**GROUP ASSIGNMENT: GROUP ASSIGNMENT**

**MODULE NAME:** Entrepreneurship

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"' The secret of business is to know **something**
that nobody else knows."

-Aristotle Onassis-

**Commented [A1]:** Refer to my comments.
I think you missed the target.
The recommendations are very weak.
65%

**GROUP MEMBERS:**

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**Declaration of own work:**

We declare that this assignment is our own work and that we have cited the sources from which we completed the assignment.

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## 1 SOUTH AFRICAN ENTREPRENEURSHIP ECOSYSTEM

### 1.1 Background

The concept of entrepreneurship ecosystems (EE) has not yet been conclusively defined by the various practitioners and researcher. The concept is an evolving area that gives importance to more in-depth discussions on the sustainable growth of entrepreneurship. Scientometric study of the findings of entrepreneurial environment studies helps explain the mechanisms and growth patterns, offering fresh insights for studies on the sustainable creation of entrepreneurial practices (Kang *et al.*, 2019). An EE is made up of all the elements needed to support entrepreneurship in a given region. Stam and van de Ven (2019) formulated an interconnected entrepreneurial ecosystems model composed of ten components and entrepreneurial products which are shown in Figure 1.

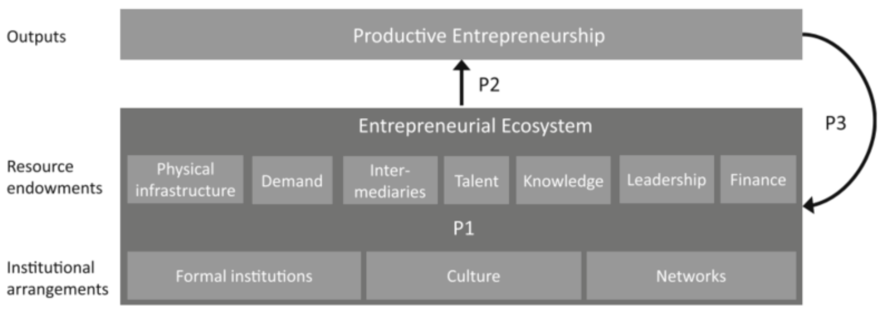


**Figure. 1** Element and outputs of the entrepreneurial ecosystem

The ten components are the organizational architecture of larger structural and capital principles within an entrepreneurial ecosystem. Their conceptualization is focused on the so-called entrepreneurship architecture, which is focused on the context of the social system. The existence and interdependence of these components are essential to the survival of the ecosystem (Stam & van de Ven, 2019).

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The literature on entrepreneurship refers to the entrepreneurial ecosystem as a deliberate interconnected network of complex socio-economic institutions with integrated networks and subsystems that are oriented towards the creation of entrepreneurship in a particular geographical location.

Vital resources like finance, energy, fair and transparent political governance and compliance to the contract are necessary for Africa's creation of an efficient entrepreneurial ecosystem (Atiase *et al.*, 2018). Access to efficient, safe, cost-effective electricity for commercial production is difficult for industries in certain African countries including South Africa currently. As an entry to the development process, electricity is important for growing the efficiency and depth of Africa's entrepreneurial environment and the economy as a whole.

## 1.2 Electricity Supply

**Commented [A4]:** Why the emphasis on electricity? Yes it is a problem, but focus on the assignment. But you tried to motivate your point of view.

Enabling technology is critical for entrepreneurship to flourish and this gravitates around the availability of electrical power. In the manufacturing process, energy is mixed with other components, such as capital and labour factors. As a form of energy, electricity is an important contributor to the development of every economy. Access to effective, secure electricity leads to the advancement of entrepreneurship, economic development and poverty reduction. However, the shortage of affordable energy prohibits most African countries from meeting their growth objectives. Given big investments and various changes to make energy available to everyone, sub-Saharan Africa, specifically, has struggled to improve its citizens' access to electricity (Davidson & Mwakasonda, 2004; Onyeji *et al.*, 2012).

South Africa has not been spared from this scourge of electricity shortages as the country has in recent years been plunged into darkness following the ever incessant load-shedding imposed by the power utility Eskom. Currently, the electricity challenges don't seem to be improving but are rather deepening. The ongoing supply constraints are due in part to the historical costing approach used by Eskom and also partly the South African government fault.

Declining energy prices (in actual terms) has led to a situation in which Eskom sells energy at a price far below the true cost of production, and for several years this has culminated in Eskom being in an untenable position with regards to recovering the full cost of capital spent in generating power (Goldberg, 2016). While still generating profit, the parastatal was unable to fund any additional capital investment needed to satisfy the ever-increasing demand.

It must be underlined that until South Africa has a stable, reliable source of electricity to power its national needs, entrepreneurship development will be seriously stunted. Economic developments which have its roots in entrepreneurship has historically been encouraged by the country's competitive advantage of an abundant and cheap source of electricity. It is quite apparent that the country will experience continuing constraints in the supply of electricity in the foreseeable future.

This bleak reality will not only affect entrepreneurial drive but will wreak havoc on economic development. The energy sector of the economy will always remain a key part in infrastructure development that can, in essence, lay the groundwork for large sustainable long-term economic growth and sustainability. The energy crisis is not a one-off occurrence, but rather an ongoing tale that will have a dynamic effect on consumer sentiment and hamper entrepreneurial drive in the South African economy.

However, despite the trail of destruction that electricity shortages cause economic development, there are pockets of entrepreneurship appearing during these dark times. There is job creation as the number of people selling and servicing generators and also making and selling candles increases.

An upsurge in the purchases of commodities like gas stoves, torches and lanterns has been noted which presents opportunities for entrepreneurs to capitalise on. However, if we look at the bigger picture, the shortage of power does more harm than good to the entrepreneurship ecosystem of South Africa. Government effective leadership and commitment is vital to ensuring the country is sufficiently powered for prosperity.

### 1.3 Government Policy

Entrepreneurship is at the core of a nation's solid and balanced economic growth and development. Empirical research in Africa has also shown entrepreneurship to be a promising job creation tool and a driver of prosperity for the continent (Legas, 2015). It is thus a requirement that any country's government and policymakers give entrepreneurship the attention that it duly deserves. There are 3 policy models that any government can adopt depending on the economic environment of a particular country.

#### 1.3.1 The laissez–faire approach

This model encourages entrepreneurial start-ups, growth, survival or decline and their development without ant state interference. The ventures are thrown into the deep end and expected to survive and adapt to the business environment.

#### 1.3.2 The limited-environment policy approach

According to this strategy, government involvement is confined to maintaining a desirable tax market and an encouraging economic atmosphere. While this approach is more positive than the laissez-faire approach, it does not deliver enough to small entrepreneurs in underdeveloped and developing economies.

#### 1.3.3 The strategic interventionist approach

This is the reverse of the laissez-faire method in this model governments are actively involved in the development of entrepreneurs through designing favourable tax regimes, counselling programmes, financial aid, and launching successful business lobbying services that alert policymakers to the economic advantages of small business growth (O'neill & Viljoen, 2001).

The strategic interventionist approach would be quite appropriate in South Africa, on condition the support and spending are heavily scrutinized in the light of relatively limited financial capital. Some programs have resulted from the White Paper on Small Business (1995) in South Africa.

**Commented [A5]:** Is this now part of the EE discussion, or a recommendation?

The Department of Trade and Industry (DTI) was mandated with organizing the execution of the government policy to support the SMMEs outlined in the White Paper. September 1995 saw the launch of the Centre for Small Business Promotion for this purpose. The key goal was to create a forum for all levels of government – central, regional and local – to coordinate their strategies and support initiatives for SMMEs (O'neill & Viljoen, 2001).

The National Small Business Council (NSBC), a regulatory body to encourage and serve the interests of SMMEs, was formed under the National Small Business Act, 1996. This act demonstrated how important it was for the government to create a stable policy structure for the growth of a small business. Together with the NSBC, two other policy agencies, Kuhla Enterprise Finance and Ntsika Business Promotion formed the three pillars of the government's plan to foster a powerful SMME market.

**Commented [A6]:** Dated references. What is the situation now? Are these initiatives still valid today?

### 1.4 Financial Support

The accessibility and availability of finance in the form of loan for upcoming entrepreneurs is an important factor which determines their survival and growth. In any nation, the amount of venture capital set aside is an indicator of the finance element of the entrepreneurship ecosystem. In their research to determine the effect of venture capital in the business, (SAVCA, 2020) reported their findings as shown in Figure 2 below. From these findings it can be concluded the investments drives have the following effects:

**Commented [A7]:** Loan, venture capital? What is the difference?

- ✓ The accelerate the innovation process
- ✓ There is an increase in the success rate of business ventures due to capital injection
- ✓ An improvement in the number and quality of ideas is apparent
- ✓ More ideas become commercialised as funding improves
- ✓ The cost of innovation appears to be unaffected after funding.

**Commented [A8]:** You are struggling with the relevant content under the headings. Refer to the Isenburg domains and the bullets under each domain.

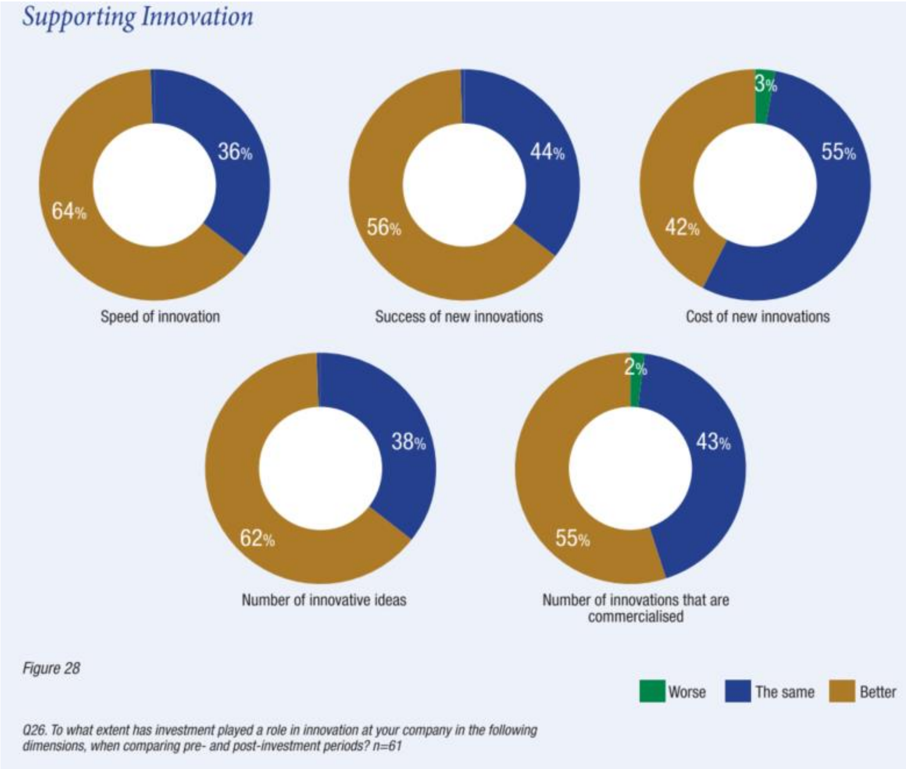


**Figure 2** The effect of investments on various parameters

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### 1.5 Culture

Entrepreneurship culture is measure by the degree to which the society as a whole values entrepreneurship. Stuetzer et al. (2018) defined the culture of entrepreneurship "collective programming of the mind toward entrepreneurial values and norms such as proactiveness, risk-taking, accepting failure, openness to new ideas, individualism, independence and achievement, to name a few." Entrepreneurship culture is also evaluated by the level to which self-employment is viewed as a feasible career option and the extent to which successful entrepreneurs are respected (Stam & van de Ven, 2019).

Entrepreneurship culture can be linked to entrepreneurship capital and economic growth of a region or country. Stuetzer *et al.* (2018) argued that regions with a greater culture of entrepreneurship will have a greater tendency not only to find and create entrepreneurial opportunities but also to act on them. In their strategy, the philosophy of entrepreneurship has acted as a critical tool to promote the dissemination of expertise and ideas from institutions where these resources have been generated, thereby producing superior economic success for individuals, companies and the entire country.

Entrepreneurship culture may exist and be perpetuated due to three main reasons: the existence of peer influence and the transfer of entrepreneurial skills between generations, the existence of role models involved in entrepreneurial activities and; the social embracing of entrepreneurship; and the existence of institutions and services (for example, financial and advice) that support entrepreneurial activities (Fritsch & Wyrwich, 2014). Since these influences change only steadily over time, as well as because of their self-reinforcing effects, a nation's culture of entrepreneurship should not only take a long time to develop but should also be long-lasting, so that it can be treated as a certain form of 'capital.'

In the context of South Africa, it is worth noting that there has been an emergence of small retail shops in the townships commonly known as "spaza shops". According to Wikipedia, "A spaza shop, also known as a tuck shop, is an informal convenience shop business in South Africa, usually run from home. They also serve the purpose of supplementing household incomes of the owners, selling small everyday household items." One interesting factor to note is that the spaza shops owned by foreigners easily overtook those run by local leading to some over the locals selling their businesses to foreign entrepreneurs. The popularity of these newcomers in the spaza industry has been accomplished by strategically selecting shops to compete inside a space niche, stealing the local market from traditional retailers through the use of price discounts to push away rivals. In one research, Liedeman *et al.* (2013) observed that Somali spaza owners indulged in clan-based business networks which offered a competitive edge over locals who operated on an individualistic approach.

**Commented [A10]:** Culture? Not clear.

The Somali market model is mainly focused on market competition based on joint purchasing and broad supply chains. This means that the Somalis brought their own culture of entrepreneurship which proved superior to the local one as indicated by the success they enjoyed in their business ventures. It is a reality that the emergence of foreign-owned spazas is easily destroying the local entrepreneurship culture as some of the local business owners are selling out their business ventures to foreigners due to lack of competitiveness.

The local culture lacks strategy and aggressiveness which is necessary for one to survive in the business jungle. The spaza situation speaks volume not only about the entrepreneurship culture of the local populace but also the regulations by the government in terms of protecting indigenous entrepreneurs.

**Commented [A11]:** Refer to the bullets presented concerning the culture domain. How is this discussion relevant?

### 1.6 Support

The small business sector in South Africa is typically disabled not only because of a lack of adequate financial resources but also because of an inadequate training and management system. To alleviate these challenges, entrepreneurs need to be facilitated access to various service services. Development in any industry may occur as a result of exposure to market dynamics and business trends, which is not just learned in schools but also shared by peers. Group information exchange takes place during formal and casual gatherings. Informal meetings can come in the form of networks, and structured meetings can come in the form of educational programs.

**Commented [A12]:** Education is part of the development of the human capital.

### 1.7 Human Capital / Talent

Human capital and, more generally, the potential for (productive) entrepreneurship is multidimensional and can be calculated in several ways, particularly through entrepreneurship. The easiest generic manner to estimate talent is determining the prevalence of people with high levels of human capital as measured by the population 15 – 65) with a higher education degree (Stam & van de Ven, 2019). Talent may also be calculated by the percentage of the labour force, possessing at the least secondary education.

South Africa ranks among the worst in the world in terms of unemployment. In this atmosphere of significant unemployment, South Africa's post-school education sector remains largely concerned with generating graduates searching for work.

The main challenge for higher education institutions is to find a way of mitigating the impending crisis by offering adequate curriculum to facilitate the transfer rate from effective preparation to the implementation of skills (Wadee & Padayachee, 2017). While technology, vocational, education and training (TVET) colleges and universities of technology (UoTs) involve the industries in the development of their learners, there is little emphasis on entrepreneurship per se. Moreover, entrepreneurship education alone cannot fix the problem of unemployment and the chronic economy. For the past two decades, the South African Higher Education Sector has explored this idea of commercial colleges teaching entrepreneurship. However, entrepreneurship programs and curricula have been established and found mainly in business schools of most universities.

**Commented [A13]:** More relvant.

Although the business schools have the requisite resources, skill and experience to adapt quickly to market and community needs and plan curricula to address market needs, only a few of the population who can afford to pay the very high tuition fees charged by the business schools. There is thus need to start these entrepreneurial classes in high school so that everyone masters at least the basics of entrepreneurship. South Africans should concentrate on creating a philosophy of a progressive and forward-looking community. While it has been accepted that the creation of such a culture may take place over some time, it is important to look at the existing propagation of a sense of optimism in South African society.

Educational institutions need to be encouraged to showcase entrepreneurial success stories by focusing on the real journeys to be completed in such a manner that aspiring entrepreneurs can develop an awareness of the possible challenges to be encountered and the resolve needed to get to the top. It is also a necessity that entrepreneurs with potential are identified, and taken through mentorship programs to harness and make them realise their full potential. A lot of innovativeness which can be used in an entrepreneurial venture has been realised in a lot of South African universities. The major challenge facing the university is that most of the research is funded by industry who subsequently acquire the intellectual rights to the funded research hampering these research to be utilised by upcoming entrepreneurs.

**Commented [A14]:** More relevant. On the standard.

### 1.8 Markets

A Network of entrepreneurs and their enterprises create an exchange of information that facilitates the efficient transfer of expertise, resources and money (Malecki, 2018). Potential ease of access combines two functions namely, the operation function representing the tasks or resources to be accomplished and the impedance function representing the effort, time, distance or expense needed to achieve them.

**Commented [A15]:** Refer to the bullets (markets – Isenberg)

The size of the market plays a critical role in determining the well-being of entrepreneurship ventures in any economy. Big markets mean that there are more opportunities for entrepreneurs to be key players in the vibrant market as they address the extra demand that is not met by the established players. The bigger the market size, the more attractive it is for entrepreneurs and wannabe entrepreneurs' affinity to engage are business ventures. This just follows a common human premise that the bigger the cake the more the takers.

### 1.9 Entrepreneurship outputs

A 'good' entrepreneurial ecosystem has been shown to generate entrepreneurship as throughput and essentially add value as a result. Young and upcoming businesses are drivers for employment with the high growth firms promoting redistribution of jobs from older industries to new ones.

### 1.10 Mapping South African Ecosystems

Based on the above literature and discussion, the entrepreneurial map of South Africa was estimated and mapped as shown in Figure 3.

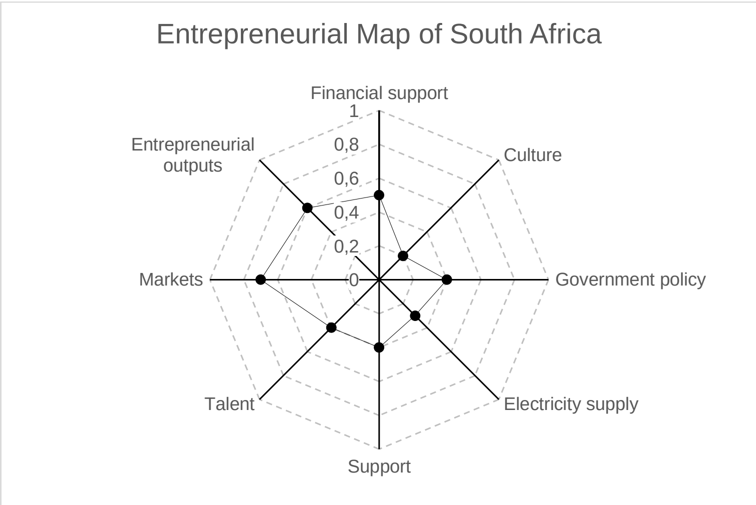


**Figure 3** South African Entrepreneurship pillars map

**Commented [A16]:** Not a map but good try.

From the map, it can be concluded that that South Africa's strongest point is the presence of markets, however, the country fares very badly in an entrepreneurial culture.

From literature, an ecosystem map for South Africa is established and it is shown in Table 1 below.

**Commented [A17]:** Noted.

**Table 1** South African entrepreneurship ecosystem map

**South Africa's Entrepreneurial Ecosystem Map**

<table>
<tr><th></th><th>Ideation</th><th>Start-Up</th><th>Early</th><th>Accelerate</th><th>Growth</th></tr>
<tr><td rowspan="2">Direct Finance Providers</td><td rowspan="2" colspan="1"></td><td colspan="4"><u>Fund Managers</u><br>❖ Africa Enterprise Challenge fund, Life Co Unlimited SA' Ndiza Finance, Edge Capital, Future Growth, Capital Works</td></tr>
<tr><td></td><td colspan="3"><u>Private Equity</u><br>❖ InveFin, Identity development Managers</td></tr>
</table>

<table>
<tr><th></th><th>Ideation</th><th>Start-Up</th><th>Early</th><th>Accelerate</th><th>Growth</th></tr>
<tr><td rowspan="4"></td><td colspan="2"></td><td colspan="3"><u>Venture Capital & Angel Investors</u><br><br>❖ Redwood Capital, Savannah fund, U-Start, Intel Capital</td></tr>
<tr><td colspan="2"><u>Crowd Funders</u><br><br>❖ CrowdInvest, FundFind, StartMe, ThundaFund</td><td colspan="3"></td></tr>
<tr><td colspan="2"></td><td colspan="3"><u>Commercial Banks</u></td></tr>
<tr><td colspan="2"><u>Government / DFI’s</u><br><br>❖ Eastern Cape Information Technology Initiative, Gauteng Enterprise Propeller, Western Cape Department of Economic Development and Tourism, National Youth Development Agency, Small Enterprise Development Agency</td><td colspan="3" rowspan="2"></td></tr>
<tr><td rowspan="3">Capacity Development Providers</td><td colspan="2"><u>Government</u><br><br>Eastern Cape Information Technology Initiative, Gauteng Enterprise Propeller, Western Cape Department of Economic Development and Tourism</td></tr>
<tr><td colspan="5"><u>For-Profit</u><br><br>❖ Grindstone, Edge growth, Aurik Business accelerator, Start-Up Bootcamp, Impact Amplifier, Silicone Cape Initiative</td></tr>
<tr><td colspan="4"><u>Corporates</u><br><br>❖ Raymond Ackerman Academy of Entrepreneurial Development, Volkswagen Business Support Centre, PPC Ntsika Fund, Allan Gray Entrepreneurial and Personal Development Programme.</td><td></td></tr>
</table>

The map gives a summary of direct finance providers (DFI), the capacity development providers (CDP) and where they feature in the entrepreneurs' business cycle. In this exercise, support organizations identified in the South African entrepreneurial ecosystem were mapped to categorize the key financing, ecosystem support, capacity development as well as any gaps and opportunities which may be existing.

### 1.11 Recommendations

**Commented [A18]:** Are these your recommendations? I think you can do a lot better. This is your contribution. It is not on the standard.
Suggestion: Put this in a table (action plans). Who should do what, when and how, for instance.

For reasonable entrepreneurship success to be realised, the following aspects of the ecosystem have to be addressed:

- ✓ The power utility Eskom has to improve its generating efficiency to ensure constant and consistent electricity supply in the country
- ✓ The entrepreneurship culture has to be improved to enhance successful ventures but this can take a long time
- ✓ The government has to formulate and communicate policy framework aimed at helping upcoming entrepreneurs
- ✓ Financial institutions have to come on board and make available loans for business start-ups even for individuals with no collateral

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