements of physical evidence

External servicescape	Interior servicescape	Other tangibles
• Signature • Landscape • Parking • Exterior design	• Signage • Air temperature • Lighting • Design • Layout • Seating • Décor	• Business cards • Invoices • Stationery • Website pages • Employees' dress • Brochures

Source: George (2014)

What is explicit is that physical attributes of the tourism product offering are a form of communication to consumers. The communication can be the physical attributes communicating either positively or negatively about the quality of the service. Kotler, Bowen and Makens (2006) note that physical evidence not managed properly can hurt a business and that physical surroundings should be designed to reinforce the product's position in the customer's mind. It is imperative that businesses review all aspects of the physical environment and servicescapes from time to time to ensure that they deliver the desired and desirable organisational image to current and prospective customers. Kotler et al. (2006) note that tangibles provide signals as to the quality of the intangibles. They also explain that a service culture focuses on serving and satisfying the customers. Creating a service culture has to start with top management and flow down. A service culture empowers employees to solve customer problems. It is supported by a reward system based on customer satisfaction. People generally do what is rewarded. If an organisation wants to deliver a quality product, the organisation's culture must support and reward attention to customer needs. Wilson et al. (2012) assert that services are deeds, processes and performances. Therefore, the performance of employees in the delivery of superior customer service depends on the company having a supportive culture that allows employees to deliver exceptional customer service. The service elements of the tourism product offering aim to ensure that customers are amazed by the service delivery that is intangible, perishable, variable and inseparable. Entrepreneurs must understand that physical attributes are the initial aspect of inspection by customers when trying to gather evidence about the service delivery of the tourism product offering. Therefore the physical product offerings must reinforce the service that will be delivered. Entrepreneurs must acknowledge that when the service is delivered, everything must be in order so that the service delivery is flawless, with the unapologetic intention to amaze and satisfy customers. The intention of service delivery is to ensure customer satisfaction and thereby customer loyalty to the company, which results in positive word-of-mouth about the experience. This is increasingly important in a world where social media has placed the power in the hands of the consumers as they make their experiences known on platforms such as TripAdvisor.

17.5 NATURE AND CHARACTERISTICS OF TOURISM SERVICES FOR ENTREPRENEURS IN EMERGING ECONOMIES

There is an essential difference between goods and services, in that the services are performed (consumption economy) while goods are produced (production economy). According to Middleton and Clarke (2001) goods are products purchased through an exchange transaction conferring ownership of a physical item that may be used or consumed at the owner's choice of time and place. Services are products purchased through an exchange transaction that does not confer ownership but permits access to and use of a service, usually at a specific time in a specific place. This therefore means that the consumption of the tourism product offering is timespecific, and entrepreneurs must clearly understand this reality. The production and consumption are simultaneous, where the patrons are part of the service offering, as consumption is under time constraints. For example, when a customer purchases an airline ticket, the ticket will be for a particular flight, at a particular time and from a particular airport.

Tourism product offerings are different from manufactured products in that tourism product offerings are services and therefore have a different set of characteristics. According to George (2014), tourism marketers need to be concerned with four generic characteristics that make the marketing of service offerings different from the marketing of manufactured products: intangibility, inseparability, variability and perishability.

17.5.1 Intangibility

The tourism product offering cannot be touched, smelled and tasted before it is simultaneously produced and consumed. The patrons only become aware of the service during the production and consumption process. Kotler et al. (2006) note that unlike physical products, services cannot be seen, tasted, felt, heard or smelled before they are purchased. Before a consumer buys a motor car, he or she can inspect it. The patrons may rely on physical evidence to gauge the experience during the service offering. The tourism product offering has physical attributes that are a prerequisite to produce the intangible service attributes, and may be relied upon as a form of proof of the service that will be produced. According to George (2014), the tourism offering is an experience rather than a physical product. The consumers will depend on the physical attributes of the tourism product offering and the servicescapes as an indication of the service that they will receive, when it is simultaneously produced and consumed. Hudson and Hudson (2013) state that to reduce uncertainty caused by the intangibility of services, buyers look for tangible evidence to provide information and confidence about the service.

Table 17.2 Generic characteristics distinguishing services from goods

Goods	Services
• Are manufactured • Made in premises not normally open to customers (separable) • Goods are delivered to places where customers live • Purchase conveys ownership and right to use at purchaser's own convenience • Goods possess tangible form at the point of sale and can be inspected prior to sale • Stocks of products can be created and held for future sale	• Are performed • Performed on the producer's premises, with full participation by the consumer (inseparable) • Customers travel to places where the service is delivered • Purchase confers temporary rights of access at a prearranged place and time • Services are intangible at the point of sale; often cannot be inspected (other than "virtually") • Perishable; services cannot be inventoried and stocks of product cannot be held

Source: Middleton & Clarke (2001)

17.5.1.1 Resulting implications of intangibility

Wilson et al. (2012) note that intangibility presents several marketing challenges. Services cannot be patented easily, and new service concepts can therefore easily be copied by competitors. Services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. Hudson and Hudson (2013) comment that services cannot be inventoried and therefore fluctuations in demand are difficult to manage, particularly in the accommodation and airline sectors. According to Middleton and Clarke (2001), intangibility requires careful consideration by marketing managers of travel and tourism products. Entrepreneurs must utilise social media to make their service offerings tangible by capturing testimonials of customer experiences, and encouraging customers to comment on social media about them. This is a form of online positive word-of-mouth advertising, which includes high-quality pictures taken using smartphones.

17.5.2 Perishability

Tourism product offerings are simultaneously produced and consumed, which means that the consumers are part of the tourism product offering as they play a role in the delivery of the service they have bought. Mass production of services is almost impossible, because the tourism product offering is simultaneously produced and consumed. According to Wilson et al. (2012), the quality of service and customer satisfaction will be highly dependent on what happens in "real time" including actions of employees and the interactions between employees and customers. For example, enthusiastic customers at a restaurant will generally receive good quality service because of the energy they exhibit, while the opposite is also true. This means that customers are coproducers of the service they receive and can contribute to their own satisfaction or dissatisfaction when service is delivered. It must be bought to mind that the physical tangible attributes provide a supporting and facilitating role for the delivery of the service attributes of the tourism product offering. The service attributes require as a pre-requisite that the service provider and the customer are present so that the service can be performed. Because of this peculiar nature of services, the production of the service cannot be stored, as it requires the presence of the customer and the service provider so that simultaneous production and consumption can occur. The absence of either the service provider and/or the client will make it impossible for the service delivery to occur, as the tourism product offering is simultaneously produced and consumed.

17.5.2.1 Resulting implication of perishability

Wilson et al. (2012) explain that the primary issue that marketers face in relation to service perishability is the inability to hold stock. For tourism product offerings that are simultaneously produced and consumed, the production process occurs on customer demand, which means that stock build-up cannot occur. This means that entrepreneurs must balance supply and demand when producing tourism product offerings. In addition, because of the perishable nature of tourism product offerings, entrepreneurs must ensure that a lot of effort is invested in marketing outlays so as to reduce the perishability of slow-moving tourism product offerings.

17.5.3 Heterogeneity (variability)

Hudson and Hudson (2013) state that service-delivery quality depends on who provides the service. The same person can deliver different levels of service. According to Saayman (2013) the standardisation of the tourism product is difficult to achieve, as people participate in the delivery of the tourism product offering. People involved in the production of the tourism product offering deliver various levels of service. In addition, because customers are participators in the service-delivery system, the enthusiasm of the customer can have a positive impact on the service they receive, while the opposite is also true. Heightened demand that outstrips supply may lead to dissatisfaction as the service delivery of the product may not occur in line with expectations.

17.5.3.1 Implication of heterogeneity (variability)

George (2014) expresses that variability is perhaps the most challenging of the characteristics of a service. According to Wilson et al. (2012), services are heterogeneous across time, organisations and people; therefore ensuring consistent service quality is challenging. Technology has been a welcome addition since it has reduced the challenges linked to heterogeneity. This is because businesses can now access online booking, rather than booking by telephone, which used to cause a great deal of dissatisfaction in customers. Managing supply and demand is critical to managing variability. Staff members must be continually trained in order to build staff competence so that customer satisfaction can be managed during times of heightened demand.

17.5.4 Inseparability

The tourism product offering that is simultaneously produced and consumed can only be produced when supply and demand are synchronised. This means the service provider and the customers must be present for the service to be produced and consumed. The service provider and patrons are coproducers of the service that is intangible, which means that the service-delivery process is inseparable. According to George (2014) services are usually sold first and then created and consumed at the same time. For example, an airline seat cannot be provided until it has been purchased and the flying experience is produced and consumed simultaneously. Hudson and Hudson (2013) state that the product cannot be created or delivered without the customer’s presence.

17.5.4.1 Implication of inseparability

Wilson et al. (2012) explain that because services are often produced and consumed at the same time, mass production is difficult. This means that the act of production and consumption is simultaneous, and supply and demand should be synchronised. The production of the tourism product offering requires the active participation of the producer and consumer together. This means that the service provider must manage supply and demand so that service delivery is seamless. In research conducted by Henama and Sifolo (2017b), Uber, the technology disruptor, has managed to match supply and demand for taxi services far better than metered taxi drivers, leading to increased trips for Uber and hence more money for this company.

17.6 THE ROLE OF PEOPLE IN THE TOURISM PRODUCTION PROCESS

People play a role as producers of the tourism product offering firstly as staff who deliver the service elements, and secondly as tourists who experience the tourism product offering. According to Smith (1994), the structure of the tourism product is complex and it is the result of a complicated production process. People are coproducers as staff and tourists. Middleton and Clarke (2001) comment that the people component of the tourism product offering includes the following:

- **Visitors:** the individual consumers of the product and the other tourists present at the same time and place
- **Employees:** the staff of an organisation can be subdivided into front-line members with visitor contact and non-contact employees who provide support
- **Host community:** the residents of a destination community who may not regard themselves as part of the tourism business, but who nonetheless interact with visitors informally and whose friendly or hostile behaviour can make or mar the visitor's experience.

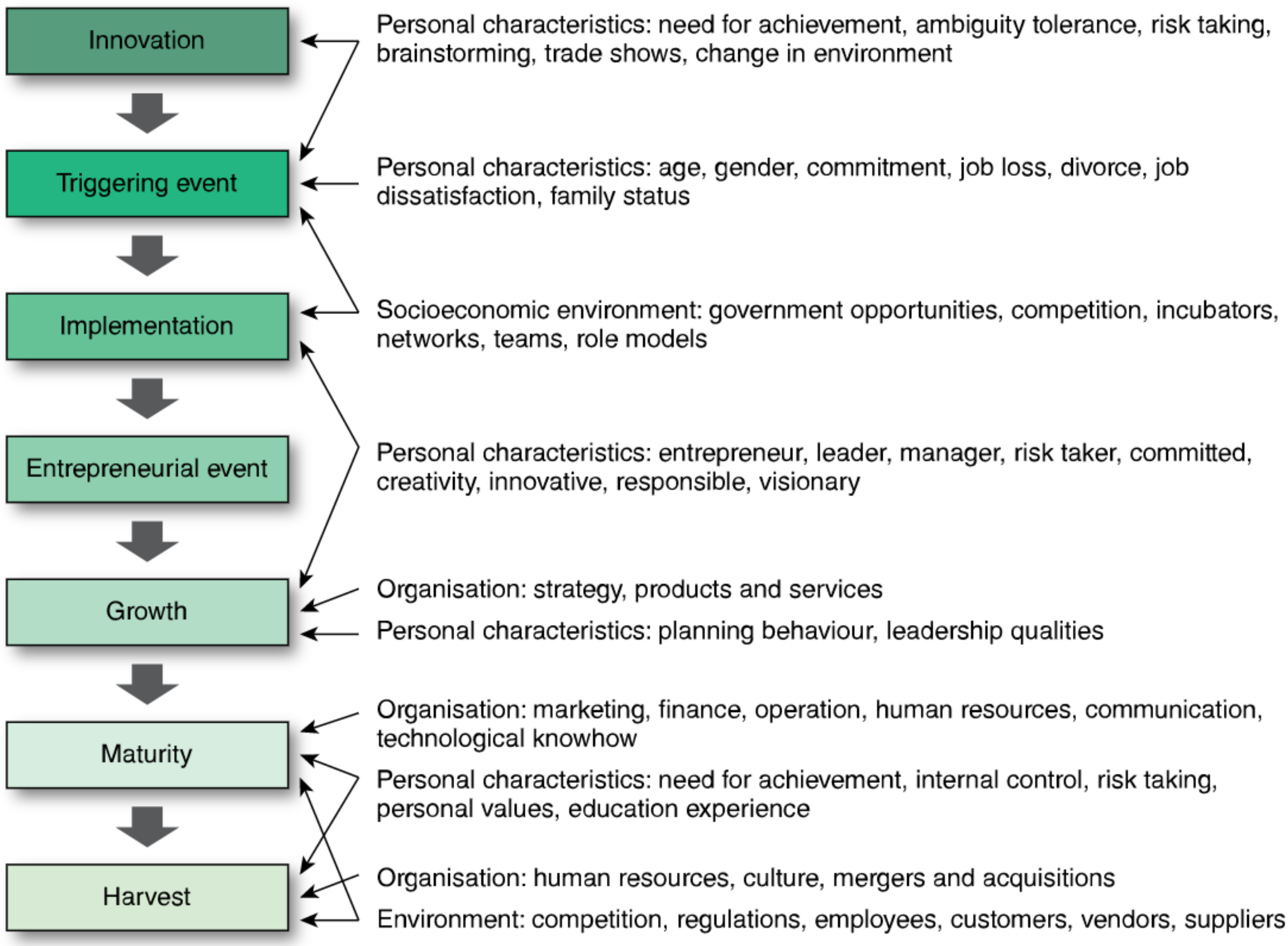
The tourism product offering requires that the consumers' interactions with the service-delivery system are managed, in the same way that customers interact with other customers. Customers are coproducers, which means that the interaction between patrons must be managed so that patrons do not negatively affect each other's experiences. According to Middleton and Clarke (2001), customers go through a series of encounters. These include face-to-face communication with employees but also remote interactions via email, websites and social media platforms. Employees in the tourism product offering play an important role, therefore much investment in training and retraining is imperative to ensure that staff members remain relevant. The integration of technology to assist service delivery is imperative, such as movie theatres having Point-of-Sale (POS) outlets where patrons can pay for movie tickets using POS machinery instead of depending on joining a queue to access tickets. Dieke (2013) acknowledges that there is a relationship between *tourism production* and *tourism consumption*. Tourism production relates to the supply-side: dimensions that "pull" tourists to areas including accommodation, amenities, ease of reaching the destination, culture and so on. Tourism consumption concerns the touristic demand determinants, which influence the volume and directions of travel flows.

17.7 WHY TOURISM AND ENTREPRENEURSHIP?

Tourism is an important industry that can change and diversify the economic fortunes of a city, country and continent. Tourism in the tertiary sector is critical as the world economy is moving towards services that are highly sought after. Ferreira (2007) explains that there are unrealistic expectations regarding the role of tourism in fulfilling the economic growth mechanism for a town. Tourism will succeed when a confluence is achieved of high amenity attractions, innovation, investors, good municipal governance, tourism infrastructure, appropriate services and skilled labour. The tourism industry is dominated by SMMEs, possibly because tourism entrepreneurship demands low start-up capital.

Tourism entrepreneurship begins with innovation (which is affected by several triggers, as indicated in Figure 17.3).

Figure 17.3 Entrepreneurial triggers



Source: Adapted from Hattem (1997)

These triggers have an influence on the creativity of a tourism entrepreneur. The model of entrepreneurship and small business development explains the facets of growing a business and harvesting a business venture. The entrepreneur does not need strong academic qualifications and professional experience to operate in the tourism business; it is easy to situate the tourism enterprise locally where there is a demand for the product and service. Entrepreneurs grab an opportunity to run a small business operation as a family business, which is the lifeblood of the economy. For this reason, the entrepreneurship associated with small businesses is regarded as a key vehicle for the creation of new enterprises as it generates job growth and stimulates competition (Rusu, Csorba, Cureteanu & Isac, 2014).

17.7.1 Balance of payments

Celik, Ozcan, Topcuoglu and Yildirim (2013) state that tourism plays an important role in the campaign against the balance of payments. Their findings indicate that the increase in tourism revenues had led to a decrease in the balance of payments deficit. According to Wall and Mathieson (2006), the potential contribution of tourism to the balance of payments as an earner of foreign exchange has been recognised, and countries have escaped balance of payments problems by using tourism to attract foreign exchange. Tourism can therefore ensure that a country attracts more trade receipts; this has been a strategy used by many island economies from Cuba to Mauritius, where their trade has been diversified towards tourism from sugar cane.

17.7.2 Foreign-exchange earner

Tourism is a good source of foreign exchange. According to Henama (2013), the tourism industry is an export industry because the tourism product offering is consumed at the destination area. Foreign exchange is earned at the destination as the consumption of the tourism product offering can only occur at the destination because of fixed location characteristics. Foreign exchange for a developing country serves as an important facet as far as the export earnings are concerned. Foreign exchange also contributes towards the savings of the country, which in turn may be available for investment and growth. International tourism spending is an important export sector and makes a significant contribution to overall export revenues around the world, according to the World Travel and Tourism Council (2014). Countries rely on tourism to attract foreign exchange because it is almost impossible to impose trade barriers on tourism. According to Strauss and Lord (2001), the primary force behind tourism is the volume and expenditure from non-residents, which represent an influx of new money into a regional economy through the export of recreational services. According to Henama and Sifolo (2017a), tourism had been adopted by the Bretton Woods institutions because it represents part of export growth in line with the neo-liberal agenda best known as the Washington Consensus. Tourism is accepted as an economic sector that brings about jobs and foreign exchange for the developed and developing world; it has been incorporated into the economic development policies of almost all countries in the world. Tourism remains an attractor of foreign exchange par excellence.

17.7.3 Sharing of infrastructure

Infrastructure that is created for tourism is shared with locals, which means that infrastructure extension for tourism serves two market segments. According to Wall and Mathieson (2006), tourist development brings about improvements to local infrastructure, services and facilities that benefits both residents and tourists. It may also stimulate the protection of local natural resources that are often the attraction of the developing destination. Saayman, Saayman and Rhodes (2001) explain that an increase in the number of tourists visiting a province or region such as can be achieved by promoting domestic tourism leads to a growth in the demand for local products and services. It also creates a demand for investments in infrastructure and superstructure. The growth of tourists at a destination can pressure the state to improve infrastructure such as road transportation and airport infrastructure, benefiting business and citizens with faster transport networks. According to Giampiccoli, Lee and Nauright (2013), the Eastern Cape province of South Africa spent R250 million upgrading sports stadiums in Nelson Mandela Bay, East London and Mthatha for the 2010 World Cup. Ginsberg (2010) comments that for the 1999 All African Games held in Johannesburg, an athletes' village was constructed in Alexandra, which was later converted into low-cost housing stock at the end of the event. The high-speed train network provided by the Gautrain is enjoyed by tourists and citizens of South Africa, with tourists dominating service usage during off-peak periods.

17.7.4 Fragmentation and the cross-cutting nature of the tourism industry

The purchase of the tourism product offering is associated with the purchase of an assortment of products and services produced by several producers. The tourism industry is characterised by fragmentation. According to Burton (1999) the tourism industry is fragmented, made up of many different businesses, each supplying part of the service. Fragmentation demands a much closer working relationship between the various members of the value chain. Akinboade and Braimoh (2010) acknowledge that tourism is distinct from other sectors; it is a cross-cutting sector and it involves a big diversity of services and professions. It is linked to many other economic activities and policy areas, and is made up of five different sectors. These are accommodation; food and beverage services; recreation and entertainment; transportation, and travel services. The fragmented nature of tourism can be beneficial to employment in the industry and ensures that the tourist expenditure injection can be shared by more entrepreneurs. Tourism linkages to other economic sectors are diverse and deep according to the United Nations Conference on Trade and Development (2010). This means that the growth of tourism at a destination, for example, can increase the order book for construction companies, which must upgrade tourist accommodation and build additional hotel stock.

17.7.5 Taxation of non-residents

Tourism creates an opportunity for a country to tax non-residents, which would increase the tax coffers of the state. Governments throughout the world always seek ways to increase their tax base, as any intention to raise additional taxes from residents is usually met with civic resistance. Tourists at the destination would normally not pay taxes, and in certain cases there would be additional taxation imposed on tourists, which would increase the tax coffers of the state. Wall and Mathieson (2006) comment that income from tourism for government arises from: direct taxation, mainly on tourist manpower, tourism and transport enterprises, user fees and service charges; from indirect taxation from customs duties and on goods consumed by tourists; and from payments. Airport taxation for international flights is usually more expensive, which is used to build and maintain airport infrastructure.

17.7.6 Improved national image

According to Christie, Fernandes, Messerli and Twining-Ward (2014), successful tourism can change external perceptions of a country, improve intercultural understanding and create a positive internal frame of reference for a country. The improved national image can increase foreign direct investment and improve the receptive nature of the host population to tourists, improving the tourism experience. By hosting a successful 2010 FIFA World Cup, South Africa managed to attain a positive image, which benefited tourism. In addition, the appreciation that tourists show when they visit a destination can result in local residents developing and improving pride in their country as they realise that it is of value to tourists. This increase in pride by locals can have a positive knock-on effect on the tourism industry as locals become friendlier to tourists and improve the local tourist interactions, which tourists value highly.

17.7.7 Tourism resilience

Globally, tourism is a $3 billion-a-day business that all countries at all levels of development can potentially benefit from. International tourism has grown consistently, from 25 million in 1950 to 922 million in 2009 as noted by the United Nations Conference on Trade and Development (2010). South Africa's tourism growth rate for 2016 was 13 per cent, which was impressive, when you compare this to the dismal economic growth prospects of the country. The tourism industry's growth has not just been impressive, it has been resilient. Tourism is resilient to economic crises and tragic events such as 9/11, and besides a temporary reduction in demand, always bounces back. In research conducted by Hajibaba, Gretzel, Leisch and Dolnicar (2015), the authors noted the emergence of crisis-resistant tourists, who visit a destination despite events such as a terrorist attack. This is a reflection of our times where such acts are the new normal.

17.7.8 Improving international ties and a force for peace

The promotion of tourism and the exchange of tourists between countries can enhance political and cultural links, according to George (2014). This is because tourism is trade between countries, which may require state relations in the visa regulations and the allocation of reciprocal aviation access between countries. Tourism is a vital force for peace, as it requires peace as a prerequisite for growth and development. Improving the personal safety and security of the host community will improve the experience for tourists, because resources are shared by tourists and residents. The increased safety procedures for tourists benefit locals; increased policing demands a functioning state, which is a good indicator of governance.

17.7.9 Wealth distribution

The majority of tourists originate from developed countries where there is an institutionalised culture of tourism consumption, and who increasingly travel to developing countries as tourists. Cohen (1972) comments that the majority of tourists originate today from affluent Western countries, the US, Western Europe and increasingly from Japan. Countries such as China and India have increased their share of outbound tourism as they have benefited from increased wealth – a testament to their decade-long economic growth trajectory. The high rate of urbanisation has led to the development of rural sites for tourism consumption, leading to an urban–rural migration of tourism expenditure, benefiting the local rural economy. This has manifested in the development of second homes in rural and peri-rural settings, which provide an escape from the urbanised cities for an increasing number of city dwellers. The consumption economy of tourism occurs at the destination area, which means that tourism transfers wealth from the rich developed nation into developing nations. Within countries, tourists who visit the coastal areas of the country during the holidays ensure that money is distributed as a result of the tourism consumption process. The contribution of tourists to the economy must be retained to ensure maximum benefit. This is premised on developing the tourism industry on pro-poor principles, thereby seeking to reduce leakage from the economy.

17.7.10 Local beneficiation

Tourism is a resource that cannot be shipped offshore as noted by Hollenhorst, Houge-Mckenzie and Ostergren (2014). The tourism product offering is a service with tangible physical aspects and is simultaneously produced and consumed at the destination, allowing opportunities for local beneficiation. According to Zhang, Song and Huang (2009), tourists travel to the destinations where tourism products are produced to consume these products. The inseparable nature of tourism product offerings results in the production and consumption occurring at the destination area, where the majority of the value-adding occurs. Value adding and local beneficiation at the destination cannot occur unless the tourism industry is developed on pro-poor principles, which ensures that the majority of the tourism expenditure is spent on locally owned enterprises. Pro-poor tourism seeks to ensure local beneficiation, which can improve the quality of life and standard of living of locals.

17.7.11 Smokeless industry

In today’s global world many countries pay attention to the tourism industry, the so-called “industry without a chimney”. Tourism contributes to global emissions as it is depends on aviation to provide transportation to and from the destination, and the automobile is used at the destination for ground transportation. However, the contribution of tourism to global emissions remains small compared to the pollution contribution of mining, manufacturing and agriculture. According to Hollenhorst, Houge-Mckenzie and Ostergren (2014), unlike primary resources such as coal and minerals, tourism is not finite. Tourism planning must ensure that the destination finds a balance between tourism growth and carrying capacity management, limiting the negative environmental impacts of tourism.

17.7.12 Trade barriers

It is almost impossible to set up trade barriers against tourism because it is not a physical product but a service. According to Kwaramba (2012), unlike trade in goods, trade in services occurs not only through the cross-border movement of the services, but through the movement of persons (consumers and individual service providers) and foreign investment. According to Cooper et al. (2008), the consumers of international tourism (the importing country) often fail to recognise their tourist spending overseas as an import and hence do not see it as a serious threat to the level of employment in their own countries. Tourism is therefore an industry that does not have trade barriers and can be used by countries as a means of attracting foreign exchange. Countries that seek to attract tourists must ensure that they promote aviation access, have a friendly visa system and manage their image as a destination.

17.7.13 Labour-intensive jobs

The tourism product offering, which is essentially services that must be simultaneously produced and consumed, requires coproduction by the consumer and the service provider. This means that the growth of tourism at a destination leads to increased tourism production, which, in turn, leads to a growth in labour-intensive jobs. According to the United Nations Conference on Trade and Development (2010), tourism is a highly labour-intensive activity, tourism and tourism-support activities create a high proportion of employment and career opportunities for low-skilled and semi-skilled workers, particularly for poor, female and young workers. The characteristics of the tourism sector are visible in entrepreneurship. Shaw (2004) asserts that the goal of entrepreneurship goes beyond profit maximisation to issues such as improving quality of life, the social status of innovation and copyright ownership, among others. Gibson (2009) comments that tourism has drawn workers to the sites of tourism booms. This has the benefit of attracting skilled professionals and opportunity entrepreneurs. According to Christie et al. (2014), one in 20 jobs in sub-Saharan Africa is already in travel and tourism. Countries that promote tourism seek to benefit from an industry that creates a plethora of entry-level jobs, which reduces dependence on traditional employment sectors such as mining, agriculture and manufacturing, which are perennial job shedders.

17.7.14 Promotes entrepreneurship and low barriers to entry

According to the Department of Environmental Affairs and Tourism (1996), the tourism industry supports a thriving and dynamic informal sector that involves previously disadvantaged groups in areas such as entertainment, laundry and transport services. These are the areas of the tourism industry that have low barriers to entry, which can promote an easy entry into entrepreneurship. Tourism employs a multiplicity of skills because of its cross-cutting nature, which means it promotes entrepreneurship directly and indirectly. McKay (2013) acknowledged that lifestyle entrepreneurs are able to function as business catalysts. Lifestyle entrepreneurship has the potential to become a non-binding introduction into the world of entrepreneurship as lifestyle entrepreneurs are involved in business to substitute their income while business growth is not a major objective. According to Christie et al. (2014), tourism compares well with other sectors regarding the opportunities for small and medium enterprises. The disruption created by technology operators such as Uber and Airbnb has meant that there is a class of tourism entrepreneurs who provide services such as taxi services (Uber) and Airbnb (accommodation), both of which are forms of franchises that create lifestyle entrepreneurs.

17.7.15 Growth sector

According to the United Nations Conference on Trade and Development (2010: 2): “International tourist arrivals have grown consistently, from 25 million in 1950 to 922 million in 2008, with tourism receipts rising from $2billion to $944 billion.” The desire to travel has become universal, while Africa continues to receive less than 10 per cent of global tourism receipts. According to Rogerson (2012: 6), “between 1990 and 2010 international tourism arrivals in South Africa expanded eightfold”. Tourism is a way of life and adopted as a form of lifestyle, which has a positive impact on tourism consumption. As global wealth increases, more people are participating in tourism consumption, as tourism consumption is part of a broader consumer culture. “With the development of the economy, people earn more and have more leisure time, tourism has become a kind of fashion,” says Lui (2013: 68).

17.7.16 Tourism multipliers

Tourism expenditure is able to become a catalyst for other industries as a result of the initial tourism expenditure that is introduced in the destination economy. Cooper et al. (2008) state that the concept of the multiplier is based upon the recognition that sales in one firm require purchase from other firms within the local economy. The other firms can include farmers who produce food, transport providers that transport tourists and construction firms that have increased demand to upgrade and build new commercial tourist accommodation. The increased demand generated by tourism in the tertiary sector of the economy means that it creates jobs also in the secondary and primary sector of the economy. According to Wall and Mathieson (2006) the income multiplier considers three types of influences of tourist expenditures:

- **Direct spending:** the initial expenditure creates direct revenue to hoteliers, service stations and other tourist industries supplying goods and services directly to tourists.
- **Indirect spending:** this results from the payment of salaries and wages to local employees and tourist establishments replenishing their stocks, and the indirect effects of the initial, direct tourist expenditure.
- **Induced spending:** as wages and salaries within an economy rise as a result of initial changes in final demand, local consumption also increases. This re-spending of increased income provides an additional impetus for economic activity.

17.7.17 Tourism increases happiness and quality of life

According to Nawijn, Marchand, Veenhoven and Vingerhoets (2010), from an individual point of view vacationing is something which is looked forward to. People derive more happiness from two or more short breaks spread throughout the year than having just a single longer holiday once a year. By undertaking a journey away from home, their work and routine, tourists seek an escape and this may increase their happiness levels, and improve their quality of life. Dolnicar, Yanamadram and Cliff (2012) explain that holidays contribute to quality of life (QOL) and there is a difference between leisure at home and away from home. In research conducted by Acha-Anyi (2015), the author notes that the social-exchange theory that residents are more likely to support tourism development if they see how they stand to benefit from it. “The tourism industry is supposed to increase the standard of living of locals. QOL of the host community must be improved by tourism employment and supply chain opportunities that will ensure that the benefits are retained in the local economy” (Henama & Sifolo, 2017a). Entrepreneurs must embed their marketing outlays with information that the taking of holiday increases happiness, and the pursuit of happiness can be achieved through tourism consumption away from home. Destinations must ensure that tourism satisfaction is guaranteed throughout the stages of the travel trip, through the use of mystery guests, staff training and engagement with the tourism industry.

17.8 CRITICAL SUCCESS FACTORS

17.8.1 Transformation

Transformation in South Africa is a business imperative to ensure that the wealth of the nation is shared. The transformation of the tourism industry requires that more black South Africans become institutionalised tourism consumers, and that there is an increase in the number of black tourism product owners. As a result, transformation will lead to an increase of entrepreneurs in general, particularly in the tourism sector. According to Rusu, Csorba, Cureteanu and Isac (2014), tourism entrepreneurs have the opportunity to catalyse the situation and offer close contact with local communities and traditions in an area while at the same time transforming local resources into high-quality tourism products/services. Research conducted by Rogerson (2007) acknowledges that the adventure industry’s employment patterns are dominated by whites, and in certain activities, such as surfing, skydiving, rafting and kloofing, nearly all the jobs are occupied by whites. According to Rogerson and Lisa (2005), historically, a key factor in the underdevelopment of black tourism was the lack of knowledge among new travellers about tourism, the lack of marketing of tourism products among black consumers, and absence of information about how to travel. Access to finance has been identified as the major stumbling block to the growth of tourism enterprises and possibly more so for the black survivalist enterprises. Growing the share of black tourism product owners is important so that the tourism industry increases the accrual of benefits from tourism. South Africa must ensure that it increases access to finance from developmental agencies of the state at rates that are lower than banking institutions as a means of catalysing entrepreneurial activity. Government involvement in the tourism sector through transformation activities such as tourism awards improves and embraces entrepreneurship.

17.8.2 Government support

The biggest stumbling block to the growth of tourism in South Africa is the state at all three levels, national, provincial and local government. Local government has been identified as possibly the biggest obstacle in the provision of services and infrastructure that will support the growth of tourism. Local government in South Africa is in a state of crisis, and it fails in its constitutional responsibility in the provision of municipal services such as refuse removal, quality drinking water provision and cleaning and upkeep of municipal recreational facilities. The state must provide an enabling environment that will allow the private sector to grow the tourism economy. The state must play a leading role in working with the private sector to establish a Tourism Red

Tape Initiative® (TRTI), which would provide an institutional framework where binding decisions are taken, and diversions can be tracked.

17.8.3 Safety and security

Personal safety and security are prerequisites for the development of tourism in the world today. Safety and security is an important purchase criterion for South Africa's target consumers in all its core markets. The perceptions and concerns that consumers have around safety are major challenges that South Africa faces as a tourist destination. In fact, a large proportion of tourists from our target markets choose not to come to South Africa because of safety concerns, according to the Department of Environmental Affairs and Tourism (2005). Destinations that seek to develop tourism must be proactive and have in place a tourism crisis management plan for times of crisis. In the case of South Africa, the successful hosting of the 2010 FIFA World Cup created a positive image, while the perennial acts of xenophobia give the country a bad image for tourists. It is necessary that South Africa create a special category of Tourism Police under the South African Police Service (SAPS) that will focus on tourists.

17.8.4 Visa facilitation

The visa regulations of a country are one of the most important determinants of tourism demand to a country. Tourists consider the visa regulations of a destination, in comparison with other destinations, when taking a decision as to which destination to visit. Therefore, tourism demand can be directly linked to the visa regulations of a country. Visa-free travel has proven to simplify the ability to do business and stimulate tourism, especially multiple entries. Because of the red tape associated with visa acquisition, this dampens the potential for "spur-of-the-moment" decision to travel to a destination. As more countries introduce visa-free travel, African economies have been slow in increasing visa facilitation, limiting the developmental potential of tourism. The visa system of a country is the most important government policy that can stimulate tourism growth into country.

17.8.5 Aviation access

The advent of low-cost carriers (LCCs) not only increased travel in the world, it also led to mode switching from less time-effective transport systems towards commercial aviation. This was a catalyst for the growth of the commercial aviation market, especially acting as a catalyst for a whole new market segment that had never flown before. The emergence of LCCs led to the development of secondary airports and this benefited commerce and people. South Africa is a long-haul destination, which means that it takes longer to arrive, hence more flights to South Africa must be encouraged. More flights mean more tourists, and more tourists mean less poverty, unemployment and inequality, the triple challenges South Africa faces in addition to an economy that is not growing. Air access remains the major challenge that limits the growth of tourism in South Africa.

17.8.6 Institutionalisation of the habit of holidays

The consumption of tourism has been adopted as a form of lifestyle in many developed nations, and increasingly in developing nations. According to Blichfeldt (2007), a family's annual holiday is also referred to as an institution because of institutionalisation of holidays. Hyde and Laesser (2009) noted that holidays have structure, as they are a lived human experience that occur within a defined period. Sometimes the habit of holidays is influenced by the status. According to Henama and Sifolo (2017a), the consumption of tourism product offerings goes hand in hand with the prevalent consumer culture; where the consumption attains status for the user. Tourism consumption must be made to be fashionable for society in a language and images that will appeal within the prevalent consumer culture. The South African *stokvel* economy, which is a savings vehicle for the majority of black South Africans, contributes towards the economy. For example, there are *stokvels* for holidays whereby a certain number of people save money together to travel to a certain destination. Such travel includes buying travel packages from tour operators and promotes tourism consumption as a contributor to quality of life. The growth of tourism requires the habit of tourism consumption to become commercialised within a dominant consumer culture and thereby become fashionable.

17.8.7 Place marketing

According to Nel and Binns (2002), place marketing is a strategic choice and involves actively publicising a town's assets, both imagined and real, to external investors and tourists, based on the belief that the resulting investment will catalyse the economic revival. Destinations that seek to increase their tourism arrivals must market themselves as tourist destinations, that is, as sites for tourism consumption. Place marketing can ignite the robustness of domestic tourism and attract new market segments internationally resulting in the attraction of "new markets" into a country. Place marketing must ensure that social media marketing outlays are well packaged to get the required purchasing behaviour from the tourism consumers. Social media marketing is a popular avenue that has embraced digital influencers.

17.8.8 Reducing leakages

In order for the local economy to benefit from tourism, it is advisable to make use of local services and suppliers so that profits do not "leak" out of the local economy. Reduction of leakages is imperative to ensure that the tourism industry increases its developmental potential at a destination area. Increasing local ownership is imperative so that the majority of the expenditure by tourists stays within the tourism destination. This means that the tourism value chain should be looked at to develop local competence in delivering services. This is done with the intention of retaining as much of the tourism injection as possible and reducing leakage. Local ownership of the tourism industry is imperative for leakage reduction, on the other hand, the expertise that foreign ownership brings is of benefit to the industry. An article by Sifolo (2015) introduces a theoretical aspect on how to view the tourism sector from the supply chain management perspective. Therefore, it is essential to look at the tourism sector as the entire system of tourism supply chain that needs to be managed to ensure customer satisfaction. Each participant in the value chain must be looked at to reduce leakage. Tourism must improve the standard of living, and quality of life, in order to receive the support of the host community. Tourism is primarily developed for economic reasons, and it is therefore important that the resident community benefits disproportionally. Tourism will not contribute towards poverty alleviation unless the state takes a decision to ensure that tourism contributes towards poverty alleviation.

17.8.9 Skills development

In order to remain globally competitive, the tourism industry in South Africa must have skills for the tourism industry. The speed of change happening in the world means that employers and entrepreneurs must continuously train and retrain staff. One of the challenges for tourism entrepreneurs is lack of skills and knowledge of the industry. Institutions that offer tourism education must ensure that they offer formal programmes and also informal training programmes for the industry. This extends to foreignlanguage training that will ensure that South Africa's tourism industry remains globally competitive. As a former British colony, South Africans have good English comprehension, however, languages such as French, Spanish, Portuguese and Mandarin require attention as we seek to ensure that tourism becomes the number one economic sector in South Africa.

17.8.10 Embracing technology and the Fourth Industrial Revolution

Disruption is taking place across all industries and in all geographies. The fast pace of change brought by technology has meant that many industries are facing disruption. Companies such as Uber and Airbnb are at the forefront of this disruption, as customers are emerging as providers of tourism product offerings, instead of this being the exclusive preserve of businesses. Disruption has meant that customers have more power, and tourism entrepreneurs and companies must embrace technology and adapt their tourism offerings. According to Ernst and Young (2015), enormous opportunities exist for enterprises to take advantage of connected devices enabled by the "internet of things" to capture vast amounts of information, enter new markets, transform existing products and introduce new business and delivery models. Technology has been felt in the area of work as companies increasingly deal with new competition, especially substitute competition. Technology has emerged as a disruptor in the tourism industry. The emergence of low-cost carriers created the incentive for Uber and Airbnb. Uber is able to offer cheap and reliable transportation at prices lower than metered taxis, while Airbnb has created opportunities for lifestyle entrepreneurs to become hosts, competing with commercial tourist accommodation.

The Fourth Industrial Revolution is upon us. The speed of change continues at a breath-taking rate. According to Schwab (2016), a Fourth Industrial Revolutionary is building on the Third – the digital revolution that has been occurring since the middle of the last century. It is characterised by a fusion of technologies, which blur the lines between the physical, digital and biological spheres. This has resulted in the emergence of artificial intelligence, the use of robots and the potential to increase profits as corporates replace people with robots. This means that increasing mechanisation will lead to an increase in global unemployment as the world population continues to increase. Moreover, entrepreneurship opportunities presented by the Fourth Industrial Revolution can be supported in emerging economies. For example, it is not only governments that must embrace technology through progressive policies and the introduction of free WiFi as a basic human right. The Fourth Industrial Revolution will increase the impact of the services economy on countries. As the majority of African countries have a large percentage of young people, they will need labour-absorbing economic sectors for an increasing population. The labour-intensive nature of tourism will be a benefit for economies that understand that tourism growth is associated with an increase in labour opportunities. Since tourism requires a multiplicity of skills for the various and cross-cutting industries that are related to deliver the tourism product offering, the integration of technology in tourism will result in fewer job losses than in traditional industries such as agriculture and manufacturing. Countries that seek to mitigate the negative effects related to tourism marketing must embrace the changes and adapt immediately to the Fourth Industrial Revolution.

17.8.11 Establish a Tourism Red Tape Initiative® (TRTI)

Zhang, Song and Huang (2009) explain that tourism is a coordination-intense industry in which different products/services (transportation, accommodation, and so on) are bundled together to form a final tourism product. Henama (2016) identified that tourism destinations must develop a Tourism Red Tape Initiative ® (TRTI), which identifies bottlenecks that impede the growth of the tourism industry. For tourism to succeed requires collaboration between different levels of the state, which can only be achieved when an institutional framework is established and the TRTI can be a catalyst to develop that institutional framework. The tourism sector is private sector led, while the public sector must create an enabling environment. The TRTI is therefore an institutional framework where the public and private sector can work together to grow tourism. The bottoms-up approach to develop the TRTI would start from municipalities to provincial and result in a national TRTI strategy that would unleash the growth trajectory of tourism, thereby creating jobs and driving economic growth.

17.9 CONCLUSION

Africa continues to receive less than 10 per cent of international tourism receipts – far below its potential. Tourism is able to ignite economic growth, diversify an economy, and become an attracter of foreign exchange. It is also disproportionally important for African economies as they seek to diversity into the service sector, where tourism is located. In order to gain the support of the host community, it must be ensured that tourism improves the quality of life and standard of living of the locals. This can only happen when tourism planning ensures that pro-poor principles and linkages are made between the tourism sector and the broader businesses in local areas. This is imperative to ensure that leakage is reduced as much as possible. Interestingly, tourism demands that a country treats its citizens better; the expansion of infrastructure and super structures such as airports, roads and ports brings a country to international standards, which locals can enjoy. The sharing of infrastructure is one of the benefits of tourism. Tourism in Africa remains constrained by the triple challenges of low levels of aviation access, low levels of personal safety and security and lack of visa openness. What is without doubt is that tourism will continue in Africa and will create the incentives for African countries to become safer, as tourism demands peace and security as a pre-requisite for growth. Marschall (2005) comments that in South Africa, tourism is currently promoted as a panacea of all its ills associated with development, employment and income generation. In as much as tourism is adopted as a panacea for all ills, it's worth noting that the success of tourism depends on a responsive state that prioritises tourism as the developmental sector that must get 100 per cent government support.

REVIEW QUESTIONS

17.1 What are other environmental, social and economic benefits that can be associated with the tourism sector?

17.2 Explain why tourism is identified as cross-cutting in nature.

17.3 How can tourism assist the economic crisis?

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18

Franchising

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LEARNING OUTCOMES
After you have studied this chapter you will be able to

- explain the different concepts in franchising
- understand the essential requirements for establishing franchise business operations and the ability to evaluate its principles
- demonstrate an understanding of the social and economic factors related to establishing a franchise
- analyse the environmental conditions for the establishment of a franchise
- demonstrate an understanding of the financial and legal requirements to consider establishing a franchise.

KEY TERMS

- Franchise
- Franchisor
- Franchisee
- Business-format franchising
- Franchise contract
- Franchise fee

OVERVIEW

Franchising is a legal or marketing concept that started to develop in the late 1940s and 1950s, principally in the US but also in other countries. The concept is often misunderstood, despite its widespread use. Franchising is seen as a method of marketing goods and services, which knows almost no boundaries in terms of business categories. It is therefore not one industry. Over many years, franchising has proven all over the developed world and in many developing countries that it is a viable method of distributing goods and services. This, in turn, can have a positive influence on economic development by its contribution to the establishment of new businesses and job creation. Franchising can now be found in over 140 countries worldwide, and its efficacy has been proven by its robustness even through periods of economic downturn (Mendelsohn, 2005).

18.1 INTRODUCTION

It is inevitable that a business that brings in profits and that has captured the interest of a market will naturally seek to expand. Franchising has become one of the fastest growing and popular strategies for business expansion. In essence, a successful business's processes are being replicated continuously and run by entrepreneurs who are called franchisees and who run their businesses under the supervision of the franchisor.

The word "franchise" comes from the French word for "privilege" or "freedom". Franchising offers people the freedom to own, manage and direct their own business. It therefore means being in business for yourself but not by yourself (FASA, 1991). In essence, it gives an individual the right to operate a business or licence under specific conditions.

Franchising evolved out of a number of business transactions, methods and practices that have been common and popularly known for many years (Mendelsohn, 2005). Some of the basic features of these business transactions, practices and methods are found in the following four elements:

1. The ownership by one person of a trademark, a patent, an idea, a secret process, a specialised piece of equipment and the goodwill and know-how associated with it

2. The grant of a licence by that person to another permitting the exploitation of the trademark, idea, process, service mark, patent or equipment and the goodwill and know-how associated with it
3. The inclusion in the agreement that grants the licence, all regulations and controls relating to the operation of the business in the conduct of which the licensee exploits his or her rights
4. The payment by the licensee of a royalty or some other consideration in the form of a continuing fee for the rights, which are obtained, and for any services, which the licensor will provide to the licensee

Franchising has great potential, nowhere more so than in South Africa, where entrepreneurship development and job creation are national imperatives. The realisation of franchising's potential depends on correct implementation. Much has been done, but much more can be achieved (Parker & Illetschco, 2007).

The franchise world is constantly evolving, and so are the rankings according to the Entrepreneur's 38th annual Franchise 500 rankings (Table 18.1). The Franchise 500 is however, solely a research tool one can use to compare franchise operations. The ranked franchises are measured and analysed according to system size, growth, and financial strength and stability. Factors such as social media presence are also included in today's economy, which surely was not relevant 38 years ago.

Investing in an established and credible franchise ultimately carries less risk since it is an investment in an established brand. Therefore if you want to become part of one of South Africa's top ten franchises, look at Table 18.1 and consider where to invest.

Table 18.1 South Africa's top 10 franchises

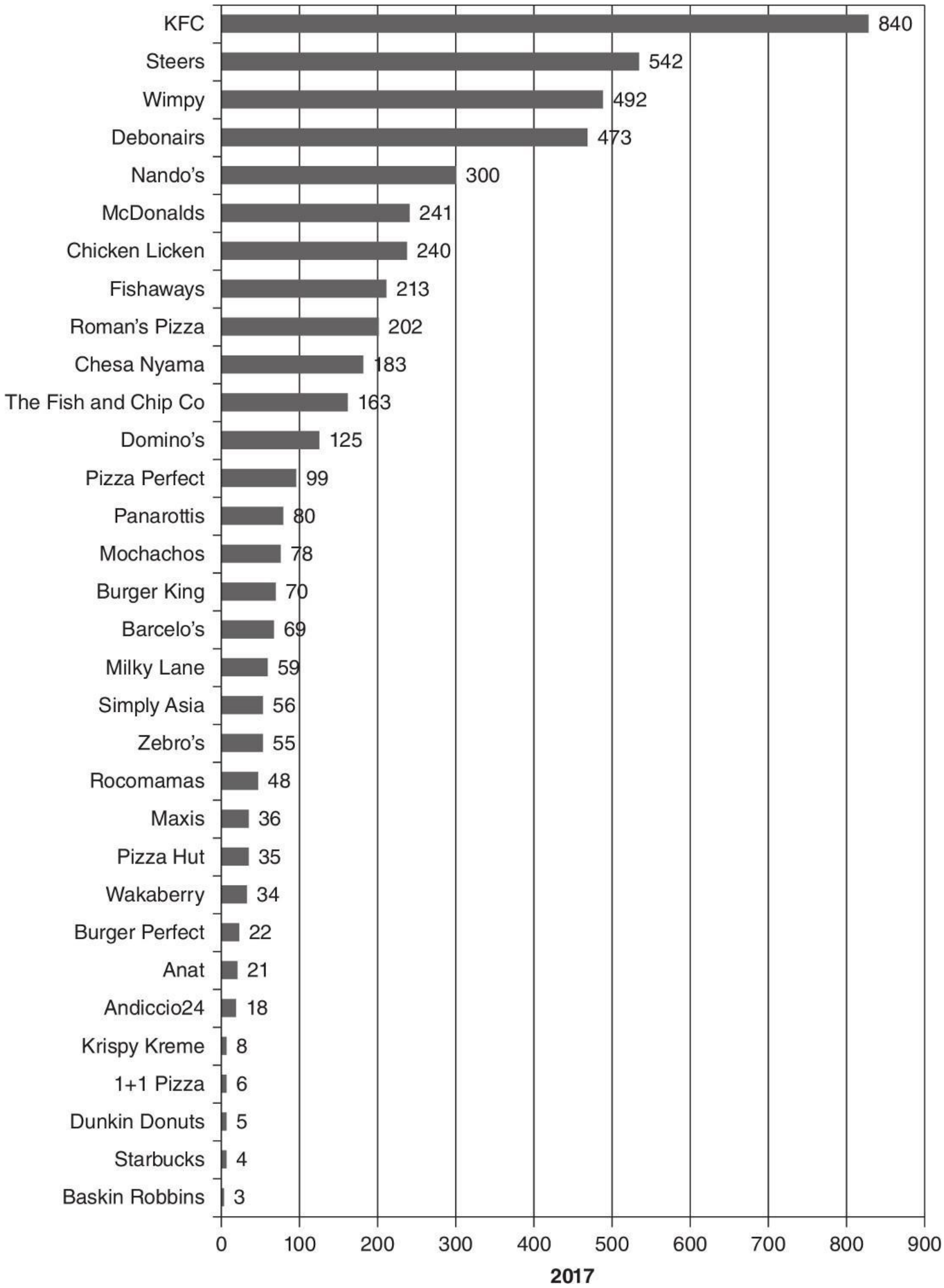
Name/Rank	Country of origin	Year started	Franchises in SA
KFC	USA South Africa	1952 1968	840 (2017)
SPAR	Netherlands South Africa	1932 1963	800
Steers	South Africa	1960	522
Wimpy	United Kingdom South Africa	1962 1967	500
Debonairs	South Africa	1991	300
MacDonalds	USA South Africa	1954 1995	148
Kumon	Japan South Africa	1954 1991	200
Mugg & Bean	South Africa	1996	96
Nando's	South Africa	1987	54
Keg	South Africa	1992	30

Source: http://www.franchisefinder.co.za/Article%20Archive/SAs-top-ten-franchises.shtml

Looking at the franchise growth rate in South Africa within the last two years, the numbers are slowing down. The total number of stores in May 2016 was 4 841 and decreased to a figure of 4 780 in May 2017 (Table

18.2). However, franchising is likely to continue growing as the sector remains a core part of the country’s business sector.

Table 18.2 Fast food franchises in South Africa



Source: *https://businesstech.co.za/news/lifestyle/173585/the-biggest-fast-food-franchises-in-south-africa-in-2017/*

It is evident from the statistics that KFC is still the number one franchise in South Africa and the most favourable fast food brand, making chicken franchises the most popular, with burger joints almost on par followed by pizza. However, if you are keen to work long hours, and have boundless enthusiasm, an unparalleled drive to succeed and a good nose for business, perhaps you can start with a franchise you can open for less than R1 million rand:

Table 18.3 Eight South African franchises you can open for less than R1 million

The Fish & Chip Co	From R840 000
Debonairs	From R900 500
Wilcote	From R520 000
3@1 Business Centre	From R695 000 (ex VAT)
Zebro's	From R949 000
H_20 International	From R325 000 (excluding VAT)
The Bed Shop	From R500 000
Sorbet	From R1 million

Source: https://businesstech.co.za/news/business/225631/8-south-african-franchises-you-can-open-for-less-than-r1-million/

18.2 FRANCHISING AS A FORM OF BUSINESS

Franchising is an arrangement between the franchisor (the grantor or seller of a privilege) and the franchisee (the purchaser or recipient of a privilege). The franchisor and franchisee both have responsibilities, commitments and obligations toward each other and these are usually specified in a franchise agreement or contract. The franchisor owns the right to the name or trademark of the business, whereas the franchisee purchases the right to use the trademark and system of business. In terms of arrangements, the franchisor is also answerable to his franchisees for ongoing matters such as training, management and marketing support and assistance. Different types of franchising can evolve, such as manufacturer, wholesaler or retailer in various industries (FASA, 1999).

18.2.1 Categories/forms of franchising

18.2.1.1 Business-format franchising

The business-format franchise describes a relationship between the franchisor and franchisee where the latter is licensed to operate a proven business concept using the franchisor's name in accordance with its standardised, fine-tuned package, which includes the products to be sold as well as the logos, trademarks, décor, promotional material and menus of products (Business Directory, 2014). Business-format franchising involves not merely the exploitation of goods identified by a trademark or services identified by a service mark, but the preparation of a "blueprint" for a successful way of carrying on a business in all its aspects. The blueprint must be carefully prepared to minimise the risks inherent in opening any new business (Mendelsohn, 2005). For example:

Table 18.4 Entrepreneur's Top 10 Franchises for 2017

Name/Rank	Initial Investment	Rand value
1. 7–Eleven Inc.	$37K – $1.6M	R493K – R21.4M
2. McDonald's	$1M – $2.2M	R13.4K – R64.6M
3. Dunkin' Donuts	$229K – $1.7M	R3M – R22.7M
4. The UPS Store	$159K – $435K	R2M – R5.8M
5. Jimmy John's Gourmet Sandwiches	$326K – $555K	R4.4M – R7.4M
6. Dairy Queen	$361K – $1.8M	R4.8M – R24M
7. Ace Hardware Corp.	$273K – $1.6M	R3.6M – R21.4M
8. Wingstop Restaurants Inc.	$303K – $923K	R4M – R12M
9. Sport Clips	$183K – $352K	R2.4M – R4.7M
10. RE/MAX LLC	$38K – $224K	R507K – R3M

Source: Adapted from 2017 Top Franchises from Entrepreneur's Franchise 500 List

- Criteria should be established by which the suitability of sites available for the positioning of the business will be judged. In the case of a mobile franchise, criteria will be established by reference to the availability of potential customers within a given marketing area.
- The training provided should include, as may be appropriate, any special methods of manufacture, or processes to be applied to goods, or (as with fast-food operations) secret recipes, methods of preparation and the manner of providing services.
- Training should be provided in the methods of marketing and merchandising, which are calculated to exploit the merits of the business to the full.
- Following training, assistance should be given in getting the business ready to open for trading.
- The right to use the description (i.e. the brand image, which may include a trademark or service mark) by which the business is to be distinguished from other similar competing businesses should be granted, while at the same time the business is recognised by the consumer as part of the larger organisation, which comprises him and his fellow franchisees.
- In order for the person granting the licence to be sure that the standards associated with the branding and the system can be maintained, established restrictions and controls should be introduced into the relationship.

18.2.1.2 Product or distribution franchising

A product franchise acquires the rights to a product where the franchisor supplies the product, may provide initial and ongoing product training and, in some cases, product advertising. With distributorship franchising the arrangement is similar to a product franchise, except for the fact that distributors are often permitted to handle a wide range of complementary products. In other words, a product manufactured by a franchisor (or on his behalf by another) is sold to a franchisee who, in turn, sells it to the consumer under the trademark of the franchisor. The franchise is usually restricted to a particular geographical area and the franchisee pays fees referred to as royalties to the franchisor for the right to do business under his trademark (FASA, 1997).

18.2.1.3 Manufacturing, production or processing franchise

Franchising is essentially a marketing exercise that promotes a corporate or unitary image, which creates a perception among consumers that all the franchise outlets offer the same quality and standards of goods or services (Nieman, 1998).

Table 18.5 Comparison: distributors versus business-format franchise

Aspect	Distributorship	BFF
Contract	General, negotiated	Detailed, imposed
Legal status	Independent	Independent operator
Rights	To a product	To a business system
Existing skills	Usually a prerequisite	Usually unimportant
Product	Usually no processing	Processing usually required
Product range	Wide and from various sources	Clearly defined, limited

Source: FASA (1997)

18.3 TYPES OF FRANCHISES

18.3.1 What can be franchised?

According to Mendelsohn (2005), franchises can vary to a wide extent from each other depending on the business in which they are engaged, or the industry in which they are found. An internationally recognised distinction is made between the following types of franchises:

1. **Manufacturers and wholesalers:** this is where the franchisor is the creator/producer and the franchisor grants the franchise to a distributor or wholesaler, who is the franchisee. We often see this system in the soft-drink industry such as Coca-Cola and Pepsi-Cola, where the manufacturer supplies a wholesaler with the concentrate or syrup and the wholesaler mixes bottles and distributes the drink under licence.
2. **Manufacturers and retailers:** this is where the creator/producer is the franchisor and the retailer is the franchisee. Typical examples of this system are automobile dealerships such as Nissan or petrol stations where arrangements have been made between convenience store operators (whether franchised or not) and petrol-station owners for the establishment of convenience stores on the petrol station forefront.
3. **Wholesalers and retailers:** this is where the wholesaler is the franchisor, who establishes a franchised network of retail outlets. Everyone trades under a common trademark and is linked by national advertising and promotions. The types of businesses that fall within this category include hardware stores, chemists, supermarkets and automobile aftercare businesses.
4. **Retailers and retailers:** this is where franchising has been chosen by the franchisor who establishes outlets at the retail level as the marketing method most suited to the expansion of the business. This type is not well known, but with international examples, the vast majority of “high-street” franchises have developed in this way.

CASE STUDY: Nando's

The meteoric rise of Nando's started from one outlet in Rosettenville to an international network consisting of over 550 stores located on several continents within fewer than two decades. When the Nando's brand was launched, several experts doubted the concept's chances of success in what they perceived to be a saturated market. The management of Nando's proved them wrong by turning an everyday product into a lifestyle brand, offering customers an extraordinary experience as well as value-for-money prices. Having acquired an existing outlet that was intended to form the nucleus of a new chicken concept, Nando's Chickenland (Pty) Ltd was formed by Robbie Brozin in 1987. He then brought Eric Parker on board to help with the rollout of the concept.

The original Nando's store was initially located in Rosettenville, Johannesburg. It had been in existence for many years and was difficult to change. So they decided to set up a new store from scratch in Savoy, building it to their specifications. After its doors opened in 1987, it was an immediate success. It generated profits from day one and the payback period was an incredible six months. The pilot store's success prompted them to reassess their expansion strategy.

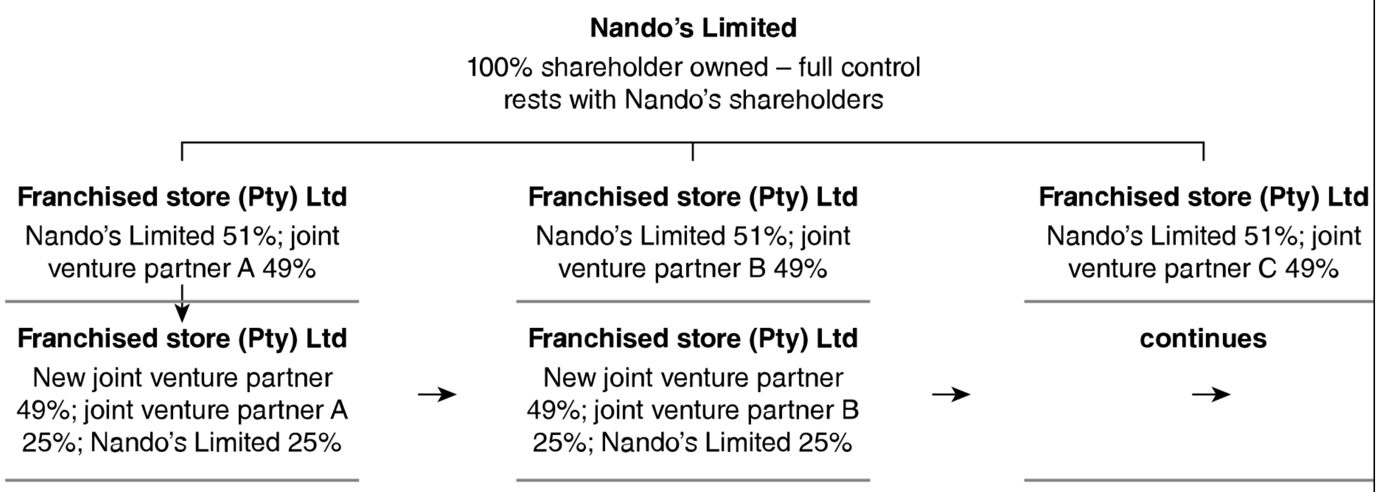
The Nando's franchise model

The original franchise model resulted in a "joint venture agreement" and was structured in such a way that each store would be a company in which Nando's would hold a minimum of 51% and the joint venture partner a maximum of 49% of the shares. However, doubting the model's merits and evaluating its weaknesses after some time, Nando's revised its joint-venture (JV) model. Nando's realised that it made a mistake in allowing some joint-venture partners to establish additional stores as subsidiaries of their original stores. The new structure illustrated in Figure 18.1 had the unintended result of reducing Nando's shareholding in second-tier stores to an effective 26%. Not only did this affect financial returns, but it also caused an imbalance of power that was difficult to manage. The use of this expansion model had the (unintended) effect of giving joint-venture partner A (as indicated below) effective control of multiple stores (Parker & Illetschko, 2007).

Questions

1. Knowing what Nando's has to offer, what in your opinion were some of the critical success factors from the early stages of Nando's? (Some further research needs to be done to get the complete answer for this question.)
2. What is the reason for establishing a pilot operation?

Figure 18.1 The revised Nando's joint-venture (JV) model



Source: Adapted from Parker & Illetschko (2007)

18.4 DEFINITIONS

Many different definitions of franchising have been offered over the years. This is due to the fact that franchising covers a very broad range of businesses. Some definitions are general and try to include all possible types of franchise. Others are more specific and give a much more specific definition of a particular type of franchise.

18.4.1 Business-format franchising

"An arrangement whereby one person or firm (the franchisor) grants an independent party (the franchisee) the right to sell the firm's products or services according to the guidelines set down by the franchisor" (FASA, 1999).

"A franchise arrangement whereby the franchisee obtains an entire marketing and management system geared to entrepreneurs" (Longenecker, Petty, Palich, Moore & Baylor, 2014).

18.4.2 Franchise

"A franchise is a package of industrial or intellectual property rights relating to trademarks, trade names, shop signs, designs, utility models, designs, copyrights, know-how or patents, to be exploited for the resale of goods or the provision of services to end users" (Mendelsohn, 2005).

"A business model involving a business owner who licenses trademarks and methods to an independent entrepreneur" (Longenecker et al., 2014).

18.4.3 Franchise operation

A franchise operation is a contractual relationship between the franchisor and franchisee in which the franchisor offers to maintain a continuing interest in the business of the franchisee in such areas as know-how and training. The franchisee operates under a common trade name, format and/or procedure owned or controlled by the franchisor and in which the franchisee has, or will make, a substantial capital investment in his business from his own resources (Mendelsohn, 2005).

Franchising can therefore be seen as a grant by the franchisor to the franchisee, which entitles the franchisee to use a complete business package with all the elements necessary to establish the business. It also enables a previously untrained person to run the franchise efficiently and profitably according to the necessary guidelines supplied (Nieman, 1998).

18.4.4 Franchisor

"The party in a franchise contract that specifies the methods to be followed and the terms to be met by the other party" (Longenecker et al., 2014).

18.4.5 Franchisee

"An entrepreneur whose power is limited by a contractual relationship with a franchising organisation" (Longenecker et al., 2014).

18.4.6 Franchise contract

"The legal agreement between franchisor and franchisee" (Longenecker et al., 2014).

18.5 ADVANTAGES AND DISADVANTAGES OF FRANCHISING

There are various reasons why people enter into a franchise contract instead of starting their own business. Franchising can be attractive for a variety of reasons of which the probability of success is one of the greatest advantages.

The benefits gained from a successful franchising chain can be tremendous, which benefits the franchisor and the franchisee (Van Aardt & Bezuidenhout, 2014).

18.5.1 Discussion of advantages

- **Ongoing training, advice, research and development:** ongoing and initial training is provided to a new franchisee, which helps to prepare him or her in all aspects of the business. The franchisor is also in a position to provide ongoing research and development. This includes obtaining information from the franchisee on changing customer needs, therefore contributing to new product or product ranges and services.
- **Reduced capital outlay with increased profits:** franchising provides the entrepreneur with the opportunity to participate in a large business operation and at the same time, allow the capital that he or she has invested to be used optimally. Franchising can also make it possible for people with limited capital to become small formal-sector business people by lowering the cost of entry at that level. The entrepreneur can expect to reach breakeven far sooner under the proper guidance of the franchisor.
- **Brand awareness:** the franchisor provides the franchisee with access to an established network, a trademark and proven name that attracts customers and provides the franchisee with a niche market that has already been penetrated. A wider geographical spread of a franchise operation secures heightened awareness of its product in contrast to those of independent competitors. The uniformity of the franchised outlets afford it a far greater impact on the target market, which benefits both the franchisor and franchisee.
- **Buying power:** a franchise provides the owner of a small business access to the buying power of a large business on an ongoing basis. The buying power often results in better prices and discounts that can be negotiated for most items, including stock, corporate stationery, corporate clothing, lighting, fixtures and fittings, and even insurance packages.
- **Infrastructure:** the entrepreneur also benefits from the service infrastructure such as central marketing, proven systems, IT expertise and procedures undertaken and provided by the franchisor. The combined infrastructure can be used, for instance, to achieve a more effective marketing strategy by maximising the ad spend of the group and obtaining better prices for advertising.
- **Business synergy:** buying a franchise means becoming part of a network where all members work together so that everyone benefits. All franchisees make contributions to the benefit of the franchise because they are ultimately working for themselves and are therefore motivated to make a success of it.
- **Increased success rate:** franchisees have a much better chance of business success than non-franchisees, due to management and training systems that are in place to enhance effectiveness and efficiency, which in turn reduce the risk of failure.
- **Exit strategy:** a successful franchise could have an excellent resale value as an established business. It is seen as a more viable purchase option to prospective buyers than a stand-alone proposition in the marketplace if the infrastructure is in place.

18.5.2 Discussion of disadvantages

- The franchisee is not completely independent because franchisees are required to operate their businesses according to the specified restrictions and procedures set forth by the franchisor in the franchise agreement.
- The specified restrictions usually include the products or services that can be offered, the pricing of the product, and geographic territory.
- Franchisees must pay ongoing royalties and advertising fees in addition to the initial franchise fee.

- Franchisees must carefully balance restrictions and support provided by the franchisor with their own ability to manage their business.
- If other franchisees are performing poorly or the franchisor runs into an unforeseen problem, it can result in a damaged, system-wide image.
- The franchisee may have little or no say about the terms of termination and the term (duration) of a franchise agreement, which is usually limited.
- The service provided by the franchisor to the franchisee can be expensive, or even non-existent.
- The franchise contract may have been formulated in such a way that it protects only the rights of the franchisor.
- Even if a support structure is in place to help the franchisee, he or she may still fail because of cash-flow problems or inexperience.
- The franchise might not be all it was expected to be. What initially attracted the potential franchisee might turn out to be a fad or might be a vehicle for fraud.
- The satisfaction experienced by many franchisees often leads to disappointment due to the fact that franchisors do not fulfil their initial responsibilities or duties and because of the less-than-expected prestige associated with the job.
- The trade name is not always of value. Customer satisfaction with the product or service soon becomes more important than the trade name.

ADVANTAGES/DISADVANTAGES OF FRANCHISING

Franchising holds many advantages but, like most things in life, there are disadvantages as well. Prospective franchisees must be aware of this so that they can weigh up the pros and cons, and arrive at an informed decision.

Advantages from the franchisee's point of view

- **The use of an established brand:** under the franchise contract and its terms, conditions and contract period, you as the franchisee are allowed to operate under the umbrella of an established brand, using a recognised trademark and operating in accordance with tried and tested operational principles.
- **A proven system:** unlike a truly independent entrepreneur, a franchisee need not prove the viability of the concept. This has been done by the franchisor, who will have tested the concept in his or her own stores. This would extend to the product or service, the marketing thereof and the systems and procedures necessary for the profitable operation of the business.
- **Start-up assistance:** the franchisor will take every new franchisee under his wing and provide the franchisee with initial training, assist with site selection, fitting out and stocking of the store; and help with staff selection and training, and also with pre-opening and opening publicity. There will be no need for the new entrepreneur to reinvent the wheel, and this is obviously a big advantage.
- **Ongoing support:** the franchisor will provide the franchisee with ongoing assistance in all aspects of operations. This will be linked to quality control and appropriate feedback to the franchisee aimed at helping the franchisee to improve all-round performance of the business in accordance with group norms. What is often overlooked by critics of franchising is the fact that a franchisor's support structure in growing the brand frees up the franchisee to concentrate on building the business and servicing the customer base.
- **Peer support:** going into business for yourself can be a very lonely endeavour, with very little chance to compare notes with similar businesses. The franchise network of franchisees is a "family" of like-minded businesspeople all set on achieving success. Challenges and problems can be shared individually or in group sessions, seminars and conferences that the franchisor organises.
- **Benchmarking:** the inherent success of a good franchisor lies in the ability to benchmark the entire franchise operation, fine-tune the costs and build up the optimum operating blueprint for all-round success.
- **Joint advertising:** the benefits of joint advertising, which emanate from the advertising levy that most franchisors charge, maximises brand awareness. The franchisor, with a cumulative marketing budget, can more effectively operate an effective marketing programme from which all franchisees benefit. Moreover, local advertising undertaken by franchisees will often be developed centrally, resulting in increased effectiveness and substantial cost savings.
- **Purchasing power:** the combined purchasing power of the network helps franchisees secure preferential deals from key suppliers. The franchisor either supplies goods to members of the network or negotiates favourable terms on their behalf.
- **Easier to obtain finance:** it is a known fact that the odds for business success are far more favourable for franchised operations than for their independent counterparts, and banks are generally more favourably disposed to lending to prospective franchisees – especially if the franchise they are buying into is an accredited FASA member or has been audited by the bank.

Disadvantages from the franchisee's viewpoint

- **Taking a business risk:** although franchising offers a much lower failure risk than independent businesses, there is always a risk when going into business. Assessing the right franchise opportunity carries risk as the franchisee may find it difficult to assess the quality of the franchises on offer or may find out only after he has signed up that the franchise is not what it appeared to be. Painstaking investigation of the opportunity is crucial to a sound decision.
- **Increased set-up costs:** the costs of a turn-key franchise with its upfront fee and the set standards in furnishings, fittings and equipment are often much higher than going into business independently. This may increase the initial cost of setting up shop but the fact that all the research and contacts are already in place more than makes up for the added costs. This definitely helps the franchisee in establishing the business more quickly and shortens the period until breakeven is reached. Many franchise concepts, especially in the food sector, will also include store upgrade clauses into the contract, which means the franchisee, after a certain length of time, will have to refurbish the outlet at his own expense.
- **Rigid operating procedures:** the success of the franchised network depends on replication of the proven formula and adherence to the proven business system. For individuals who thrive on experimentation and innovation, this may be a bitter pill to swallow, and franchisees must always remember that although they own the infrastructure of their businesses, they are contractually bound to adhere to the franchisor's operational guidelines.
- **Ongoing fees payable:** in addition to the upfront and set-up fees, a business format franchise system requires a contribution in the form of a management service fee (formerly known as a royalty) which is important in sustaining the ongoing support from head office to maintain a well-run franchise operation. Some franchisees may regard the management service fee coupled with the advertising costs, which are pegged at either a percentage of turnover or a fixed fee, as onerous.

- **Bad decisions by the franchisor:** if the franchisor makes mistakes, for example in his reading of market trends, then this could have serious consequences for franchisees in the network. This is but one reason why it is imperative to investigate the track record of a franchise before joining it.
- **Rebel franchisees:** if a franchisor does not impose strict operating procedures and standards that all his franchisees must adhere to, there is a risk that renegade franchisees will let the side down and cause irreparable damage to the franchise and the brand.
- **Restrictions on the sale of the business:** an independent operator is free to sell his business whenever he wants to and to whomever he chooses. He would not need to concern himself with the suitability of the purchaser to operate the business. Within the franchise scenario, the franchisor plays a big role in deciding on the suitability of the prospective purchaser of an existing franchise.
- **Business failure:** there is always a chance, in any business venture, that the business will ultimately fail. The reason could be recessionary developments, or simply because the reputation or the appeal of the product or service drops off or even because the franchisee is not cut out to be in business or loses the personal drive to succeed.

While franchisees are the ones who are urged to consider the pros and cons of buying into a franchise, it is also good to look at the advantages and disadvantages from a franchisor's point of view. Although it may seem that it is mostly the franchisor that stands to gain the most, this is not always the case, and the responsibility of running a maintaining a successful franchise is a very difficult one.

Advantages from the franchisor's viewpoint

- **Less capital required:** although starting a new franchise concept is not for the faint-hearted and requires substantial financial investment to get the brand up and running, franchisees buying into the system provide the funding to effectively grow the brand. Business expansion via the franchise route absorbs less capital than the establishment of branches.
- **Rapid expansion possible:** the setting up of a franchise network by an entrepreneur using the franchise method enables him to realise his expansion plans based on investments made by franchisees. With franchisees providing the start-up capital and assuming responsibility for day-to-day operations, an entrepreneur can grow his business much faster via the franchise route than if he set up a network of branches.
- **Streamlining operating costs:** a franchisor is able to streamline operating costs and branch staff costs as each franchisee takes care of their own operating costs. The franchisor can then focus on developing the brand, getting the best possible deals from suppliers and making sure that he services the franchisees.
- **Retaining control:** even with a network of franchisees who finance and manage their own businesses, the franchisor always retains complete control over the brand and its development. As a result, expansion can proceed at a much faster pace than would otherwise be possible.
- **Enhanced buying power:** with critical mass in the form of increased franchise outlets, the buying power of the franchisor increases improving the competitiveness of the franchisees and increases market share.
- **Dedicated owner-operators:** seeing that franchisees invest their own money, they are usually far more committed to the long-term success of the business than a salaried branch manager. This in turn tends to lead to increased customer satisfaction and accelerated growth of the individual outlets. It also results in enhanced feedback on market trends and competitor activity at local level, further enhancing the entire network's chances for accelerated growth.
- **Benchmarking:** with a pool of franchisees showing consistent performance, the franchisor is able to benchmark and streamline forward planning to benefit future growth.

Disadvantages from the franchisor's viewpoint

- **High set-up costs:** to set up and operate an effective franchise requires capital, and the initial input includes the research and development of the system, the set up of a pilot operation and the viability testing of the sustainability of the concept. Although this expense is recouped to a certain degree through

18.6 OPPORTUNITIES

South Africa's prospective franchisees are fortunate in the sense that they have a vast range of franchise opportunities, of which most are locally developed. These are in essence tailor-made to meet the expectations of the local market. There are also an ever-increasing number of foreign concepts being added, meaning the range of opportunities on offer is vast. South Africa also has a highly developed franchise culture and its bankers view franchising in a very positive light, making it relatively easy for prospective franchisees to raise finance. This is contrary to many countries overseas, where bankers continue to assess franchises in much the same way as they would any other new business start-up (FASA, 1997).

Between 2013 and 2014, companies that made the Entrepreneur's 36th annual Franchise 500 ranking (see Figure 18.2) added 16 229 new franchise units. Figure 18.3 illustrates the sectors within the South African industry.

Figure 18.2 Franchising sectors at the forefront of growth – domestically and abroad

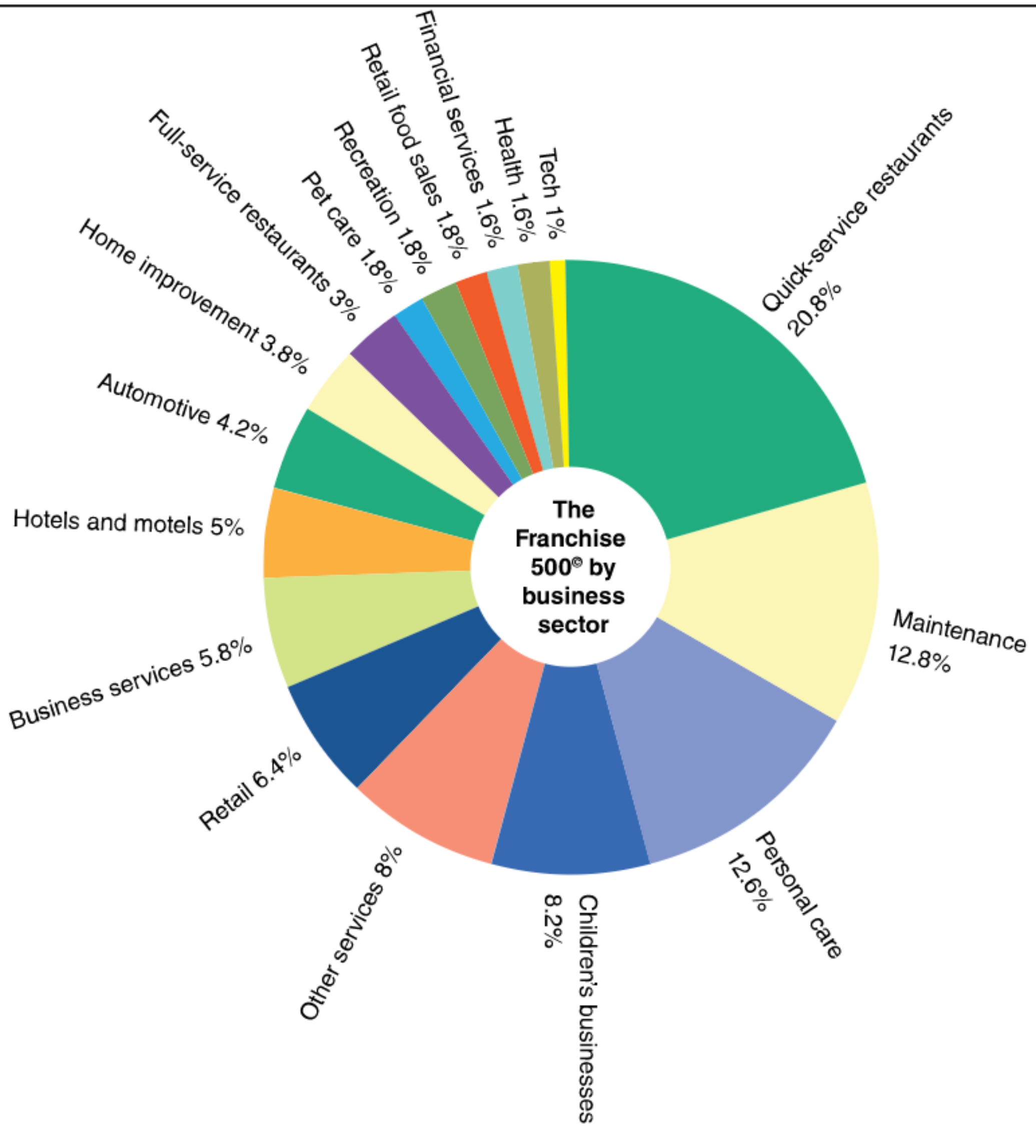
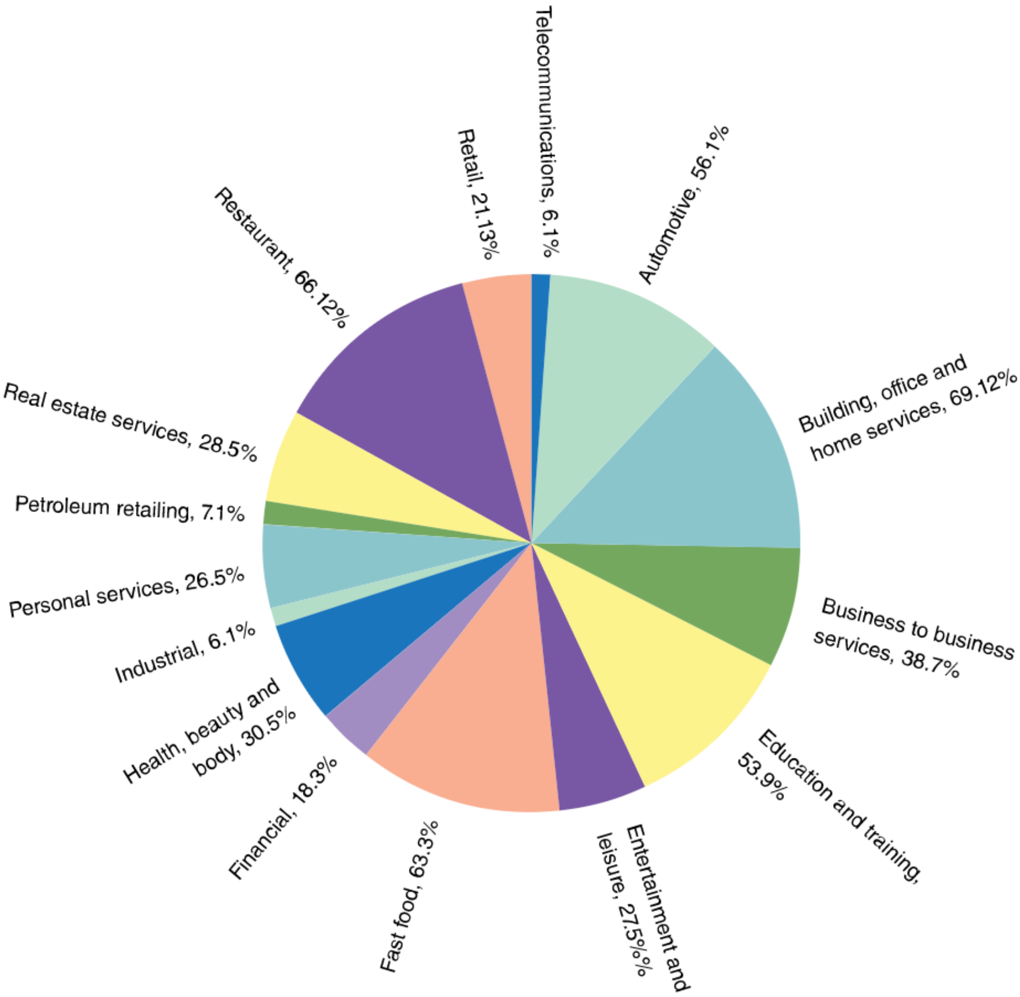


Figure 18.3 Sectors within the South African franchise industry



Source: Fin 24 (2013)

18.7 FRANCHISING IN AFRICA – SOCIAL AND ECONOMIC FACTORS

Six of the world's fastest-growing economies are in Africa. These include oil-rich Nigeria; politically and economically stable Botswana and Ethiopia; Mozambique; Rwanda; Tanzania; and Uganda. All meet the international market selection (IMS) criteria of five per cent year-on-year gross domestic product (GDP) growth and three per cent growth in GDP per capita. These African economies are growing through the absence of civil war and stable policymaking. Botswana, for example, has managed, through sound management, to transform itself from one of the poorest countries in the world to a middle-income country with a per capita GDP of R192 709 in 2010. Between 2000 and 2010, Nigeria's GDP doubled. It is clear that African countries have an interesting mix of indigenous micro franchises, particularly in the areas of agricultural health, mobile phones, fast food and petrol, and numerous investments by the more prominent international franchisors such as KFC, Subway and Papa Johns. South Africa is an excellent example of how franchising can be used in Africa to create jobs fast and assist local people set up small and medium enterprises (SMEs) efficiently, by helping local people set up SMEs under a franchise system. Franchising in South Africa contributes an astonishing 12 per cent to the country's GDP, and there is good reason to believe that the same success can be achieved in due course in some other African countries. This is due to the many South African franchises that are indigenous systems tailored to the needs of this large and diverse country (Hoffman & Preble, 2004).

> *Success story*
>
> African Atlantic Franchise Farming sells an agricultural franchise to local farmers in Ghana, which enables them to benefit from cheaper supplies of seed and fertiliser. They also provide additional training. African Atlantic is pioneering a successful new model of agriculture and business where it expands its base of operations and partnerships. The business strategy involves:
>
> - An agricultural model that works within local cultures and around them
> - A process that simultaneously affects transportation, logistics and architecture for the better
> - A scalable model that can be replicated anywhere
> - A non-profit training extension that shares knowledge instead of hoarding it.
>
> From planting the seed to making the sale, the African Atlantic model is one of knowledge, discipline and teamwork.
>
> The functional mechanism of the African Atlantic operation is similar to what one might find elsewhere in large-scale agriculture. The agricultural production model is similar to what it it might be in the US planting, irrigation, harvesting and logistics, which remains unchanged from a production agriculture context. The difference, however, lies in the implementation and social application of these technologies as they play out in a rural context.
>
> *Source:* African Atlantic (2017)

Despite the many success stories, Africa remains a challenging environment for brands. This is because it is not always possible to own or lease a property and restrictions exist for direct investments. Withholding taxes erodes the profitability of the venture and repatriation of royalties can be subject to restraints. The standards of protection for intellectual property are lower than in Australia, the United States and Europe. Bureaucracy and corruption are another inhibiting factor. Despite these facts, franchising has still become an increasingly attractive route for foreign business to take in Africa. Proof lies in the overall 200 foreign franchises that are reported to be active in Africa. For example, countries such as Nigeria, Kenya and Zimbabwe have established franchise associations. These assist in improving the understanding of franchising as a business method. A Pan-African Franchise Federation was also founded in 2013. Its formation follows ongoing efforts by the World Franchise Council to establish a formal organisation for the franchise sector in Africa (Hoffman & Preble, 2004).

18.7.1 Non-quantitative factors in valuing a business

When evaluating an existing business, one should also consider a number of non-quantitative factors. This is very important to keep in mind, as it is likely that the business you considering buying might be subject to change regarding the following (Longenecker et al., 2014):

- **Market:** the ability of the market to support the business being purchased and all competing business units should be determined. This requires personally observing each competitor's place of business, doing market research and studying census data.
- **Competition:** the prospective buyer should look into the location, intensity and extent of competing businesses. The buyer should also investigate how the business is competing against rivals. New competitors in the local marketplace may dramatically change an existing small firm's likelihood of success. Past performance is therefore no guarantee of future performance.
- **Future community development:** future developments in the community could have an indirect impact on a business, such as a change in zoning ordinances already enacted but not yet in effect, a change from a twoway traffic flow to a one-way traffic flow, and the widening of a road or construction of an overpass.
- **Legal commitments:** legal commitments may include unsettled lawsuits, contingent liabilities, delinquent tax payments, missed payrolls, overdue rent or instalment payments, and mortgages of record on any of the real property acquired.

- **Union contracts:** prospective buyers should determine what type of labour agreement is in force, if any. They should also determine the firm's relationship with its employees as well as their job satisfaction and the company's likelihood of success.
- **Buildings:** the quality of the buildings housing the business should be checked as well as any restrictions on access to the buildings.
- **Product prices:** the prospective owner should compare the prices of the seller's products with those listed in wholesalers' or manufacturers' catalogues and the prices of competing products in general. This is essential in ensuring full and fair pricing of goods whose sales are reported on the seller's financial statements.

18.8 HOW TO ESTABLISH A FRANCHISE BUSINESS OPERATION

The establishment of a franchise system inevitably arises in one of two ways, which is when a business person decides to expand an existing business by use of the franchise method of marketing. The second is where a business is established with the aim to franchise from day one (Mendelsohn, 2005). Nieman (1998) identifies eight criteria which must be considered before embarking on a franchise operation.

Table 18.6 Twelve critical success factors to determine if your business is franchisable

Twelve critical success factors to determine if your business is franchisable
In order to guide prospective franchisors in assessing the viability of their businesses for franchising, Parker and Illetschko (2007) set out critical success factors in assessing the viability of their business for franchising. 1. Does the business operate in a large and growing market? 2. Is the growth in the market likely to be sustainable? 3. Are attainable margins sufficient to cover proposed franchise fees? 4. Can the product or service demand a price premium? 5. Does the franchisor have access to sufficient capital? 6. Does the potential exist to establish a memorable brand? 7. Is there a substantial barrier to entry – not easily copied? 8. Will development costs allow a satisfactory return on investment? 9. Is it possible to grow a franchise culture in the company? 10. Does the concept have staying power? 11. Is it relatively easy to transfer the required skills? 12. Are suitable systems and procedures in place?

1. **Standardisation in products/services:** a high degree of standardisation in the product or services must exist in the way the products or services are sold, as well as in the overall image and appearance of the franchised outlets.
2. **Reproducibility:** a business concept must be developed by the prospective franchisor, which can be reproduced easily in any location.
3. **Distinctive and noticeable business:** in order to be distinguished from its competitors, the business must be distinctive and noticeable. It must have something unique that cannot be easily replicated by others.
4. **Straightforward operating methods:** franchisees must be able to learn the operating system of the franchising operation quickly, which is more easily done if the operation methods are straightforward.
5. **Profitability:** the market for the service or product must be large enough to support a sizeable franchise network and the business must have a history of profitability. It is therefore preferable if the breakeven point be reached relatively quickly in such a franchise outlet.

6. **Regular supplies:** there should be sufficient suppliers and supplies available of a specific product if the business depends on the supply of a particular product.
7. **Legal constraints:** it is important to know the requirements of the Business Practices Committee and the Competition Board as well as the legal constraints in respect to the type of business.
8. **Personal commitment:** a moral responsibility for the wellbeing of the franchisees must be accepted as well as the willingness to make a substantial investment in systems development and support infrastructure.

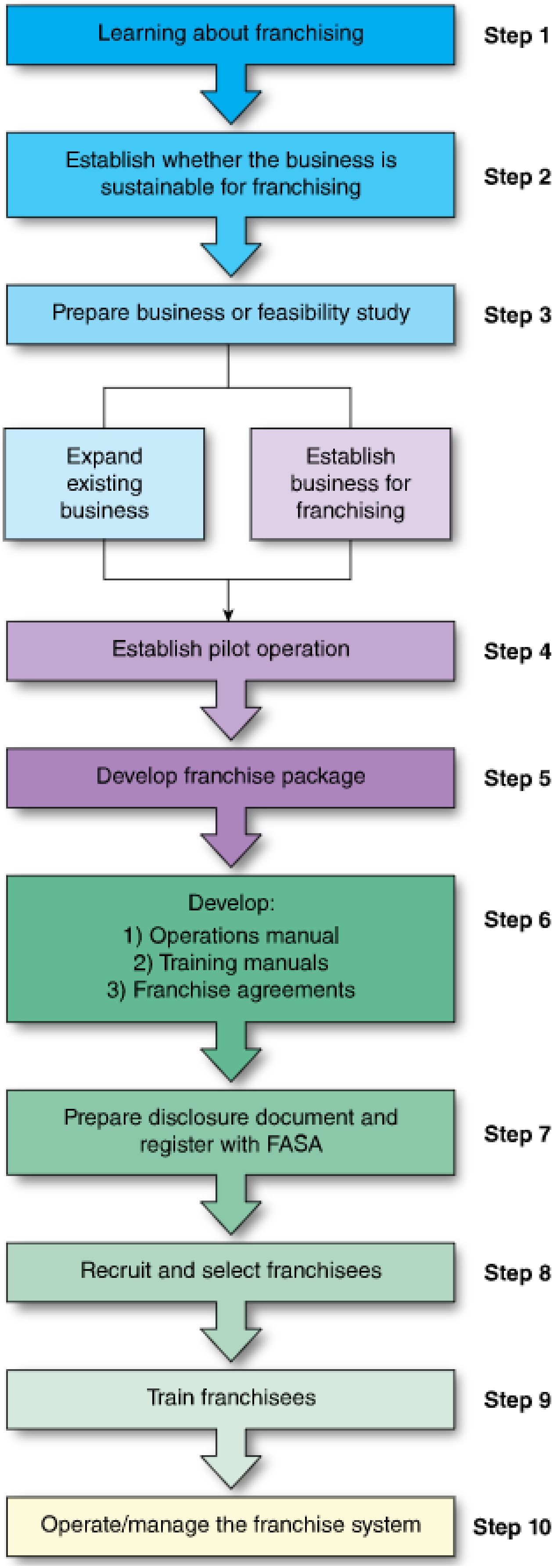
18.9 DEVELOPING THE FRANCHISE PACKAGE

The franchise package involves bringing together the elements of the business and reflecting the accumulation of the franchisor's total operational experience in a transmittable form.

18.9.1 Operation manuals

The operations and procedures manual (OPM) contains the detailed blueprint to be followed by the franchisee. It therefore forms the basis of any franchise and without it there cannot be a franchise package. The OPM is supplied by the franchisor to the franchisee as part of the franchisee package, to provide the franchisee with step-by-step instructions on how to set up and operate a franchised unit to the correct specification and standards of the franchise. The manual is strictly the copyright of the franchisor and in this respect is very valuable as it protects the franchisor's system from being copied (Parker & Illetschko, 1998). Parker and Illetschko (2007) recommended including the following in the OPM:

Figure 18.4 Steps in developing a franchise



Source: Adapted from Nieman (1998: 21)

- **An introduction to the franchise:** this includes the general business and related industries in which the franchise operates. It also explains the products or services and franchise concept, work ethic and strategies, mission statement, philosophy and overall long-term goals of the franchise.
- **Step-by-step guidelines:** this discusses the specific legal and statutory requirements, as well as specific location requirements to which the franchise must adhere. This includes fixtures and fittings, lease negotiations, security, hiring of staff, setting up of systems and control, corporate colours, logos, initial launch and promotional requirements (Rodkin, 1996).
- **The production equipment:** this refers to the necessary equipment to run the business, and details the specific functions of each piece.
- **All details regarding the stockholding, systems and control**, as well as pricing methods: the product or service that is to be sold should be described in detail with exact specifications and customer requirements. This part should cover all possible details to aid the franchisee and his or her staff, as this is often the most used section of the operations manual. It includes aspects such as pricing policies, minimum stockholding, initial stock levels, product range, stock ordering, receiving, assembly and distribution, and administrative and reporting requirements (Rodkin, 1996).
- **The accounting and administration system to be used:** this is usually based on the franchisor's accounting system or one that is totally compatible with that of the franchisor. The franchisee is obliged to invite a certified annual audit at his or her expense and the franchisor is granted the right to audit the books of the franchisee. It is also expected of the franchisee to provide the franchisor with a copy of his or her tax return as well as periodic financial reports (Vaughn, 1979).
- **The business operation where the franchisee is obliged to meet specific operational standards:** this includes: dress code; working hours; cash procedures and security; the level at which the franchisee should keep the premises maintained; the standard of cleanliness expected; set standards of service and product quality that the franchisee should meet; general standards of operation; standards regarding inventory levels; and the right of the franchisor to evaluate whether the franchisee meets the expected operational standards (Vaughn, 1979).
- **The duties of the franchisor:** these include providing advice and support.
- **Industrial relations:** the information refers to the terms of hiring and dismissing staff and the exact procedures to be followed in this regard. It also includes the relevant labour laws, which should be adhered to and the necessary employment and termination letters sent and received. Also, the fact that the employees should undergo specific training programmes provided or prescribed by the franchisor, and the conduct of staff when dealing with customers, is discussed in detail.

18.9.2 Franchise agreement

The franchise contract is a very important document, which is when the franchisor's promises have to be presented to the franchisee in writing and to be subjected to careful scrutiny. The contract is a legal commitment, which is binding on both parties, and the franchisee must take competent legal advice as to the meaning and effect of the contract. Consultation with a lawyer must confirm what he was told. The extent of the advice given is only limited to the meaning and effect of the contract. The final decision lies with the franchisee whether or not to proceed with any particular franchise opportunity (FASA, 1997). FASA (2006) describes the franchise agreement as a legal contract, which clearly lays out the arrangement between the person buying the franchise (the franchisee) and the person selling it (the franchisor). The franchise agreement is therefore drafted by the franchisor and his or her representatives, with the objective of protecting the business and ensuring standardisation of the franchises. The following aspects should be included in the franchise agreement (FASA, 2006).

Asherson (1995) included additional provisions that should be covered in the franchise agreement, which are

- advertising and corporate communications
- use of trademarks and other intellectual property
- fees payable to the franchisor
- cession and assignment in terms of the franchisee's rights
- record-keeping and records.

The franchise agreement	
• Parties involved in the agreement as well as their prospective objectives • The rights whether or not to sell or transfer ownership of the franchise • The legal rights to sell or transfer ownership of the franchise • General functioning and construction of the franchise such as operating hours and overall look at feel • A description of the training and support being offered • Precise boundaries of the territory awarded • All operating systems guiding and driving the franchise • Detail of your heirs' rights in the event of your death • The period of the agreement with the rights to renew or extend the contract	• Set-up requirements and development of the business premises such as obtaining finance, shop equipment, renovating the premises and legal obligations • Obligations of the franchisor, such as buying supplies or services • Terms and conditions in the case of termination or breach of the contract • The precise price, commissions, and rental fees involved • Overall functioning of the franchise, such as management, involvement of the franchisee and the rights to subfranchise • The necessary accounting system to be used • Definitions of all terminology

18.9.3 Disclosure document

FASA has compiled disclosure document requirements, which aim for full and complete disclosure by a franchisor to a prospective franchisee. One of the most important requirements of the code is that a prospective franchisee should not be permitted to part with any money or to sign a franchise agreement if it is fewer than seven days after the disclosure document has been received (Nieman, 1998). It is therefore not only the responsibility of the franchisor to ensure that the prospective franchisee receives a copy of the disclosure document, but it is in the interests of all prospective franchisees to insist on it (Van Aardt & Bezuidenhout, 2014). The disclosure document should include the information contained in the table below (FASA, 2006):

The disclosure document	
• The experiences of the directors and executives • A description of the franchise • Ongoing payments due to the franchisor • A number of the existing franchisees and their success rates • Support and training guaranteed to the franchisee • Financial data on the franchisor • Confirmation from the directors on the viability of the system	• Track record of the company • Initial required investment • Renewal, termination, goodwill or assignment of agreement • Assistance from the franchisors in selecting approved sites • Financial information about the pilot operation • Certificate from the accountant or auditor on the business being a going concern • The total investment required, indicating all costs

18.9.4 Marketing the franchise package

The best way for a franchisor to market a franchise package is by demonstrating its success. This is because it is the quality of the underlying business that is most important.

18.9.4.1 Franchisee recruitment

Illetschko (2005) suggests a five-step approach to recruiting franchisees.

- Step 1: Generate enquiries

– Develop a franchisee-information folder

– Present the franchise at seminars and exhibitions

– Compile a visual presentation

– Offer to speak at small business events

– Advertise in newspapers and magazines (and FASA).

- Step 2: Set follow-up procedures in motion

– Determine who will deal with initial enquiries in order to give an appropriate response

– Keep a record of every franchise enquiry

– Keep track of promising enquiries until negotiations have either been successfully concluded or terminated

– React in writing when further information is requested by enquirers (include a questionnaire for completion by the enquirer)

– When the questionnaire is completed and returned, look into the applicant's background, financial standing and any references provided.

- Step 3: Invitation to a meeting

– It is essential that one gives the applicant in-depth information about the business opportunity and discusses the necessary investment. During the personal meeting, assess the applicant's potential for your organisation.

- Step 4: Enter into concrete negotiations

– The comprehensive information folder can be handed over to the applicant if both parties feel positive about the negotiations. When receiving the folder, the entrepreneur should sign the initial undertaking (which should be dated to record the receipt of the disclosure document). You can then agree on the location of the unit, and prepare customised financial projections and statements pertinent to the territory under negotiation, taking the earnings requirements of the franchisee and other specifics into account. Encourage the prospective franchisee to discuss the disclosure document, financial figures, and franchise agreement with professional advisors, and stress the confidentiality obligations.

- Step 5: Formal agreement

– The formal franchise agreement can be signed in the office of a professional advisor nominated by the franchisee, once all the details have been finalised. Once the agreement has been signed, one should do the following:

a) Bank the cheque for the upfront fee or confirm the EFT has been processed

b) Set up the "start-up assistance package" in motion

c) Schedule the franchisee's training.

18.9.5 Financial aspects of franchising

When buying a franchise or expanding on a franchise basis, a business person should set clear monetary objectives. Whether a prospective franchisor or franchisee, the following key questions should be asked (FASA, 1999):

1. What remuneration can I expect to earn from the business on a monthly basis?
2. What return can I expect from investing my capital in a particular business venture, i.e. net profit as a percentage, wage of the total capital invested?

18.9.5.1 Monthly remuneration

Two fundamentals need to be in place:

- The franchisor needs to have one or more pilot operations in place, which form the foundation of profitability from which the infrastructure can expand.
- The business to be franchised should have sufficient market potential to open more than one franchised store and rapidly actualise its potential by an aggressive rate of expansion, so that critical mass can be achieved quickly. The franchisor then makes money from the management services fee levied on the franchisees' combined turnover. Consequently, the more franchisees in place, the greater the cumulative fees earned by the franchisor.

18.9.5.2 Financial projections

The franchisor will provide the prospective franchisee with a set of financial projections that show the expected trading results of the unit over the forthcoming two to three years. These projections are frequently based on assumptions that may or may not materialise. It is therefore much better to ask the franchisor to prepare a set of financial statements based on the actual performance of a unit that is comparable, in as many aspects as possible, to the unit under negotiation (FASA, 1997).

18.9.5.3 Upfront fee

The upfront fee pays for the rights that the franchise agreement awards to the franchisee, such as the use of the established trading name and trademark and access to the franchisor's trade contacts and know-how.

18.9.5.4 Raising of finance

It is the prospective franchisee's responsibility to provide the necessary capital for the establishment and operation of the unit. The financial projections provided by the franchisor should therefore give a clear indication of total capital requirements and attendant cash flows. One should also be told when to expect to invest additional capital. For example, if it is the franchisor's experience that the new unit will require additional equipment or vehicles around the middle of the second year of trading, the projections should show that.

18.9.5.5 Ongoing fees

The management service fee, in most cases, is the franchisor's main source of income, and therefore the main reason for him to operate the franchise. A lot of emphasis is often put on the level of management fees the franchisee is expected to pay. One should rather ask, "What can I expect to get in return for the payment?" The management services fee should be high enough to motivate the franchisor to provide the range of ongoing services that was promised.

The management services fee is mostly calculated as a percentage of sales. Percentages, however, range from four per cent to 10 per cent of which the fee levels are customary throughout various industries. Caution must, however, be taken if a prospective franchisee is asked to pay a fixed weekly or monthly management service fee, or the management services fee is expressed as a percentage of sales, but subject to a minimum fee. This often occurs to those in the informal sector, where turnovers are typically low and administration systems leave much to be desired (FASA, 1999).

18.10 CONCLUSION

Franchises that have a sound concept offer unlimited growth potential to entrepreneurs who have the staying power to nurse the business from small beginnings into a national and even an international concern. Starting a business, becoming a franchisor, or buying an existing business are all potential paths that can lead to the entrepreneurial dream. Whatever your particular circumstances, it is still important to remember to do proper research and planning whatever path you choose to take. All business owners must invest themselves, as well as their money, if they want their companies to succeed. It is up to you to devote your time, effort and resources if you want to achieve your goals.

SUCCESS STORY Unjani "clinics in a container": social franchising in South Africa

Unjani (a Zulu word which means "How are you?") clinics were the brain child of Dr Iain Barton who after 10 years in general practice had realised that a great deal of what he was doing with his patients could be perfectly well handled by nursing sisters. After joining the corporate world as CEO of RTT, a pharmaceutical supply chain company, Iain came up with a model to implement this insight and make a difference in South Africa's underresourced public health system. With the help of Deon Vos, RTT opened the first two clinics.

Iain's company was bought by Imperial Holdings, a large South African group of companies, which employed 51 000 people in 31 countries on five continents. Iain, as MD of IHS, decided he wanted Imperial to buy into the Unjani concept and took the top executives to see two of the clinics. He got their buy-in immediately and Imperial decided to create Unjani Clinics NPC and focus on the Unjani Clinics Project as its enterprise development initiative. An initial investment of R7 000 000 was made in the Unjani Clinic pilot from 2010 to 2014 to transform health care, empower women and create jobs. The dream was to open 400 clinics in all parts of South Africa to make a real impact. Unjani Clinics NPC was a not for profit company (which allowed donors to claim tax benefits) with an independent board of directors and an advisory committee who were all senior Imperial executives.

The clinics

Unjani Clinics was a social franchising system founded on an owner-operated model aimed at "the bottom of the pyramid" underserved health-care markets. The first clinic opened in 2010 and within four years there were six clinics functioning well in townships close to the head office. The situation of the clinics had proved to be a critical success factor. After struggling with this, Iain called in a non-governmental organisation (NGO), which consulted with them and identified the key drivers of successful clinic placement. The clinics were typically built off-site in 12-metre shipping containers and, while being "no-frills", were state of the art.

The financial model

Each clinic cost Unjani R1.2 million over five years. Approximately R700 000 was for the initial clinic construction, delivery and stocking. Each clinic received a working-capital contribution of R12 000 a month for the first eight months, then R8 000 per month for the next eight months and finally R4 000 for the next eight months. The contribution was aimed at getting the clinic on its feet, while the client base was built up and was paid irrespective of the clinic's financial performance. The remaining R300 000 was a working capital balance for support from Unjani head office.

The main financial driver of Unjani's success was finding "the sweet spot between what the low-income patients were prepared to spend per visit and the costs of running the clinic".

Iain said that Unjani's success "hadn't been plain sailing. It had been built on dogged commitment, an 'anything can be done' attitude, continual reviews of every component and ongoing learning by all of its leaders". He estimated he had spent two per cent of his working time over the last seven years on Unjani and said, "I'm just the painter. I show them the picture we are aiming for – then hold them accountable."

Source: Adapted from Sutherland & Krige (2017).

REVIEW QUESTIONS

18.1 What are the essential provisions a franchisor should include in the franchise agreement?

18.2 Identify the four types of franchising in terms of "what can be franchised"?

18.3 Indicate what the differences are between distributors and business-format franchising.

18.4 Business-format franchising involves the preparation of a "blueprint" in order to reduce risks inherent in opening any new business. What should be included/discussed in the blueprint?

18.5 What are the advantages and disadvantages of franchising from the franchisor's and franchisee's point of view?

18.6 What are the key elements that should be included in the operations manual?

18.7 Identify the key elements that should be included when setting monetary objectives in a franchise.

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RECOMMENDED WEBSITES

The AAFD is a national non-profit trade association focused on market-driven solutions to improve the franchising community: http://www.aafd.org/

A searchable database of franchise information and opportunities: https://www.franchisedirect.co.za/

Franchise Association of Southern Africa: http://www.fasa.co.za

Franchising.com: http://www.franchising.com

The International Franchise Association (IFA): http://www.franchise.org/

http://www.franchise.org/resources-research

Help for those looking into a franchise: how it works and when to invest: http://www.franchisehelp.com/

http://www.panafricanfranchisefederation.org

http://www.smesouthafrica.co.za/Franchising/

Which franchise to buy: http:www.whichfranchise.co.za

https://whichfranchise.co.za/what-is-a-franchise/

19

The family business

P.P.S. Sifolo & U.S. Henama

LEARNING OUTCOMES

After you have studied this chapter you will be able to

- be familiar with the structure of a family business in developing countries
- define a family business
- recognise family business systems/models
- appreciate the dynamics of a family business in emerging economies
- differentiate between the characteristics of a family business in developed and in emerging countries
- recognise the competitive advantage of a family business in an emerging economy
- appreciate the marketing advantage and the unique ingredients of the family businesses in the African context
- recognise the challenges facing a family business in emerging economies
- appreciate the critical importance of succession in family businesses
- be aware of the policy implementation for a family business in emerging economies.

KEY TERMS

- Family-owned business
- Advisory board
- Succession
- Family system
- African family business

19.1 INTRODUCTION

Family businesses are the foundation of a significant portion of both developed and developing countries due to their contribution to the economy. The Family Firm Institute (FFI) estimated that 70 to 90 per cent of global gross domestic product (GDP) annually is created by family businesses (Family Firm Institute, 2016; Alderson, 2011). Table 19.1 provides an overview of family businesses worldwide with respect to national GDP and the workforce employed by family businesses, as indicated by *Tharamat* magazine (2014) cited by the FFI (2016).

Table 19.1 The economic impact of the family business worldwide

Countries	Family business contribution to GDP	The number of people employed in family businesses
Italy	94%	More than half of employed Italians
Equador	93%	51%
Lebanon	85%	Unknown
Pakistan	80%	Unknown
Mexico	79%	90%
India	79%	66%

Countries	Family business contribution to GDP	The number of people employed in family businesses
Peru	74.7%	75%
Venezuela	73%	50%
Bahrain	73%	28%
Costa Rica	70%	60%
Uruguay	70%	50%
Singapore	70%	50%
Argentina	68–70%	30%
Malaysia	65%	67.2%
Colombia	65%	60%
El Salvador	65%	60%
USA	63%	57%
Chile	60%	60%
Germany	57%	55%
Brazil	50%	86%
Finland	50%	40–45%
Portugal	50%	60%
South Africa	50%	Unknown
Netherlands	49%	53%
Belgium	45%	55%
Iraq	35%	Unknown
Southern Korea	Unknown	48.2%
France	>60%	60%
Spain	65%	65%

Countries	Family business contribution to GDP	The number of people employed in family businesses
China	Unknown	65%
UK	40%	70%
Philippines	Unknown	76%
Dominican Republic	Unknown	80%

Sources: Family Firm Institute (2016); Alderson (2011)

Family businesses have special characteristics that are not ordinarily found in the non-family business. Family businesses are found in every sector of the economy and vary in size and structure. Some of the largest companies in the world are family businesses. According to Bhalla (2015), family businesses are an important part of the corporate landscape as they contribute positively to the world economy. Although they have special dynamics, such as issues regarding the founder, the family, the business environment and the future, family businesses continue to thrive.

Family businesses are important to both developed and emerging economies as they sustain growth, create jobs and lift millions of people out of poverty. It has been observed that in the developing world, family businesses quickly grow to be major economic forces (Bruton, Ahlstrom & Obloj, 2008). The primary difference between the family business and other businesses is the combination of family and business, and the need to balance the family's interests and values with its business strategies.

In this chapter we turn to the business environment and identify and expand upon five key issues facing the family business within developing economies. We begin with the competitive advantage of a family business in both the developed and the emerging economy. This section identifies the competitive advantages of operating in developing economies; particularly in South Africa. Issues such as accessibility and technological aspects are fundamental in these times of globalisation. We will also identify the marketing advantage and unique ingredients of family businesses. The challenges facing a family business in emerging economies and some success stories will be highlighted. Proper application of family-business principles and practices (among others, succession planning and resolving conflicts) remain a cornerstone for the success of the family business.

19.2 DEFINITION OF A FAMILY BUSINESS

According to the Family Firm Institute (2016), a family business is considered a company that is controlled and majority owned by members of the same family. Alderson (2011) has adopted the following definition of the family business from the Family Firm Institute:

The family business is the business governed and/or managed with the intention to shape and pursue the vision of the business held by the dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.

The most accepted definitions therefore hint at ownership, business-related roles and management responsibilities (Chua, Christian & Sharma, 1999; Arregle, Batjargal, Hitt, Webb, Miller & Tsui, 2013).

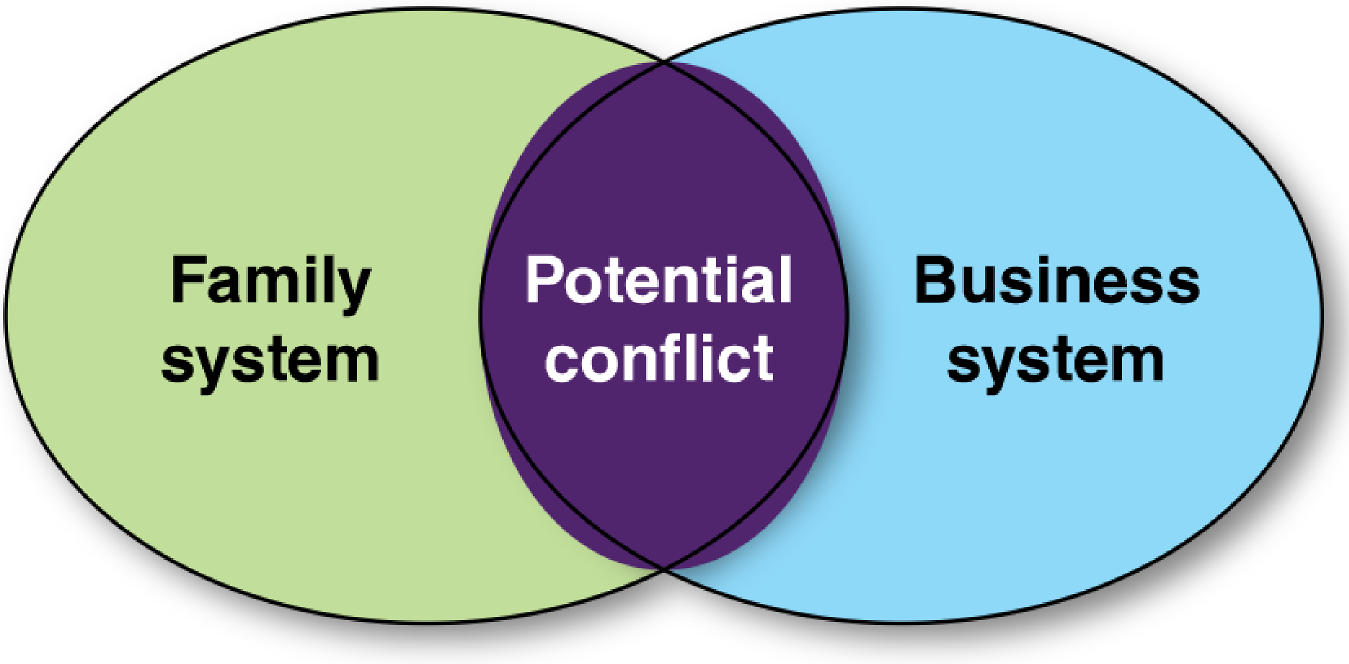
According to Alderson (2011), in many emerging high-growth markets, family businesses dominate and are beneficial to the industrialisation and early-stage of development of the country's economic infrastructure.

19.3 FAMILY BUSINESS THEORIES/MODELS

A family firm relies on two important theories about the nature of family firms and how they differ from non-family firms. According to Barrette (2014), family firms are underpinned by systems theory, which, at the broadest level, focuses on viewing the world in terms of the interrelationships of people with one another. In this case, we are referring to family businesses which have family members as owners, managers and/or employees. This may potentially lead to conflicts owing to two systems (family and business systems) overlapping. Similarly, Nieman and Nieuwenhuizen (2014), indicate that there are two broad systems in a family business: the family and the business (see Figure 19.1). The family system is a social system that focuses on caring for its members and can therefore be regarded as more emotional. Questions such as "What is good for the family?" could lead to actions being more conservative, which in turn could result in changes not being readily accepted. The protection of the family's name and reputation could become more important than the exploitation of new ideas. Entrepreneurship is therefore negatively influenced, which may cause the business to stagnate.

The main characteristic of business in general is that it is task oriented. In order to survive in a rapidly changing environment, new ideas are continually being identified and turned into opportunities. Change is therefore a way of living, and could be a source of potential conflict.

Figure 19.1 The two broad systems of the family business

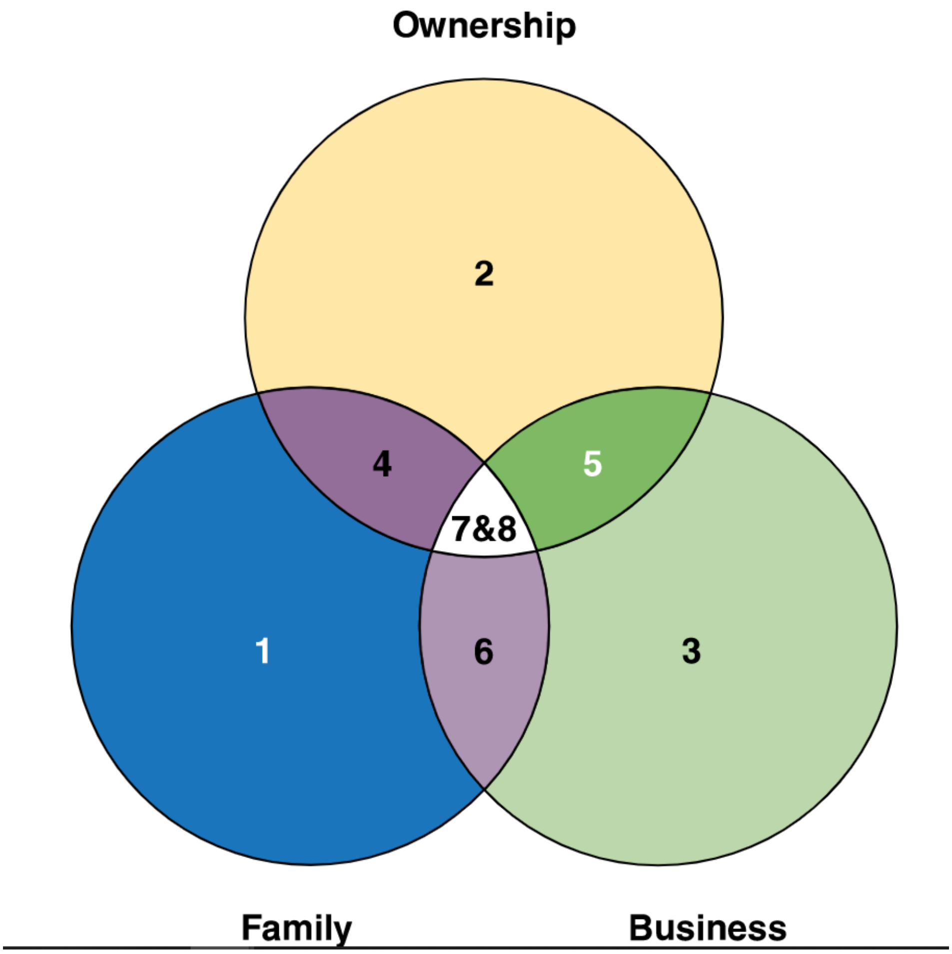


Source: Nieman & Niewenhuizen (2014)

It is sometimes assumed that there are fewer potential conflicts in family businesses, and that a stewardship model, in which business owners see themselves as holding the firm in trust for future generations, is more appropriate (Barrette, 2014). According to Barrette (2014), the three overlapping circles model allows one to focus on the positive and negative consequences of the overlap between family, ownership and management in family firms. Nieman and Nieuwenhuizen (2014) explain that success in a family business can be ensured only if the two broad systems (family and business) are balanced. If one system dominates the other, conflict can be expected, which could destroy the family business. These two systems can, however, be further divided into subsystems. The family system can comprise the family, family by marriage, parents, brothers and sisters, and family inside and outside the business. Even the business system consists of various subsystems, such as managers, owners, employees and external networks. In order to operate as a successful family business, each member of the family and the business system should know exactly where he or she fits into the total system and what his or her rights and privileges are. The model in Figure 19.2 can be expanded to give a truer reflection of the complexity of a family business. The different roles are as follows:

1. Family members
2. Non-family investors
3. Non-family employees
4. Family shareholders
5. Non-family working owners
6. Working family members
7. Working family owners
8. Family owners and business leaders

Figure 19.2 The three-circle model



Source: Murray (2001) cited in Nieman & Niewenhuizen (2014)

It is therefore clear that a family business is complex and clear and accepted role classification is a requirement for this type of business.

19.4 FAMILY BUSINESS DYNAMICS IN EMERGING MARKETS

There are many issues that need to be borne in mind when it comes to family businesses in emerging economies. These include environmental, socioeconomic, legal, political and technological issues. For example, in South Africa, the abolition of apartheid and the beginning of black economic empowerment changed the foundation upon which the nation rested (Brunding & Kristoferson, 2013). The ease with which a family business could start and run; and the growth potential of running a business in the South African landscape and beyond were opened up to many.

Furthermore, Brunding and Kristoferson (2013) explain that achieving a balance between the family's traditions and the need for innovation in order to grow and develop can cause conflict for this type of business. Within a family business, tradition often bonds family members and links one generation of business leaders to the next (Scarborough, 2012). This idea was echoed by Khavul, Bruton and Wood (2009) in their research on East African entrepreneurs. They show that some of the constraints on informal family businesses in the East African countries of Kenya and Uganda are that they not only use strong family and strong community ties to establish and grow businesses, but they also use strong community ties to counterbalance the obligations that strong extended family ties create. The African tradition of strong extended family ties is one factor that differentiates between family businesses in the developing and the developed world

Family businesses that turn into conglomerates in emerging countries, particularly in Africa, have not been fully explored. However, there are relatively smaller family-owned businesses that pass under the radar that offer the greatest insight into Africa's changing business landscape. For example, some of the larger family offices in Africa include the Kenyattas (family of former Kenyan president Jomo Kenyatta with interests in the hotel, dairy, media and banking industries), Dos Santos (family of former Angolan president Eduardo dos Santos with interests in telecom, banking and oil and gas), and Motsepes (family of South African billionaire Patrice Tlhopane Motsepe with vast interests in mining), just to name a few. Given the fact that there are few conglomerates in Africa, this is reflected in the research conducted by Goel and Jones (2016), where they systematically review and explore 59 publications examining exploration and/or exploitation in family firms published between 2001 and 2015. From those published, only two publications were published in South Africa. Hence, there is call to focus more on differentiating family businesses in developed countries from emerging countries. It is worth noting that the characteristics of big family businesses in developed countries may not be inclusive of everything from big family owned businesses in Africa, however, they are the true reflection of different landscapes. According to Bhalla (2015), "family businesses performance evolves exactly the same opposite on every dimension (both in developed and emerging economies)". Table 19.2 identifies the differences between developed and developing economies as per Bhalla's presentation, particularly with regard to their performance and the roles people play in family businesses.

Table 19.2 Dynamic forces in developed and emerging economies

Overview of family businesses in developed countries	Overview of family businesses in emerging economies
Performance • Thirty per cent of businesses are family businesses, e.g. Walmart, Google, Coke (Bhalla, 2015) • Focus on resilience and stability • Do not only rely on family ties for succession, but bring in professional managers, and view this step as inevitable • Believe in using cash rather than getting into debt	**Performance** • Grow faster than non-family businesses in good and bad times • Less profitable but willing to invest towards growth • Take on more debt • More willing to be involved in larger mergers and acquisitions than non-family businesses **Role of the family in the business**

Overview of family businesses in developed countries	Overview of family businesses in emerging economies
• Tend to be more profitable • Take on less debt • Cautious with acquisitions **Role of the family in the business** • Understand that not every child in the business can have the qualities for succession • Role of family members seems to decrease through the generations.	• Between 50–80 per cent of large companies are family businesses (Ted Institute, 2016) • Start small but grow quickly • Rely on family members for succession and are often concerned that a non-family member may not be a good fit for the family culture • Role of family members seems to increase from generation to generation • Rely more on trust between family members, customers, employees and community

Given the above-mentioned dynamics, the potential exists to embrace the competitive advantage that family businesses have in emerging economies. Bhalla calls on entrepreneurs to use "the systems available in the emerging countries, not to copy the systems, the processes, the values and the IT from the West" (Bhalla, 2015).

19.4.1 Competitive advantage of a family business in an emerging economy

According to the Family Firm Institute (2015), the general contribution of family enterprises to the economy includes:

- Family businesses show higher profitability in the long run.
- Family businesses are less likely to lay people off and more likely to hire despite the possibility of an economic downturn.
- Family businesses are more likely to give charitably to their respective communities and engage in extensive philanthropic activities.
- Family businesses have a longer-term strategic outlook due to their main motivation being to create a legacy for generations to come.
- Family businesses are less likely to raise debt and are widely deemed financially prudent.

It should be noted that not all of the above points are evident in family businesses in emerging economies, particularly in the African context (see the table of comparison above). Although globalisation has affected the practices and the ways of doing business in general, while also encouraging development, some caution family businesses in developing economies against blindly adopting practices from the West. Family businesses in emerging economies are encouraged to take the lessons available to them to improve efficiency and effectiveness. Bhalla (2015) emphasises this point by stating that copying systems from the West is not a good idea, since family businesses in emerging economies need to define ways suited to them, while still considering their business environment. However, there are great examples within the African continent. After the transformation of Rwanda in 1994, the country is emerging as a regional high-tech hub and boasts one of sub-Saharan Africa's fastest-growing GDP rates (World Economic Forum, 2016).

Many African countries are now seen as "frontier emerging economies" with relatively well-developed financial markets, hence platforms such as: Group of 77 and China; the Indian Ocean Rim Association for Regional Cooperation; the New Asian-African Strategic Partnership; the India-Brazil-South Africa Partnership Forum (IBSA); Brazil, Russia, India, China and South Africa (BRICS) Intergovernmental Forums, which provide more opportunities for growth. These platforms permit investment opportunities. A good example is that of the family business from Kenya (refer to the box below on the Ramco Group).

Although trading conditions in emerging economies can be challenging due to limited formal support systems, family businesses can employ a number of strategies to counteract this:

- **Personal selling approach:** Word of mouth is the cheapest and one of the most powerful tools in terms of marketing.
- **Accessibility:** Family businesses in emerging economies have the opportunity to access strong international markets and international support systems (e.g. robust technology platforms) to aid their growth.
- **Technological systems:** by cleverly using widely available technology to provide better, faster and efficient service to customers, family businesses in emerging economies can remain competitive. For example, using the cloud for a family business can be beneficial with regard to security issues, virtual management and business continuity.
- **Cultural forces:** An understanding of the cultural and institutional forces within an emerging economy gives the family business a competitive advantage over competition originating from mature economies (where institutional structures may vary reatly) (Bruton, Ahlstrom & Obloj, 2008).

19.4.2 Prospects for family businesses in emerging economies

Ramco Group, founded in early 1940s by Rambhai Patel, Kenya

Kenya's Ramco Group was founded by Rambhai Patel, an Indian immigrant who settled in Nairobi in the early 1940s and founded a hardware store in the city's downtown district. His three sons, Kirit, Mahendra and Chandrakant joined the family business after completing their studies and helped expand Ramco into print, stainless steel, IT and office supplies. Ramco now has operations in Uganda, Tanzania and Rwanda, employing more than 2 000 people with an annual turnover exceeding $220 million. Kirit is chairman, and his brothers serve on the company's board.

The influence of the family business is prevalent and it continues to grow. According to research by McKinsey & Company (2014), by 2025 more than 15 000 companies worldwide will have at least $1 billion in annual revenues; 37 per cent of these will be emerging-market family firms. Yang (2015) predicated that Asia will be the hotbed for growth because of its cherished tradition of family businesses and the prospect of rapid economic growth over the next decade or two. Asian students have a conservative view with regard to risk and were more willing to become entrepreneurs because of the family businesses to which they are exposed (Henama, 2013).

19.4.3 Challenges facing family businesses in emerging economies

There are many hindrances to family businesses worldwide. The complexity of dealing with the heterogeneous interests, goals, assets and preferences in many business families has not been dealt with by the research community (Chandler, 2015). However, Chandler (2015) was able to expand on the work of Zellweger and Kammerlander (2015) of trying to measure the heterogeneity and complexity of family members and family relationships. The following challenges are identified by Chandler (2015):

- **Role conflict:** family members may be involved or occupy different roles in the business, either as members of the family, as owners of the family assets, and as managers and employees. Hence, simultaneous roles can be an intermingling of family considerations and business decisions. These may lead to role conflicts with regard to family issues, while family decisions may be unduly influenced by business needs. Thus, the management of family assets may lack marketplace objectivity and profit discipline, while individual family members may feel the effect of a conflict.
- **Affective conflict:** this is one of the forms of conflict that naturally occur in almost all groups and organisations. In a family businesses, particularly within an emerging business, personal disagreements or dislikes between individuals in a team or different families may occur.
- **Investment preferences:** investment needs and preferences differ based on different objectives and expectations regarding risk appetite, asset classes (equities, fixed income and cash or money market instruments), liquidity, dividends and time zones (Maginn, Tuttle, McLeavey & Pinto, 2007).
- **Power:** that is exercised by family members. Power could influence the choice of control structures and subsequent outcomes on decision making in the business.

Although there are many challenges facing family businesses, some complex issues are related to the internal environment of the business (leadership, transition and legal aspects) and others relate to the external environment (marketplace, competition, laws and regulations). According to Robbins, DeCenzo and Coulter (2012), an organisation can be affected by a marketplace that reflects intense competition; government laws and regulations, for example, the regulations imposed by the South African government, such as tax compliance, the Labour Relations Act, etc. When the family business is operating, it should consider government regulations such as registering the business with the Companies and Intellectual Property Commission. It should also open a business bank account so that it has records (financial and otherwise) of paying tax or complying with the minimum wage should the need arise. This will generally depend on the type of the company. All these issues are legally binding on a family business.

Technology is another force that brings challenges to the family business, for example adapting to technological advances such as cloud computing for business purposes. Fluctuations in labour markets can affect the family business. The market economy also affects almost all organisations run by both family and non-family members. What is evident from the literature is that the following aspects also pose a challenge.

- **Conflict management (interpersonal, structural and strategic):** conflicts are normal in any organisation because people have different opinions and there are people who cannot accept other people's different opinions. Organisational causes of conflict are consequence of the characteristics of organisational design, limited resources and characteristics of organisational systems, such as compensation, decision making, planning and budgeting (Petković et al., 2008).
- **Stable strategies:** as family businesses expand from their entrepreneurial beginnings, they face unique performance and governance challenges. They must have strategies for the challenges they face for different situations. For example, the generations that follow the founder may insist on running the company even though they are not suited for the job. And as the number of family shareholders increases exponentially generation by generation, with few actually working in the business, the commitment to carry on as owners cannot be taken for granted (Caspar, Dias & Elstrodt, 2010).
- **Governance:** good governance family practices assist family businesses to conduct strategic planning and succession appropriately.
- **Longevity/clan cultures:** the link between longevity and values has been pointed out by several authors who underlined values as an important factor to support a long-term vision, as well as a source of competitive advantage based on using values as specific company resources (Tàpies & Fernández Moya, 2012).
- **Lifetime tenures/business leadership transition:** sometimes, leadership transition is not easy in a family business, therefore it is essential to establish the rules and regulations for the transition period.

According to the study conducted by PwC in 2014, the performance challenges faced by family businesses in the internal and external environment are as follows:

- Internal

– Staff recruitment

– Company reorganisation

– Cash flow/cost control

– Succession planning

– Business/product development

– Availability of finance

- External

– Market conditions/currency uncertainty

– Competition

– Exports/problems in foreign markets

– Government policy/regulation

– Exchange rates

– Availability of finance

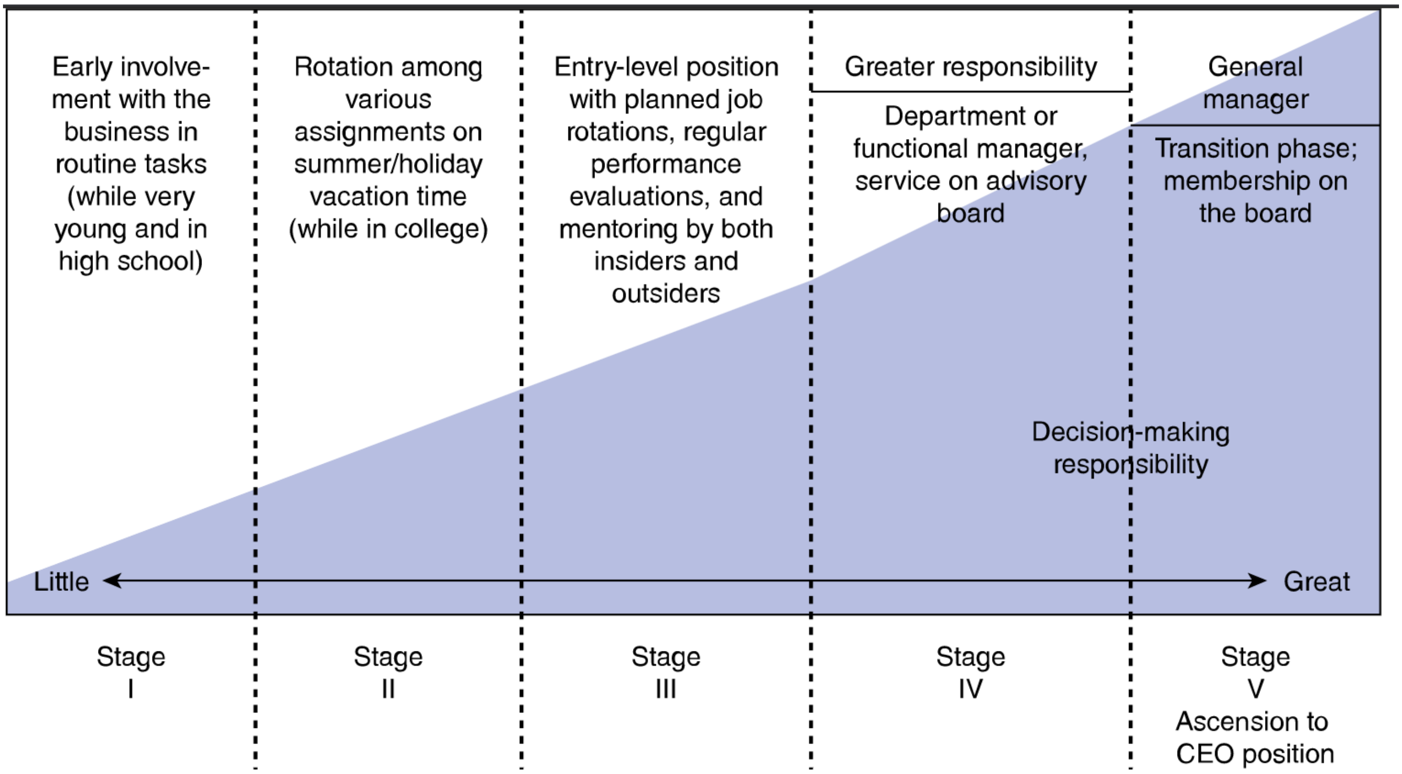
– Price of raw materials

19.4.4 Succession

Nieman and Nieuwenhuizen (2009) explain that succession is the process through which the leadership of the business is transferred from the existing leader to a subsequent family member or non-family member (a professional manager). Only 33 per cent of family businesses survive to the second generation; just 12 per cent make it to the third generation; and only three per cent survive to the fourth generation and beyond (Scarborough, 2012). According to Yang (2016), family firms generally do not survive past the third generation. In a study by Villalonga and Amit (2006) only 1.6 percent of 8 500 family firms from around the world survived into the fourth generation, and only 0.4 per cent into the fifth. The survival rate of most African family businesses is extremely low beyond the founder's generation. Thus, while emerging economy family businesses usually look within the family for successors, it would be prudent to consider introducing professional managers to such businesses.

Effective succession mechanisms and expanding global production and networks are key to growing a family business. For a business to have a successful succession, Scarborough (2012) has indicated that management succession processes should begin at a very young age (with the owners' children), hence the process is lengthy (refer to Figure 19.3). It is a series of overlapping stages, which in turn extend to the point of final ownership transition.

Figure 19.3 Stages in management succession



Source: Scarborough (2012: 684)

Poor succession planning affects the performance of family firms in emerging markets in many ways. However, should the company not find a successor, the board should develop a team that shares leadership or engages the next generation of family members as managers. In addition to a strong work ethic and motivation, Scarborough (2012) indicates that the traits that are essential for a successor to lead the family business include:

- **Financial abilities:** understanding the financial aspects of a business, such as what its financial position is and that the managerial implications of that position are crucial to success.
- **Technical knowledge:** every business has its own body of knowledge, ranging from how the distribution system works to the trends shaping the industry, which an executive must master.
- **Negotiating ability:** much of business, whether buying supplies and inventory or selling to customers, boils down to negotiating, and a business owner must be adept at it.
- **Leadership qualities:** leaders must be bold enough to stake out the company's future and then give employees the resources, the power, and the freedom to pursue it.
- **Communication skills:** business leaders must communicate the vision they have for their businesses; good listening skills are also essential for success as a top manager.
- **Juggling skills:** business owners must be able to handle multiple projects effectively. Like a juggler, they must maintain control over several important assignments simultaneously.
- **Integrity:** to be an effective leader of a family business, a successor must demonstrate honesty and integrity in business dealings.
- **Commitment to the business:** it helps if a successor has a genuine passion for the business.

Leaders who have enthusiasm for what they do create a spark of excitement throughout the entire organisation. It is therefore vital that the right person (family member or non-family member) is put in the right position to ensure the success of the business. Nieman and Nieuwenhuizen (2009) also highlight barriers to succession, which could be: an autocratic founder who does not want to transfer leadership; denial of mortality; a child-stays-child scenario in which the child cannot tell the parent what to do; misinterpretation of environmental trends by the leader who does not implement changes in time; inability to choose a successor; or choosing a successor who will be a "slave"; bias against planning; and an inability to face retirement.

19.5 FAMILY BUSINESS IN THE AFRICAN CONTEXT

Owing to the limited information regarding family businesses in emerging countries, particularly Brazil, Russia and India (Bruton, Ahlstrom & Obloj, 2008), there is a call for a strong need to develop an understanding of entrepreneurship in emerging economies (Peng, 2000). According to Bruton, Ahlstrom & Obloj (2008), while there are similarities across various emerging economies, each one has distinctive characteristics (e.g. the country's history and geography, and the size and strength of the economy). Hence Bhalla (2015) states that the performance and evolvement of family businesses differ from developed countries. Table 19.2 gives a few examples that show how family businesses in emerging economies differ from those in developing countries.

Economic informality is part of the institutional context of business in Africa, and a major economic force in most emerging nations (Khavul, Bruton & Wood, 2009). However, there are great stories regarding family businesses in Africa that have been in existence for many years. A study conducted by Dana Sanchez in the *AFKInsider* newsletter on 9 January 2014, on the Forbes' Top 10 Family Businesses in Africa identified businesses in Uganda, Kenya, South Africa, Nigeria and Tanzania. This is an indication that there are many successful businesses on the continent. However, there is a common trend noted by researchers that the owners who manage family businesses in the African context often die without their successors being fully prepared to take over the family business (Forrest, 1994: 237; Kakuru, 2015).

19.6 A SOUTH AFRICAN PERSPECTIVE

South Africa's historical background, infrastructure and advancement contribute to the operation of family businesses. More than 80 per cent of all businesses have family-ownership involvement, and more than 60 per cent of all listed companies in South Africa comprised family involvement at least during the start-up phase (Dickinson, 2000; Venter, 2002 as cited in Van Buuren, 2009). A large proportion of family businesses in South Africa are small-to-medium sized enterprises, with nearly 50 per cent employing fewer than 20 people per business (Maas, 1999, as cited in Van Buuren, 2009). According to Botha, Brand, Engelbrecht and Eijbergen (2015: 240), the World Bank and International Finance Cooperation ranked South Africa as number 39 out of 185 countries in the world on the ease of doing business in 2012 (Business, 2013). South Africa is famous for having an infrastructural advantage when compared to its counterparts on the African continent. Some of the other competitive advantages possessed by South Africa include: marketing advantages; access to labour and career opportunities; access to capital; and production of products or services. Businesses like Pick n Pay are living proof of a successful family business as indicated in the next case study.

However, it is not all bright in South Africa when it comes to entrepreneurship, particularly with regard to the family business.

Pick n Pay, founded in 1966 by Raymond Ackerman, South Africa

When Raymond Ackerman was fired from a job as managing director at South African food retailer Checkers in 1966, he used his severance pay to buy three retail outlets in Cape Town, which traded under the name Pick n Pay. Raymond built Pick n Pay into one of the most popular and largest retail outlets in South Africa on his reputation as a champion of consumers who fought supplier cartels of bread, gas, cigarettes and other industries. Pick n Pay now has close to 800 stores in southern Africa. Raymond stepped down as executive chairman in 2010, and his son Gareth Ackerman took over as chairman. Pick n Pay is the second-largest supermarket chain in South Africa, losing significant market share in the last few years to rivals Woolworths and Shoprite while struggling to adopt new information technology and distribution systems. Pick n Pay is listed on the JSE, but remains a family business. The Ackerman Family Trust owns 53 per cent of stock and Gareth's siblings occupy senior positions in the company. Suzanne Ackerman-Berman is a company director. Jonathan Ackerman is executive director.

19.6.1 Challenges of a family business in South Africa

In South Africa, 70 per cent of all first-generation family-owned businesses fail in their efforts to hand over to the second generation (Family Business Association of South Africa, 2017). Moreover, the survey by PPS (2016) indicated that 60 per cent of South African graduates would rather secure employment. Based on the research by PPS (2016), one can argue that South African graduates fear taking risks and will therefore avoid undertaking entrepreneurial opportunities.

Brink (2013) indicates other challenges as follows:

- South African family-business owners reported a lack of confidence in the government, with the majority believing that the government is not doing enough to help family businesses survive and develop their activities in the current economic climate
- Red tape
- An inflexible labour market
- An increase in electricity tariffs
- A lack of tax incentives
- Overregulation
- Uncertainty around government policy
- An inadequate education policy
- Deterioration in the country's infrastructure, which remains the greatest constraint to the growth of family-owned businesses in South Africa

Other observed challenges in South African family businesses include

- overreliance on state patronage for business which is detrimental towards the sustainability of the family business

- deficiencies in managing a family business
- conflict of interest and the failure of the business
- tendency to delay the hand over until it is too late (succession).

Family businesses continue to face many challenges, particularly in the townships. Research points to the economic crisis and moral issues as some of the inevitable challenges. Therefore issues such as the country's history contribute to the misfortunes of a society that is hesitant to take risks. Other issues include

- culture (how people have been brought up)
- red tape from government and the private sector.

There are still family businesses that do not want to comply with the standards required by government. A good example would be that of the Gupta family from India who own businesses internationally, particularly the two brothers (Ajay and Atul). According to Comrie (2016), since 2008, two Gupta-linked companies – Advanced Investments and Fidelity Enterprises – received transfers of shares from Oakbay Investments, making these companies at various times indirect shareholders in a number of Gupta businesses, including television (Infinity Media), mining (Tegeta Exploration and Resources) and manufacturing (VR lasers).

A study by McKinsey & Company (2014) reports crucial indicators of long-term corporate health that were found in a family business. These include: family values that were part of day-to-day operations; the ability to reduce certain agency dilemmas in emerging markets in particular; a demonstrable, even dominant home-field advantage; and the gravitas that families bring to deal making.

19.6.2 Prospects going forward

There is a call from researchers and companies to professionalise family businesses. The survey conducted by PricewaterhouseCoopers (PwC) in 2014 acknowledges that in order for family businesses to gain ground, professionalising the family businesses remains a key concern driven by a storm of competitive pressure, rising costs and global megatrends (PwC, 2014). The research identified three distinct areas where family businesses need to professionalise their operations; these include: basic work around systems and processes; corporate governance; and people management (PwC, 2014). Formalisation and modernisation have been practised by family businesses in both developing and emerging economies without being formally acknowledged. Although developed countries may view practices in emerging economies as informal, these have been working for some time. For example, Writer (2017) reported that in South Africa, the taxi business generates more than R90 billion every year.

An interesting piece of work by Steward and Hitt (2012) identifies six modes of professionalisation by family firms. In their survey, the argument was that family firms should behave more like non-family firms and "professionalise" their businesses. Six ideal types of professionalising were identified as follows:

1. **Minimally professional family firms:** firms that lack the capacity for extensive professionalisation, limited professionalisation on multiple dimensions
2. **Wealth dispensing, private family firms:** firms that seek the private benefits of control with their own capital, desiring independence from external governance
3. **Entrepreneurially operated family firms:** firms that pursue the opportunities found in informal operations, limited in the use of formalisation and standardisation
4. **Entrepreneurial family business groups:** firms that pursue the opportunities found in networks of affiliated firms, remaining embedded in kinship and other normative orders
5. **Pseudoprofessional, public family firms:** firms that seek the private benefits of control with other people's money, seeking the appearance while violating the spirit of public governance
6. **Hybrid professional family firms:** professionally managed, family-controlled firms that seek the benefits of professionalisation while retaining family influence

Steward and Hitt (2012) acknowledge the limitation in their work; however, they state that although "professionalisation" is often treated as a singular construct, it entails multiple dimensions.

19.7 CONCLUSION

In order for a family business to survive and grow in a constantly changing environment it is important for the business to stay entrepreneurial at its core.

Although there are challenges and barriers that the family business encounters daily, the opportunities to start, develop and grow a successful business for current and future generations are available, particularly in developing economies.

REVIEW QUESTIONS

1. Who should be included in the family business?
2. Should the next generation of owners be limited to family members?
3. Can you contextualise the family-business systems/models?
4. Discuss the differences between the characteristics of a family business in developed and emerging countries.
5. Explain the competitive advantage of a family business in emerging economies.
6. What challenges do family businesses face in emerging economies?
7. What are the complexities in a family business regarding succession planning?

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20

Corporate entrepreneurship

W. Sambo

LEARNING OUTCOMES

After you have studied this chapter you will be able to

- describe the concept of corporate entrepreneurship
- understand why established organisations pursue corporate entrepreneurship?
- differentiate between start-up entrepreneurship and corporate entrepreneurship
- understand the changing domain of the corporate environment
- describe the steps in setting up a corporate entrepreneurial environment
- understand the concept of entrepreneurial mindset in the organisation
- explain the dimensions of entrepreneurship and the entrepreneurial intensity thereof
- describe corporate venturing and its benefits
- show an understanding of entrepreneurial leadership
- recognise the challenges of corporate entrepreneurship in traditional large corporations (and how to overcome them)
- understand the firm's entrepreneurial audit.

KEY TERMS

- Corporate entrepreneurship
- Corporate venturing
- Entrepreneurial intensity
- Entrepreneurial leadership
- Entrepreneurial mindset
- Entrepreneurial audit

OPENING CASE STUDY

Italtile (Pty) Ltd

In the late 1960s, Giovanni Ravazzotti, an immigrant from Italy, identified the need for affordable tiles and ceramic products in South Africa. He began importing and retailing them through a company he founded, Italtile. In the wake of the 1976 Soweto uprising when the first hints of trade sanctions against South Africa were surfacing Mr Ravazzotti began manufacturing ceramic tiles domestically. In 1992, Italtile and manufacturer Ceramic Industries were listed on the Johannesburg Stock Exchange. Today the group's retail operation comprises a total network of 126 stores in southern and East Africa, which are strategically supported by a vertically integrated supply chain, investments in key suppliers and a property investment portfolio. From the founding of Italtile to the launching of various brands, support divisions and products over the years, Italtile expanded enormously. While Italtile was aimed at the high-end markets, the next step was to penetrate all other market segments, hence in 1983 the first CTM store was launched and from that the franchising of CTMs began in 1992. CTMs were established with the middle-to-upper market in mind. Such accelerated advancements in the market propelled the group to broaden their expansion internationally, which led to trading in Australia in 1998. Within three years of their decision, Italtile had rooted themselves in multiple states in Australia. In 2008 TopT was launched, the brand that was designed to cater for the entry-level markets. In 2004, Italtile had acquired controlling interest in two of its key suppliers, ITD (International Tap Distributors) – a tap importer and distributor and Early-works (Pty) Ltd – an importer and distributor of tiling tools and hardware. With such constant aggressive progress and growth, the group launched a tiling and plumbing academy in Gauteng in 2009.

The property investment portfolio reinforces retail operations by locating stores in high-profile, easily accessible sites, and maintaining and upgrading premises ensures an optimum shopping environment. Stores are located in high-visibility sites and, together with their comprehensive offerings, this positions them as one-stop solution destinations, with ranges including: ceramic and porcelain wall and floor tiles; sanitaryware; bathroom furniture; taps; fittings; laminated wooden flooring; and home-finishing products and tools.

Italtile pursues corporate entrepreneurship and innovation by fostering innovative behaviour within their organisation. The group promotes such behaviour in their high level of flexibility to adapt, speedily and aggressively, to the complexities of the changing external and internal environments. Employees are encouraged to think like entrepreneurs by engaging in profit-sharing practices aimed at promoting ownership and partnership in the business, with the introduction of the franchise and joint-ventures business model. Complementing this long-standing tradition of Italtile, they have also implemented an equity-settled staff share scheme designed to further incentivise employees to participate in the growth and profitability of the business. Italtile prides itself on placing an immense amount of emphasis on continuous improvement in its logistics/service delivery and production. Being regarded as an industry leader with notable market share, the group entrenches its reputation as a fashion icon by: conducting continuous, comprehensive consumer research; employing experienced, skilled brand and divisional managers and dedicated buyers who specialise in key products and areas; holding regular regional meetings to obtain insight into markets and product feedback; monitoring and adjusting costs and pricing as appropriate; constantly refreshing store displays and trading space; and sharing best practice principles across the group. The group's recently opened Cape Town distribution centre is advancing the goal to improve distribution and the logistics of imported products as well as to enhance performance in the region.

Source: Adapted from Ramsuran (2016)

20.1 INTRODUCTION

Corporate entrepreneurship (CE) or intrapreneurship has been of interest to scholars and practitioners for decades. CE is a broad concept at the centre of which is the process of organisational renewal. It is accepted by academics and practitioners as a legitimate route towards increased levels of organisational performance. This chapter is aimed at introducing the reader to the concept of corporate entrepreneurship and its significance. It further unpacks the reasons why established organisations consider or pursue corporate entrepreneurship as part of organisational renewal. Organisations are forced to respond to the changing domain of the corporate environment as a result of micro and macro environmental factors. For the reader to have a broader understanding of the concept, this chapter starts by differentiating between start-up entrepreneurship and corporate entrepreneurship and then moves to the main concept of corporate entrepreneurship (also referred to in this study as intrapreneurship) as the subject of study. Furthermore, the concept of entrepreneurial intensity is discussed and a supporting case study is provided.

20.2 UNDERSTANDING CORPORATE ENTREPRENEURSHIP

Corporate Entrepreneurship (CE) in simple terms is just a way of organisational revival and transformation. Though its definition has been the subject of debate for many scholars, the concept of corporate entrepreneurship (sometimes referred to as intrapreneurship) generally refers to the development of new and original ideas and opportunities within established businesses, with direct impact on the improvement of organisational profit and thus the enhancement of competitiveness or the strategic renewal of an existing organisation. Covin and Miles (1999) argue that CE can be used to improve competitive positioning and transform corporations, their markets and industries as opportunities for value-creating innovation are developed and exploited. In order for one to understand the concept of CE, one should start by the definition of an entrepreneur and then CE itself.

20.2.1 Definition of an entrepreneur

An entrepreneur is an individual who conceives the idea of starting a new venture, takes all types of risks, not only to put the product or service into reality but also to make it one in high demand. Therefore, entrepreneurship is defined as the willingness to take risks and develop, organise and manage a business venture in a competitive global marketplace that is constantly evolving. Entrepreneurs are pioneers, innovators, leaders and inventors.

20.2.2 Definition of a corporate entrepreneur

A corporate entrepreneur is an entrepreneur within the boundaries of the organisation (big or small) innovating for that organisation. A corporate entrepreneur is an employee of an established entity, who has the support and authority to initiate creative projects and innovation within the company's existing products and services, redesigning the processes, workflows and systems with the objective of transforming them into a successful venture of the enterprise. According to Kurakto, Morris and Covin (2011), corporate entrepreneurship is a process whereby an individual or a group of individuals, in association with an existing organisation, creates a new organisation or instigates renewal or innovation within the organisation. CE is a term used to describe entrepreneurial behaviour inside established organisations.

Like an independent entrepreneur, the corporate entrepreneur believes in change and does not fear failure as he or she discovers new ideas, passionately looks for opportunities that can benefit the whole organisation and takes calculated risks. Most fortunately for the entrepreneur, the resources are provided by the organisation. Despite these resources, the job of corporate entrepreneurs is at times challenging; hence they are appreciated and rewarded accordingly by the organisation. In recent times, it has become a trend that established corporations appoint corporate entrepreneurs within the organisational ranks to promote excellence in the business.

20.3 REASONS WHY ESTABLISHED ORGANISATIONS CONSIDER OR PURSUE CORPORATE ENTREPRENEURSHIP?

The importance of corporate entrepreneurship for organisations cannot be overemphasised; it enables organisations that were traditionally averse to risk embracing innovation, and driving leaders and venture teams toward an increased level of corporate enterprising. In addition to the benefits expressed above, it also sets the stage for leadership continuity in the organisation. Therefore, it is imperative for organisations to reinvent themselves continually if they want to remain relevant and in existence. For organisations that have a specific focus on innovation, there is an equal drive toward corporate venturing. These two work hand in hand when the company undertakes innovations across the entire organisational spectrum, from product and process to technology and administration. It is important to note that corporate venturing takes centre stage in the whole process. Kuratko and Hodgetts (2007) indicate that the need for corporate entrepreneurship has arisen in response to a number of pressing problems. Examples of these pressing problems include the following:

- Rapid growth in the number of new and sophisticated competitors
- Sense of distrust in the traditional methods of corporate management
- An exodus of some of the best and brightest people from corporations to become small business entrepreneurs
- International competition
- Downsizing of major corporations
- An overall desire to improve efficiency and productivity

Hisrich, Peters and Shepperd (2005) emphasise that it is important to keep and instil the entrepreneurial spirit in a business in order to innovate and grow. Stevenson and Jarillo (1990) point out that corporate entrepreneurship has grown in significance over the years because large businesses wishing to compete have sought out the characteristics of flexibility, growth and innovation more generally associated with entrepreneurship. If a business does not adopt a proactive attitude towards innovation and the creation of new ventures, it is unlikely to survive (according to Johnson (2001), in an increasingly aggressive, competitive and dynamic marketplace.

20.4 DIFFERENTIATING BETWEEN START-UP ENTREPRENEURSHIP AND CORPORATE ENTREPRENEURSHIP

The terms entrepreneurship and intrapreneurship are frequently used in today’s world of business. Many people use these terms interchangeably with a belief that the meaning is the same. However, there exists a fine line between these two concepts. While entrepreneurship refers to a person who starts his own business with a new idea or concept, intrapreneurship or corporate entrepreneurship represents an employee within the boundaries of an established organisation who acts entrepreneurially. Table 20.1 shows the important points of difference between a start-up entrepreneur and a corporate entrepreneur.

Table 20.1 Major differences between a start-up entrepreneur and a corporate entrepreneur

Start-up entrepreneurship	Corporate entrepreneurship
Entrepreneur takes the risk	Company assumes the risks, other than career-related risk
Entrepreneur “owns” the concept or innovative idea	Company owns the concept and typically the intellectual rights surrounding the concept
Entrepreneur owns all or much of the business	Entrepreneur may have no equity in the company, or a very small percentage
Potential rewards for the entrepreneur are theoretically unlimited	Clear limits are placed on the financial rewards entrepreneurs can receive
One misstep can mean failure	More room for errors, company can absorb failure
Vulnerable to outside influence	More insulated from outside influence
Independence of the entrepreneur; although the successful entrepreneur is typically backed by a strong team	Interdependence of the champion with many others; may also have to share credit with any number of people
Flexibility in changing course, experimenting or trying new directions	Rules, procedures and bureaucracy hinder the entrepreneur’s ability to manoeuvre
Speed of decision making	Longer approval cycles
Little security	Job security
No safety net	Dependable benefit package
Few people to talk to	Extensive network for bouncing around ideas
Limited scale and scope initially	Potential for sizeable scale and scope fairly quickly
Severe resource limitations	Access to finances, R&D, production facilities for trial runs, an established sales force, an existing brand, distribution channels that are in place, existing databases and market research resources, and an established customer base

Source: Kurakto et al. (2011)

20.5 THE CHANGING DOMAIN OF THE CORPORATE ENVIRONMENT

In today's business environment, traditional large organisations compete with smaller players for the best and brightest talent. In the near future, developing and retaining leaders with entrepreneurial spirit will become a nightmare for established organisations if they do not change their traditional practices as smaller players make an impact on the market. When leading organisations seem to be falling behind in sectors where they used to be dominant, there is a clear acknowledgement that the status quo can no longer be maintained. There are many examples of sectors where dominant figures disappeared for good. Think of BlackBerry with its popular BBM that suddenly disappeared; and Nokia (once a leading cellular company) also disappeared. While Samsung seems to lead the market, there is a fear that Huawei might soon be a dominant figure with their latest offerings catching and disrupting the market. In order to develop a strategy for coping with unpredictable market events, challenges and crises, organisations have to embrace change in order to survive. Corporate leaders need to create a conducive work environment that does not only survive a crisis, but also capitalises on the disruptive changes as market opportunities.

According to Njuguna (2014), organisational survival requires that the methods leaders use to learn and to impart operational knowledge must change as fast or faster than the environmental changes that threaten viability. The new strategy for business leaders should be a constant adaptation to change to catch up with the changing ecosystem. Furthermore, Matai (2011) explains that to achieve this, the focus should be on looking beyond competition and market share to a more fundamental question of survival and sustainability in a turbulent and continuously changing environment. For organisational leadership and corporate entrepreneurs, it is important to understand the role and responsibility of their organisation in the context of the whole environment. Matai (2011) has identified the following factors that organisations should take note of. These are listed next:

- **Fatal attack:** becoming preoccupied with the competition is as short-sighted as it would have been for the dinosaurs to peg their survival on competition with the amphibians. The dinosaurs dropped out of the picture not because they were beaten by any other type of creature but simply because they could not respond successfully to the challenge of a changing environment. Given their large size, their response time from head to tail was inadequate. The time it took them to receive information from their tail to brain and back again left them completely vulnerable to fatal attack.
- **Agility and speed of response:** agility and a shorter response time are key to survival in today's competitive business environment. According to Matai (2011), a large organisation with multiple silos that remain isolated, can become too big to change. So the question is: how can large organisations be split into smaller autonomous ones so that their inertia is minimised and response times become shorter?
- **Market share:** a rapidly changing environment such as the one in which organisations find themselves offers only very short-term victories to those organisations that set out to beat their competitors or to capture more market share. The long-term advantage lies with those organisations that focus on the environment as a whole and not just on the competition. It is not by competing for market share but by capitalising on change that today's organisations can survive, achieve sustainability and thrive.
- **Challenge and response time:** the key to success in a time of deep and systemic change lies in focusing on the challenge and response time. In a dynamic marketplace, every level of the organisation must see its situation as a challenge, calling not for compliance but for creative response via change management. When this begins to happen intuitively, people are no longer victims trying to cope the best way they can. They recover a sense of control and purpose in what they are doing by changing their knowledge base and attitude as the starting steps.
- **Change the mindset:** as corporate entrepreneurs and leaders, it is essential to recognise that many within the organisation have an aversion to change. Helping them to confront the inevitable with confidence and enthusiasm is a primary responsibility of the 21st-century leader's job.

20.6 SETTING UP THE CORPORATE ENTREPRENEURIAL ENVIRONMENT

In today's business environment, one of the primary tasks of the business leader is to foster an environment in which entrepreneurial thinking is encouraged and readily takes places (May, 2012). May (2012) goes on to say that promoting this culture by freely encouraging creativity (and thereby innovation), business leaders motivated toward corporate entrepreneurship must continuously strive to exude and build trust, embracing the risk to fail and inspiring those around them to take similar calculated risks. In order for business leaders to set the stage for a corporate entrepreneurial climate, the following three steps apply:

Step 1: *Set a broad direction for achievement, re-evaluating it periodically for any new developments in the business environment.* According to May (2012), this includes competitive products and markets in which the firm is operating. Constant evaluation is essential at this stage as even the most finely-tuned direction can still lead to catastrophic failure if the approach is no longer working.

Step 2: *Reinforce efforts across the entire organisation that coincides with the current plan for achievement.* One significant role of a business leader is that of analyst. As business units continue their experiment with existing products and services, as well as innovating and developing new ones, business leaders or executives can boost their goals to reinforce those units and thereby achieve the highest degree of success.

Step 3: *Instil a corporate entrepreneurial mindset at all levels in the organisation.* This can be done through training and allowing for participation in entrepreneurial events hosted by other entrepreneurial development organisations. An employee with an entrepreneurial mindset views his or her work or job as "his or her own business". An entrepreneurial mindset is about taking ownership and responsibility of who you are and what you do. You take ownership of your work and job as if it is your company. This approach can really accelerate your brand and reputation in the workplace.

20.7 CORPORATE ENTREPRENEURIAL MINDSET

As an executive or a corporate entrepreneur in the organisation, one needs to be able to shift employees and colleagues from an employee mindset to an entrepreneurial one. Corporate entrepreneurship in many organisations succeeds when employees are provided with freedom and supported to develop their own ideas. According to Kurakto (2014), the major thrust of corporate entrepreneurship innovation is the development of an entrepreneurial spirit within the organisational boundaries. Researchers on corporate entrepreneurship state that entrepreneurial firms differ from firms that do not have an entrepreneurial mindset by manifesting characteristics such as autonomy, innovation, risk taking, proactivity and competitive aggressiveness (Urban & Oosthuizen, 2009). Additionally, such firms engage in entrepreneurship strategies such as corporate venturing, which create new businesses or strategic entrepreneurship, which is the strategic renewal and positioning of an organisation (Kuratko, Morris & Covin, 2011; Dess & Lumpkin, 2005).

20.7.1 Characteristics of an entrepreneurial mindset

Raizcorp (2017) highlighted the following six characteristics of an entrepreneurial mindset that are shared by successful entrepreneurs.

1. **Perseverance:** the ability to withstand repeated rejection and disappointment is an essential part of an entrepreneur's makeup. Successful entrepreneurs are able to draw lessons from rejection, as well as prevent it from damaging their self-esteem. Essentially, the corporate entrepreneur, together with the team of employees and colleagues, must be able to deflect the rejection and use it to spur them on to fix flaws in the business venture.

2. **Flexibility:** an ability to design company strategies, processes and operational approaches that can simultaneously meet the diverse and evolving requirements of stakeholders (such as customers, distributors, suppliers, financiers, regulators, etc). Unexpected challenges and problems are part of the game. So the corporate entrepreneur and the team must be flexible enough in their thinking to roll with the punches, solve problems as soon as they crop up, and recover quickly from setbacks.
3. **High internal locus of control:** successful entrepreneurs have faith in their ability to determine their own success. They see that their own actions, decisions and responses are what will make or break them – not what the outside world throws at them. This mindset should also be instilled in the broader team.
4. **Learning and iteration:** when a problem occurs, a successful entrepreneur sees it as a learning opportunity. The lessons an entrepreneur takes from any given situation are then used in successive iterations of the entrepreneur's ideas to develop and refine them.
5. **Curiosity:** a wide-ranging curiosity about how the world works and where things tie together is extremely common among successful entrepreneurs. This behaviour strengthens the entrepreneur's ability to see things from different angles and think laterally.
6. **Optimism:** despite all the difficulties inherent in the entrepreneurial lifestyle, successful entrepreneurs maintain an optimistic view of life and the world. Being optimistic about a situation could mean the difference between seeing it as an unsolvable problem or an opportunity to be explored.

20.8 EXPLORING THE DIMENSIONS OF ENTREPRENEURSHIP WITHIN AN ESTABLISHED CORPORATION

In order to assess how entrepreneurial an organisation is, we use the four dimensions below:

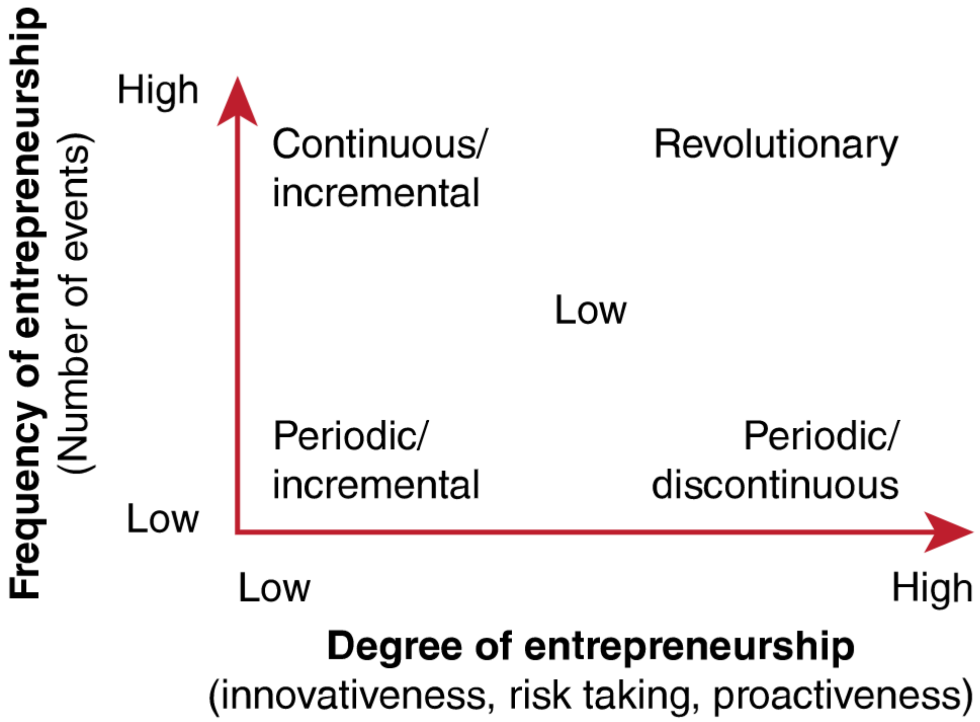
1. **Opportunity recognition:** an organisation that constantly looks for opportunities is deemed to be entrepreneurial in its nature. Once entrepreneurs have developed the idea, they must begin the process of assessing whether or not the idea is in fact a viable business opportunity.
2. **Risk taking:** involves a willingness to pursue opportunities that have a reasonable likelihood of producing losses or significant performance discrepancies. If it is approached in terms of loss, a given course of action is riskier depending upon both the probability of loss and the magnitude of loss. The more risks the organisation takes the more entrepreneurial it becomes. However, the emphasis is on moderate and calculated risk.
3. **Innovativeness:** refers to the extent to which an organisation does things in novel ways. Pressure to innovate can be the result of external forces, including the emergence of improved technologies, the globalisation of markets, fragmentation of markers, government deregulation and dramatic change. It is the number and frequency of innovations the company brings that makes it more entrepreneurial.
4. **Proactiveness (proactivity):** this is the opposite of reactiveness, the term is used to describe an action orientation. It can be viewed as a dimension of strategy making. Proactiveness is concerned with taking responsibility and doing whatever is necessary to bring an entrepreneurial concept to fruition.

20.9 ENTREPRENEURIAL INTENSITY

Entrepreneurial intensity (EI) refers to the assessment of the overall level of entrepreneurship in a company by combining the degree of entrepreneurship (opportunity-seeking behaviour, level of innovativeness, proactiveness and risk-taking) and the frequency of entrepreneurship (the number of entrepreneurial events that take place in a given time period). It has been implied that because CE is a quality that can vary in degree and intensity, entrepreneurial intensity can therefore be measured. Organisations need to find ways to measure and reward entrepreneurship within its structures, both in terms of its frequency and the rigour with which it is pursued. This can only be achieved if measures are developed to track organisations' entrepreneurial performance variables. It is important that one measure this characteristic of an organisation at both an individual personality level, as well as at a structural and cultural level.

A company's entrepreneurial strategy is effectively defined according to where it falls as depicted on the grid in Figure 20.1.

Figure 20.1 Entrepreneurial grid



Source: Kuratko et al. (2011)

Each of these scenarios reflects the variable nature of EI. For example, where fewer entrepreneurial events are produced and these events are only nominally innovative, risky and/or proactive, the organisation can be described as periodic/incremental in terms of its level of EI. Similarly, the organisation that is responsible for numerous entrepreneurial events that are highly innovative, risky and proactive will fit into the revolutionary segment of the entrepreneurial matrix and will show the highest level of EI. Any organisation can be highly entrepreneurial at some times and not necessarily entrepreneurial at others. Consequently, they could occupy different points in the grid at different periods in time.

20.10 CORPORATE VENTURING AS A WAY TO MANIFEST ENTREPRENEURSHIP IN THE ORGANISATION

Corporate venturing has been described as the activity of a large company investing money in a smaller company in return for a share of its profits.

The concept of corporate venturing has existed for many years in the United States where many of the top companies have a venture-capital fund or offer strategic alliances. The larger firm hopes to make a return on its investment when the company is sold or floats on a stock exchange. While the number of companies involved is much smaller in South Africa, it has also existed for many years and in different sectors.

De Bettignies and Chemla (2008) define corporate venturing as the creation of new ventures by large, established companies, inside the organisation or outside, through various financing models and developmental strategies. Traditionally corporate venturing has appealed to high-growth sectors such as pharmaceutical or technology companies. Small, flexible companies in these sectors can challenge industry leaders with new technology that can revolutionise the marketplace.

As highlighted earlier in the chapter, entrepreneurship can be manifested in organisations through corporate venturing. Kurakto et al. (2011) provide three modes of corporate venturing that organisations can follow;

1. **Internal corporate venturing:** this type of business is created and owned by the corporation itself. Most corporate entrepreneurs and executives in large established firms probably agree that internal corporate venturing (ICV) is an important avenue for corporate growth and diversification. However, there is a general consensus that new business development is not an activity for the impatient. In a large sample study of firms attempting to diversify through internal development, Ralph Biggadike found that it takes on average about eight years for a venture to reach profitability, and about 10 to 12 years before its return on investment (ROI) equals that of mainstream business activities (Burgelman & Välikangas, 2005).
2. **Cooperative corporate venturing:** this is entrepreneurial activity in which new businesses are created and owned by the corporation together with one or more external development partners. As there are good business and accounting reasons to create a joint venture with a company that has complementary capabilities and resources, such as distribution channels, technology, or finance, joint ventures are becoming an increasingly common way for companies to form strategic alliances. In a joint venture, two or more companies agree to share capital, technology, human resources, and risks and rewards in a formation of a new entity under shared control.
3. **External corporate venturing:** this is entrepreneurial activity in which new businesses are created by parties outside the corporation and subsequently invested in or acquired by the corporation. In external corporate ventures, the corporation leverages external partners in the process of creating a venture or developing an internal venture.

20.10.1 Advantages of corporate venturing

Kunigis (2017) provides the following benefits and pitfalls of corporate venturing for the organisation:

- **Business expertise:** other than the financial backing, obtaining venture-capital financing can provide a start-up or young business with a valuable source of guidance and consultation. This can help with a variety of business decisions, including financial management and human resource management. Making better decisions in these key areas can be vitally important as the business continues to grow.
- **Legitimacy:** a corporate venture has access to its parent's teams of experts to perform diligence on the venture and its products. Given the reputation of a parent company, its legitimacy cannot be put into question.
- **Access to resources:** a corporate venture is like a child who enjoys the parents support and all the attention in terms of resources. This is unlike the start-up entrepreneur who normally struggles to find resources.
- **Support:** in a number of critical areas, including legal, tax and personnel matters, a corporate-venture firm can provide active support, all the more important at a key stage in the growth of a young company. Faster growth and greater success are two potential key benefits of having such support.
- **Connections:** venture capitalists are typically well connected in the business community. Tapping into these connections could have tremendous benefits.

20.10.2 Pitfalls of corporate venturing

- **Loss of control:** the drawbacks associated with a corporate venture (especially a cooperative venture) in general can be compounded with venture-capital financing. With a large injection of cash and professional and possibly aggressive investors, it is likely that your corporate-venture partners will want to be directly involved. The size of their stake could determine how much say they have in shaping your company's direction.
- **Minority ownership status:** depending on the size of the partner's stake in your venture establishment, which could be more than 50 per cent, you could lose management control. Essentially, you could be

giving up ownership of your own business and this can open up other areas of your business in terms of losing ownership of the main business.

20.10.3 Corporate venturing as a strategy

For modern organisations corporate venturing has become central to achieving strategic and financial objectives. Organisations can efficiently drive their internal innovation by deliberately using their own venture companies as partners in innovation. The most successful organisations have always developed aggressive venture strategies and have made corporate venturing an integral part of their strategic focus. According to Kotelnikov (2017), in today's corporations traditional internal expansions, efficiency improvements and synergistic acquisitions are no longer sufficient sources of growth for industry segments that had become crowded and hypercompetitive. Kotelnikov (2017) continues to say the new challenge is searching for emerging whitespace opportunities, new business creations that would meet the unmet, unserved needs of customers in emerging markets.

With internal ventures, established organisations can discover a source of growth they have been striving to achieve. Internal start-ups have become central to achieving the strategic and financial objectives of market leaders. There is no doubt that Silicon Valley would not have been in existence if large organisations had not identified technology and market opportunities and moved with enough speed to capitalise on them.

20.11 CONDUCIVE CLIMATE FOR CORPORATE ENTREPRENEURSHIP

In modern business, one of the primary tasks of the business leader is to foster an environment in which entrepreneurial thinking is encouraged and readily takes places. Promoting this culture by freely encouraging creativity (and thereby innovation), business leaders motivated toward corporate entrepreneurship must continuously strive to exude and build trust, embracing the risk of failure and inspiring those around them to take similar calculated risks. According to Hornsby, Naffziger, Kuratko and Montagno (1993), organisational characteristics that promote corporate entrepreneurship are: rewards for innovation; management support of entrepreneurial projects; resource availability; risk-taking; and a tolerance for failure. These characteristics have been widely discussed throughout this book.

20.11.1 Encouraging intrapreneurial thinking

Here are five steps to help restructure corporate thinking and encourage an intrapreneurial environment:

1. Early identification of potential intrapreneurs
2. Senior management-sponsored intrapreneurial projects
3. Creation of both diversity and sequence in strategic activities
4. Promotion of intrapreneurship through experimentation
5. Developing a collaboration between intrapreneurial participants and the organisation at large

20.12 ENTREPRENEURIAL LEADERSHIP

Entrepreneurial leadership is effectively using the skills associated with successful individual entrepreneurs and applying those within the environment of a larger organisation. Its aim is to cultivate entrepreneurial individuals and teams that fully leverage their creative potential in creating value for the organisation. Kuratko (2014) defines entrepreneurial leadership as the entrepreneur's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that create a viable future for the organisation. Entrepreneurial leadership does this by employing leadership practices that develop the ability in employees to self-generate, self-reflect and self-correct in their workplace. This especially applies within an organisation where those skills have been lost and replaced with a corporate mindset that focuses on process, systems and risk minimisation rather than on entrepreneurial behaviour. The entrepreneurial leader will work within a formalised organisational structure, but use the approaches normally expected of an entrepreneur to identify opportunities. Once an opportunity has been identified, the team works towards creating a value proposition that will enable a rapid testing of their key assumptions. Next to an effective management of risk (rather than the minimisation of risk often sought within corporate environments), they are required to operate with contextual awareness in order to create a value proposition that delivers value to the customer while taking into account the organisation's requirements and strategic aims (Singh, 2014).

20.12.1 Essential qualities of entrepreneurial leadership

As a corporate entrepreneur you'll always be called upon to lead in a variety of different situations. But even if you're flying solo, you need the charisma of leadership to convince mentors, partners, investors and ultimately the employees to join your project. There are, of course, other characteristics needed to achieve success in one's entrepreneurial leadership activities. The five attributes below will help understand the organisational responsibilities, duties and obligations of an entrepreneurial leader:

1. **Vision and a state of discomfort with the present:** a change agent largely depends on a state of discomfort with the present, and has a vision for how things should be, and a clear idea of the first steps that need to be taken.
2. **Knowledge and capitalising on unfair advantages:** a classic example is that of a cooking analogy explaining the concept; one can cook from a recipe by simply buying the ingredients and making the dish; or cook by looking at what you have in the cupboard and determine what can be made with what is available.
3. **Open minded and smart:** being open minded is a state of being unbiased and being receptive to new ideas and criticisms. Other people believe that being smart is all that is needed to being a successful executive, but wisdom, a willingness to learn new things and an acceptance of new realities and viewpoints are also necessary traits for success in one's entrepreneurial journey.
4. **Honesty, integrity, trustworthiness:** these three elements enable the organisation to earn the loyalty and goodwill of the business's community, market and sponsors and fellow colleagues.
5. **The ability to adapt based on feedback:** one of the worst things one can do in business is to assume that you're always right. Real leaders know that input from employees, customers and other business contacts is always valuable even if it isn't always acted upon.

The issue is not necessarily talent as an independent element, but rather in relation to a will, desire and persistence. Talent alone can easily disappear without these elements but talent with those characteristics grows.

20.13 CHALLENGES OF CORPORATE ENTREPRENEURSHIP IN TRADITIONAL LARGE CORPORATIONS

For large corporations, discovering new businesses is their daily challenge as they continue to seek growth and survival. With little or no choice, because of maturing technologies and aging product portfolios, a new imperative is clear: organisations must create, develop, and sustain innovative new businesses in their existing offerings. The following are the challenges facing corporate entrepreneurs in traditional large corporations:

- **The corporate culture:** the biggest challenge facing corporate entrepreneurs is corporate culture itself. Organisational culture often encourages (or discourages) the pursuit of entrepreneurial opportunities, especially in large organisations. The question is, what needs to be done to foster a culture of creativity in an organisation? According to Netshifefhe (2008), typical corporate culture has a climate and reward system that favour conservative decision making. Risky decisions are deferred until enough hard facts can be gathered or a consultant can be hired to simplify the unknown. The guiding directives of a traditional corporate culture are to adhere to instructions. Do not make mistakes, do not fail, and do not take initiative. Within this type of culture, people wait for instructions and stay within their terrain. This restrictive environment does not encourage creativity, independence, flexibility or ownership. It also does not encourage risk taking, which is the main guiding principle of intrapreneurship. Entrepreneurial culture should encourage employees to be creative and innovative so that they can experiment with new products, make suggestions for improvements of products and internal process, and take risks, responsibility and ownership of their creations (Nayager & Van Vuuren, 2005).

- **Reluctance by senior management to try new things:** Google co-founder Larry Page once said fear of failing and of doing something new is very natural. It is a known fact that innovation is directly proportional to the attitude of senior management. It is the actions of top managers that set the context, guide the process, clearly communicate, encourage and shield creative teams as well as appreciate people and their entrepreneurial thinking.
- **Bureaucracy:** bureaucratic regulations and rules are not very helpful when unexpected situations arise. A blind adherence to rules may inhibit the exact actions necessary to achieve organisational goals. A long tradition in organisational sociology holds that the realities of bureaucratic life are fundamentally incompatible with entrepreneurial initiative because they create workers who are timid and less likely to challenge established ways of doing things, and hence less likely to identify and act on potential opportunities.
- **Entrepreneurial mindset and infrastructure:** one of the greatest challenges facing intrapreneurs is finding an organisation that has the entrepreneurial mindset and infrastructure to support what they do and how they do it. In order to develop an entrepreneurial mindset in an organisation, innovation should be an expectation of all workers and the accountability of all managers.
- **Traditional management practices:** senior management is often reluctant to embrace innovative ideas and tends to fixate hugely on conventional thinking. The general principle is on enforcing the standard procedures to avoid mistakes. According to Mayisela (2015), employees should be granted an environment of “safety and freedom” to experiment with new ideas without the fear of being reprimanded by senior management if their innovative ideas do not yield the expected results.

Corporate entrepreneurship often fails because large organisations present hostile environments for creative ideas (Burgelman, 1983; Sharma & Chrisman, 1999). Innovative proposals are frequently defeated by financial control systems and other formalities that are typical of large bureaucracies (Kanter, 2004). Creating collateral organisations, such as new venture divisions, can isolate entrepreneurial processes from the parent organisation (Burgelman, 1983).

20.14 OVERCOMING THE CHALLENGES OF CORPORATE ENTREPRENEURSHIP IN TRADITIONAL CORPORATIONS

People are wondering why some companies, and not just start-ups, are able to stimulate creativity and initiative among their employees more effectively than others. Most executives whose companies have found success in fostering entrepreneurial activity share the view that no single practice enables them to identify and capture new opportunities. Supporting entrepreneurial activity depends heavily on management’s ability to trust people. Entrepreneurs, like dancers, need to be light on their feet. They need a sense of timing and room to move. However, they also need to balance their freedom to explore opportunities against the discipline of the marketplace (DeSimone, George, Hatsopoulos, O’Brien, Harris & Holt, 1995).

According to Raeside and Ferrier (2015), for organisations to overcome the challenges of CE, the following should be considered.

20.14.1 Make the organisation's sense of purpose tangible

Organisations should consider training, team building and culture enhancement that create a more synchronised organisation with employee buy-in. In today's business environment, people want to align themselves with an organisation that has a meaningful, socially engaging corporate mission. In order to be impactful and not simply a collection of words, the company's mission must be truly lived every day within the organisation and reinforced by employee actions. Leaders of established corporations need to revisit that dusty old mission statement and consider how it aligns with today's competitive marketplace, employee and customer demands, and what the broader societal impact is. If gaps are present, specifically in the context of management and employee behaviour, organisations should take actions as mentioned above.

20.14.2 Provide more flexibility in work roles and responsibilities

Provide the opportunity for individuals to work on new, innovative projects. Google is perhaps the most prominent employer that encourages certain employees to allocate 20 per cent of their time to new projects. Many other organisations, perhaps less cutting edge, have taken similar approaches, often in more limited formats. An example is where a company provides employees the opportunity to work on ideas they helped envision or promote. Giving employees a sense of "intrapreneurship" and idea ownership can be a successful factor in fulfilling and retaining motivated workers. In addition, these individuals develop innovative skills, build internal relationships and develop a better appreciation of how various functions within the organisation work together.

20.14.3 Establish innovation tools and processes

Organisations seeking to promote innovation should introduce employees to idea-generation tools, techniques and case studies of success and failure. They should also be trained on innovation processes and resources that are often spread across the organisation. These skills will help employees' kick-start their ideas, enabling them to drive concepts from theoretical to preliminary products.

20.14.4 Adjust rewards and recognition approaches to promote a more innovative company mindset

Over time organisations can develop specific reward programmes for innovative activity but initially they can incorporate an innovation component into existing rewards systems and processes. Too often there is a disconnect in leadership's desire for innovation and how employees' innovation is recognised and rewarded. This divide, often exacerbated by legacy human resources (HR) programmes, can undermine leadership's efforts to drive an organisation towards a more innovative state. For example, encouraging controlled risk taking and a more innovative environment does not have to be done via wholesale change (changing everything at once). Rather, existing programmes can be modified to support or recognise innovative activity that builds impact over time. An example might be opening existing leadership development courses to "non-leaders" who have demonstrated innovation initiative above the call of duty.

20.14.5 Communicate vision and actions

By establishing a solid innovation communication framework and then maintaining a steady flow of messages around new initiatives, organisations can promote the concept of innovation ubiquity. This can create a self-fulfilling cycle of employee action driving innovation-promoting behaviour and change across the organisation, leading to more employee action. Too often executives and innovation leaders fail to adequately and comprehensively communicate their vision, efforts, successes and even failures throughout the organisation. With an improved understanding of what motivates and engages today's employees, larger organisations can leverage their assets to better compete with younger, nimbler companies.

20.15 FIRM'S ENTREPRENEURIAL AUDIT

In today's entrepreneurial and competitive corporate environment, managers must devote their attention to evaluating individual projects as well as the organisation as a whole, and also assess and track entrepreneurial activity and outcomes. The entrepreneurial audit is designed to assess the level of entrepreneurship (intrapreneurship) in the organisation, determine how innovative you are and what it takes to accelerate new business growth. Kurakto et al. (2011) identified three steps that attempt to measure entrepreneurship within the organisation.

20.15.1 Step 1: Assessing the firm's entrepreneurial intensity (EI)

According to Kurakto et al. (2011), the entrepreneurial performance of an organisation at a given point in time is reflected in its EI score. To assess the degree of entrepreneurship, it is important to use the measures of the four dimensions of entrepreneurship discussed in section 20.8. Important to note is that when interpreting EI scores, one must keep in mind that norms will differ among industries. The assessment of frequency of entrepreneurship involves the number of new products and services, and process innovations introduced over a defined time period.

20.15.2 Step 2: Diagnosing the climate for corporate entrepreneurship

Kuratko et al. (2011) propose using the Corporate Entrepreneurship Climate Instrument (CECI) for measuring the entrepreneurial climate of the organisation. The CECI (developed by Kuratko, Montagno and Hornsby, 1990), is a diagnostic tool for assessing, evaluating and managing the internal environment of the firm in a manner that supports entrepreneurship. The CECI is designed around five key antecedents:

1. **Management support:** the willingness of top-level managers to facilitate and promote entrepreneurial behaviour.
2. **Work discretion/autonomy:** top-level managers' commitment to tolerate failure, provide decision-making latitude and freedom from excessive oversight, and delegate authority and responsibility to managers.
3. **Reinforcement:** developing and using systems that reinforce entrepreneurial behaviour, highlight significant achievements, and encourage pursuit of challenging work.
4. **Time availability:** evaluating workloads to ensure that individuals and groups have the time needed to pursue innovations and that their jobs are structured in ways that support efforts to achieve short- and long-term organisational goals.
5. **Organisational boundaries:** precise explanations of outcomes expected from organisational work and development of mechanisms for evaluation, selecting and using innovations.

20.15.3 Step 3: Create an organisation-wide understanding of the corporate entrepreneurship/innovation process

At this stage the readiness of each actor's entrepreneurial behaviour should be thoroughly assessed. Actions to enhance the entrepreneurial competencies of the employees involved should be set in motion. For an organisation to develop a sound programme for understanding the entrepreneurial activity, a corporate entrepreneurship employee development programme can be used to help employees understand the entrepreneurial activity in the organisation. Kuratko et al. (2011) suggest a number of elements that should form part of such a programme.

These elements are as follows:

- **The entrepreneurial experience:** review of managerial and organisational behaviour concepts, review definition of corporate entrepreneurship in relation to the organisation, examine the entrepreneurial process and several entrepreneurial processes as applicable in established organisations.

- **Entrepreneurial breakthroughs:** present an overview of entrepreneurial breakthroughs in the organisation and those of competitors. With this overview, best practices can be observed and adopted by the organisation.
- **Innovative thinking:** creativity and innovation remain a challenge for most bureaucratic organisations. A creativity check inventory list should be developed and where gaps are identified, training and a creativity platform should be provided to the employees.
- **Idea acceleration process:** participants should be given the task of generating a set of specific ideas they would like to work on and also propose the type of resources needed.
- **Barriers, facilitators and triggers to entrepreneurial thinking:** a review of climatic factors from the CECI should be done. The most common barriers to innovative behaviour identified should be discussed and dealt with.
- **Sustaining innovation teams:** executives and corporate entrepreneurs should work together to form innovation teams based on the ideas at hand.
- **The corporate venture plan:** it is this stage where the groups begin to develop a corporate venture plan, which includes a step-bystep timetable for the project's completion.

In order to conduct an entrepreneurial health audit for an organisation, it is important to provide a thorough assessment of its operations from an entrepreneurial perspective. So you are assessing how entrepreneurial a company is (their entrepreneurial intensity score), what aspects of the corporate environment support or work against entrepreneurial behaviour on the part of employees, and recommendations for how the company can support higher levels of entrepreneurship. You will determine how innovative, risk taking and proactive this venture is, then position the company in the entrepreneurial grid provided in Figure 20.1. Characterise its entrepreneurial intensity, and discuss whether you think this is an appropriate level of entrepreneurial intensity. The outcome will provide a clear view of how entrepreneurial an organisation is.

20.16 CONCLUSION

In this chapter, we have introduced you to the concept of corporate entrepreneurship. Corporate entrepreneurship is an interesting subject and a thought-provoking one. Organisations undertaking corporate entrepreneurship must commit adequate resources to support organisational growth. There is no doubt that this chapter has shown that corporate entrepreneurship is a key to business success in today's business environment. Understanding corporate entrepreneurship and its processes should enhance your knowledge and it is hoped that you will have developed some interest in the topic.

The Foschini Group

The Foschini Group Limited (FG) is a South African investment holding and retail company, with its headquarters based in Cape Town. FG is a public company consisting of a board of directors, and is currently operating under the leadership of its CEO, Alexander Doug Murray and CFO Anthony Thunström. The structure of the company varies from operational to financial, throughout the organisation. The company provides clothing, wares and financial products to the wide middle-income group all over Southern Africa (http://www.Tfg.co.za). FG houses several divisions, including clothing, sports, jewellery and homeware, as well as credit stores. Some of its well-established brands include Donna-Claire, Markham, Fabiani, Totalsports, American Swiss, @home and Retail Credit Solutions (Pty) Ltd. Founded by George Rosenthal, the first Foschini store opened for business in 1925 in Johannesburg where it began by selling low-priced clothes imported from the US. Within the following year of its first official opening, the chain expanded to nine branches across the country. In 1941, Foschini listed on the JSE (SA), becoming one of South Africa's first fashion retail brands to be a public company. The largest shareholder of The Foschini Group is Coronation Asset Management, with a 20.91 per cent holding as of March 2015 (http://www.wsj.com; http://www.fspinvest.co.za). The group's first major acquisition was made in 1967 when the American Swiss Watch Company was brought into the group (http://www.moneyweb.co.za). At present, the Foschini Group consists of 17 retail brands and over 2 000 stores in South Africa, Lesotho, Mozambique, Nigeria, Namibia, Botswana, Swaziland and Zambia, employing about 18 000 people (http://www.Tgf.co.za). In 2015, the company purchased the British chain Phase Eight, and bought the British chain Whistles (along with its 46 stores) in March 2016, giving the company access to European markets. In efforts to adopt technology and innovation, this independent chain store group also has a very strong online presence.

According to Efficient Equity analyst Stuart Sinclair, brand diversity is one of Foschini's greatest strengths (http://www.moneyweb.co.za). Foschini's businesses are greatly geared to a South African consumer recovery. As the company's success is greatly determined by the South African economy, threats such as rising inflation rates and stricter lending criteria on the part of banks play a huge role in the productivity of the brand. Consequently, as real wage increases and inflation lowers in South Africa, consumer spending tends to increase (http://www.moneyweb.co.za). Another strength lies in the fact that Foschini is opening new stores at a rapid pace across various regions. In this way, despite downturns in economic cycles, the company creates potential for greater income and better share prices when the economy eventually takes a positive turn.

"For any business operating in the 21st century, corporate entrepreneurship forms a vital part of company success. It is important for companies to grasp new business, especially considering the effects of globalisation on these businesses," says Alexander Doug Murray (CEO). Wolcott and Lippitz (2010) explain that the compelling dynamic of globalisation generates environments of increasing competition, diversifying markets, and multiplication of consumers worldwide. These factors almost force companies like Foschini to constantly reinvent themselves by looking at ways to implement innovation and invest in research and development within the company.

Corporate entrepreneurship remains an integral part of Foschini, especially due to the nature of the environment under which this company operates. In order to be successful and excel in retail, Foschini is constantly working towards gaining majority market share, and spending on marketing as well as product development. These areas all require a level of innovation and strategic initiative on the part of employees (mostly management) and executives. Foschini competes against other strong brands such as Woolworths and Zara. The company also prefers rather to grow its own brand, as opposed to taking on other already existing brands (such as Calvin Klein, Dolce and Gabbana).

In 2015, Foschini was presented with an award from Nielsen Norman Intranet Design for developing an intranet solution considered to be a dynamic and engaging way to facilitate internal communication and innovation. The Foschini Group became one of the first African winners to receive this award since the inception of the Design Annual in 2001. Upon receiving the award, Foschini Group's team manager, Marius Botha, explained that companies on a quest for innovation and fresh ideas need to have a strong focus on people, communication and culture. Foschini is constantly expanding and planting new stores across the continent, as well as looking for ways to remain a leading figure of success in the retail industry through its innovative projects.

In order to determine the EI of Foschini group, an interview with one of Foschini store managers in Gauteng was conducted by Haynes-Smart (a final year BSc student in Informatics) in February 2016 and the following was found: a relatively stable manner of welcoming the introduction of new products and services. However, it appeared that risk taking was not encouraged at both a management and an individual level in this particular workspace. This has the potential to greatly affect CE within Foschini. With regard to the CECI, a general sense of support from management was perceived in terms of CE. With regard to work discretion, there appeared to be a lack of independence as well as a sense of autonomy that should indeed be cultivated in order to allow growth in CE. In terms of organisational boundaries, strict boundaries seem to be set, which may translate into inflexibility and a sense of being rule bound, as well as a routine approach to work, which may lead to employees feeling bored.

However, it is quite reassuring that there are perceptions that innovative achievements are celebrated by the company. This relationship between EI and performance indicators is most noticeable for companies that operate in increasingly turbulent environments. Foschini is an example of such as it competes in a very aggressive retail market and its success is determined purely by the manner in which South Africa's economy performs.

Source: Adapted from Haynes-Smart (2016)

REVIEW QUESTIONS

20.1 Discuss the concept *entrepreneurial intensity* and indicate by means of examples how this is practised at Foschini.

20.2 Entrepreneurship can be manifested in companies through corporate venturing. Discuss the three *modes of corporate venturing.*

20.3 Where would you place Foschini in the entrepreneurial grid? Explain by means of examples from the case study.

20.4 Describe the concept of entrepreneurial mindset.

20.5 Step II (two) of the Entrepreneurial Health Audit is diagnosing the climate for corporate entrepreneurship. During this step, a Corporate Entrepreneurship Climate Instrument (CECI) is used. Describe the five key antecedents around which the CECI is designed.

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21

Social entrepreneurship

E.M. Rankhumise

LEARNING OUTCOMES
After you have studied this chapter you will be able to

- discuss the concept of social entrepreneurship
- define social entrepreneurship
- describe social entrepreneurship and commercial entrepreneurship
- define social entrepreneurs and for-profit entrepreneurs
- recognise the differences between social entrepreneurs and traditional entrepreneurs (for-profit entrepreneurs)
- discuss the benefits and importance of social entrepreneurship
- discuss social entrepreneurship in the South African context
- recognise the driving forces of social entrepreneurship relevant to South Africa
- understand the social entrepreneurship initiative vision.

KEY TERMS

- Social entrepreneurship
- Commercial entrepreneurship
- Social value
- For-profit
- Vulnerable group
- Society

21.1 INTRODUCTION

Entrepreneurship in its literal meaning is aimed at economic development and is profit oriented, while social entrepreneurship focuses on addressing social problems within societies. The concept of social entrepreneurship (SE) has become topical and has attracted interest from researchers and practitioners in the emerging markets. The notion of SE is ordinarily known in government and non-governmental organisation as non-profit and voluntary organisations (Karanda & Toledano, 2012). As a process to foster social progress, SE has attracted the interest of researchers and as a practice integrates economic and social value creation and occurs across the globe. Social entrepreneurs serve as the change agents in society by way of finding new and innovative ways to solve some of the social issues within society in general. This chapter will explore the concept of social entrepreneurship, its definition and its importance.

21.2 THE CONCEPT OF SOCIAL ENTREPRENEURSHIP

The concept of SE means different things to different people and in fact remains an elusive one. Authors such as Mair and Marti (2006) refer to SE as not-for-profit initiatives in search of alternative funding mechanisms or management schemes in order to create social value, yet interest in SE transcends the phenomenon of popularity and fascination with people. SE signals the imperative to drive social change particularly in society; this intervention aims to bring these benefits to fruition.

Although the benefits provided by SE are evident to many who are promoting the phenomenon of social upliftment activities, the definition remains elusive. However, the definition has become more inclusive in terms of what SE should entail and this provides greater understanding of what it actually entails. Rey-Marti, Ribeiro-Soriano and Sanchez-Carcia (2016: 2069) believe that SE can create a sustainable competitive edge, which could assist entrepreneurs in achieving social missions. It is understood that the provision of financial support seems to be an effective way to help social enterprise.

21.3 DEFINING SOCIAL AND COMMERCIAL ENTREPRENEURSHIP

21.3.1 Social entrepreneurship

Various definitions exist and they all lead to having an impact on the society. In defining SE, Martin and Osberg (2007) indicate that consideration is made for the fact that it consists of three components:

1. "Identifying a stable but inherently unjust equilibrium that causes the exclusion, marginalisation or suffering of a segment of humanity that lacks the financial means or political clout to achieve any transformative benefit on its own" – this shows that in ensuring that there is comprehensive definition, previously disadvantaged people should be part of the beneficiary of social entrepreneurship.
2. "Identifying an opportunity in this unjust equilibrium, developing a social value proposition, and bringing to bear inspiration, creativity, direct action, courage and fortitude, thereby challenging the stable state's hegemony" – understandably, this component suggests that it is important to create a value add towards social value and, of course, identify opportunities where there is a disparity in the system.
3. "Forging a new, stable equilibrium that attempts to alleviate the suffering of the targeted group (vulnerable groups), and through the creation of a stable ecosystem around the new equilibrium ensuring a better future for the targeted group and even society at large" – what is critical here is that is important to establish a pathway that will create a new equitable system, which intends to bring about a better life for all those people who were previously marginalised. This essentially aims at ensuring a better life for all.

Other authors such as Peredo and McLean (2006) define SE as the development of innovative, mission-supporting earned income, job creation, ventures undertaken by social entrepreneurs and/or non-profit organisations. "Social" in the context of this chapter should be understood as adding to society in three areas, (i) economic benefit to the society; (ii) ecological benefit to the environment; and (iii) social benefit to people and their quality of life. Finally, social entrepreneurship is a term that captures a unique approach to economic and social problems, which cuts across sectors and disciplines that stem from certain values and processes that are common to each SE irrespective of focus area.

As it can be noted from above, SE is more about social upliftment characterised by recognition, evaluation and exploitation of opportunities that result in social value, which involves the provision of basic needs, for instance, food provision, and education and health-care services. Social vision is regarded as a fundamental matter for differentiating social entrepreneurship from other types of entrepreneurships (Irenguǜn & Arikboğa, 2015).

From the discussion above, it can be noted that SE is essential for society and entrepreneurs. Of great importance is the fact that any person can benefit from SE, particularly those who were previously excluded. Notably, in a South African context, previously excluded persons means those who were oppressed. As a result of oppression, they did not have access to resources and skills and as such, they need to be advanced. One can assist in this endeavour in one's neighbourhood, city or country. The benefits associated with social entrepreneurship are discussed below.

21.3.1.1 Benefits for society

It is notable that there is a dire need for more skills and development in the following areas:

- Sustainable environmental development
- Poverty reduction
- Education

- Medical and health care
- Social deprivation and isolation
- Sanitation
- Infrastructure development

The above elements are critical for the advancement of society, taking into account the restricted access to opportunities. The above elements are mostly applicable to the communities that were previously disadvantaged.

21.3.1.2 Benefits for the entrepreneur

SE has the ability to provide people with the option to become their own bosses and work for something that they have a passion for and believe in. This essentially enables the fulfilment of personal and professional goals. When people have a passion and believe in the business initiative, the business has a greater possibility of succeeding.

21.3.2 Social entrepreneurs and forprofit entrepreneurs (traditional entrepreneurs)

Some studies have shown that entrepreneurial and social personalities are incompatible. In this instance, traditional entrepreneurs/for-profit entrepreneurs exhibit high levels of self-interest and display low levels of social conscience, which is in contrast to the attributes of social entrepreneurs (Smith, Bell & Watts, 2014).

It is further posited that successful social entrepreneurs possess the same entrepreneurial attributes as for-profit entrepreneurs. These include among others, innovativeness, risk taking, propensity to start new ventures, need for achievement and need for independence.

21.3.2.1 Social entrepreneur

Social entrepreneurs may be described as persons who drive social innovation and transformation in various areas of interest, which include education, health, environment and enterprise development. They ordinarily pursue poverty-alleviation goals with entrepreneurial zeal, use business methods and have the courage to innovate and overcome traditional practices. Ashoka (2013) defines social entrepreneurs as individuals "with innovative solutions to society's most pressing social problems who find what is not working and solve the problem by changing the system, spreading the solutions and persuading the entire society to move in a different direction". This type of entrepreneurship dealing with societal issues that relate to education, health and social justice has increased proportionally to the increased need created by a global financial crisis. A social entrepreneur, similar to a traditional entrepreneur, builds strong and sustainable organisations, but these are either set up as not-for-profit or for-profit entities. Social entrepreneurs are seen by scholars to be more creative compared to traditional entrepreneurs and this is attributed to the limited funding and resources that they have access to. In this regard, they tend to work more cautiously since they rely mostly on donor funding as compared to the donations or allocations from government sources.

Social entrepreneurs act as change agents for society, seizing opportunities others miss and improving systems, inventing new approaches, and creating solutions to change society for the better. This type of entrepreneur has the following attributes, as identified by Shwab (2013), which distinguish them from other entrepreneurs in that they

- achieve large-scale, systemic and sustainable social change through a new invention and a different approach
- focus on the social and/or ecological value creation and try to optimise the financial value creation
- focus on innovation by finding a new product, a new service, or a new approach to a social problem
- drive passion to make things happen
- believe in the innate capacity of all people to contribute meaningfully to economic and social development
- do not sit back and wait for change to happen, hence they are regarded as change agents.

21.3.2.2 For-profit entrepreneurs (traditional entrepreneurs)

This type of entrepreneur is profit driven. They focus on this since their primary reason for existence is profitability and sustaining their existence.

21.4 DIFFERENCES BETWEEN SOCIAL AND TRADITIONAL ENTREPRENEURS

There are differences that exist between the two types of entrepreneurs. These include the following:

- **Profit maximisation:** this is common for all traditional entrepreneurs who pursue businesses to make a profit; this is their reason for existence.
- **Social values:** understandably social values have little to do with profits, however, social entrepreneurs are involved in the fulfilment of basic and sustainable needs characterised by the provision of food, education and medical services to the needy in society.

Table 21.1 Difference between social and traditional entrepreneurs

Social entrepreneurs	Traditional entrepreneurs
• In addition to individual talent, strength lies in the organisation's collective wisdom and experience	• Strength is in individual talent, skills, energy and knowledge
• Focus is on building long-term capacity of the organisation	• Focus is on short-term financial gain
• Ideas and ventures are related to the organisation's social mission	• There is no limit on type or scope of ideas and ventures
• Profit is a means to achieve the end objective, which is a specific social mission	• Profit is the end objective
• Profit is ploughed back into the organisation to further the social mission	• Profit is pocketed and/or distributed to the shareholders
• Risk organisation's assets and image	• Risk personal and/or investor assets
• Enable the non-profit organisation to become sustainable, and therefore in charge of its own destiny	• They are in charge of own destiny rather than being under obligation to an employer

Source: National Centre for Social Entrepreneurs (2001)

21.5 THE IMPORTANCE OF SOCIAL ENTREPRENEURSHIP

Based on the nature of social entrepreneurship, it is notable that it is beneficial to society as social innovation that will in all likelihood bring benefits to a number of interest groups in the following manner:

- **For business:** increase in turnover and profits; volume of clients increases; loyalty and satisfaction; positive image of the business
- **Social target groups:** the social groups might benefit in terms of a reduction of high unemployment rates and the alleviation of poverty within society. Finally, the social upliftment is fundamental if the reality of social entrepreneurship is to be achieved

- **The state:** a greater attempt is made by the state to reduce pollution and increase favourable public opinion towards the state. This is beneficial to the state as it assists state in addressing unemployment in the communities.
- **Social enterprises:** these are imperative for the development of innovative ways of providing services and goods. These also provide services associated with the provision of services that address the social challenges among the communities, for instance, issues such as health, drug abuse illiteracy and crime. Social enterprises play an important role in ensuring that communities are assisting with these mentioned issues to ensure that they improve the situation.
- **Promotion of equity:** social entrepreneurship is seen as an intervention attempting to foster equity among society. This intervention stems from the disparities of the past and as such those who were marginalised in terms of services need to be prioritised in terms of social upliftment initiatives. This is done to improve their livelihoods and ensure sustainability.

21.5.1 Social entrepreneurship in the South African context

In recent years, SE in South Africa has become very topical and highly recognised by government, donors and the public as a vehicle for the development of solutions to social issues (Karanda & Toledano, 2012). These issues include among others, insecurity, unemployment, food shortages and environmental degradation, which have all been major problems among the community.

Urban (2008) believes that the commercial sector, corporate governance and social responsibility have essentially gained prominence in the modern corporation. The importance of social entrepreneurs contributes to an economy by way of providing an alternative business model for firms to trade commercially in a socially sustainable way (Urban, 2008). It is notable that social entrepreneurs provide solutions to aspects such as health, education, housing and community support of some kind. All these aspects they plague communities and therefore, there is a dire need to come up with social solutions to ensure that communities are supported with regard to the ills that they encounter in their daily lives.

In South Africa, it has emerged that traditional government initiatives are not able to fulfil the social deficit, where a quest to reduce dependency on social-welfare hand-outs such as grants is being implemented. This type of dependency emanated from a social context characterised by the inequalities of the past, especially where they relate to such issues as education, housing, high unemployment rates and poverty rates in communities.

21.5.2 Driving forces of social entrepreneurship relevant to South Africa

The main drivers for SE as identified by Austin, Stevenson and Wei-Skillern (2006) include, among others, the following:

- **Economic:** the reduction of funding from the government
- **Social:** problems of increasing complexity and magnitude
- **Political:** the devolution of social functions from national to local level and from public to private

21.5.3 The social enterprise and resources

One of the underlying principles of SE is its contribution towards social benefits as compared to yielding profitability for the business. The critical distinction between it and traditional entrepreneurship is the creation of social value and its sustainability. This, however, gives a clear differentiation from traditional entrepreneurs as its focus is more of a social nature than profit oriented. In another context, particularly in developed countries, a focus is on social enterprise that has a specific emphasis on the environment, and cultural and ethical areas for people who run the risk of social exclusion. This primarily includes women, people with disabilities as well as poor people from other countries (Karanda & Toledano, 2012). This context is somehow different from the South African perspectives, in the sense that social entrepreneurship is more inclusive with the main aim of creating social value for all who qualify for these benefits. Let us consider what has happened with other African countries: Zambia, with its wealth in copper reserves; Nigeria with its oil resources; and

Zimbabwe known for its diamond and uranium deposits. Despite their wealth, these countries failed to live up to expectations in terms of SE. They have essentially failed to support SE due to economic variables, such as exchange rates and other related factors, which hamper the disposable income of these countries. This situation is also applicable to South Africa, as economic challenges serve as an obstacle to sustain social entrepreneurial endeavours.

21.6 VISION FOR SOCIAL ENTREPRENEURSHIP

The vision of SE is to address neglected problems within society. This concept is about applying practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalised and poor. In this regard, social entrepreneurs develop new methodologies and innovative solutions taking into account the lack of resources and the type of problems they intend addressing. According to Sekliuckiene and Kisielius (2015), the process of SE initiative development embraces several stages, namely context, processes and results. Taking into account the context, it is important to explore the environment and conditions that essentially provide opportunities to address social problems through SE initiatives. In this regard, the role of social entrepreneurs becomes imperative, since they have a significant impact on the communities in which they operate.

21.7 SOCIAL ENTREPRENEURSHIP CASE STUDY

CASE STUDY ON AMBITION: Muhammad Yunus

The website http://bobbyudoh.com (2015) quotes from Bill Halamandaris's book *The heart of America: ten core values that make our country great*, in which he lists 10 core values that built America. The 10 values with proven ability to build a world superpower are as follows:

1. Compassion
2. Opportunity
3. Responsibility
4. Equality
5. Valour
6. Ambition
7. Liberty
8. Unity
9. Enterprise
10. Spirituality

In this case study of the value of ambition, we look at an individual who provides an excellent example of what it means and what it does for a nation. His name is Muhammad Yunus.

Background

Muhammad Yunus, known as the "Banker to the Poor", was born on 28 June, 1940 in Chittagong in the south-eastern region of Bangladesh. His education started in his village primary school and continued at Lamabazar Primary School and Chittagong Collegiate School, after which he studied at Chittagong College. In 1957, he entered Dhaka University where he got his first degree in 1960 and Master's in 1961, both in economics. In 1969, he obtained his PhD in the same discipline from the Vanderbilt University in the US.

Yunus began working as a lecturer at the Chittagong College and went on to lecture at the Middle Tennessee State University in the US. After the liberation war of Bangladesh, Yunus returned home in 1972 and worked briefly for the government planning commission. Later he returned to the teaching profession where he became the head of the Economics Department at the Chittagong University. By 1975, Yunus was a professor of economics at the same university.

Yunus's ambition – poverty alleviation

Yunus' reaction to the devastating famine that hit Bangladesh in 1974 was to produce programmes that, many years afterwards, have improved the quality of life of the people, many of whom would probably not be alive today but for these interventions. According to Yunus, poverty in Bangladesh decreased by one per cent per year till 2000 and by two per cent from then until 2005 (statistics beyond 2005 are not yet available). He believes that where this rate is sustained, the poverty level could decrease by 50 per cent by 2015 and possibly be eradicated by 2030.

We cannot fault his enthusiasm, especially when you consider that Bangladesh is one of the poorest countries in the world and any reversal of the poverty trend is crucial, particularly in an era where rich nations are seeing an increase in their poverty level.

Let us look at how he pursued his ambition to eliminate poverty:

Microcredit schemes: he started by providing loans from his own pocket to women who produced bamboo furniture and with the success of this scheme on a small scale, he persuaded the government-owned Janata Bank to provide the microcredit schemes. With the support of Janata Bank, Yunus was able to significantly increase the number of beneficiaries of microcredit. By 1982, the scheme had over 28 000 members. This success led to him establishing Grameen Bank in 1983.

It is important to note that beneficiaries of this scheme were people with no money, no collateral, the poorest of the society with no evidence of their ability to pay back the loans. But Yunus believed that these impoverished people had skills and abilities that were underutilised and only the availability of funds would result in the expression of such skills and abilities and improve their standard of living.

Since the inception of the microcredit scheme, over R107 billion ($8 billion) in microcredit has been made available. Today, it makes a difference in the lives of nearly 8 million of its beneficiaries, and over 40 million when you include family members. Millions more in other countries (including developed nations) have been positively affected where the model has been replicated. The microcredit scheme from Grameen Bank affects the lives of nearly a third of the Bangladesh population, directly or indirectly, becoming one of the key vehicles for building that nation.

Women empowerment: Yunus is a firm believer that women are the most critical tool for poverty alleviation when empowered, especially since he believes women are better money managers, are more responsible and also more accountable when given loans. They are also more industrious.

He therefore set out to make women the core target of his microcredit schemes. Today, about 94 per cent of the Grameen Bank schemes' beneficiaries are women, with an almost 99 per cent loan repayment rate despite most of them joining the scheme when they were beggars, destitute, illiterate, divorcees and widows, etc.

This economic empowerment gave the women income to educate their children, expand their trade, open savings accounts for their children's training and future security, and feed the family (including their husbands). In addition, these women now have a sense of worth to create communities where they support one another to utilise their skills and abilities. Many of these women have improved the standard of living of their families and there are studies that indicate that the success these women achieve has led to respect from their husbands, respect from men generally, and reduced divorce and birth rates in the community. This illustrates the multiple effects of women empowerment as a means for poverty alleviation.

Social business enterprise: Yunus saw the poor as bankable, which is a radical change from a normal banking approach. He viewed banking as a social business and as a result in 1983, Grameen Bank became a fully-fledged bank, providing loans to poor Bangladeshis with no collateral. His bank model operates with corporate efficiency and focuses on social efforts by pumping profits back into its social objectives.

Today, Grameen Bank has over 2 500 branches in Bangladesh covering three-quarters of the rural areas of the country. Independent studies by the World Bank and others indicate that within five years, about half of Grameen's borrowers manage to pull themselves out of poverty, while a further quarter hover near the poverty line.

To expand the vision to alleviate poverty, the Grameen Group is involved in several profit and non-profit social business ventures, which include: Grameen Danone (a partnership with Danone established to address the problem of the malnutrition of millions of children in Bangladesh); Grameen Veolia (a partnership with Veolia Water to address water problems); BASF Grameen (a partnership with BASF to produce chemically treated mosquito nets to curb malaria); Grameen Intel (to bring affordable information technology solutions to rural villages); Grameen America (to help poor American women come out of poverty through microcredit schemes) and many other initiatives.

What can we learn about ambition from the life of this great man?

Ambition expressed in his compassion and responsibility: moved with compassion by the plight of the poor in Bangladesh and across the globe, Yunus accepted responsibility to do something to address the problem. He does not deny the role of government but his ambition is big enough to help millions of people come out of poverty.

Ambition-inspired enterprise: Yunus's ambition gave birth to various innovative approaches that we now call social enterprise. He later set up the Yunus Centre Social Business Design Lab to help infuse the ambition of many others with the unique spirit of enterprise.

Ambition creates total commitment: since 1974 when a serious famine in Bangladesh compelled him to act, Yunus has been totally committed to the vision of alleviating poverty. This has earned him numerous awards globally, including the 2006 Nobel Peace Prize, which he won jointly with Grameen Bank. As expected, he used his share of the $1.4 million award money to create a company to make low-cost, high-nutrition food and also to set up an eye hospital for the poor.

Ambition led to national transformation: through one man's ambition, nations across the globe are witnessing national transformation. Today, more than 250 institutions in nearly 100 countries operate microcredit programmes and social-business initiatives based on the Grameen Group model, while thousands of other microcredit programmes have emulated, adapted or been inspired by the Grameen Group. According to an expert on innovative government, the programmes established by Yunus at the Grameen Bank are "the single most important development in the third world in the last 100 years, and I don't think any two people will disagree."

Summary

Udo doesn't believe Muhammad Yunus would have had such an ambition and global impact if he wasn't confronted with the poverty crisis in Bangladesh. This means that great ambitions are birthed at a place of great crisis.

With Nigeria being in a deep crisis, the question for you is, "What ambition do you have for Nigeria?"

Source: http://bobbyudoh.com/case-study-on-ambition-muhammad-yunis

Questions

1. In your opinion, is Muhammad Yunus a social entrepreneur or traditional entrepreneur?
2. Provide a justification for your answer to question 1, and use examples based on the case study.

21.8 CONCLUSION

This chapter has examined and discussed social entrepreneurship and commercial entrepreneurs in general. We discussed social entrepreneurs and for-profit entrepreneurs. The importance of pursuing social entrepreneurship in any context was investigated. The practice of social entrepreneurship has some benefits and these entail: (i) sustainable environmental development; (ii) poverty reduction; (iii) education; (iv) medical and health care; (v) reduction of social deprivation and isolation; (vi) the development of sanitation; and (vi) infrastructure development. All these factors are imperative for the benefits of community upliftment and people's livelihoods. It is notable that societies are constantly changing and the approach towards supporting these communities needs a paradigm shift. It becomes imperative for social entrepreneurs to be cognisant of what the needs of the community are before any attempt can be made to provide support.

REVIEW QUESTIONS

21.1 In your own understanding define social entrepreneurship.

21.2 What are the benefits of social entrepreneurship to society?

21.3 What are the differences between a social entrepreneur and traditional entrepreneur?

21.4 What is the importance of social entrepreneurship?

21.5 Name any three driving forces of social entrepreneurship.

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SECTION D

Plans and case studies

22

The business plan

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LEARNING OUTCOMES
After you have studied this chapter you will be able to

- explain what a business plan is
- discuss the benefits of a business plan
- explain the objectives and purpose of a business plan
- explain different types of business plans
- outline the guidelines of writing a business plan
- identify the pitfalls to avoid when compiling a business plan
- outline the layout of a business plan
- advise entrepreneurs on identifying potential investors
- explain how a business plan can be presented
- discuss business principles for leading in the fourth industrial revolution
- highlight the resources available for writing a business plan.

KEY TERMS

- Business plan
- Executive summary
- Financial plan
- Management plan
- Market share
- Marketing plan
- Operations plan
- Product/service plan
- Fourth Industrial Revolution

22.1 INTRODUCTION

The business plan is an important document, which is often regarded as the road map or game plan that guides employees, investors, lenders, suppliers, customers and the entrepreneur by detailing the venture's goals and how they will be achieved. It is a written document that details the proposed venture and highlights the purpose, distinct advantage and money-making characteristics of the opportunity.

The business plan is usually formulated following the evaluation of an opportunity or feasibility (strong market, attractive industry and the right team) study. It is a document that describes: the opportunity; team talents; product/service; context; strategy; required resources; financial return; and the risks of a venture. The business plan can be seen as an alignment tool for a new business venture. In the business plan, different components are brought together into a coherent document. It is vital that an entrepreneur is able to explain what has been included in the business plan as well as why it has been included.

The specific objectives of the business are detailed in the business plan. The market in which the business will operate is described and quantified. The competition is analysed, and strategies and action plans are formulated. The various required resources are highlighted and detailed financial statements such as the: cash flow statement, income statement and balance sheet are provided. The importance of a carefully considered, well-constructed business plan cannot be overemphasised.

22.2 BENEFITS OF WRITING A BUSINESS PLAN

It is important for the entrepreneur or the entrepreneurial team to be involved in drawing up a business plan. This allows the planning team to consider every aspect of the business. It is always wise to seek assistance from business consultants, but entrepreneurs need to be the driving force behind the planning process as it is their business. Therefore, the business plan needs to express the vision of the entrepreneur. The benefits of writing a business plan are as follows:

1. **See the whole business:** the business plans connects all the functions of the business. The entrepreneur has to ensure that all the functions of the business "speak" to one another. Are long-term costs, product development and working capital catered for in the plan?
2. **Strategic alignment:** do daily business activities correspond with the vision and strategy? If so, the business is strategically aligned. If not, the business planning will bring up the hidden discrepancies.
3. **Business objectives will be clear:** the entrepreneur has to use the business plan to define and measure objectives (sales, market share, product launches, etc.).
4. **Priorities will make sense:** use the plan for growth, management and financial health. These factors must be reviewed as the business progresses.
5. **Develop accountability:** good planning process sets expectations and tracks results. Good work shows up. Disappointments show up too. A well-run monthly plan review with plan vs. actual included becomes an impromptu review of tasks and accomplishments.
6. **Manage cash:** good business planning helps the entrepreneur manage cash flow. When the business involves credit sales, physical products, purchasing assets, or repaying debts, cash flow takes planning and management. Lucrative businesses suffer when slow-paying clients or too much inventory block cash flow. A plan helps you see the problem and adjust to it.
7. **Milestones:** good business planning sets milestones the business wishes to achieve. These are key goals you want to achieve, like reaching a defined sales level, hiring a specific sales manager, or opening the new location. A business plan helps develop and achieve these goals.
8. **Metrics:** put your performance indicators and numbers to track into a business plan where you can see them monthly in the plan-review meeting. Figure out the numbers that matter. Sales and expenses usually do, but there are also calls, trips, seminars, web traffic, conversion rates, returns, and so forth. Use your business planning to define and track the key metrics.
9. **Realistic regular reminders to keep on track:** the business-planning process becomes a regular reminder to maintain quality and strategic focus. It is hard, during the heat of everyday routine, to remember the priorities and focus.
10. **Delegation is key:** the business plan is an ideal place to clarify who is responsible for what task. The business plan helps the entrepreneur keep track of roles and responsibilities.

Now that the benefits of writing a business plan have been explained, entrepreneurs must determine their business's needs in order to draw up a suitable one. Section 22.3 presents the different objectives when drawing up a business plan.

22.3 OBJECTIVES WHEN DEVELOPING A BUSINESS PLAN

There are three primary objectives for compiling a business plan, as described by Nieman and Nieuwenhuizen (2014: 121).

22.3.1 To obtain funding

Any business needs capital. The business plan can be considered a vital sales tool for approaching and capturing financial sources, be they investors or lenders. Any investor or lender wants to know that the business it is lending money to, or is investing money in, has planned carefully.

Given the limited resources most entrepreneurs have at their disposal in the start-up stage, few can afford to waste these resources. Without a business plan, the entrepreneur could easily waste certain resources without even realising it and when it is already too late. For existing and even large businesses, stakeholders such as shareholders, investors and creditors demand a high return on their capital. This will require optimal utilisation of capital and the other factors of production. Without the assistance or guidance of a business plan, this is most unlikely.

22.3.2 To serve an internal purpose

The business plan has the potential to provide the businessperson with the following:

- A focus: a coordinated effort towards a clearly defined objective
- An objective: everybody will know where he or she is heading or what he or she is working towards
- A tool for measuring performance against: to know whether performance is satisfactory, unsatisfactory or outstanding
- A marketing tool for obtaining finance or selling the business: outsiders will form a clear picture of what the business is doing or hoping to achieve
- A road map to direct the business
- A systematic evaluation of the chances of success in the market
- A method for determining the risks facing the business, product or idea

22.3.3 To be used as a tool for reducing risk

The business plan helps the prospective entrepreneur to reduce the risk in starting the new venture. The process of drawing up the business plan forces the entrepreneur to think carefully and to consider each aspect of the new business venture. In doing so, the entrepreneur quite often has to consider alternatives and new directions. It also helps the businessperson to focus all his or her efforts on achieving a specific objective. The business plan serves as a yardstick for comparing actual and budgeted results in order to provide feedback on the success rate or failure rate of the business activities and effort.

It is important that the business plan be regarded as a tool that can assist the businessperson to clarify and direct the activities in the business. The business plan should be seen as something businesspeople are doing for themselves and not for outsiders.

22.4 TYPES OF BUSINESS PLANS

Many entrepreneurs believe that business plans are just for start-up businesses that require funding. This notion has kept several businesses from the benefits highlighted above. There are various types of business plans, whether starting a business or changing its mode. When developing a business plan, the entrepreneur will need to carefully consider the objective of the business plan. Once the objective is clear, the most appropriate type of plan should be used.

The most common types are the following:

- Business plan to obtain a loan
- Business plan to secure investors
- Business plan for manufacturing ventures
- Business plan for service ventures
- Business plan for high-technology ventures
- Business plan for retail ventures

These business plan types will be discussed below.

22.4.1 Business plan to obtain a loan

Ideally the business plan that is designed to obtain a loan should not differ greatly from a business plan that is used as a strategic document. In practice, however, financial institutions are very conservative in their evaluations of loan applications and have to be convinced that the business will be able to meet the repayment requirements timeously.

Important aspects of the business plan that financial institutions will carefully consider prior to granting loans include the following:

- Evidence of the customers' acceptance of the venture's product or service (proof of scientific market research and "realistic" findings and forecasts are needed)
- An appreciation of the policy of banks with regard to risk and collateral
- Evidence of focus and concentration on only a limited number of products and/or services
- Realistic financial projections
- Realistic growth projections
- Avoidance of infatuation with the product or service, rather a familiarity with real marketplace needs
- Identification and consideration of potential risks
- Avoidance of exaggeration of own and management's credentials and abilities

22.4.2 Business plan for investors

Investors usually look for a healthy ROI (return on investment) and rapid growth as they expect to share in the rewards. The business plan should therefore include the following:

- Funds needed over the short term
- Funds needed in two to five years
- How funds will be deployed
- How funds fuel growth
- The estimated ROI: calculate the best-case scenario and worst-case scenario
- The percentage of ownership/equity that you will give up to investors
- Financial reporting
- A description of whether investors will be on the board or in management
- An exit strategy for investors

22.4.3 Business plan for a manufacturing venture

Manufacturing is mostly capital intensive and requires key inputs from suppliers. This plan needs to focus more on operational abilities and should therefore include the following:

- The planned production level and capacity
- The production or capacity limits of planned physical plant and equipment
- Purchasing and inventory management procedures and costing
- The anticipated level of direct production cost and indirect costs
- Research and development activities and costs

22.4.4 Business plan for service venture

Services businesses offer intangible products and are therefore flexible and have high labour costs and generally very little in fixed assets. This business plan should therefore include:

- Services costing and prices in relation to competitors
- Quality control procedures
- Customer loyalty and relationship management programmes
- Ways of managing customer expectations and satisfaction

22.4.5 Business plan for high-technology ventures

Businesses in high technology operate in rapidly changing and shorter life-cycle environments. These businesses sometimes have to operate for long times without profits. Because of the pressure in these businesses, the plans should include the following:

- Strategies on cutting-edge products and services offerings
- Advanced research and development plans
- Innovation strategies
- Information system to manage rapidly changing prices, costs and market forces
- Innovative practices and firm-wide entrepreneurial behaviours
- How the firm will protect intellectual property
- How the firm will avoid technological obsolescence

22.4.6 Business plan for retail ventures

Normally retailing is determined by the location of the venture and convenience of the location. Important aspects in this business are things like quality of the brand, the physical environment and service in the store that include its image and perceived customer value. The plan should include the following:

- Location and distribution strategy
- Trading space and access to resources
- Pricing and mark-up policies
- Store convenience, accessibility and other central facilities
- Store image and branding
- Customer service policies
- Inventory management

22.5 GUIDANCE ON WRITING A BUSINESS PLAN

A good business plan depends on the strength of the businesses product offering. The business plan is not the business; therefore, it cannot save a bad business idea. Similarly, a good business concept can be presented poorly. Below are guidelines for ensuring a successful business-planning process.

- **Keep the plan short:** the business plan should be 20–25 pages long. The entrepreneur has to explain the vision of the venture in a concise manner. If the plan is short, it can easily be easily refined over time.
- **Know your audience:** write the business plan in a language your audience understands. For example, if your company is developing complex scientific products, and the investors are not familiar with scientific terms, then you need to adapt.
- **Identify critical risks:** you need to show that you have taken into account critical risks to your business. This illustrates that the entrepreneur possesses the ability to analyse problems and provide appropriate solutions.
- **Pay attention to detail:** presentation is key, use good grammar, visual aids such as graphs and describe the product in lay terms.
- **Maintain confidentiality:** the business plan has to be kept confidential, number every copy and require all recipients to sign a non-disclosure agreement. While confidentiality is important, the entrepreneur should not become fixated on someone stealing his or her idea. Success of the business is in the execution of the plan.
- **Do not be intimidated:** writing a business plan may seem intimidating, but it does not have to be. If the entrepreneur know the business and is passionate, writing the plan will not be as difficult as one may think.

If entrepreneurs ignore these guidelines, they may not acquire the required resources. It is suggested that entrepreneurs enlist the assistance of business consultants to write or critique the plan.

22.6 LIMITATIONS IN BUSINESS PLANNING

When entrepreneurs are drawing up a business plan, it is important for them to be aware of possible problems. In this way, they can avoid any pitfalls that may result in errors in the business plan and ultimately in the objectives of the business plan not being achieved.

Table 22.1 Common problems associated with business plans and how to avoid them

1. Lack of proven market demand	• Do thorough, scientifically based market research to support claims
2. Lack of objectivity	• Let an independent consultant critically assess the business plan • Base projections on research • Be conservative with projections • Try to look at the business plan from the point of view of a potential investor
3. Ignoring competition	• Make a list of all existing and potential competitors • Conduct a SWOT analysis of each competitor • Determine the competitive advantage • Consider both direct and indirect competition • Consider the possibility of introducing substitutes for the product or service • Determine the chances of success should competition be considered
4. Inappropriate market research	• Define the problem to be researched • Define the target market • Select a representative sample of the target market • Collect the data • Analyse and interpret the data • Draw conclusions • Make projections
5. Inability to produce according to quantity and quality required	• Determine the quantity required (based on market research) • Determine the capacity to produce the quantity required (machines, capital and trained labour) • Determine the quality specifications • Determine the capacity to meet the quality specifications
6. Underestimating financial requirements	• Determine the total capital needed to get started • Provide for at least three months' operating costs in a retail business and six to 12 months in a manufacturing business • Determine the additional capital needed if selling on credit • Determine the loan required and the ability to repay it
7. Insufficient proof that loan repayments will be made timeously	• Start with realistic financial requirements (as explained in the above point 6) • Use realistic sales projections

	• Do a thorough but realistic projected cash flow budget on a monthly basis for three years • Indicate clearly on the cash flow budget how loan repayments will be made
8. Lack of a unique product or service	• Ensure that the product possesses a competitive advantage • Test the product concept or a prototype in the target market to determine whether or not customers regard it as unique and are willing to purchase it
9. Disregard for legal requirements	• Determine the legal and regulatory requirements by consulting provincial, regional and municipal authorities • Determine whether patent or trade name registration is required (consult an attorney or a patent attorney if necessary) • Ask an attorney to double-check all attempts to meet the legal requirements
10. Ignoring the potential influence of the external environment	• Establish the potential influence of the physical, institutional, technological, economic, political and social environments on the proposed business • Develop strategies for coping with these influences
11. Lack of sufficient financial commitment by the founders	• Determine what minimum percentage contribution banks require from the founders of a business before they will grant a loan • Ensure that the founders of the business meet at least that minimum amount prior to approaching the bank for a loan
12. Lack of appropriate business experience by management and staff	• Management should try to gain appropriate business experience by working in a similar type of business prior to start-up • If this is not possible, appoint experienced and well-trained staff • Get training and experience in the aspects in which staff members are lacking the knowledge
13. Failure to anticipate obstacles	• Make a list of all obstacles most likely to prevent success • Design strategies for dealing with such obstacles, should they occur
14. Lack of a logical sequence	• Have a critical outsider comment on the logical sequence of the business plan • Design a flow chart for the business plan in order to determine whether it has been done in a logical sequence
15. Failure to indicate the stage in the product life cycle at market entry	• Determine the product life cycle by summarising historical sales in the branch of industry • Draw a product life cycle • Determine the present stage in the product life cycle
16. Understatement of expenses	• Check expenses with an accountant and/or the actual trial balance of an existing business to ensure all potential cost items are covered • Ensure that all marketing plans (e.g. advertising) are converted into financial terms; most entrepreneurs underestimate these costs or forget to include them in the expense forecast

Source: Nieman & Nieuwenhuizen (2014)

22.7 THE FORMAT AND LAYOUT OF A STANDARD BUSINESS PLAN

A successful business plan will always include certain elements. Investors often feel comfortable when they see a business plan in a format that is familiar to them. Although it may be a mistake to deviate significantly from the standard format, it is important to remember that a business plan needs to be adapted to meet specific purposes. The entrepreneur cannot adopt a one-size-fits-all approach when developing a business plan and should adapt and customise the business plan as required. With that said, the entrepreneur should keep in mind the opportunity identified in the feasibility study. Once this is done, the management strategies will follow suit. The written business plan needs to take into account the following success factors:

- **The opportunity:** the plan needs to emulate the potential and attractiveness of both the market and industry.
- **Critical resources:** these are in the form of money, human assets (lawyers, suppliers, etc.) and hard assets (inventories, accounts receivables, etc.) need to be minimised to keep start-up costs low.
- **The entrepreneurial team:** needs to possess the necessary experience and integrity to conduct business in an ethical manner.
- **The financial structure:** the financing of the business (i.e. debt versus equity) and share ownership need to be considered. This structure will greatly affect the entrepreneur's commitment in the business.
- **The context:** the impact of external factors (environment, interest rates, inflation, demographic changes, etc.) on the business opportunity.

Therefore, the business plan will need to demonstrate that the entrepreneur has appropriately integrated these factors in his or her planning. Undoubtedly, uncertainties and ambiguities exist, however the entrepreneur needs to devise solutions to deal with these issues. Although there is no single format for a business plan, the investors need to see a plan that is familiar to them. Table 22.2 outlines a standard business plan format.

Table 22.2 The outline of a business plan

Cover sheet	
• Full name of business • Phone and email • Full street address	• Contact name and title • Postal address • Date of plan
Table of contents	
• Lists main headings • Includes graphs, charts and tables	
Summary/executive abstract	
Highlights important aspects of the plan	
Business and product or service description	
• The business	
• The products or service	
• The industry	
Marketing plan	
• Outline the 4 Ps (product, price, promotion and place)	

• Competitive advantage
• Customers, market size, competition and market evaluation
Operations plan
• Focus on facilities, manufacturing, capability and equipment
• The steps and time taken to bring the business up to full speed
Management plan/the team
The management team. List all directors, consultants, advisers and key professionals who will be involved in the business. Attach detailed CVs as appendices.
Sustainability plan
This should address the social, economic and environmental sustainability of the business:
• Environmental issues
• Nature of opportunities for green impact
• Employment opportunities
• Potential environmental impact
Financial plan/critical risks
• Start-up capital
• Projected income
• Projected balance sheet
• Projected cash flow statement
• Projected capital equipment
• Critical risks involved in the business
Appendices
All pieces of evidence, such as CVs, product brochures, testimonials and news articles

The components outlined in Table 22.2 are discussed in more detail below.

22.7.1 Cover sheet

The cover sheet should contain the following information about the business:

- The full name of the business
- Ownership status
- Full street address
- Address if different from the street address
- Phone, email and website information
- Contact name and title
- Date of the plan

22.7.2 Table of contents

Lists the main headings and subheadings and provides page numbers. The table of contents allows the reader to spot-read the plan rather than reading it from front to back.

Remember also to list all charts, tables or graphs in your table of contents.

22.7.3 Summary/executive abstract

The summary or executive abstract briefly sets out the contents of the business plan. It normally contains key sentences from each section of the plan to give an overview of the project in brief. Limit the summary to two or three pages.

Remember, the summary of a business plan should highlight the important features and opportunities, which will allow the reader a quick overview of whether or not the business described in it is of interest. The summary is normally written after the business plan has been drawn up.

The executive summary should include

- a brief history of the company
- what the business is about
- what its objectives are
- the purpose of the loan request
- the amount of the loan requested
- how funds will be used
- how the loan will be repaid
- how much of the total required capital the owners are providing
- what collateral can be offered to secure the loan.

22.7.4 Business and product or service description

This section should briefly describe the product or service, to whom it is sold, the current status of the industry and where the new business fits in. This will give the reader a chance to establish a basis for detailed understanding.

To succeed, entrepreneurs must know their products or services. To obtain finance, potential investors or lenders should be provided with the following information of the business's products and services:

- **Description of the products or service to be sold:** describe the primary end use, as well as any significant secondary applications. Emphasise any unique features and how the products or services on offer will account for market penetration.
- **Proprietary position:** describe any patents, trade secrets or other features.
- **Potential:** describe any features of the product or service that will give it an advantage over the competition. Discuss opportunities to expand the product line and how to take advantage of them. Also, discuss any product disadvantage or technological changes or marketing fads, if applicable.

22.7.5 Marketing plan

This is a critical section that should clearly specify the business's marketing goals, how they are to be achieved and who will have the responsibility for achieving them. Attention should be paid to the 4 Ps, namely product, price, place and promotion. Make sure to describe these in detail.

This section also focuses on customers, industry and competition:

- **Customers:** discuss who the customers of the product or service are. Briefly describe the basis of the purchase decisions, for example price, quality, service, personal contacts or political pressure.

- **Industry:** describe the size of the current total market for the product or service offered. This market size should be determined from available market data sources. Also discuss potential distributors and dealers.
- **Competition:** make a realistic assessment of the strengths and weaknesses of competitive products and services, and name the businesses that supply them. Compare the competing products and services on the basis of price, performance, service, warranties and other pertinent features.

a) Marketing strategies

- Identify what customer groups your business will target
- Set penetration goals
- Decide on a pricing policy
- Select appropriate packaging
- Develop a promotion strategy

b) Sales forecast

- Identify the size of your manufacturing operation
- Decide on amount of capital required

Do not make any guesses in this section. Check all facts and note all sources. These will surely be checked. It is also important to indicate whether the business has a competitive advantage over similar businesses.

22.7.6 Operations plan

This section focuses on facilities, manufacturing capability and equipment. If the business is in manufacturing, it will help to include floor plans as well as future space plans.

The length of this section will depend on whether it is a service or product business. If the latter, it will depend on how technical the product is. The following aspects need attention:

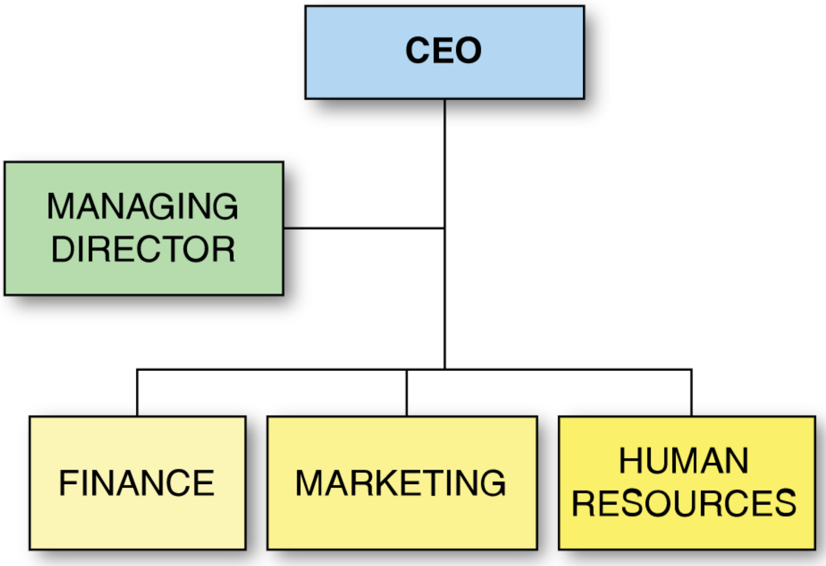
- **Capacity:** includes, among other things, how many products can be produced by the business.
- **Scheduling of production:** refers to the timing and steps that will be taken to bring the business up to full speed. Graphs and charts can help to show interrelationships between events. It is advisable to show the progress on a month-by-month basis for the first year. Thereafter, showing progress on a quarterly basis is acceptable.
- **Quality management:** this concerns what the business will do to ensure quality and control of inventory.

22.7.7 Management plan/the team

The quality of the management team often determines the potential success of the business. List all directors, consultants, advisers and other key professionals who will be involved in the business. Indicate whether the team has worked together in the past. The management plan, therefore, details the organisational structure of the business. Also, present current and proposed salary structures for those on board and for those still to come on board. A good way to organise the management plan section is to break it into various sections, as follows:

- **Ownership structure:** this section describes the legal structure of the business and how the shares are distributed. This also explains if the business is a partnership, company or sole proprietor.
- **Internal management team:** describes the main functions of the business, such as marketing, finance, human resources and/or research and development. Furthermore, the entrepreneur has to explain which employees are responsible for the different functions. Along with the description of the management team, the entrepreneur has to attach CVs of each member of the management team. An organisations chart, also called an organogram is shown in Figure 22.1.

Figure 22.1 An organogram example



- **External management resources:** external resources such as advisory boards (retired executives and managers with extensive business expertise) and professional services (accountants, lawyers, IT consultants) act as back up for the internal management team. When compiling a business plan, the entrepreneur has to include the names of the advisory board along with their profiles.
- **Human resources needs:** this section explains the number of permanent and contract employees the business requires and the cost thereof. Furthermore, the section has to make provision for the training of employees.

22.7.8 Sustainability plan

As customers and stakeholders increasingly would like to know whether businesses are supporting sustainability issues, it is important to plan for a sustainable and socially responsible business from the start. This can provide any business with a competitive advantage, increase productivity, attract key investors and personnel, reduce waste and improve brand image. The following factors have to be included in the sustainability plan:

- **Environmental/resources impacts:** describes the impact that the business has on the environment. An environmental audit would assist map out this section. An environmental audit is a tool used to minimise liability and avoid the compliance costs (costs related to legislation and regulations) associated with new projects. Therefore, helping companies to identify opportunities to improve their operating expenses.
- **Community impact and engagement:** the impact that the business has on the community and how the entrepreneur aims to engage the community in decreasing the impact.
- **Risk:** identify any environmental risks to the business.
- **Strategies:** explains the strategies the business will employ to minimise risks and environmental impact.

22.7.9 Financial plan/critical risks

The financial part of the business plan has to prove beyond all reasonable doubt that the business has the potential to be operated profitably. This section needs to provide three financial statements, namely, the balance sheet, income statement and the cash flow statement.

1. **Income statement:** this statement summarises the business revenues and expenses. In comparison to the balance sheet, which shows the business's financial position at a certain point, the income statement shows the business's performance during the year. Investors want to know the revenue of the company to judge whether the business will make a profit. Comparing income statements of previous years will show financial management trends.

The four forms of income derived from an income statement are as follows:

1.1 **Gross income:** this income reflects sales minus goods sold and depreciation. It reflects how resourcefully the business is producing products.
1.2 **Operating income:** gross income minus fixed expenses (rent, administrative expenses and development).
1.3 **Pre-tax income:** accounts for expenses such as interest income and interest paid on debt, as well as charges and credits that have nothing to do with the company's core business operations.
1.4 **Net income:** equals pre-tax income minus all income taxes paid on company earnings. This income indicates the profitability of the business.

Income statement for the year ending 31 December 2017	
Revenue	R180 000
Net sales	R10 000
Gains	R190 000
Total revenues	
Expenses	
Cost of goods sold	R55 000
Selling and administrative expenses	R24 000
Interest expenses	R10 000
Losses	R 8 000
Income tax	R15 000
Total expenses	(R112 000)
Net income	**R78 000**

2. **Balance sheet:** this section highlights the businesses assets and liabilities. This statement is prepared at the end of the financial year, showing the financial position of the business. Preparing this statement allows the business to analyse its financial strengths and implement improvements.

The balance sheet comprises three categories, namely:

2.1 **Assets:** business-owned resources that the business has acquired over the years through transactions. These resources include costs paid in advance that have not yet expired (advertising, prepaid insurance, prepaid legal fees and rent).

Assets are divided into two subcategories:

2.1.1 **Current assets:** are items that can be converted into cash within a year. These are cash, securities, accounts receivable, inventory and prepaid expenses.

2.1.2 **Long-term assets:** encompass resources that cannot be easily liquidated. These are land, equipment, buildings, intellectual properties and other tangible assets.

2.2 Assets = resources owned by the business, which can be sold or leased to generate cash or used to produce value.

2.3 **Liabilities:** comprises all the business's debts. Similar to assets, liabilities comprises current and long-term liabilities.

2.3.1 **Current liabilities:** consist of rent, tax, rates, interest payable, salaries, accounts payable, accrued payroll taxes and any long-term debts due in 12 months.

2.3.2 **Long-term liabilities:** debts that must be repaid over a period of more than 12 months such as pension and credit from financing institutions.

Liabilities = Money that is owed to creditors

Assets – Liabilities = Equity

2.4 **Equity:** at times referred to as the book value of the business, since the business owners' equity is equal to the reported asset amount with the reported liability amounts subtracted. This portion of the balance sheet includes retained earnings, company shares, accumulated comprehensive income, common stock and paid-in capital from treasury stock.

Balance sheet as at 31 December 2017	
Assets	
Cash	R50 000
Accounts receivable	R20 000
Property, plant and equipment	R50 000
Other assets	R10 000
Total assets	R130 000
Liabilities	
Accounts payable	R15 000
Long-term bonds payable	R55 000
Total liabilities	R70 000
Equity	
Common stock	R29 000
Retained earnings	R31 000

Total liabilities and equity	R130 000

3. **Statement of retained earnings:** this statement is also referred to as the statement of changes in equity, which reflects the changes in the company's retained earnings over the reporting period. Items included in the statement of retained earnings are operations profits or losses, dividends paid, shares issued or redeemed during the period, and items charged or credited to retained earnings.

Statement of retained earnings for the year ending 31 December 2017	
Retained earnings at 1 January 2017	R53 000
Plus: Net income	**R78 000**
Less: Dividends	R100 000
Retained earnings at 31 December 2017	**R31 000**

4. **Cash flow statement:** the cash flow statement shows money expected to come in and out of the business at a given time. This statement predicts sales forecasts, cash receipts vs. credit receipts. How will these expenses be paid and over what period? Will the business make use of credit? This statement gives investors an idea of how business finances are managed.

Cash flow statement for the year ending 31 December 2017		
Profit before taxation	R93 000	
Add: Non cash flow adjustments	R10 000	
Add: Increase or decrease in working capital	R10 000	
Net cash from operating activities		R113 000
Net cash used in investing activities		(R13 000)
Net cash used in financing activities		(R50 000)
Net increase in cash and cash equivalents		R50 000
Cash and cash equivalents at January		
Cash and cash equivalent at 31 December 2017		**R50 000**

Financial statements should indicate a short- and long-term vision for the business. For the business plan, a three- to five-year projection is required. This projection can be optimistic, but realistic enough. Projections have to be based on industry research along with business strategy. Ensure that there are no typing errors in these statements; make use of accounting professionals if need be.

22.7.10 Appendix

This section includes all essential pieces of evidence the reader might want to refer to. These include CVs, product brochures, customer listings, testimonials, news articles, market research studies, detailed financial calculations, projections and contracts.

22.8 IDENTIFY POTENTIAL INVESTORS

Once you have a viable business plan for your start-up venture, you now need attract an investor or investors. Investors mainly invest in the entrepreneur and the product offering. Investors consider the entrepreneur and his or her management team in terms of their background and experience. Investors need assurance that their investment will be managed well. Finding suitable investors can be a daunting task, you may need to speak to many potential investors to find the right one for your business. Entrepreneurs also need to think about creative funding models. There are a few funding models to grow their businesses. Section 22.8.1 discusses these different forms of additional funding.

22.8.1 Eight guiding principles to find the right investor

1. **Angel networks:** also referred to as informal investors, are individuals who invest money, mentorship and a network of contacts. Angel investors accept risk and demand little or no control of the business. These individuals are likely to be convinced by the entrepreneur's passion, persistence and discipline.
2. **Crowdfunding:** a practice of raising money for a venture by relying on the support of many different investors, from the public to philanthropists, to experienced investors. People who contribute relatively small amounts can raise large sums of money. Kickstarter, Thundafund, Gofundme and Justgiving are some of the most used crowdfunding platforms accessed online.
3. **Incubators and accelerators:** incubators and accelerators come with a wealth of resources and finances. These investors are concerned with taking on a bigger role in the venture with the intention of turning the idea into a viable business model. The incubator offers resources such as physical space. Since multiple businesses operate within the same building, this offers a great opportunity for networking. Some South African incubators include Rizcorp, Awethu, Timbali Technology and Incubator.
4. **Professional social networking sites:** a lot of professional networking sites such as LinkedIn, Xing, Plaxo, Startup Nation and Meet-up connect the entrepreneur with numerous investors from across industries and countries who want to participate in a global business environment.
5. Private equity firms: one of the traditional forms of investment funding, these investors invest large sums of money for a longer period. Private equity funders look for entrepreneurs who have contributed their own money to the business, and who have a solid credit record, a good business plan and industry expertise. Such investors require equity in the business until they decide to sell their shares. They usually target businesses that show signs of rapid growth.
6. **Personal marketing effort:** this entails personally marketing the start-up in the hopes of attracting a suitable investor. This is done through websites, social networks, blogs and traditional media platforms.
7. **Friends and family:** attracting finance from friends and family should not be difficult; these individuals know your passion and could be willing to assist you. If you choose to use this opportunity, make sure to keep business and personal relationships separate. Draw up a contract describing the terms of the investment. Like any start-up, this business involves risk; make sure friends and family members understand that they might lose their investment. Do not jeopardise relationships over business.
8. **Government funds and grants:** the South African government offers both financial and non-financial assistance to previously disadvantaged entrepreneurs. Funding has to be paid back to the government, albeit at better terms. Grants, however, do not have to be paid back. One can apply for funds and grants through organisations such as: the Department of Trade and Industry (DTI); the Enterprise and National Empowerment Fund (NEF); the Small Enterprise Finance Agency (SEFA); and the Small Enterprise Development Agency (SEDA). This form of funding focuses on high-growth industries that will greatly increase employment.

22.8.2 Alternative sources of funding

- **Trade credit:** this is an important tool of financing. Trade credit is the credit given to you by suppliers who allow you to buy now and pay later. The entrepreneur can collect materials, equipment or other valuables at any time without paying cash on the spot.
- **Asset-based loans:** the entrepreneur will use the businesses equipment and inventory of facilities as security for a loan. Some of the advantages are easily obtainable; the cost of borrowing is lower and the value of the business assets is added to the loan amount. Disadvantages are that lenders may want to verify samples and examine larger transactions to eliminate bad debts.
- **Factoring of accounts receivables:** a business sells its accounts receivables (invoices) to a third party (factor) at a discount. The factor usually handles most of the transactions that occur after the sale, such as sending out invoices and collecting the funds that are due by customers. This form of financing is usually used in tendering process. Some of the advantages of factoring are: no requirement of collateral; sale on loan; evading bad debts; and immediate cash flow. Disadvantages of this method are: reduction of profit; higher finance charges; loss of personal touch; and unreliable customers may cause the factoring company to restrict the entrepreneur from conducting business with a certain customer due to their poor credit ration).
- **Loans:** these are granted after the financial statements have been analysed and a small business credit score is obtained. Banks or any other financial institution or individual can grant loans. Collateral or assets such as inventory, facilities, equipment or the personal assets of the borrower are required to secure the loan. Loans are convenient; financial institutions do not require profit sharing and tax breaks. However, qualifying criteria are quite strict. Usually the banks will not grant a 100 per cent loan and the entrepreneur can lose his or her collateral.
- **Leasing:** the lender purchases the asset and then charges a monthly or some periodic fee for the lessor to use it (purchase of fixed assets by lessor). This is a great way for the business to make use of the resources without taking ownership of them. This way, the business gets a tax benefit, low capital expenditure and off balance-sheet debt. Despite the said advantages, leasing can still burden the business. It is expensive, liable for maintenance, limits access to other loans and reduces return for equity holders.
- **Relationship lending:** this is the good friend loan. The lender has dealt with the borrower in the past and grants a loan because of past success. There is often an ongoing advisory and guidance relationship between the lender and borrower. This could be a bank or some other financial institution or individual.

22.9 PITCHING TO INVESTORS

In addition to writing a business plan, the entrepreneur will be required to present it to potential investors. This is not the time to present the entire plan, but the objective is to spark the investor's interest. The entrepreneur is usually given 15−20 minutes to present, followed by a question-and-answer session. According to Cummings (2012), entrepreneurs need to keep the following 11 recommendations in mind as they prepare their pitch:

1. **Tell a story:** begin with a compelling story that identifies a problem the business aims to solve.
2. **Have a solution:** explain what is unique about the business's product offering. Keep the explanation concise and easy to convey. Only use buzz words or jargon if investors are familiar with those terms.
3. **Show success:** impress investors with what the entrepreneurial team have achieved thus far, such as sales, product launches and contracts.
4. **Give a target market:** be realistic about who the product offering is targeted at and break down your market into total addressable market (TAM), segmented addressable market (SAM) and share of market (SOM). This will assist you to think strategically about your rollout plan.
5. **Mention customer acquisition:** questions such as "how will customers be reached? How much will the marketing costs? How will success be measured?" need to be considered.

6. **Talk about the competition:** do not omit this section. You need to identify competitors and explain what differentiates your business from theirs (value proposition). Cummings (2012) states that one way to do this is to "show this slide in a matrix format, in which you list your competitors down the left side of the page with your features or benefits across the top and use check marks to show what your company offers and what your competitors lack".
7. **Outline your revenue model:** this section is of the outmost importance to investors. You need to give details about how revenue will be made. Be specific about the products and pricing and highlight how the market is anxiously waiting for the product.
8. **Provide financial projections:** give details about projected revenue (per product) over the next three to five years. Make sure that the financials are achievable. Investors pay more attention to this section, as the business needs to make financial sense before they invest.
9. **Highlight your team:** investors understand the importance of a good team running the business. They invest in the team first then the business. Therefore, share details about your team, such as what makes them suitable to run the business. In addition, share some skills set the team might be missing, such as marketing, legal, accounting, and explain if and how these will be outsourced.
10. **Explain funding needs:** who has already invested how much money in the business? Are there any share options and how much more money is still needed? Explain what type of investment you are seeking; is it just finance or equity partnership? Furthermore, remind the investors why your team is well equipped to manage their investment.
11. **Briefly describe an exit strategy:** if you are seeking a large cash investment (over R1 million), you need to explain your exit strategy. Are you planning to sell the company, go public or do you have any other plans? What companies have you targeted to merge with in the future? Show that you have done due diligence on the exit strategy.

22.10 BUSINESS PRINCIPLES FOR LEADING IN THE FOURTH INDUSTRIAL REVOLUTION

Intelligent robots, self-driving cars, mobile supercomputing, 3D printing, biotechnology, energy storage and quantum computing. These all show evidence of the dramatic changes brought on by the Fourth Industrial Revolution. Previous industrial revolutions introduced humanity to digital capabilities. While this revolution, focuses on machines and production systems that fuse "the physical, digital and biological worlds, impacting all disciplines, economies and industries, and even challenging ideas about what it means to be human" (World Economic Forum, 2018). Consequently, changing customer's expectations, improving asset efficiency, establishing new partnerships and producing new business models.

So then how can a business play a significant role in this present revolution? How can entrepreneurs take advantage of their business strategies to capitalise on the market? How can businesses balance the technological acumen needed with strategic skills to dominate the market? Schwieters and Moritz (2017) offer 10 principles on becoming an industry giant in this Fourth Industrial Revolution.

1. **Rethink your business model:** do not fall into the trap of thinking that the business will continue making profits using old models. Businesses that cleave to this notion quickly lose market share. This disruption focuses on using artificial intelligence to reduce costs and increase production. Therefore, companies that refuse to adapt to this new revolution will fall behind compared to those that adapt.
2. **Build your strategy around platforms:** a platform is a system that connects customers to a wide range of merchants using the same hardware and software. The most successful platforms are Windows (Microsoft); Everything Store (Amazon); iOS (Apple); Facebook (social media) and Google. Therefore, these platforms essentially influence the relationship businesses have with their customers.
3. **Design for customers:** this new infrastructure connects customers to producers like never before through smartphones and social media. In designing new platforms, one has to bear in mind the habits, needs and longterm interests of these customers. Therefore, platforms that genuinely cater to consumer needs are of great importance. For this to be achieved, the business needs to upgrade its design intelligence. New design systems need to be user friendly, that is, they need to be customisable

without the assistance of an IT specialist. The more user friendly the systems are, the more appealing they will be.

4. **Raise your technological acumen:** businesses need to introduce and upscale their workforce. Staff need to be trained in the latest technological offering. They must also understand the security risks involved, of cyber-attack, for example. This knowledge will ensure the business offers the best products and platforms, thus ensuring them a competitive edge.
5. **Innovate rapidly and openly:** disruptive and incremental innovation can both benefit the business. Even though most businesses focus on disruptive innovation, smaller innovations are easier to generate and test in the market. These smaller innovations can quickly escalate to disruption. Disruptive innovation is more impactful through collaboration with other stakeholders. Such collaborations occur through artificial intelligence, autonomous machines, decentralised electrification and connected mobility.
6. **Learn more from your data:** gathering and analysing data from customers helps businesses understand new patterns that improve the businesses product offering. For example, a plastics company that notices customer use of polymer could recommend a different approach, based on an analysis of what other companies have done with that same polymer. This is the value of data playing a pivotal role in business strategy.
7. **Adopt innovative financing models:** businesses need to find new ways of financing projects. For example, software users do not purchase packages any longer, they now subscribe to software-as-a-service, therefore, paying rent in exchange for access. This type of financing method affects returns on investments.
8. **Focus on purpose, not products:** in order to gain a competitive advantage, the business will have to focus on its purpose. This means that its value proposition affects its business activities. One needs to consider why customers prefer your business, what they expect and what you can deliver. Focusing on the purpose allows the business to deliver on its promise in turn gaining consumer’s trust.
9. **Be trustworthy with data:** businesses need to maintain utmost confidentiality when collecting and analysing customers’ data. Businesses need to maintain leading-edge approaches to guard against cyber-attack or theft.
10. **Put humanity above machines:** even though this industrial revolution places higher value on technology, businesses can only flourish in this era if they value human values. As technology becomes the driving force and replaces jobs, keep in mind that the most distinctive traits of the human workforce will be their empathy, authenticity and intuitive judgment. These traits cannot be replaced by artificial intelligence.

With this said, excelling in this revolution will depend on the business’s ability to fuse technology, people and business strategy in ways that it has never done before. The Fourth Industrial Revolution will not only bring about financial prosperity, but also bring about stability and a high quality of life. Therefore, entrepreneurs need to bear these 10 principles in mind when planning their businesses and strategies. Doing this will not only ensure they remain competitive, but also benefit humankind.

22.11 RESOURCES FOR WRITING A BUSINESS PLAN

There are a number of resources available to help entrepreneurs write their business plan. These include books, YouTube videos, computer software packages and consultants. These resources are invaluable to the entrepreneur. However, resist the temptation to adapt an existing business plan as the plan should reflect your vision for your business. Below are some of the resources to consider:

- **Computer-based business planning:** there are various business plan software choices available to assist entrepreneurs think over every aspect of their business planning. Some include Liveplan and Enloop. The entrepreneur needs to keep in mind that software offers generic business plans, and, as such, can limit the entrepreneur’s flexibility and creativity if used poorly. Keep in mind that you as the entrepreneur should know what should be in the plan. The plan should communicate your vision. There is no magic formula for writing a business plan; therefore, if you understand the limitations of software, you can use it wisely.

- **Professional assistance in business planning:** many small business owners lack formal business management skills, and thus cannot answer some questions posed by investors. In this case, entrepreneurs need to enlist the help of professional business advisors (accountants, attorneys, marketing specialists or organisations such as SEDA). It is preferable that they consult someone used to working with small businesses, start-ups and other entrepreneurs who lack these skills. These professionals come with a wealth of knowledge and experience that will assist you in this process. Nevertheless, enlisting these services is expensive. Some professionals charge hourly and some change a contingency percentage based on the amount raised. If you choose to hire a consultant, keep the following in mind:

– **Get referrals:** ask business associates, colleagues and professionals such as bankers for names of any good business consultants.

– **Look for a fit:** look for a consultant who has worked with similar businesses to yours. The consultant needs to have experience in same-size businesses in that particular field. At all costs, avoid general business consultants who lack industry experience.

– **Check references:** obtain three names of entrepreneurs with whom the business consultant has worked. Contact the references to enquire about the consultant's performance. Questions such as "was the business plan completed on time and did it serve the intended purpose?" need to be asked.

– **Get it in writing:** draw up a detailed legal document describing the services of the consultant. The contract should include the fee, date of payment and circumstance under which services will be rendered.

22.12 CONCLUSION

This chapter covered the reasons for, and contents of, a business plan. Business-plan creation follows after an opportunity to start up an enterprise is identified. A business plan serves as a road map for the future. It details what the business seeks to accomplish, clearly indicating the when, how and by whom.

Business plans are drawn up for various audiences: stakeholders, entrepreneurs, management, employees and investors. Entrepreneurs should prepare business plans to gain an in-depth understanding of the potential, intricacies and promise of the business.

A standard layout of a business plan was provided as a preliminary planning guide. Help was given with guidelines on how to select the most appropriate business plan for each different situation. Potential problems to be aware of when preparing a business plan were discussed, with tips given to avoid these problems. The Fourth Industrial Revolution's influence on businesses today were discussed. Lastly, the chapter covered the use of the internet, specialist organisations and business-planning advisors when drawing up a business plan.

REVIEW QUESTIONS

22.1 What are the primary reasons for writing business plans?

22.2 Describe the major sections found in a business plan.

22.3 Identify problems to avoid when compiling a business plan.

Case study: Bergville cooperative bakes its way to success

Mduduzi Tshabangu

Thulasizwe Shabalala was a newly qualified teacher when he left his job in 2011, after just two years, to start the Thuthukamzizi Bakery Cooperative with five other people.

Shabalala says he always had a passion for the business world and decided to take a leap of faith by getting involved with the cooperative. The Thuthukamzizi Bakery Cooperative, which is based in Emazizini, south of Bergville, KwaZulu-Natal, was registered in 2009. Members of the cooperative – Shabalala and five women – explored business ideas and the bakery was identified as the most promising. They approached the Small Enterprise Development Agency (SEDA) for help with their business plan and have not looked back since. In 2010, the cooperative received a R250 000 grant from Old Mutual, which was used to build the facility where they work. The building has five rooms, which include a baking area, storeroom, shop, office and conference room. KZN Wildlife also supported the group by buying them bakery equipment, a container, borehole and electrifying the premises. The KZN Department of Economic Development, Environment and Tourism arranged training and mentoring in baking for members of the cooperative.

In 2011, the cooperative applied for a grant from the National Development Agency (NDA) to buy baking machines and other equipment. The application took about a year to process and was successful. The cooperative was granted R1.8 million, which would be allocated in phases. Over the past five years, the NDA has supported 50 projects in Kwa-Zulu-Natal, spending about R77.7 million, according to NDA CEO Dr Vuyelwa Nhlapo. So far, the Thuthukamzizi Bakery Cooperative has received R850 000. This was used to buy a delivery truck, stock for the bakery, other machinery and to do electricity upgrades.

“When we started the cooperative we were working from a container we received from KZN Wildlife. The container is now being used as a tuckshop and is run by one of the members. She keeps the money, which comes from the limited direct sales that takes place from the premises,” said Shabalala.

Besides bread, the cooperative also makes scones, muffins, rolls and biscuits. Shabalala says the cooperative also sells soft drinks to the community and bread to the local school. All of this takes hard work and the cooperative is busy throughout the day, working on a three-shift system. “We supply local businesses such as B&Bs, hotels and tuckshops in the community. We started by making 600 loaves of bread per day and today the production has doubled.”

The cooperative employs 14 young people on a contract basis who receive a stipend from the NDA. Shabalala says one of the cooperative’s biggest challenges is securing bigger contracts because they are competing with big companies. He adds that their dream is for the business to be known throughout South Africa and expand to other areas such as growing and selling vegetables.

Source: Adapted from http://www.vukuzenzele.gov.za/bergville-cooperative-bakes-its-way-success

Questions

1. Advise the management on the common problems that they must always avoid when compiling a business plan.

2. Explain to the management of Thuthukamzizi Bakery Cooperative on what a business plan for a manufacturing venture should entail?

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23

Business cases in the African context

K.S. Boya & R. Shambare

The business cases and scenarios included in this chapter have been developed to convey a cautionary note to the reader regarding common pitfalls and mistakes made. Lessons learnt are meant to caution readers, particularly learners, of the common challenges that they may encounter when starting and running their businesses. There are also possible solutions and business strategies proposed. Some pockets of excellence and success stories are also covered.

CASES

Case 1: From a law firm to transport business – diversification in action

Case 2: Tshepiso Semenya – The Calculating Entrepreneur

Case 3: Business success and poverty alleviation through a poultry business

Case 4: Gagasini Brokers – fast-growing financial services and product insurance providers

Case 5: Cassper Nyovest: the musical entrepreneur

Case 6: Mokgwadi Upholstery Clinic (MUC) – family business case

Case 7: From just rubbish to a professional recycling business

Case 8: Emerging motor mechanic

Case 9: Intrapreneurship as a growing trend

Case 10: Richard Maponya – the man behind Maponya Mall

Case 11: Shingie Chivizhe – the serial entrepreneur

23.1 CASE 1: FROM A LAW FIRM TO TRANSPORT BUSINESSDIVERSIFICATION IN ACTION

23.1.1 Introduction

Sakhephi Mighty Gwabeni, a law degree graduate from the University of South Africa, opened a law firm in central Pretoria in 2008. He grew up in Maluti in the Eastern Cape province and later moved to Benoni in Ekurhuleni, Gauteng. A few years after matriculating, Sakhephi (Sakhe) decided to study law at Free State University in Bloemfontein. Before completing his degree, he was encouraged by his brother Bruce to join him in Pretoria. Owing to his versatile nature, he agreed and went on to complete his law degree with the University of South Africa in Pretoria, and in 2006 he obtained admission as an attorney. He opened his law firm even though he felt that he did not possess enough business experience, given that he was only admitted two years earlier, and thought that he had to gain at least five years experience before opening his own practice. Through reputation and professionalism, Gwabeni Incorporated (GI) managed to grow within a short space of time. This is indeed a story of a law firm started from push factors, particularly those setbacks within conventional job settings which prompted a change in career trajectory.

23.1.2 Motivating factors to start an own business

Sakhe had to quickly gather resources such as office space and equipment through the help of family members. His start-up costs were in the region of R140 000. He had to acquire a loan of R80 000 from the National Youth Development Agency (previously known as Omsobomvu Youth Fund), and used his savings and some family contributions. His previous secretary, Peggy Ledwaba from his former employer was keen to join him. Sakhe had to “hit the ground running”. Nevertheless he felt that he was ill-prepared for the new challenge of having to compete with much more experienced opponents and skeptical clients. As such, Sakhe had to approach his long-time friend and business associate Lebogang Thakadu, who was also an attorney, as well as other experienced lawyers for assistance and advise. GI somehow did very well, against all odds, and this is owing to its founder’s determination and that of the other staff members. “It took me two years instead of three to make full repayments on my R80 000 loan.” The loan repayments were completed within the space of two years, instead of three as per stipulations.

23.1.3 Challenges

As a business owner, Sakhe faces a number of challenges daily. Many South Africans still prefer to be represented by larger law firms. There are also difficulties experienced when it comes to issues of late or non-payment from clients and that affects the cash flow of the business in a big way. There are new regulations, which compel law firm directors such as Sakhe to follow a compulsory practice management course. Reactions to this law are ambivalent given that some view it as irrelevant and others such as GI perceive it as a “necessary evil”. Added to these requirements is the burden of adhering to laws covering tax, labour, occupational health and safety, as well as other related business laws. Moreover, more often than not GI is confronted with having to compete with difficult legal opponents and satisfy demanding clients.

23.1.4 Diversification

It was during 2013 that GI entered the transport business. This was informed by the need to expand the business, even though this was a diversion from the core business. This was a typical example of conglomerate diversification, which often affords the organisation the opportunity to enter a completely new industry and different lines of business. GI entered the passenger transport sphere in the Eastern Cape with the Road and Transport Department and the Department of Education. GI began running three bus operations, two of which are subsidised by the Eastern Cape Road and Transport Department. The other bus route is as the result of a scholar transport tender with the Education Department. This is expected to grow in the future.

23.1.5 Where to from here?

With an average turnover of R17 million per annum, GI currently employs a minimum of seven full-time employees, three of whom are professionals and four are administrative staff. There are prospects for growth within the legal and transport industries and even beyond. For example, Sakhe is a sports fanatic, and particularly loves his football, both locally and internationally. Currently, he is exploring ways in which GI can serve as football players’ agency as this is fast becoming a growing and lucrative line of business.

Sakhe endeavored to obtain FIFA accreditation and become a licensed international players’ agent. He wrote a few FIFA exams and has a few more to complete. He attempted to link up with the South African Football Players’ Union but discovered that it does not have much influence on player contracts and the industry still needs a lot of experienced union representative for players. He still hopes to return to sports management and intends to establish a sports management company that will manage all the legal contracts of its clients. If this is realised, it will certainly be a true example of a concentric or related diversification strategy in action.

Source: Gwabeni Inc.: mighty@gwabeniinc.co.za

23.2 CASE 2: TSHEPISO SEMENYA: THE CALCULATING ENTREPRENEUR

According to Tshepiso, “gone are the days when young people say that ‘when I grow up, I want to become a lawyer or to start my business’; in today’s life, you live your dreams, period. There is no need to wait. The earlier you begin to live your life, the better”. At just 24, Tshepiso Semenya is living her dream life of being a successful entrepreneur. Today, she owns two businesses that she runs from her SOHO offices (or small office/ home office) in her flat in Pretoria North, where she has renovated one of the bedrooms into an office.

Judging by her current successes and achievements, it is difficult to imagine that her life was once filled with unimaginable difficulties and challenges. From not having food, dropping out of school and being the permanent neighbourhood laughing stock, Tshepiso has seen and lived it all, but when life dealt her blows she made the most of them. Her life is the proverbial personification of the saying: “If life deals you lemons, make lemonade.”

Tshepiso is a native of White City, Soweto. She was born and bred in Soweto, the place she now regards as her entrepreneurial training ground. As indicated above, Tshepiso’s life in Soweto was not easy. Nevertheless, that brutal life taught her to be tough, self-reliant and resourceful. Beyond this, surviving in the streets of White City taught her two important business skills: (1) perceptual skills; and (2) cost-benefit analysis. Simply put, when an individual is said to possess perceptual skills, it means that that person has a heightened sense of awareness. This is being conscious of one’s personal situation and the realities of one’s immediate environment. In other words, “perceptual skills” is the ability to see and interpret the world around you. Cost-benefit analysis, on the other hand, is the ability to determine the potential benefits versus the costs of an action. Tshepiso mastered these skills so much so that in 2010 when an opportunity to move to Pretoria presented itself, she grabbed it. Being accepted at the Tshwane University of Technology (TUT) in Pretoria was the turning point in Tshepiso’s life. It not only liberated her from a life of poverty, but it increased the size of her world.

Whilst pursuing her business management studies at TUT, Tshepiso learnt about businesses and money. Above all, university education broadened her world.

Due to financial difficulties, she often dropped in and out of school to take up odd jobs to pay school fees. In 2014, Tshepiso realised that she could not afford school. Despite having a recourse to NSFAS funding, her conscience could not allow her to “lie on the application form so as to get the NSFAS funding.” Instead, she decided to take a break from school and go into business full-time. As she puts it, “Work came between me and school, and finance also came between me and school”. Having analysed her situation carefully, in 2014 Tshepiso decided to go into business and in the same year, she started a financial markets trading business. Her company, Tshemologo Trading, is an online commodities trading company. It trades stock markets and various commodities including gold, oil and foreign currency.

In 2016, after having noticed a gap in the market, Tshepiso started a second business, Luxia Confections (Pty) Ltd. The idea of this business was sparked by the opportunity she saw when her friend was looking for pastries and confections for a party. At that moment she did a feasibility study and realised that the market, including her friend, needed customised and good-quality cakes and pastries. More importantly, she calculated that she could make a lot of money by producing these pastries. Luxia Confections employs six freelance consultants.

Although Tshepiso concedes that running a business is not easy, she agrees that it is fulfilling. Tshepiso acknowledges that she derives her motivation from the poverty she still sees today in Soweto. People in her neighbourhood do not expect much from themselves. According to Tshepiso, “Even if you end up being a drug addict and a failure, no one sees a problem with that”. By making a life out of entrepreneurship Tshepiso hopes to show that there is more to life.

Over the years, Tshepiso has learnt a lot in business. The single most important lesson she has learnt is understanding what money is and knowing what it can and cannot do. “Money,” Tshepiso explains, “is an idea; it is not tangible. When you decide to sell sweets, the proceeds from selling sweets is not money. The idea to sell sweets is the money." Some of Tshepiso's business lessons are the following:

- Business is about learning. Keep on learning and embrace new ideas. Remember, ideas are money.
- In life, always have a plan.
- Don't just go to school without a plan.
- Don't exploit your background or use certain factors to get ahead, for example through becoming a BEE tenderpreneur. Work hard and build your business.
- Keep your standards high.

23.3 CASE 3: BUSINESS SUCCESS AND POVERTY ALLEVIATION THROUGH A POULTRY BUSINESS

23.3.1 Introduction

After being retrenched from work as a furniture-store saleswoman, Gladys Masombuka stayed at home for two years without employment. With an ill husband and three children to support, Gladys relied on her husband's disability grant and getting odd jobs as a domestic worker. Even though she found life difficult, Gladys was determined to succeed and was constantly exploring ways to improve her situation. However, she could not figure out how to go about improving her living conditions or finding a breakthrough to that effect.

23.3.2 Journey to redemption

One day during May 2013, she was employed to do domestic duties for somebody who owned a poultry farm, which had a processing site. She was thus introduced to the poultry business. It is noteworthy that Gladys grew up in an environment of subsistence farming at her parents' home in Dennelton, Limpopo Province. As such, the poultry business was not really unfamiliar territory even though the conditions, size and technology were different. She was made aware of the unit which coordinates farming business projects from the departments of Rural and Land Reform, Trade and Industry as well as Agriculture, Forestry and Fisheries. Gladys was told that there were many opportunities in the poultry business as chicken eggs were deemed the fourth largest animal product in agriculture in South Africa, which accounted for almost R3,5 billion annually at current production levels.

Gladys registered a company called Gladmaso Poultry Passion (GPP). She acquired the necessary training and soon received as start-up loan and was allowed to occupy a small piece of land in Hammanskraal, situated 80 kilometers from Pretoria, together with other small-scale farmers. Through diligence and hard work, GPP began to find its resonance and rhythm within the poultry industry and managed to secure a few lucrative contracts of suppling government institutions and local businesses with products such as eggs and chicken. Within the space of 13 months Gladys was confident that she had managed to alleviate poverty and thereby improve the living conditions of her loved ones. Furthermore, a total of 14 people of the 31 staff component of GPP are Gladys's immediate family, friends and relatives. This seems to be making a real difference in the lives of ordinary people within the community.

23.3.3 Challenges and lessons learned

- Insufficient business experience makes growth of the business a challenge.
- Due to the relatively small farm size, GPP is unable to lure big business.
- Due to its location at a peripheral side of the country, some opportunities in the market are limited.
- There is lack of adequate infrastructure such as tarred roads, regular running water and sanitation as well reliable sources of energy. As such, GPP relies heavily on the optimum use of limited resources.

- Moreover, eggs enjoy the same status of precious metals such as gold and diamonds given their fragile nature and perishability.
- The company further strives to become a dependable partner and supplier to all its supply-chain participants, such as tiers, suppliers, customers and distributors.

23.3.4 Future prospects and opportunities

GPP is seeking to collaborate with established industry players such as Rainbow Chicken (which is a subsidiary of RCL Foods) and Allas Egg Basket, which may outsource some of their processes.

Furthermore, GPP further hopes to secure lucrative deals with the five main retailers such as Shoprite-Checkers, Pick n Pay, Spar, Woolworths and MassMart.

More training is required in terms of marketing and the technical aspects of running poultry business.

GPP is also seeking to find business opportunities beyond the country's borders, particularly within the SADC and BRICS community.

Sources and links accessed: http://www.sapoultry.co.za/pdf-statistics/Poultry-meat-egg-stats-summary.pdf; http://www.rclfoods.com/

23.4 CASE 4: GAGASINI BROKERS – FAST-GROWING FINANCIAL SERVICES AND PRODUCT INSURANCE PROVIDERS

23.4.1 History and background

Gagasini Brokers (GB) was established by Jay Mngoma and two other shareholders, Zwelihle Magojo and Nomfundo Biyela. The business was founded by Jay in 1993 as a sole proprietor. Over the year it has expanded to become a close corporation after two people joined the business. The decision to have new business associates was an easy one for Jay as Zwelihle and Nomfundo brought along a wealth of experience.

23.4.2 Shareholders

The business has been growing at a rapid pace ever since the new directors joined Jay in the late 90s. However, this transition called for a huge adjustment for Jay who now needed to make collective decisions as opposed to making decisions alone, which was previously the case at GB. However, Jay was appreciative of the great minds represented in these new codirectors for the organisation. On the other hand, Zwelihle and Nomfundo had to get used to paying more attention to detail and remaining highly ethical as Jay fostered military precision within GB. Moreover, Jay acquired project planning, resource preparation and project focus from his previous mentors and these attributes came in handy for the broker business in which he was involved. After training, Jay managed to set up his own business as a broker selling financial products and services to several insurance companies. A minimum of R40 000 was required for a broker business to be established. Jay managed to use R30 000, which he acquired through his savings and a further R10 000 as a loan from First National Bank. These funds were utilised to set up operational infrastructure and were also to be used as working capital.

23.4.3 Challenges faced

- Very few black South Africans were involved in the insurance brokering business at this time.
- Access to capital funding is still a daunting hurdle for emerging businesses.
- It is difficult to secure, grow and sustain a sizeable client base in the insurance business.
- Delayed payments by some key clients may sometimes exert cash flow problems.

- Rapid changes in technology may render the operating system obsolete and to keep up, some additional capital injection may be required.
- The rand/dollar exchange may affect the marginal propensity to invest in education.
- Stringency of laws within the insurance industry.

These challenges very much dictated the parameters within which GB could thrive. As such, the organisation had to constantly analyse the environment in which it operated. The industry handbook is constantly changing and this affects the organisation's strategic relevance to the target market.

23.4.4 Achievements

Today, GB is a multimillion rand business, which is growing fast within the SADEC region and it is expected to grow and do business on the international stage.

Jay and his business associates have built a strong brand as resistance to counter its rivals. A stronger client base has been built through a vigorous relationship management approach.

Source: http://www.gagasinibrokers.co.za/about.html

23.5 CASE 5: CASSPER NYOVEST: THE MUSICAL ENTREPRENEUR

Cassper Nyovest is a South African rapper, musician, recording artist and music producer. His real name is Refiloe Maele Phoolo, and he was born in Mafikeng in the North West province. Cassper, as he is known by his fans, is one of the many musical entrepreneurs in South Africa, which also include Zahara, Oskido, Yvonne Chaka Chaka, DJ Cleo and many others. Yes, Cassper is an entrepreneur! Just like any other entrepreneur who produces a product or service to sell it for a profit, Cassper Nyovest and many other musicians produce a unique product called music, and sell it for profit. If you cannot directly link music and entrepreneurship, think about the following:

- How do musicians make money?
- If they do not sell records and tickets at live performances, how would they earn a living?
- Why are musicians always trying to stop music piracy?

While most people recognise that being a musician requires talent, they fail to acknowledge that music is a serious business. It is not just about talent, a good voice, dance moves and videos; it involves careful planning and proper management. To be sustainable, large amounts of money are required – for advertising, paying for venues, salaries for musicians, and several other expenses.

The Ticketpro Dome, which is often referred to as the Dome, is situated in Northgate, Johannesburg. With a maximum capacity of 19 000 people, the Dome is well-known for hosting numerous music concerts and both local and international artists (Ticketpro Dome, 2016). Some of the big names to perform at the Dome include the likes of Roxette, Lionel Richie, Mariah Carey and George Benson. Many of these international superstars easily fill up the dome to capacity. But, such a feat had never been achieved by a solo local South African artist. Cassper saw an opportunity. Filling up the Dome was Cassper's vision. Cassper saw that local artists' shows were not as effectively marketed as international gigs. His plan was to leverage social media marketing under the hashtag #FillUpTheDome. Soon Twitter, Facebook, WhatsApp and Instagram were all abuzz and it was not long before mainstream media picked up the story. After appealing to South Africa to "support local talent", many heeded the call. On 31 October 2015, Cassper realised his dream and filled up the Dome.

23.6 CASE 6: MOKGWADI UPHOLSTERY CLINIC (MUC) – FAMILY BUSINESS CASE STUDY

After his father was murdered by armed robbers, Tshepo Mokgwadi had to make a difficult call of taking over as head of the family business. It is customary in Sepedi culture for the eldest son to assume certain leadership positions within the family and its businesses once the father thereof passes on. Tshepo was trained as a sales engineer and had worked with his father in the carpet and upholstery business, and so his family put their entire faith in him to sustain the business. To take over from his father Jansen, who was a selftaught upholstery maker, Tshepo had to put his dream of furthering his studies of becoming an industrial engineer on hold.

The late Jansen was a perfectionist even though he was self-taught. He also had a passion for service and had a warm interpersonal approach with regard to his clients. As a parttime clergyman, Jansen often allowed his clients to receive repair services on credit or sometimes for free. As such, many of the MUC debts were bad and had to be written off. Cash flow was therefore a huge challenge. Sometimes the repair of equipment would be delayed and the price of some of the materials and fabrics to make couches and daybeds increased.

23.6.1 Critical decisions to be made

Tshepo had to make tough decisions trying to keep the family business afloat. He attended a business forum imbizo, which was organised by the South African Trade and Industry and BRICS SMMEs division. Among those in attendance were the Chinese delegates who made a great impression on him. These delegates hinted at possibilities of suppling him with material and fabrics at a very affordable rate. Moreover, the demands for MUC services were on the rise. The deal seemed to be lucrative. Tshepo requested also that his cousin Obed who had an accounting degree join the family business to enable MUC to exercise stronger financial controls and also solve their cash flow problem.

Tshepo appreciated the significance of networking and also the challenge of having to manage the family. He knew that family expectations had to be managed and their legitimate claims needed to be considered at all times. He therefore established a board of trustees to adjudicate on complex matters. A clear separation of family matters and business affairs had to be put in place.

23.6.2 Family business challenges

- Tshepo had great marketing and entrepreneurial skills but relied heavily on Obed’s help in terms of accounting, financial management and reporting.
- Jansen’s untimely death and poor succession planning meant that family members were ill-prepared to assume the responsibilities that Jansen left behind.
- Ever-increasing prices of fabrics and complex protocols for imports were challenging.
- There was a limited amount of working capital, which frustrated growth prospects.
- There was a lack of business mentoring.
- There were limited advisory services.

23.6.3 Way forward

MUC intends to grow its business across the SADC region and beyond. Strategic partnerships are thus envisaged with the prospect of entering into strategic alliances, backward vertical integration, forward vertical integration as well as horizontal integration (in the future as this will mean that competitors will be absorbed). With strategic alliances in place, Chinese suppliers will be engaged in order to secure agreements, so that MUC can receive materials cheaper and faster. Moreover, the company seeks to align its business interests with those of other SADC countries, such a Mozambique, as more than 18 million consumers make the SACD countries a lucrative market space. Where possible, competitors may also be engaged to assist in growing the upholstery business.

Internet links and sources accessed: http://www.globalmarket.com/textile-leather-25.html?gclid=CJWC3IGmu80CFYpAGwodeRgNEA; http://www.nathaninc.com/

23.7 CASE 7: FROM JUST RUBBISH TO A PROFESSIONAL RECYCLING BUSINESS

23.7.1 Introduction

A tough decision had to be made: recycle or risk dropping out of school. Samuel Mokonyane was confronted with this predicament. It was in 1995 when 15-year-old Sam had to find ways to sustain his Grade 10 schooling on his own. Sam was a disciplined and bright young man who had ambitions of becoming an economist after school. Born into a Christian family to parents who were religious ministers, Sam was concerned about his difficult upbringing given that his parents did not receive regular stipends from the congregations they served. He was ambivalent about this: on one hand he was bitter about his situation, and on the other, he wanted to find a solution.

23.7.2 First opportunity

His teacher, Mrs van der Merwe introduced Sam to the recycling business. He got an incentive of R2 for every 50 cans he collected. At first Sam collected an average of 250 per day, which earned him R10 a day. That was enough for him to use on his transport and budget meal. Mrs van der Merwe opened opportunities for Sam to buy food from the school tuckshop at a discounted rate and that increased the value of the R10 he earned per day. The passion for recycling increased on a daily basis and Sam never looked back. He spent most of the income he earned on transport and food as he was still a secondary school learner. Very little money was left to save and this made the project unsustainable. Moreover Sam did not have a savings culture as such; Sam saw nothing wrong in sometimes spending his entire daily income. Little did he know that there needed to be some form of investment savings made no matter how small the income might have seemed.

23.7.3 Support and partnership

It was after his classmate and friend Thabiso joined him in the recycling project that Sam's fortunes started looking up. Thabiso (17), the son of a primary school teacher and a grandson of an illustrious taxi owner became exposed to the significance of education and small-business management at a tender age. Thabiso introduced Sam to new business territories where large-scale can collection was possible.

Given Sam's keenness to learn and his enthusiasm, the pair soon embarked on massive can collection exercises. These yielded favourable returns and invaluable experience so far as the recycling business is concerned.

23.7.4 Challenges faced

- Sam never received any business education and relied heavily on a trial-and-error approach, which made his prospects of success uncertain.
- Sam and Thabiso had limited experience in the venture they were pursuing. As a result, only passion, determination and the desire to break their poverty cycle through education encouraged them.
- There were days that the business partners would get discouraged, for example if key clients were delayed with their payments.
- The pair operated the business as survivalist entrepreneurs given that a large portion of the cash flow was often consumed by pressing personal needs, such as food and transportation.
- Limited resources (time, money and capacity) were a reality for the partners. For instance, during weekdays nothing seemed to be happening businesswise as the pair attended school. Business activities were thus relegated to after hours and during the weekends.

- Even though Mrs van der Merwe played the role of mentor, this was only done sporadically, and no deliberate system was in place.
- Sam often felt isolated and ridiculed by his peers who viewed his business project as something done by nobodies.
- The venture was very labour intensive and all the negative human factors could not be easily averted.

23.7.5 Achievements and future prospects

Sam went on to acquire his MBA and Thabiso holds an honours degree in international finance. Today, Sam, Thabiso and two other silent shareholders operate a multimillion-rand recycling and ecosystem consulting business called Tsosoloso (Pty) Ltd, which employs a total of 31 people. Tsosoloso aims to collaborate with large recycling and printing firms such as Remade and Sappi whose strategic clients include municipalities and large industries. Despite the challenges, Tsosoloso plans to diversify by also recycling items such as cast-off office paper like stationery and computer paper; old invoices and printed documents; magazines; newspapers; books; telephone books; advertising material such as flyers; posters and pamphlets; cardboard boxes; and office equipment. They would like to make a contribution towards the ecosystem, ensure cleaner cities and towns while also improving the living standards of communities. As such, the economy is likely to grow as the recycling business becomes more effective and Tsosoloso can employ more staff and grow the business. Tsosoloso appreciates the fact that recycling is one of the fastest-growing businesses across the globe. Moreover, the cost of capital is relatively low and everybody with a willing spirit can partake in the recycling business.

Internet links and sources accessed: http://www.remade.co.za/default.php?ipkCat=8&sid=8; http://www.sappi.com/regions/sa/SappiSouthernAfrica/recycling/Pages/default.aspx

23.8 CASE 8: EMERGING MOTOR MECHANIC

23.8.1 Introduction

From a very early age, Jabu Mhlanga found joy in working with motor vehicles. As early as four, Jabu started spending time at his father Benson Mhlanga's motor-mechanic workshop. His father, a self-taught backyard mechanic, encouraged and taught his son how to repair, spray-paint, diagnose and drive cars. This made an impression on Jabu and ignited his desire to pursue the auto-mechanic route as this was an available opportunity to Jabu, whose life was very difficult for him. The young Jabu learned as much as possible with regard to cars from his father. Benson has since retired due to old age and his poor state of health.

23.8.2 Succession

Jabu, who is now 48 years old, found a government-funded house in which he lives with his wife Nkele (45) and two children Matilda (24) and Benson (Jr) (17). He managed to build an open shelter at the front end of his yard, which he uses to fix and service cars for a fee. He is assisted by a few workshop artisans and his family.

23.8.3 Support and networks

In 2014, Jabu received a call from an old friend who told him to urgently contact the Automotive Industry Development Centre (AIDC). The AIDC is a commissioned agency, which is partnering with government, higher education institutions and automotive industry participants such as the University of South Africa, Ford and Nissan. It is a Gauteng Growth and Development Agency (GGDA) subsidiary. Moreover, the AIDC was established by government as its support centre to increase the local automotive industry's global competitiveness and to promote Gauteng as the automotive industry investment destination of choice. This was to be done through skills and capacity development. As such, smaller businesses within the industry, such as panel beaters, mechanics and electricians were identified by the AIDC as people targeted for inclusion in its skills development programmes.

Both registered and unregistered businesses, particularly those in townships, were earmarked for skills development, mentoring and other support. According to the AIDC, the Winterveldt Automotive Hub offers artisans some form of mentoring and training through the master artisans located at the facility. Its aim is to develop township automotive enterprises. However, not all artisans/mechanics can be housed in hubs such as Winterveldt. Jabu soon learned from the project coordinator that as a backyard mechanic, he was also eligible to join the programme. Jabu informed his wife and the rest of the family as well as his workshop assistant and the news was met with great excitement.

23.8.4 Mentorship and training

After a first briefing, Jabu and 42 other mentees were assigned mentors who were set to offer business coaching and advisory services. The programme was divided into both technical and managerial skills for the automotive business. As a mechanic, Jabu was taught how to diagnose a vehicle, quote and do basic and extensive repairs. On the managerial side, Jabu had to learn how to do basic financial management, customer service, marketing, basic admin and how to develop strategic documents such as concept and business plans. The latter was done in partnership with the University of South Africa, while the former skills were acquired through the Automobile Association. Jabu and his mentor had to identify his business's problem areas and pockets of excellence. Moreover, these areas of improvement had to be categorised into items that required funding and those that merely needed conceptual thinking and effort. For instance, the purchasing of heavy workshop equipment was put on hold until funding was received. However, aspects such as developing a Facebook page, flyers and signage were identified as those that could be immediately executed. Jabu's family assisted immensely with regard to the latter.

23.8.5 Where to from here?

Jabu plans to expand his business through networks and partnerships. This opportunity came from him gaining access to the Winterveldt Automotive Hub, where more business and mentoring opportunities could arise. Now that he has completed the AIDC project, he plans to use the concept plan that he has developed to attract funding from organisations such the Development Bank of Southern Africa and its partners. His family is also keen to take part in the business by offering some administrative and technical support. His wife Nkele and daughter Matilda will assist with the administrative side of the business while his son Benson will offer technical support.

Even though Jabu employs a few workshop assistants on a part-time basis, he hopes to grow his business to become one of the most successful family businesses operating within the automotive industry. Even though these dreams are not yet fully realised, the business is starting to show some signs of growth. Jabu is thankful to all those who took part in the resuscitation of the business. His objective is to create jobs and better the community in which the business is situated.

Links and sources accessed: Automotive Industry Development Centre (http://www.aidc.co.za/); Department of Trade and Industry (http://www.thedti.gov.za/about_dti.jsp); University of South Africa, College of Economic & Management Sciences Community Engagement Portfolio

23.9 CASE 9: INTRAPRENEURSHIP AS A GROWING TREND

Intrapreneurship has been a growing trend over a few decades. This is the result of great incentives as well as the hunger for creative ideas to accompany solutions. Sindi and Melany, the two Little Masters Nursery School teachers were keen to provide additional services for kids and parents. Since their nursery school had been run for over 20 years, they noticed how easy it was for complacency to creep in as routine took precedence. As a result, the school was at risk of reaching a point of stagnation. Moreover, there were several competitors in the area that had since entered the market and they seemed to be doing well. Little Masters needed better ways of doing things to keep up with the competition.

23.9.1 What Little Masters offers

Little Masters provides formal learning, extramural activities as well and basic child care. These are offered during the week, from Monday to Friday. The opening times are between 6:00 a.m. to 6:00 p.m. Newborns to six-year-old children are welcome. Even though this is a Christian school, children of different beliefs are also accommodated. A wide spread of nutritious diets including halaal are provided. The school is well equipped with materials and apparatus for the development of cognitive and physical skills.

23.9.2 Challenges

- Not all parents are cooperative in terms of regular and timely payment of school fees.
- Not all children learn the same way or as quickly; at times intense pedagogical approaches are required.
- Businesses in the area are often prone to security risks and crime waves. As such security ought to be increased so as to respond to possible threats by protecting lives and property.
- Ever-changing regulatory frameworks from the departments of Social Development, Health and Basic Education. These frameworks dictate how children ought to be taught and taken care of.
- Operational costs such as electricity, rates and taxes, food and salaries are forever escalating, while there is constant reluctance by parents to adhere to fee increases.

23.9.3 Internal initiatives and opportunities

The pair set up an after-care services for parents who are, for one reason or the other, keen to leave their kids outside the normal day-time hours. This is something that the employer supports even though the responsibility to see this initiative through lies with the pair. Many parents have warmed to the offer that Little Masters now provides in terms of after-hours care.

Some parents are keen to leave their kids in the hands of capable caregivers while they catch up on a dinner date, prepare for university or college assessments or even resolve work deadlines and/or crises. An increasing number of people support this unique after-hours care idea. It is still difficult to accurately quantify the exact earnings per evening, which are generated from this initiative. However, a figure of between R1 200 and R2 000 per evening is possible, at the rate of R100 per hour per child.

Sindi and Melany hope to grow the initiative and this can serve as a good example of intrapreneurship. More internal or corporate entrepreneurship is thus encouraged as this can help ordinary employees to start entrepreneurially. There is also hope of collaborating with other nursery schools such as Tango Tots and Little Giants. The initiative can only grow, and this is set to benefit Sindi and Melany, Little Masters and the surrounding communities.

Other sources accessed: http://www.littlegiantsnursery-school.co.za/wmenu.php

23.10 CASE 10: RICHARD MAPONYA: THE MAN BEHIND MAPONYA MALL

Richard Maponya is a South African serial entrepreneur and the owner of Maponya Mall in Soweto, a township south of Johannesburg. Soweto is the largest township in South Africa and home to over five million inhabitants. Because of apartheid laws that classified residential areas according to race, Soweto was designated as one of the townships reserved for black people. Back then, black people were prohibited from engaging in any economic activity including entrepreneurial activities. As a result, there were no formal shops, shopping centres or malls in townships. Since it opened its doors in 2007, the mall has become the economic hub of Soweto.

By the end of 2015, it was estimated that over 900 000 customers visit the over 200 shops in the mall every month (Maponya Mall, 2016). These include a variety of supermarkets, shops, banks and even a cinema, but how did it all begin? Although Maponya Mall was officially opened on 27 September 2007 (Maponya Mall, 2016), its planning took close to 30 years (Moya, 2005). Richard Maponya was very dissatisfied with the status quo in the 1970s; Soweto had no economic activity and its residents had to travel to the Johannesburg CBD to shop and to work. The young Maponya saw the opportunity to build a shopping mall in the township, which would centralise economic activities, and transform Soweto into a thriving "city" (Moya, 2005).

In the late 1970s, Maponya started working towards his vision. In 1977 when he acquired land on which the mall stands, the apartheid government denied him a trading licence. Despite countless attempts and failures, Richard Maponya did not give up on his dream. Instead, throughout this time – between 1977 and 2007 – Maponya honed his business and entrepreneurship skills. It was only in 2007 under the new democratic government that Maponya managed to secure the required authorisation and financing to finally open the Maponya Mall.

23.11 CASE 11: SHINGIE CHIVIZHE: THE SERIAL ENTREPRENEUR

Shingie Chivizhe is a vibrant and passionate entrepreneur. He breathes, talks and dreams (when he sleeps) entrepreneurship. What separates Shingie from other traditional entrepreneurs is that Shingie is a serial entrepreneur. Unlike traditional entrepreneurs who focus on one business venture at a time, serial entrepreneurs start multiple (a series of) businesses at the same time. Generally, traditional entrepreneurs are involved in the day-to-day management of their companies; serial entrepreneurs start the business and identify suitably qualified people to run the business for them. Some of the world-famous serial entrepreneurs are Richard Branson (Virgin Group of Companies), Oprah Winfrey (*Oprah* TV show and Harpo Productions Inc), and Donald Trump (*The Apprentice* and The Trump Organisation).

23.11.1 Background

The world has always been small for Shingie; he always aspired for something bigger and greater. As a young boy, in the streets of Harare, Shingie started several small businesses selling sweets and confectionary to other school kids. Shingie credited his enterprising trait to his upbringing. It is also his belief that entrepreneurship can be taught: the earlier, the better. At times his parents could not understand where he got his money from, suspecting him at times of stealing or being involved in illegal activities. From the first time Shingie experienced the exuberance of making his own money he never looked back. So much so that when he finished high school, he realised that Zimbabwe was too small for him. He migrated to South Africa in the early 1990s to pursue his studies. Shingie had a 10-year plan that was simple and effective. It was a two-pronged initiative that sought to: (a) improve his theoretical knowledge about entrepreneurship and the world around him and (b) polish his personal selling skills. To achieve the former, he enrolled at the University of KwaZulu-Natal to pursue studies in chemical engineering. After successfully achieving his degree, he intentionally went to work for a leading global water-treatment firm in Johannesburg as a technical sales engineer – selling water-treatment solutions to industrial clients.

The job involved a lot of travel, target-driven selling and interactions with clients from a broad spectrum across the city.

It exposed him to global selling practices and sales philosophies; he tapped into the corporate's knowledge-based resources. The training was top notch, so was the mentoring and constant coaching.

A career in sales helped him understand the business cycle and how pivotal sales were to the enterprise; most importantly how to create sustainable relationships with people (which in the long term translated into business opportunities). Every entrepreneur creates a network of relationships around his enterprise. Through this, Shingie learnt everything that needed to be learnt about business beyond the theories in the books. He professes that sales experience is an "absolute necessity for any entrepreneur". He adds:

Sales teaches one to improve one's emotional intelligence, opportunity recognition skills and most importantly personal discipline, a skillset, which every business person needs (internal- and external-based traits). It teaches one to have a pragmatic approach – the proverbial plan, think act and review way. The target setting teaches you to optimise your efforts so that they yield results soonest.

During his working days, Shingie says he not only invented but also experimented and tested The Entrepreneur's Toolkit (TET), which is a set of eight rules an entrepreneur should follow if they are to be successful in their businesses. Shingie attributes his success to TET; and today he is loyal to the eight TET principles:

1. Start small. Every business grows.
2. Wake up early every day, preferably before sunrise.
3. Your business plan is your business bible.
4. Know your key selling points. Sell, sell and sell.
5. Cash flow is king. Manage it.
6. Your business operates in your environment. Study the environment.
7. Know when to cash in and move on.
8. Above all, live a healthy life and devote time to your family; they are your backbone.

Like any great entrepreneur, Shingie always had a grand plan. Part of his plan was also to have all his associates become disciples of his TET principles. His very first disciple was his wife, Kholofelo. At the time that TET was developed Kholo was working for a leading multinational telecommunications company in Johannesburg. Shingie asked his wife to run a few experiments his newly found "entrepreneurial secrets" at her workplace. The results were remarkable. Mrs Chivizhe subsequently resigned from her job in 2012, and today practices TET with Shingie at their venture, Unathi Piping Pumps & Valves (http://www.unathippv.co.za). Much of Shingie's influence has been moulded by Steve Covey's *Seven principles of highly effective people*, as well as other writings from contemporary writers like Tom Corley and Nathan Jamail. Shingie believes a good entrepreneur should read a lot. This creates a well-rounded view on life.

23.11.2 The beginning

Shingie says he was attracted to the world of entrepreneurship by a combination of push and pull factors. Pull factors were mostly internally based such as the need to see more, do more, experience more, and obviously achieve more. Push factors are mostly external (to the entrepreneur) and these include feelings of being stuck in a rut, rapidly diminishing job satisfaction etc. A combination of these factors sets in motion introspection and hard questions. "If I can do this at work, can I not do this for myself given the right resources and support?" This set Shingie out on his entrepreneurial journey. Shingie's resignation in 2007 came as a shock to his boss who told him that he would be back after three months. But, three months turned into three years and later six years; now it has been nine years and still Shingie has not returned to that job. Resigning from a good job and going full-time into entrepreneurship was hard to sell to his wife – he says it was the most difficult sales pitch of his life. Fortunately, he got what he needed from her – her support. The rest was easy. Shingie believes that creating a business is easy. Keeping it sustainable and relevant to the marketplace is the difficult part. It is for this reason that he has opted to focus on the three outfits he has.

His first enterprise was Mandara Consulting Solutions (MCS) (http://www.mandaraconsulting.co.za). This business started in his back room (start small principle – TET Principle 1). The business was a phenomenal success, to such an extent that it was almost a victim of its own success. After an oversell in which Shingie had promised to Eskom he could deliver on a project, he found himself with a R1.2 million nightmare. He had to look for this money.

Bankers were laughing under the table even though he had clinched a good deal. His prayers were answered in the form of private finance he sourced from two gentlemen who later became his partners in Mandara Consulting Solutions. His partners complimented his skills set, but unfortunately did not share his vision. The company enjoyed a good run and had many notable achievements. But with the challenges of partnerships and divergent visions, Shingie parted ways amicably with his partners and started his own ventures. This experience taught Shingie that a businessperson has to have control of his cash flow if his business is to be sustainable (TET principle 5).

Armed with lessons from Mandara, Shingie founded Unathi Piping Pumps & Valves (PPV). The company was established to satisfy a market need for engineering consumables and most engineering buyers prefer to buy from knowledgeable and reliable companies. The company has been in existence since 2009. It has done work for numerous state-owned enterprises (SOEs) such as Eskom, Transnet, ACSA and municipalities. The only weakness that Unathi PPV had was that it had a long cash flow cycle – usually three to four months. Most of the work was project based and required a huge capital injection and took time to yield. The business almost died from a cash flow suffocation with the increased demands from the clients (see TET principle 5).

This gave birth to another business enterprise, Zandile Energy Solutions (ZES), in 2010. This company specialises in fuels and lubricants and leverages on a number of suppliers in the market. It has been supplying state departments with lubricants for their vehicle fleets for the past five years. The rationale for starting ZES (http://www.zandile-energy.co.za) was to have a business unit that had a shorter cash flow pattern than Unathi PPV. ZES's clients pay in two-week cycles. This drastically improves the cash flow velocity of the two companies. In an environment where cash is king, Shingie sought to improve his cash flow further by having an enterprise in the fold with an even shorter cash flow. This needed a company that has fast-moving consumer goods (FMCG), as well as something about which he was fairly knowledgeable. This could free up his focus to allow him to concentrate on the high-yield enterprises. The business had to have a lower skills-base requirement, with a hands-off approach. It had to provide repeat business.

This thinking premise resulted in the creation of First In Safety (FIS) (http://www.firstinsafety.co.za). The business supplies protective personnel equipment to the local industry. It has an ecommerce platform and is manned by a sales agent driving the sales. The eplatform provides a Web presence that allows commerce outside business hours to a global market. Sales come from as far as the DRC.

The above-mentioned three companies (Unathi PPV, ZES and FIS) cross-subsidise each other from a cash flow perspective. Shingie has an accountant, Theresa, whose sole purpose is to manage the cash flow. The rest of the team concentrates on operative issues. This complex boot strapping has ensured that the companies always looked inwards for funding. The greatest challenge Shingie's three businesses face is access to markets. Nevertheless, he still soldiers on.

Shingie says he also learnt a lot from his failures and urges that entrepreneurs should never be discouraged by failure. After all, every failed experience should be taken as a learning step. In line with his belief in *The seven habits of highly effective people*, Shingie has constantly sought to improve himself. In 2013, he enrolled for a Master's in Entrepreneurship from the Wits Business School. To him entrepreneurship is a lifestyle and a career. To him business is not for the fainthearted, but for winners.

Annexure A

Table 1 Future value interest factors for R1 compounded at k% for n periods: $FVIF_{k,n} = (1 + i)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	20%	25%	30%	35%
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100	1.110	1.120	1.130	1.140	1.150	1.160	1.200	1.250	1.300	1.350
2	1.020	1.040	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.210	1.232	1.254	1.277	1.300	1.323	1.346	1.440	1.563	1.690	1.823
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331	1.368	1.405	1.443	1.482	1.521	1.561	1.728	1.953	2.197	2.460
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464	1.518	1.574	1.630	1.689	1.749	1.811	2.074	2.441	2.856	3.322
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611	1.685	1.762	1.842	1.925	2.011	2.100	2.488	3.052	3.713	4.484
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772	1.870	1.974	2.082	2.195	2.313	2.436	2.986	3.815	4.827	6.053
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949	2.076	2.211	2.353	2.502	2.660	2.826	3.583	4.768	6.275	8.172
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144	2.305	2.476	2.658	2.853	3.059	3.278	4.300	5.960	8.157	11.03
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358	2.558	2.773	3.004	3.252	3.518	3.803	5.160	7.451	10.60	14.89
10	1.105	1.219	1.344	1.480	1.629	1.791	1.967	2.159	2.367	2.594	2.839	3.106	3.395	3.707	4.046	4.411	6.192	9.313	13.79	20.11
11	1.116	1.243	1.384	1.539	1.710	1.898	2.105	2.332	2.580	2.853	3.152	3.479	3.836	4.226	4.652	5.117	7.430	11.64	17.92	27.14
12	1.127	1.268	1.426	1.601	1.796	2.012	2.252	2.518	2.813	3.138	3.498	3.896	4.335	4.818	5.350	5.936	8.916	14.55	23.30	36.64
13	1.138	1.294	1.469	1.665	1.886	2.133	2.410	2.720	3.066	3.452	3.883	4.363	4.898	5.492	6.153	6.886	10.70	18.19	30.29	49.47
14	1.149	1.319	1.513	1.732	1.980	2.261	2.579	2.937	3.342	3.797	4.310	4.887	5.535	6.261	7.076	7.988	12.84	22.74	39.37	66.78
15	1.161	1.346	1.558	1.801	2.079	2.397	2.759	3.172	3.642	4.177	4.785	5.474	6.254	7.138	8.137	9.266	15.41	28.42	51.19	90.16
16	1.173	1.373	1.605	1.873	2.183	2.540	2.952	3.426	3.970	4.595	5.311	6.130	7.067	8.137	9.358	10.75	18.49	35.53	66.54	121.7
17	1.184	1.400	1.653	1.948	2.292	2.693	3.159	3.700	4.328	5.054	5.895	6.866	7.986	9.276	10.76	12.47	22.19	44.41	86.50	164.3
18	1.196	1.428	1.702	2.026	2.407	2.854	3.380	3.996	4.717	5.560	6.544	7.690	9.024	10.58	12.38	14.46	26.62	55.51	112.5	221.8
19	1.208	1.457	1.754	2.107	2.527	3.026	3.617	4.316	5.142	6.116	7.263	8.613	10.20	12.06	14.23	16.78	31.95	69.39	146.2	299.5
20	1.220	1.486	1.806	2.191	2.653	3.207	3.870	4.661	5.604	6.727	8.062	9.646	11.52	13.74	16.37	19.46	38.34	86.74	190.0	404.3
21	1.232	1.516	1.860	2.279	2.786	3.400	4.141	5.034	6.109	7.400	8.949	10.80	13.02	15.67	18.82	22.57	46.01	108.4	247.1	545.8
22	1.245	1.546	1.916	2.370	2.925	3.604	4.430	5.437	6.659	8.140	9.934	12.10	14.71	17.86	21.64	26.19	55.21	135.5	321.2	736.8
23	1.257	1.577	1.974	2.465	3.072	3.820	4.741	5.871	7.258	8.954	11.03	13.55	16.63	20.36	24.89	30.38	66.25	169.4	417.5	994.7
24	1.270	1.608	2.033	2.563	3.225	4.049	5.072	6.341	7.911	9.850	12.24	15.18	18.79	23.21	28.63	35.24	79.50	211.8	542.8	1343
25	1.282	1.641	2.094	2.666	3.386	4.292	5.427	6.848	8.623	10.83	13.59	17.00	21.23	26.46	32.92	40.87	95.40	264.7	705.6	1813
30	1.348	1.811	2.427	3.243	4.322	5.743	7.612	10.06	13.27	17.45	22.89	29.96	39.12	50.95	66.21	85.85	237.4	807.8	2620	8129
35	1.417	2.000	2.814	3.946	5.516	7.686	10.68	14.79	20.41	28.10	38.57	52.80	72.07	98.10	133.2	180.3	590.7	2465	9728	36449
40	1.489	2.208	3.262	4.801	7.040	10.29	14.97	21.72	31.41	45.26	65.00	93.05	132.8	188.9	267.9	378.7	1470	7523	36119	*
45	1.565	2.438	3.782	5.841	8.985	13.76	21.00	31.92	48.33	72.89	109.5	164.0	244.6	363.7	538.8	795.4	3657	22959	*	*
50	1.645	2.692	4.384	7.107	11.47	18.42	29.46	46.90	74.36	117.4	184.6	289.0	450.7	700.2	1084	1671	9100	70065	*	*

* FVIF > 99999

Table 2 Future value interest factors for R1 annuity compounded at k% for n periods: $FVIF_{k,n}$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	20%	25%	30%	35%
1	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2	2.010	2.020	2.030	2.040	2.050	2.060	2.070	2.080	2.090	2.100	2.110	2.120	2.130	2.140	2.150	2.160	2.200	2.250	2.300	2.350
3	3.030	3.060	3.091	3.122	3.153	3.184	3.215	3.246	3.278	3.310	3.342	3.374	3.407	3.440	3.473	3.506	3.640	3.813	3.990	4.173
4	4.060	4.122	4.184	4.246	4.310	4.375	4.440	4.506	4.573	4.641	4.710	4.779	4.850	4.921	4.993	5.066	5.368	5.766	6.187	6.633
5	5.101	5.204	5.309	5.416	5.526	5.637	5.751	5.867	5.985	6.105	6.228	6.353	6.480	6.610	6.742	6.877	7.442	8.207	9.043	9.954
6	6.152	6.308	6.468	6.633	6.802	6.975	7.153	7.336	7.523	7.716	7.913	8.115	8.323	8.536	8.754	8.977	9.930	11.259	12.756	14.438
7	7.214	7.434	7.662	7.898	8.142	8.394	8.654	8.923	9.200	9.487	9.783	10.089	10.405	10.730	11.067	11.414	12.916	15.073	17.583	20.492
8	8.286	8.583	8.892	9.214	9.549	9.897	10.26	10.64	11.03	11.44	11.86	12.30	12.76	13.23	13.73	14.24	16.50	19.84	23.86	28.66
9	9.369	9.755	10.16	10.58	11.03	11.49	11.98	12.49	13.02	13.58	14.16	14.78	15.42	16.09	16.79	17.52	20.80	25.80	32.01	39.70
10	10.46	10.95	11.46	12.01	12.58	13.18	13.82	14.49	15.19	15.94	16.72	17.55	18.42	19.34	20.30	21.32	25.96	33.25	42.62	54.59
11	11.57	12.17	12.81	13.49	14.21	14.97	15.78	16.65	17.56	18.53	19.56	20.65	21.81	23.04	24.35	25.73	32.15	42.57	56.41	74.70
12	12.68	13.41	14.19	15.03	15.92	16.87	17.89	18.98	20.14	21.38	22.71	24.13	25.65	27.27	29.00	30.85	39.58	54.21	74.33	101.8
13	13.81	14.68	15.62	16.63	17.71	18.88	20.14	21.50	22.95	24.52	26.21	28.03	29.98	32.09	34.35	36.79	48.50	68.76	97.63	138.5
14	14.95	15.97	17.09	18.29	19.60	21.02	22.55	24.21	26.02	27.97	30.09	32.39	34.88	37.58	40.50	43.67	59.20	86.95	127.9	188.0
15	16.10	17.29	18.60	20.02	21.58	23.28	25.13	27.15	29.36	31.77	34.41	37.28	40.42	43.84	47.58	51.66	72.04	109.7	167.3	254.7
16	17.26	18.64	20.16	21.82	23.66	25.67	27.89	30.32	33.00	35.95	39.19	42.75	46.67	50.98	55.72	60.93	87.44	138.1	218.5	344.9
17	18.43	20.01	21.76	23.70	25.84	28.21	30.84	33.75	36.97	40.54	44.50	48.88	53.74	59.12	65.08	71.67	105.9	173.6	285.0	466.6
18	19.61	21.41	23.41	25.65	28.13	30.91	34.00	37.45	41.30	45.60	50.40	55.75	61.73	68.39	75.84	84.14	128.1	218.0	371.5	630.9
19	20.81	22.84	25.12	27.67	30.54	33.76	37.38	41.45	46.02	51.16	56.94	63.44	70.75	78.97	88.21	98.60	154.7	273.6	484.0	852.7
20	22.02	24.30	26.87	29.78	33.07	36.79	41.00	45.76	51.16	57.27	64.20	72.05	80.95	91.02	102.4	115.4	186.7	342.9	630.2	1152
21	23.24	25.78	28.68	31.97	35.72	39.99	44.87	50.42	56.76	64.00	72.27	81.70	92.47	104.8	118.8	134.8	225.0	429.7	820.2	1556
22	24.47	27.30	30.54	34.25	38.51	43.39	49.01	55.46	62.87	71.40	81.21	92.50	105.5	120.4	137.6	157.4	271.0	538.1	1067	2102
23	25.72	28.84	32.45	36.62	41.43	47.00	53.44	60.89	69.53	79.54	91.15	104.6	120.2	138.3	159.3	183.6	326.2	673.6	1388	2839
24	26.97	30.42	34.43	39.08	44.50	50.82	58.18	66.76	76.79	88.50	102.2	118.2	136.8	158.7	184.2	214.0	392.5	843.0	1806	3834
25	28.24	32.03	36.46	41.65	47.73	54.86	63.25	73.11	84.70	98.35	114.4	133.3	155.6	181.9	212.8	249.2	472.0	1055	2349	5177
30	34.78	40.57	47.58	56.08	66.44	79.06	94.46	113.3	136.3	164.5	199.0	241.3	293.2	356.8	434.7	530.3	1182	3227	8730	23222
35	41.66	49.99	60.46	73.65	90.32	111.4	138.2	172.3	215.7	271.0	341.6	431.7	546.7	693.6	881.2	1121	2948	9857	32423	*
40	48.89	60.40	75.40	95.03	120.8	154.8	199.6	259.1	337.9	442.6	581.8	767.1	1014	1342	1779	2361	7344	30089	*	*
45	56.48	71.89	92.72	121.0	159.7	212.7	285.7	386.5	525.9	718.9	986.6	1358	1874	2591	3585	4965	18281	91831	*	*
50	64.46	84.58	112.8	152.7	209.3	290.3	406.5	573.8	815.1	1164	1669	2400	3460	4995	7218	10436	45497	*	*	*

* FVIFA > 99999

Table 3 Present value interest factors for R1 discounted at k% for n periods: $PVIF_{k,n} = \frac{1}{(1+i)^n}$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	20%	25%	30%	35%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.833	0.800	0.769	0.741
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.694	0.640	0.592	0.549
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.579	0.512	0.455	0.406
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.482	0.410	0.350	0.301
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497	0.476	0.402	0.328	0.269	0.223
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432	0.410	0.335	0.262	0.207	0.165
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376	0.354	0.279	0.210	0.159	0.122
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327	0.305	0.233	0.168	0.123	0.091
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284	0.263	0.194	0.134	0.094	0.067
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247	0.227	0.162	0.107	0.073	0.050
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.135	0.086	0.056	0.037
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.112	0.069	0.043	0.027
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.093	0.055	0.033	0.020
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.078	0.044	0.025	0.015
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.065	0.035	0.020	0.011
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123	0.107	0.093	0.054	0.028	0.015	0.008
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108	0.093	0.080	0.045	0.023	0.012	0.006
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095	0.081	0.069	0.038	0.018	0.009	0.005
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083	0.070	0.060	0.031	0.014	0.007	0.003
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073	0.061	0.051	0.026	0.012	0.005	0.002
21	0.811	0.660	0.538	0.439	0.359	0.294	0.242	0.199	0.164	0.135	0.112	0.093	0.077	0.064	0.053	0.044	0.022	0.009	0.004	0.002
22	0.803	0.647	0.522	0.422	0.342	0.278	0.226	0.184	0.150	0.123	0.101	0.083	0.068	0.056	0.046	0.038	0.018	0.007	0.003	0.001
23	0.795	0.634	0.507	0.406	0.326	0.262	0.211	0.170	0.138	0.112	0.091	0.074	0.060	0.049	0.040	0.033	0.015	0.006	0.002	0.001
24	0.788	0.622	0.492	0.390	0.310	0.247	0.197	0.158	0.126	0.102	0.082	0.066	0.053	0.043	0.035	0.028	0.013	0.005	0.002	0.001
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038	0.030	0.024	0.010	0.004	0.001	0.001
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057	0.044	0.033	0.026	0.020	0.015	0.012	0.004	0.001	*	*
35	0.706	0.500	0.355	0.253	0.181	0.130	0.094	0.068	0.049	0.036	0.026	0.019	0.014	0.010	0.008	0.006	0.002	*	*	*
40	0.672	0.453	0.307	0.208	0.142	0.097	0.067	0.046	0.032	0.022	0.015	0.011	0.008	0.005	0.004	0.003	0.001	*	*	*
45	0.639	0.410	0.264	0.171	0.111	0.073	0.048	0.031	0.021	0.014	0.009	0.006	0.004	0.003	0.002	0.001	0.000	*	*	*
50	0.608	0.372	0.228	0.141	0.087	0.054	0.034	0.021	0.013	0.009	0.005	0.003	0.002	0.001	0.001	0.001	*	*	*	*

* PVIF = .000 when rounded to three decimal places

Table 4 Present value interest factors for R1 annuity discounted at k% for n periods: $PVIF_{k,n} = \sum_{t=1}^{n} \frac{1}{(1+i)^t}$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	20%	25%	30%	35%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.833	0.800	0.769	0.741
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626	1.605	1.528	1.440	1.361	1.289
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283	2.246	2.106	1.952	1.816	1.696
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855	2.798	2.589	2.362	2.166	1.997
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	2.991	2.689	2.436	2.220
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784	3.685	3.326	2.951	2.643	2.385
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160	4.039	3.605	3.161	2.802	2.508
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487	4.344	3.837	3.329	2.925	2.598
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772	4.607	4.031	3.463	3.019	2.665
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019	4.833	4.192	3.571	3.092	2.715
11	10.37	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687	5.453	5.234	5.029	4.327	3.656	3.147	2.752
12	11.26	10.58	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660	5.421	5.197	4.439	3.725	3.190	2.779
13	12.13	11.35	10.63	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122	5.842	5.583	5.342	4.533	3.780	3.223	2.799
14	13.00	12.11	11.30	10.56	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002	5.724	5.468	4.611	3.824	3.249	2.814
15	13.87	12.85	11.94	11.12	10.38	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142	5.847	5.575	4.675	3.859	3.268	2.825
16	14.72	13.58	12.56	11.65	10.84	10.11	9.447	8.851	8.313	7.824	7.379	6.974	6.604	6.265	5.954	5.668	4.730	3.887	3.283	2.834
17	15.56	14.29	13.17	12.17	11.27	10.48	9.763	9.122	8.544	8.022	7.549	7.120	6.729	6.373	6.047	5.749	4.775	3.910	3.295	2.840
18	16.40	14.99	13.75	12.66	11.69	10.83	10.06	9.372	8.756	8.201	7.702	7.250	6.840	6.467	6.128	5.818	4.812	3.928	3.304	2.844
19	17.23	15.68	14.32	13.13	12.09	11.16	10.34	9.604	8.950	8.365	7.839	7.366	6.938	6.550	6.198	5.877	4.843	3.942	3.311	2.848
20	18.05	16.35	14.88	13.59	12.46	11.47	10.59	9.818	9.129	8.514	7.963	7.469	7.025	6.623	6.259	5.929	4.870	3.954	3.316	2.850
21	18.86	17.01	15.42	14.03	12.82	11.76	10.84	10.02	9.292	8.649	8.075	7.562	7.102	6.687	6.312	5.973	4.891	3.963	3.320	2.852
22	19.66	17.66	15.94	14.45	13.16	12.04	11.06	10.20	9.442	8.772	8.176	7.645	7.170	6.743	6.359	6.011	4.909	3.970	3.323	2.853
23	20.46	18.29	16.44	14.86	13.49	12.30	11.27	10.37	9.580	8.883	8.266	7.718	7.230	6.792	6.399	6.044	4.925	3.976	3.325	2.854
24	21.24	18.91	16.94	15.25	13.80	12.55	11.47	10.53	9.707	8.985	8.348	7.784	7.283	6.835	6.434	6.073	4.937	3.981	3.327	2.855
25	22.02	19.52	17.41	15.62	14.09	12.78	11.65	10.67	9.823	9.077	8.422	7.843	7.330	6.873	6.464	6.097	4.948	3.985	3.329	2.856
30	25.81	22.40	19.60	17.29	15.37	13.76	12.41	11.26	10.27	9.427	8.694	8.055	7.496	7.003	6.566	6.177	4.979	3.995	3.332	2.857
35	29.41	25.00	21.49	18.66	16.37	14.50	12.95	11.65	10.57	9.644	8.855	8.176	7.586	7.070	6.617	6.215	4.992	3.998	3.333	2.857
40	32.83	27.36	23.11	19.79	17.16	15.05	13.33	11.92	10.76	9.779	8.951	8.244	7.634	7.105	6.642	6.233	4.997	3.999	3.333	2.857
45	36.09	29.49	24.52	20.72	17.77	15.46	13.61	12.11	10.88	9.863	9.008	8.283	7.661	7.123	6.654	6.242	4.999	4.000	3.333	2.857
50	39.20	31.42	25.73	21.48	18.26	15.76	13.80	12.23	10.96	9.915	9.042	8.304	7.675	7.133	6.661	6.246	4.999	4.000	3.333	2.857

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