

**EVALUATING THE ROLE OF BUSINESS
INCUBATORS IN SOUTH AFRICA**

BY

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Declaration

I, Sithabiso Siyabonga Khuzwayo, declare that this dissertation is my own original work, has not been submitted for any degree or examination at any other university, and that the sources that I have used have been fully acknowledged. This dissertation is submitted in partial fulfilment for the requirements for the degree of Master of Arts in Public Policy at the University of KwaZulu-Natal, 2015.

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Abstract

The aim of this study was to evaluate the role of business incubators and business incubation programmes in South Africa. Worldwide, business incubation programmes are aimed at promoting economic development by supporting emerging entrepreneurs or start-up companies by cushioning them in their nascent phase of business development. South Africa only adopted business incubation as a strategy for promoting entrepreneurship and supporting SMMEs about two decades ago. This route was taken in order to build an inclusive economy whilst addressing a number of the country's multifaceted challenges; therefore business incubation as a strategy had to yield rapid results. The study's conceptual framework centred around how business incubators, through organisation and providing certain contingencies, cushioned SMMEs; and on how, through agglomeration, SMMEs were able to exploit the economies of scale and networking effects, as well as how they benefited from the positive externalities. The research methodologies adopted in this study comprise a multi-pronged approach made up of both secondary and primary research methods. The primary research methods include surveys, questionnaires and interviews with business incubation programmes based in KwaZulu-Natal. The study used small- micro- and medium-sized enterprises (SMMEs) or entrepreneurs as the unit of analysis, six were randomly selected from each of the fifteen business incubators in the province to take part in the survey questionnaire. The main findings of the study were firstly that South African entrepreneurs were faced with quite a number of challenges and these challenges were acting as a deterrence for a lot of people that wanted to consider entrepreneurship as a career path. Secondly, business incubators in South Africa were failing to fill in the gaps by mitigating against the challenges entrepreneurs faced. At best a number of these business incubators served duplicate roles as office parks with little value-added services. This study discovered that South Africa still needs to do a lot of groundwork if wanted to promote entrepreneurship and stimulate economic growth, but in the main, it was seemingly in the right direction policy-wise.

Keywords: *Economic Development, Business Incubators, SMMEs, Entrepreneurship*

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Acronyms

BEE:	Black Economic Empowerment
CEO:	Chief Executive Officer
CIBD:	Construction Industry Development Board
CIPRO:	Companies and Intellectual Property Registration Office
CPPP:	Community Public Partnership Programme
CV:	Curriculum Vitae
DACT:	Downstream Aluminium Centre for Technology
DST:	Department of Science and Technology
DTI:	Department of Trade and Industry
EU:	European Union
GDP:	Gross Domestic Product
GEM:	Global Entrepreneurship Monitor
HR:	Human Resources
HRDCSA:	Human Resource Development Council of South Africa
ICT:	Information and Communications Technology
INVOTECH:	Innovation Technology Business Incubator
ISP:	Incubation Support Programme
KZN:	KwaZulu-Natal
NAMAC:	National Manufacturing Advisory Centre
NBIA:	National Business Incubator Association
NTTC:	National Technology Transfer Centre
OAS:	Organisation for American States
OECD:	Organisation for Economic Cooperation and Development
PhD:	Doctor of Philosophy
SABTIA:	South African Business and Technology Incubation Association
SBDC:	Small Business Development Corporation
SCI:	SEDA Construction Incubator

SEDA:	Small Enterprise Development Agency
SMEs:	Small and Medium-sized Enterprises
SMMEs:	Small, Micro and Medium-sized Enterprises
SPSS:	Statistical Package for the Social Sciences
StatsSA:	Statistics South Africa
STP:	SEDA Technology Programme
TAC:	Technology Advisory Centre
TEA:	Total Early-stage Entrepreneurial Activity
TIPS:	Trade and Industrial Policy Strategies
UK:	United Kingdom of Great Britain and Northern Ireland
UNDP:	United Nations Development Programme
UNIDO:	United Nations Industrial Development Organisation
VAT:	Value-added Tax

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CHAPTER ONE

Introduction and Context

1.1 Introduction

This study evaluates the role of business incubators in South Africa and examines how business incubation can ensure entrepreneurial success in the South African context. It begins by looking at how small-, micro- and medium-sized enterprises (SMMEs), which are considered to be among the main driving forces of economic development as they stimulate private ownership, generate employment and help diversify economic activity. This is achieved by clarifying success determinants in small enterprises and then examining the culture and capacity of South African entrepreneurs. Secondly, it analyses the relationship between business incubation and successful entrepreneurship, which forms a bulk of this study, by looking at international best practices and thus locating the South African experience. Lastly, the study concludes by making recommendations for the strengthening of support mechanisms to countenance the challenges faced by SMMEs in South Africa as well as recommendations for future research in business incubation.

1.2 Background

Business incubators are business support organisations or institutions that offer facilities and programmes designed to ensure the survival and successful development of start-up enterprises. The concept of business incubation is similar to that of a conventional incubator for premature babies, hatching eggs or for growing micro-organisms. The process of incubation provides controlled conditions which are meant to protect start-up enterprises in their nascent days. Entrepreneurs with excellent business ideas might not always have the funds, contacts and facilities needed to convert their ideas into viable operating businesses (Gopinathan, 2010). Business incubators therefore assist such entrepreneurs with inputs that see them through the various stages leading to the development of a successful business enterprise. Business incubation is thus a rather more efficient alternative to the earlier efforts which have seen entrepreneurs starting their ventures in makeshift settings and struggling through a learning process in order to establish a successful business. Built-up working space, expensive equipment, funding facilitation and marketing contacts are examples of inputs

typically provided by business incubators. Business incubators might also relieve entrepreneurs of routine tasks such as accounting or bookkeeping and secretarial work.

The concept of a business incubator was born in the 1950s just after a few industries in a number of regions in the United States of America shut down or slashed jobs. The purpose was to create tax-exempt organisations that could support select start-up enterprises with bargain rents, equipped offices (often renovated with public funds), management assistance, and connections to funding. These baby companies, which would typically spend about three years in the incubators, would eventually “payback” the public through taxes on their earnings and by creating jobs (Quittner, 1999; NBIA, 1998). After the positive spin-offs in the United States became apparent, a number of developing countries started turning to business incubation, with South Africa following suit after the advent of democracy. Business incubators undoubtedly provide entrepreneurs a terrific start but what is also important is that a number of positive spin-offs such as: job creation; cultivating an entrepreneurial culture; finding innovative ways to use technological developments; diversifying and stimulating local economies; and promoting community development are realised from the process of business incubation as well.

1.3 Research Problem Statement

Post-1994, South Africa was faced with a monumental challenge of re-integrating itself into the world market as a competitive economy. In a number of developing countries SMMEs were contributing more than to the gross domestic product (GDP) and absorbed more than half of private sector employees. Although these SMMEs were created by creative and innovative entrepreneurs, the state or corporate companies would intervene sometimes. They did this in order to provide the necessary business acumen to these entrepreneurs so as to ensure that they run their businesses successfully. It is this that prompted the Department of Trade and Industry (DTI) in 1995 to develop a White Paper on a National Strategy for the Development and Promotion of Small Businesses in South Africa. This culminated in the National Small Business Act (Act No. 102 of 1996), which was meant to ensure that South Africa achieves the objectives of economic growth. This would be achieved through competitiveness and the active promotion of SMMEs, on the one hand, and employment generation and income redistribution as a result of this growth on the other.

In the South African context, “micro-enterprises are classified as very small businesses, often involving only the owner, some family members and at most one or two employees. These micro-enterprises usually lack „formality“ in terms of business registration, business and value-added tax (VAT) registration, formal business premises, and accounting procedures (DTI, 1996).” Small enterprises constitute the bulk of the established businesses, with employment ranging between five and to about fifty employees. These enterprises are likely to operate from business or industrial premises, are tax-registered and meet other formal registration and business compliance requirements (DTI, 1996). Medium-sized enterprises are businesses employing less than two hundred employees with capital assets (excluding property) not exceeding R5 million and are more complex in terms of control and ownership (DTI, 1996).

SMMEs in South Africa had been actively promoted since 1995 when the first form of business incubation was first practised by the “Small Business Development Corporation (SBDC) through the establishment of the „hives of industry“. These were premises in African townships with access to relatively developed infrastructure (in 1995) such as telephones, electricity and storage. These hives played an important role in facilitating subcontracting partnerships between large and small enterprises (Buys and Mbewana, 2007).” The National Small Business Act of 1996, as a way of expediting growth and development through SMME“s, consolidated small business support agencies and other state bodies performing similar function. It also established the Ntsika Enterprise Promotion Agency under the Department of Trade and Industry. “The main functions of the Agency were to expand, coordinate and monitor the provision of training, to provide advice, counselling and any other non-financial services to small business in accordance with the National Small Business Support Strategy; and to facilitate international and national market access for products and services of small businesses (SEDA, 2004: 11).”

Between 1996 and 2004 a number of business incubators, which were either government financed entities or private entities financed by large corporates or civic organisations, sprang up. Government financed entities were mainly initiatives of the DTI and the Department of Science and Technology (DST). These initiatives were operated and supported by local governments, academic institutions or institutions of higher learning. There the objectives were creating new businesses that would provide new employment opportunities. One such

example was the “Godisa”¹ initiative. This initiative was created by the DST and DTI in partnership with the European Union and it had twelve centres across South Africa.

In an effort to demonstrate vigour in its support and promotion of SMMEs, the South African government came up with the National Small Business Amendment Act of 2004. This Act endorsed the establishment of the Small Enterprise Development Agency (SEDA) which was an agency under the DTI. This new agency was a “merger of the Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre (NAMAC) and the Community Public Private Partnership Programme (CPPP). The objectives of this new agency were to design and implement development support programmes; promote a service delivery network that increased the contribution of small enterprises to the South African economy, and promoted economic growth, job creation and equity; and ensured that small enterprises were able to compete successfully in the domestic and international arena (SEDA, 2006).”

In April 2006, the SEDA Technology Programme (STP) was created through the “merger of the activities of the Godisa Trust, the National Technology Transfer Centre (NTTC) of the Department of Science and Technology, and the Technology Advisory Centre (TAC) of the Department of Trade and Industry (SEDA, 2006).” The creation of the SEDA Technology Programme stemmed from the South African government’s strategic decision to consolidate and integrate the activities of SMME support interventions across the different government agencies. The main purpose for the creation of the SEDA Technology Programme, and its mandate was therefore to turn 8 in 10 small business failures² into 8 in 10 successes through:

- improving small enterprise competitiveness, performance, and productivity;
- enhancing small enterprise profitability and growth;
- increasing accessibility to, and utility of, technologies and management support for small enterprises; and
- facilitating the acquisition, development and transfer of technology to small enterprises, particularly those operating in the secondary and informal economy (SEDA, 2006).

¹ Godisa is a Sesotho word that means nurturing and growing

² A widely held assumption is that approximately 5 in 7 small businesses/ start-ups fail within their first 3 years (the DTI: 2012; GEM Report: 2012)

The STP was therefore responsible for the provision of both financial and non-financial technology transfer, business incubation and quality support services for small enterprises. In 2013, SEDA under the STP expanded the number of Business Incubation Centres from 32 to 42. These centres were mostly in urban areas and housed approximately 20 companies each on average. In the 2013 annual report, SEDA claimed that the expansion of this programme “translated into the support of 2 282 clients and the creation of 2301 new jobs, which was impressively above the set annual target (SEDA, 2013).”

On the other hand, the South African economy has spawned millions of unsubsidised small businesses. These are all doing very well today in terms of creating employment and making very significant contributions to the country’s GDP. Supposedly, these businesses account for the estimated 2 in 10 small businesses that succeed. This indicates a strong argument for the need of business incubators in South Africa and publicly supported business incubators do appear to be going strong and are on the increase. However, the full value of these publicly subsidised business incubators are unknown. Arguments for business incubation are mostly anecdotal since there are no studies that have taken place that tracked incubated businesses and compared them with small businesses that managed on their own. Studies that conducted cost-benefit analyses on business incubators are also lacking. And in fairness, trying to measure business incubator success with precision would be a very difficult and costly exercise as an extraordinary number of variables would need to be controlled for. Essentially, keeping small businesses alive is not a special feat since a number of new businesses survive their first year and those that close down do so for a variety of reasons – that do not necessarily because of failure.

1.4 Aims and Objectives

The aim of this study was to evaluate the role of business incubators in South Africa. It accomplished this by exploring three cardinal themes; the first was entrepreneurship in South Africa, the second was business incubation and SMME development and finally, it looked at economic growth and its nexus with entrepreneurship. This study used SMMEs as the unit of analysis and the primary objectives were:

- To establish the demographics of entrepreneurs that are undergoing business incubation. Establishing the demographics was done in order to understand the following:

- a. what are the characteristics of individuals who attempt incubation,
 - b. what are the reasons for attempting this,
 - c. what are these individuals' levels of education and,
 - d. what the types of challenges do South African entrepreneurs under business incubation are faced with? This process allowed for easier, albeit inconclusive, assessment of indicators for success.
- To assess the inputs of the business incubators in terms of the services they offer to SMMEs and how they address the challenges faced by the entrepreneurs. Here the study's aim was to assess the "coddling" effect i.e. how do business incubators ensure:
 - a. market accessibility for the products and services of their SMMEs;
 - b. access to funding and financial services; and
 - c. assistance to entrepreneurs in terms of growth, development and expansion?
 - To ascertain the entrepreneurs' views regarding their respective business incubation programmes and whether the programmes provide them with a comparative advantage over other South African entrepreneurs that are not in any incubation programmes.

1.5 Methodology

As this is an evaluation study, it utilised mixed methods of collecting data, incorporating both quantitative methods and qualitative methods. The former was done by means of survey questionnaires directed at SMMEs under business incubation while the latter was done via face-to-face interviews with incubation centre managers. A desktop literature survey was also conducted in order to identify key perspectives on entrepreneurship, small business support and economic development in South Africa. The province of KwaZulu-Natal was used as the sampling frame, therefore the enquiry was limited to incubation centres and SMMEs in KwaZulu-Natal. The reason for this was because the province at the time already boasted an over-representation of business incubation centres under the STP where 8 (25%) of the 32

centres where located in KwaZulu-Natal. In a further effort to ensure some level of construct validity, 7 other business incubation centres in KwaZulu-Natal listed by the South African Business and Technology Incubation Association (SABTIA) were also included.

The research was carried out in 15 incubation centres in KwaZulu-Natal using a probability sampling method. A stratified random sample of 90 SMMEs (6 from each business incubator) was selected together with the 15 incubation centre managers. Two semi-structured questionnaires, one for SMMEs and one for business incubation centre managers, were administered to a total of 69 respondents (62 SMMEs and 7 business incubation centre managers). 47 of these respondents were personally interviewed by the author, 18 were interviewed by well-briefed university graduates serving as research assistants at the Maurice Webb Race Relations Unit³. The remaining 4 respondents were sent questionnaires via electronic mail with an explanatory covering note detailing the procedure to be followed when answering the questions. Interviews averaged about 40 minutes per respondent. In all cases there was a consistency of responses and very little interview bias was noticeable. This was due to the interviewing techniques used by the interviewers. Rotating the order of questions in the questionnaires in order to avoid interviewing fatigue and asking some questions in vernacular are examples of the techniques that were used.

Data was thereafter coded and loaded into the Statistical Package for the Social Sciences (SPSS) and those frequencies, tables and cross-tabulations of the variables referred to in the objectives above were generated for analysis. The conclusions drawn by this study are limited due to the nature of small business research in South Africa as well as the infancy of business incubation in the country. Studies of this nature require a significant amount of resources. This research has been informed by a heuristic approach and has therefore under represented SMMEs that are incubated in non-state funded incubation centres in South Africa.

1.6 Conceptual Framework

The theoretical framework that guided this study is based on two theories; the contingency theory and cluster theory. Contingency theory is a class of behavioural theory that claims that there is no one best approach or leadership style to organise, lead or make decisions about a company. “The theory is a common-sense view of the world which recognises that context

³ a prominent research unit at the University of KwaZulu-Natal’s School of Social Sciences

and system dynamics are integral aspects of a leader-led situation (Fiedler, 1964).” Common sense dictates that a leader, in order to continue being effective and steer the company or organisation in the right direction, will have to adjust to any contingencies occurring in the environment.

The second theory, slightly related to the first, is a theory of strategy put forward by Alfred Marshall in 1890. Clusters are defined as concentrations of specialised or similar businesses/industries in particular localities. For the purposes of this study we view business incubation centres as clusters since they also fit this description. Cluster theory states that concentrating industries in specific regions creates several advantages. For one, there is possibly less competition occurring and thus higher profits to be earned by businesses. This is because of the steady presence of a constant or an increasing customer base which guarantees a steady income. Furthermore, the steady presence of suppliers means low costs for the businesses as well. Geographic concentration can also create more personal relations that yield better business in different ways. This is explained by the concept of economies of agglomeration which describes the benefits that businesses obtain when locating near each other (agglomerating). This concept is related to the idea of economies of scale, positive externalities, and network effects. As more businesses in related industries cluster together, their costs of production or overhead costs may decline significantly. This is because businesses have competing multiple suppliers, greater specialisation and division of labour results. Even when multiple businesses are competitors in the same sector, there may be advantages because that cluster as a whole attracts more suppliers and customers than a single business could (Marshall, 1890). This is definitely the case with business incubators, especially those that are sector-specific.

The theoretical framework adopted in this study was informed by the hypothesis that there is a relationship between the performance of SMMEs under business incubation and the intensity of the business incubator’s monitoring and business assistance efforts, as well as its resources. These theories suggest that a higher level of casuistry is necessary in the operations and organisation of business incubators. By providing timely help and support to new SMMEs, business incubators hold the potential to create and develop entrepreneurial talent at the micro-level and foster an environment for economic growth at the macro-level.

1.7 Outline of Chapters

The study is structured as follows:

Chapter one is the introductory chapter which provides the background and outlines the context for the study. This chapter includes the motivation for the study, sets out the aims and objectives and the methodology utilised in carrying out the research.

Chapter two provides the theoretical framework for the study. The study used the cluster theory and the contingency theory to explain the hypothesis that there is a relationship between the performance of SMMEs under business incubation and the intensity of the business incubator's monitoring and business assistance efforts, as well as its resources.

Chapter three is a literature survey on the themes of business incubation, entrepreneurship and economic growth and development in South Africa. This chapter covers literature from various reference texts, books, journal articles, official government reports and commissioned studies as well as theses and dissertations pertaining to the research topic.

Chapter four is a chapter on the research design. It outlines the sampling method, the sample size and the sampling frame and the methodology undertaken in collecting the data. This chapter also discusses the limitation of the research and the procedures followed in treating the data for analysis.

Chapter five includes an amalgamation of the research findings (the narrative descriptive) from the questionnaires that were administered to the centre managers of the business incubators and the SMMEs under business incubation. This chapter consists of the theoretical concepts and the dominant themes in the study around business incubation, SMMEs and entrepreneurship in South Africa. The chapter also allowed for a number of deductive inferences to be made on the role of business incubators in South Africa.

Chapter six is the concluding chapter to the study; it outlines the lessons learned from this evaluation exercise as well as the analytical interpretations. It also discusses recommendations for future research and policy directives on SMMEs, entrepreneurship and business incubation. This is intended to be of particular interest and use to the various stakeholders involved in small business support and development.

CHAPTER TWO

Theoretical Framework

2.1 Introduction

This chapter discusses a theoretical perspective of successful business incubation and the role of business incubators in fostering entrepreneurship and SMME development. The theoretical framework adopted in this study was informed by the hypothesis that there is a relationship between the performance of SMMEs under business incubation and the intensity of the business incubator's monitoring and business assistance efforts, as well as its resources. This theoretical framework is guided by two theories; the contingency theory and the cluster theory. Theories are generally explanatory statements that help clarify the relationship among variables in an enquiry. The variables in this study are the objective measures of success of SMMEs and the implements or inputs of the business incubators. The implements or inputs are the independent variables. The use of the two theories in this study allow for the relationship between business incubation practices in South Africa and the performance of SMMEs under incubation to be analysed.

2.2 Contingency Theory

The Contingency Theory is a class of behavioural theory that claims that there is no best way to organise, lead or make decisions in a company or corporation. An organisational, leadership, or decision-making style that is effective in some situations, may not be successful in other situations. The best organisation, leadership, or decision-making style is dependent upon a number of factors and these are referred to as contingencies. These contingencies can include factors such as: the size of the business or organisation; how the business or organisation adapts itself to its environment; and the differences among resources and operations and activities.

Fred Fielder (1964) advanced the theory using the contingency approach or the contingency theory of effectiveness. The main idea of this theory was that "leadership effectiveness did not only depend on the style of leading but also on the leader's control over a situation. It proposes that there needs to be; good leader-member relations, a task with clear goals and procedures, and the leader has to be able to mete out rewards and punishments. In this instance, performance is thus a result of interaction between the style of the leader, and the

characteristics of the environment in which the leader works (Friedler, 1964).” Joan Woodward (1958) claimed that “important contingencies for companies or organisations were: technology; suppliers and distributors; consumer interest groups; customers and competitors and government unions. In business incubators as organisations, it is important for leaders i.e. centre managers to be able to manage these contingencies in order to get the best out of the incubated companies.”

2.3 Cluster Theory

Cluster theory is a theory of strategy put forward by Alfred Marshall in 1890. It states that concentrating businesses or industries in specific regions creates several advantages. “For one thing, there is less competition occurring and thus higher profits to be earned by the businesses. There is then the steady presence of an unchanging customer base which guarantees these businesses a steady income. The steady presence of suppliers translates to low costs for the businesses as well. Geographic concentration also creates more personal relations that yield better business in all manners.” Clusters, according to Porter (1998), are “critical masses in one place of unusual economic success in particular fields. They are a geographical concentration of interconnected companies, specialised suppliers, service providers, firms in related industries and associated institutions in particular fields that compete but also cooperate (197).” Rosenfield (1997) defined clusters simply as the “concentration of firms that are able to produce synergy because of their geographical proximity and interdependence (4).” Clusters are a striking and common feature in today’s economy. The Department of Trade and Industry defined clusters as the geographic “concentration of competing, collaborating and interdependent companies and institutions which are connected by a system of market and non-market links (DTI, 1998: 22).”

In Economics, the term „economies of agglomeration“ describes the benefits that companies obtain when they agglomerate (locate near each other). “As more companies in related industries cluster together, the costs of production may decline significantly since firms have competing multiple suppliers, greater specialisation and division of labour results. Even when multiple companies are competitors in the same sector, there may be advantages because that cluster attracts more suppliers and customers than a single firm could. This explains the setup of business incubators in modern day economies since there are substantial tangible and intangible advantages for the new entrepreneurs in setting up in established clusters (Porter, 1985).

2.3.1 Clusters, Innovation and Competitive Advantage

One of the forces that dominate the competitiveness of any country today is the economies of “globality” and proximity. *Globality* assumes that the production of goods does not necessarily need to be close to the end-user and that it benefits from comparative markets worldwide. This is especially in operational costs since it is also generally competitive and price efficient. The economies of proximity inherent in clusters provide value-added services close to the end-user i.e. improvements in infrastructure and tapping on resources such as cheap labour, raw materials and location. Innovation is seen to be central in creating a competitive advantage by perceiving or discovering new and better ways to compete in an industry and bringing these innovations to the market. “Competitive advantage grows fundamentally out of improvement, innovation and change. Businesses in a cluster will gain advantage over rivals if they are able to find new and better means to compete with better linkages, knowledge spill-overs and innovation (Porter, 1985).”

Innovative activity and output are positively correlated with new firm entry and productivity growth (Swann et al, 1998). Clusters affect competition and create competitive advantage through:

- increasing the productivity of companies based in the cluster;
- driving the direction and pace of innovation, which underpins future productivity growth; and
- stimulating the formation of new businesses, which expands and strengthens the cluster, forming a virtuous circle or positive feedback.

2.3.2 Clusters and Agglomeration Externalities

Externalities are defined as” impacts, side effects or spill-overs which are usually not reflected in the costs or prices of a particular good or service, i.e. not covered by market mechanisms. Agglomeration externalities are due to any economies or cost reductions that are possible due to several companies locating near to each other (Evans, 1985).” By being located close to one another, potential customers can reduce searching costs and compare prices and quality. The reputation of a cluster, be it its quality or innovation, will further draw customers to the location and this is where the spill-over effects come in.

Figure 1: Cost Benefit Analysis of Locating in a Cluster

	Demand side	Supply side
Benefits	Customer proximity Reduced consumer search costs Information externalities Reputation	Knowledge spill-overs Specialised labour Infrastructure benefits Information externalities
Costs	Congestion and competition in output markets	Congestion and competition in input markets (property and labour)

Source: (Swann et al., 1998: 57)

Agglomeration or external economies result in demand and supply conditions that are better in a cluster than in isolation and therefore promote the growth of incumbent businesses and attract the entry of new businesses. “This growth and entry increases the intensity of agglomeration and so promotes further growth and entry which begins to accelerate once a cluster has reached a critical mass (Pandit et al., 2001).” Swann (1998) explains that the “clustering phenomenon claims that firms in clusters grow faster than average if clustered with others in their own sub-sector of the industry.” Companies in vibrant clusters can tap into an existing pool of specialised and experienced capital resources, thereby lowering their search costs and time wasted on their learning curve (Porter, 1998).

2.4 Entrepreneurship and Economic Development

2.4.1 Entrepreneurship

Jean-Baptiste Say, a 19th century French economist, defined an entrepreneur as someone who “...shifts economic resources out of an area of low productivity into an area of higher productivity and greater yield (Drucker, 1985: 23).” Joseph Schumpeter on the other hand viewed entrepreneurship as “new combinations, including the doing of things that are already being done in a new way. These new combinations include: the introduction of new goods;

new methods of production; the opening of new markets; the identification of new sources of supply; and the establishment of new organisations (1947: 151).” This study utilises the OECD’s (Organisation of Economic Cooperation and Development) definition of entrepreneurship that states “entrepreneurship is central to the functioning of market economies. Entrepreneurs are agents of change and growth in a market economy and they can act to accelerate the generation, dissemination and application of innovative ideas. In doing so, they not only ensure that efficient use is made of resources, but also expand the boundaries of economic activity (OECD, 1998: 12).”

Entrepreneurs are a vital part of any thriving economy. Not only do they potentially alleviate poverty, they also have what it takes to turn a sluggish economy into a powerhouse of productivity. Entrepreneurs are vital to South Africa if the country is to create more jobs, new products and enhance productivity. In light of the very high unemployment rate in South Africa, improving policies and schemes that increase the number of individuals that pursue entrepreneurship as a positive employment choice are extremely important. In big economies, such as USA, China, Japan, and Germany, SMMEs drive innovation and productivity, employ in excess of 60% of the total labour force; are the largest job creators and the largest contributors to GDP. There is strong evidence that small and growing businesses are critical for job creation and employment in developing economies (GEM Report. 2012).

Given the inability of the existing formal sector to absorb the growing labour force, coupled with the burgeoning youth unemployment crisis, the South African government has since 1995 prioritised small business and entrepreneurial development. “With millions of South Africans unemployed and underemployed, the government has no option but to give its full attention to the task of job creation, and generating sustainable and equitable growth.”..... “Small, medium and micro enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country (White Paper on Small Business, 1995).” South Africa is facing an unemployment crisis with the unemployment rate hovering between 24.9 and 35.9% according to the official and expanded definitions respectively (StatsSA, 2011; Posel et.al, 2013). At the same time, the level of entrepreneurial activity is low in South Africa in comparison to other emerging markets. Education quality and entrepreneurship education, labour laws, crime and even government corruption are generally considered as some of the factors impacting the growth of entrepreneurship.

2.4.2 Defining an SMME in South Africa

SMEs or SMMEs are defined in a number of different ways across the globe, normally with reference either to the number of employees or to turnover bands (or a combination of both). In South Africa, a „small business“ is defined by the National Small Business Act of 1996 as “...a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column 1 of the Schedule... (DTI, 1996: 12)” The Act further categorises small businesses into distinct groups which include; survivalist and micro, as well as small and medium enterprises, hence the use of the term “SMMEs” for small, medium and micro-enterprises.

- “Survivalist enterprises are generally the activities undertaken by people who are unable to find a paying job or are unable to get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum standard of income. There is little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. It excludes all forms of criminal activities (DTI, 1996).”
- “Micro-enterprises are classified as very small businesses, often involving only the owner, some family members and at most one or two employees. These micro-enterprises usually lack „formality“ in terms of business registrations, business and value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises advance into viable small businesses. The earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support (DTI, 1996).”
- “Small enterprises constitute the bulk of the established businesses, with employment ranging between five to about fifty employees. The enterprises will usually be owner-managed or directly controlled by the owner-community. They are likely to operate

from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction (DTI, 1996).”

- “Medium enterprises constitute a category that is difficult to demarcate vis-à-vis the “small” and “big” business categories. It is still viewed as basically owner/ manager-controlled, though shareholding or the community control base could be more complex. These are businesses employing less than two hundred employees with capital assets (excluding property) not exceeding R5 million and are more complex in terms of control and ownership (DTI, 1996).”

In its “Annual Review of Small Business in South Africa” in 2008, The Department of Trade and Industry stated that in South Africa “the terms „small business“ and „SMME“ are used as synonyms, whereas the term „enterprise“ refers specifically to entities (especially close corporations, co-operatives and companies) that are registered with Companies and Intellectual Property Registration Office (CIPRO) (DTI, 2008: 4).” “The small business sector is highly diverse, with widely differing structures, problems, growth potential and access to support between the identified segments. However, due to the similarities of some of the obstacles facing them, survivalist and micro-enterprises are often lumped together, whereas a number of support agencies feel that medium-sized enterprises need not be viewed as a category warranting particular attention (DTI, 2008: 4).”

2.4.3 A Snapshot of Entrepreneurship in South Africa

In order to capture the state of entrepreneurship and SMME activity in South Africa, this study has relied a lot on information from: the Global Entrepreneurship Monitor (GEM), a consortium which conducts the largest ongoing studies of entrepreneurial dynamics in the world and; on information from the FinScope Small Business Survey of 2010. The GEM consortium conducts projects on an annual basis which explore the role of entrepreneurship in national economic growth, unveiling detailed national features and characteristics associated with entrepreneurial activity across a number of countries throughout the globe. The FinScope Small Business Survey (2010) was conducted by the FinMark Trust, an independent trust based in Johannesburg. This was a comprehensive, nationally representative survey that intended to, amongst other objectives, describe the size and scope

of South Africa's small business sector and also assess the impact of government interventions.

The FinScope Survey revealed that the SMME sector had an estimated 5.6 million small businesses operating in South Africa in 2010. These small businesses created 11.6 million total employment opportunities that is 6 million jobs if you exclude the owners. The survey also indicated that only 17.3% (965 875) small businesses were registered. Business owners provided a number of reasons for not having their business registered. The reasons ranged from avoiding harassment from authorities or receiving fines, to not seeing any benefits that come with registering, to perceptions that their businesses too small to be registered, and to not knowing how to register or not having the money to register. More than 70% of small business owners operated their businesses from residential premises. However, the sector was heavily skewed towards micro-enterprises, with 82% of the enterprises being micro or very small "survivalist" or "lifestyle" businesses. Two in three business owners operated their own businesses and did not have any employees. Only 300 000 (approximately 5%) of the country's businesses employed five or more employees and these were medium-sized enterprises. Even though medium-sized enterprises did not produce a bulk of the output or production, they generally absorb a lot of labour in an economy. The survey concluded that micro and small businesses in South Africa were not achieving the growth required for the ever-increasing unemployment rate (FinScope, 2010).

The 2013 GEM Report for South Africa used what it referred to as the "total early-stage entrepreneurial activity (TEA) rate as a primary measure of entrepreneurship. The TEA indicates the prevalence of individuals engaged in nascent entrepreneurship and new firm ownership in the adult (18 to 64 years of age) population and therefore captures the level of dynamic early-stage entrepreneurial activity in a country (GEM Report, 2013)." The report indicated that generally for countries with low levels of per capita income, their national economy tended to be characterised by the prevalence of a lot of very small businesses. As the per capita income increased, industrialisation and economies of scale allowed for the establishment and operations of larger and more established organisations. These larger organisations, because they provide the necessary employment in the form of more stable jobs, tend to result in a reduction in new business start-ups. In economies with a low GDP per capita, the inverse is true (GEM Report, 2013).

South Africa, however seemed to be an exception to the rule. “It displayed the lowest TEA rates coupled with low societal attitudes about status and media attention for entrepreneurs, low levels of opportunity and capability perceptions, a higher than average fear of failure and the lowest intention levels among Sub-Saharan African countries. South Africa also reported the lowest established business ownership rates and the established businesses were by and large “me too” businesses that had very little differentiation and low growth potential and possibly driven by necessity or survival (GEM Report, 2013).” Even with the low participation rates in entrepreneurship amongst South Africans, there were quite a number of entrepreneurs who were also employers. However, a worrying observation the report made was that the South African culture did not make any efforts into encouraging citizens to view entrepreneurship as a highly desirable career choice despite the high unemployment levels (GEM Report, 2013).

2.4.4 The Relationship between Entrepreneurship and Economic Development

Entrepreneurial development is important for economic development. However, for entrepreneurship to be seen as a viable income generating activity that positively impacts economic development it must be linked to factors that influence confidence and a positive perception of entrepreneurship. It is further argued “that economic development can influence the quality of entrepreneurship, by providing the institutional architecture relevant to growth. These are regulatory frameworks, rule of law, protection of property rights, the quality of formal wage employment, educational facilities and the appropriate level of financial development (Barreira et al., 2008: 105).”

Joseph Schumpeter in his seminal work, “The Theory of Economic Development (1934)” argued that “the main mechanism of economic development in a capitalist economy was creative destruction. Creative destruction occurred when an entrepreneur formed a new firm that used innovation or an innovation to enter an existing market dominated by a few large suppliers.” The innovative firm will grow through the dual processes of:

- increasing overall demand for the products or services offered in the market; and
- taking market share from the existing suppliers.

Therefore, while the new firm expanded overall economic activity, it also distributed wealth by destroying the existing market structure and shifting market shares from existing large

firms to itself. This creation of new wealth combined with the destruction of market structures is “creative destruction”. Schumpeter’s theory was as Bridge, O’Neill and Cormie (2003) noted, “quite different from the neo-classical model with its equilibrium market structures. The neo-classical model is built on a static concept which is market equilibrium. Creative destruction on the other hand is built upon dynamic, deliberate entrepreneurship efforts to change market structures (Bridge et.al, 2003: 18).”

Creative destruction is the process of the simultaneous emergence and disappearance of technologies, products and firms in the market place as a result of innovation. Fundamentally, economic growth occurs not because of broad improvements in technology, productivity and resources available, but because entrepreneurs:

- improve their technology, organisation and processes;
- become more productive and innovative; and
- force other firms out of business.

As this ongoing creative destruction occurs, new and better jobs than the ones being lost are created, the overall level of productivity rises and the overall economic well-being increases. One indicator of creative destruction is the business dynamics taking place within an economy. This is the extent to which firms enter, grow, decline, and exit an industry. The level of entrepreneurial activity in this instance is a function of the degree to which people recognise the opportunities available and the capacity they have (such as skills and motivation) to exploit such opportunities (Bridge et.al, 2003).

“Entrepreneurial activity is, in turn, shaped by a variety of factors such as the availability of start-up finance, education and training in entrepreneurship, incubator programmes, government policies and programmes targeting the development of entrepreneurship. These factors are referred to as the entrepreneurial framework conditions (Schaper and Volery, 2004: 13).” Entrepreneurial framework conditions have a direct effect on entrepreneurial development i.e. a “country”’s macro-economic stability, its institutions, infrastructure, health and primary education as these provide the underlying fundamental conditions required for a well-functioning business environment. These conditions also extend to the sophistications of the financial markets, technology development, higher education and training and labour market efficiencies (GEM Report, 2013).”

In order to encourage economic development by stimulating entrepreneurship or in the creation of new enterprises, the first crucial step is to create a healthy pool of potential entrepreneurs. This is done by promoting perceptions of both good business opportunities and capabilities. There are some forms of entrepreneurship that do not provide major contributions to economic growth such as the ones undertaken by survivalist and necessity entrepreneurs. These instead play poverty alleviation functions rather than a role of employment generation. The GEM Report indicated that not only does South Africa need to increase the number of start-up businesses, but it also needs to grow businesses beyond the start-up stages to the established stage so that these businesses can start contributing significantly to job creation and economic growth.

Although it is not the function of governments to create jobs or start new jobs directly in an economy it is their job to make it easier, less costly and quicker for new businesses to start (GEM Report, 2012). South Africa's peers (Brazil, Chile, and Malaysia) have used business incubation as a tool to launch start-ups and stimulate innovation. South Africa has adopted the trend as well but it seems that business incubators in South Africa focus more on quantity rather than quality (where the latter is ideas and entrepreneurs with high potential). Businesses assisted by business incubators in Brazil create 4.2 jobs on average, in Chile 1.5 jobs, and businesses in Malaysian business incubators create 2.5 jobs on average. These figures are similar to jobs per enterprise in the United States and Korea. Businesses supported by South African state-run business incubators on the other hand create an average of less than one job (GEM Report, 2012).

2.5 Conclusion

The theoretical framework presented above does not only serve as a conceptual frame that underpins the analysis of the collected data. It also serves to contextualise the study and highlight the importance of sound business acumen and good and effective leadership strategies in fostering entrepreneurship and economic growth. By taking a snapshot of entrepreneurship in South Africa, the gaps are laid bare and the room for improvement becomes quite significant. This provides emphasis for the importance of business incubators as organisations that are able to provide timely help and support to new SMMEs and can thus potentially create and develop entrepreneurial talent at the micro-level and foster an environment for economic growth at the macro-level.

CHAPTER THREE

Literature Review

3.1 Introduction

This chapter provides a detailed review of literature on business incubation as a concept and business incubators as organisations. The literature review, as a process, is a systematic and explicit method for evaluating and synthesising the existing body of completed and recorded research on business incubators and SMMEs produced by scholars, researchers and practitioners. This review also highlights the relationship between entrepreneurship, business incubation and economic development. Finally, the chapter concludes with an examination of the evaluation parameters for business incubators so as to guide this study in the evaluating of the role of business incubators in South Africa.

3.2 Business Incubation

In its generic sense, the term business incubation is often used to describe organisations that, in one way or another, assist entrepreneurs in developing their ideas from inception through to commercialisation. A business incubator can therefore be defined as an organisation that “systematises the process of creating new and successful enterprises by providing them with a comprehensive and integrated range of services (Buys and Mbewana, 2007).” These include: working space which could be made available on a flexible, affordable and temporary basis; common services including secretarial support and shared use of office equipment; hands-on business counselling and mentoring, access to “specialised assistance such as research and development and venture capital, and networking activities operating as a reference point inside the premises among entrepreneurs and outside of it to the local community (Lalkaka, 1990: 25).”

Schuyler (1997: 11) stated that a “business incubator is an organisation that provides a wide range of services designed to nurture young business. The services include management support, access to financing, business or technical support services, shared office services such as access to equipment, flexible and affordable leases and expandable space.” Allen and Rahman (1985: 13) claimed that “small business incubators are private, public, or education-sponsored facilities that provide rental space, shared office services and business consulting assistance to young growing companies.” The National Business Incubation Association (NBIA) indicated that the purpose of business incubators was to “promote the growth and

development of new enterprises through business assistance programmes targeted at start-up and fledgling firms. Business incubators should offer access to business and technical assistance provided through in-house expertise and a network of community resources; shared offices; research or manufacturing space; basic business support such as telephone answering and clerical services; and access to common office equipment including printing/ photocopying and fax machines (NBIA, 2005).”

Business incubation, as Cassim claims, “is a means by which to turn vision into reality with reduced risks (Cassim, 2001: 3).” Business incubators focus on how to assist entrepreneurs who are creating and managing new companies, they support emerging businesses at their early, most vulnerable stages. “They promote new firm growth, technology transfer, neighbourhood revitalisation and economic development and diversification. Business incubation catalyses the process of starting and growing companies. As a proven model, business incubation provides entrepreneurs with the expertise, network and tools they need to make their ventures successful. Business incubation programmes help diversify economies, commercialise technologies, create jobs and create wealth. “

“The primary goal of a business incubator is to facilitate economic development by improving the entrepreneurial base (Barrow, 2001: 13).” For this reason, most business incubators are directly operated by national or local governments. There are other business incubators, however, which are established by universities or private non-profit organisations and their links with government can vary greatly. Business incubators are programmes with certain important characteristics:

- “they offer a full array of business assistance services tailored to the client companies;
- they have an incubator manager on site who co-ordinates staff, stakeholders and outside professionals and organisations to deliver the required services; and
- they graduate companies out of the programme once they benefit (Barrow, 2001: 12).”

Business incubators are also meant to serve the role of problem solvers for small businesses. All small businesses or firms experience developmental problems throughout the various stages of business growth (Kazanjian, 1988). The function of a business incubator is to help nascent and young companies to solve these developmental problems; this kind of support

helps accelerate the learning curve of the new business or firm by ensuring that it progresses from one stage to the next (as indicated in figure 2 below) and, simultaneously, contributes directly to business's capabilities creation (Zollo and Winter, 2002).

Figure 2: The Five Stages of Business Growth

Existence	Staying alive by finding products or services and customers
Survival	Establishing the customer base, demonstrating viability (nascent)
Success	Confidence in market position, options for further growth
Take-off	Opting to go for growth
Maturity	Showing the characteristics of a larger, stable company

Source: (Churchill N. C. and Lewis V. L., 1983)

In this instance, business incubator managers should choose to solve each problem encountered by small businesses by balancing the cost of finding one solution and the expected value of the solution's use (Nickerson and Zenger, 2004). There are three fundamental governance modes that business incubators can use to solve problems: market, authority-based hierarchy and consensus-based hierarchy (Hsieh et al., 2007; Nickerson and Zenger, 2004). Solutions found in the market are arguably the easiest way to solve problems as a result of market efficiencies and market equilibriums. In this case, the business incubator manager chooses to acquire the necessary knowledge externally. In both authority-based and consensus-based hierarchies, solutions are developed internally. Business incubator managers choose each mode according to the cost of the solution and the value of the expected solution.

3.2.1 Business Incubation and Economic Development

The relatively successful attempts in countries such as the United Kingdom (UK) to address unemployment in the 1930s and the apparent ease of maintaining full employment after the Second World War gave rise to a belief that permanent full employment was attainable. This was accompanied by the belief that it was the duty of the government to maintain that position. "In the 1970s and 1980s, however, unemployment rose considerably across a number of developed countries. Actual employment was not falling but the number of people

seeking employment was on the rise. Another development during this time was that industry, which was the traditional main source of employment, was changing. It was increasing its output, but through increased productivity as opposed to through increasing the numbers of employees. Expanding output no longer meant an automatic increase in employment (Bridge et.al, 2003: 15)” and small businesses or new entrepreneurs had to close this gap as a result of the unemployment levels.

Small businesses are often created to exploit a market segment which is not catered for by other established businesses. But now entrepreneurs wishing to exploit these market segments may have the considerable or specialised knowledge about such market niches but often lack a full array of business skills. This is where the business incubator facility plays a crucial role. Business incubators are meant to fill knowledge gaps, reduce early stage operational and overhead costs, and establish enterprise support networks for entrepreneurs. This way, they promote innovation and create sustainable entrepreneurial ventures in a very cost effective way. Cassim (2001: 2) pointed out that business incubation was “well documented as a tool for economic development the world over, and is currently fast growing as an industry.” A number of European countries and other such as the United States, China and Japan, in a bid to minimise start-up failures, have for the past five decades placed infant firms in business incubators. Tornatzy (1996: 22) also agrees that “business incubation is an effective business development tool because even though it requires some modest investment, it can provide an excellent return on investment.” In a rapidly changing global economy, SMME’s are increasingly a force for enhancing national economic growth. Lalkaka (1990:19) argues that “business incubation systems ought to be oriented towards addressing the problems of economic development through improving the entrepreneurial base with regard to either both quantity and/or quality as well as sustainability.”

3.2.2 Business Incubation in South Africa

The process of business incubation in South Africa is still a recent phenomenon and the widespread perception is that it is still at an embryonic phase. Historically, the former apartheid government promoted white-capital enterprises using marginalised and oppressed black South Africans as a cheap source of labour. This government was hostile towards the development of SMMEs especially for the African population (Ndabeni, 2009). Small scale producers were consigned to generating inferior products catering for the lower end of the market. This resulted in suppressed entrepreneurship and human capital development. The

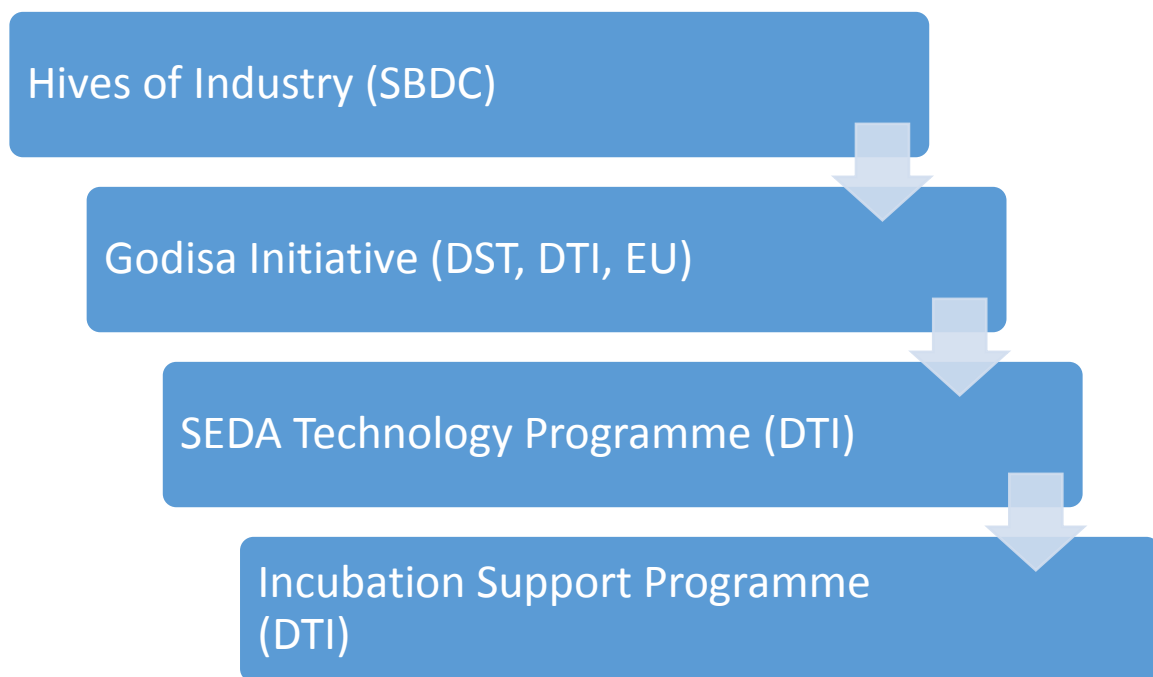
transition to a democratic state in 1994, led to the *deracialisation* of the economy and the subsequent launch of the SMME strategy in 1995. This recognised the potential of small businesses in job creation, poverty eradication and economic development and more opportunities were opened up for all South Africans (Ndabeni, 2009). South Africa first introduced the concept of business incubation and small business support through the “Small Business Development Corporation in 1995, when what was then called the “Hives of Industry” was established. These Hives were spaces in townships where black entrepreneurs were provided with advanced infrastructure, such as telecommunications, electricity and storage facilities. These Hives also facilitated the formation of subcontracting relationships between small and bigger businesses. SMMEs that were housed in these hives were not required to graduate from the system (Buys and Mbewana, 2007).”

Business incubators have evolved in South Africa and this evolution is characterised by four different stages as indicated in figure 3 below. The first stage is the one mentioned above, the initiative by the Small Business Development Corporation through the Hives of Industry in 1995. The second stage was the Godisa Initiative, which was initially a sub-programme of the Department of Science and Technology in 1999/2000. The Godisa Initiative in 2002/3 eventually ended up as a joint venture between the Departments of Science and Technology (DST) and Trade and Industry (DTI) as well as the European Union (EU). This initiative established Technology Business Centres such as business incubators, innovation support centres, demonstration centres and hybrid centres with the aim of accelerating the development of technology-based small enterprises. The first Technology Business Centre was the Softstart Technology Incubator, launched in July 2001. In October 2003, Godisa was registered as a Trust and by the end of 2005 the Godisa Trust had established eight Technology Business Centres (Godisa Annual Report, 2005). The third stage came into effect in April 2006 when the SEDA Technology Programme (STP) was created. This programme was a result of the merger of the activities of the Godisa Trust, the National Technology Transfer Centre (NTTC) of the Department of Science and Technology, and the Technology Advisory Centre (TAC) of the Department of Trade and Industry. The creation of the SEDA Technology Programme stemmed from government’s strategic decision to consolidate and integrate the activities of SMME support interventions across the different government agencies (SEDA, 2006).

In 2012, “South Africa had more than fifty business incubators sustaining entrepreneurs in sectors ranging from horticulture, construction, chemicals, and information and

communication technology (ICT), biotechnology, metal fabrication, furniture manufacturing to platinum beneficiation. The bulk of these business incubators were state supported facilities, either sponsored by national government or provincial and local government (Rogerson, 2012)".

Figure 3: Evolution of Business Incubators in South Africa



Source: Adapted from (Rogerson, 2012)

In September 2012, the Minister of Trade and Industry launched the Incubation Support Programme (ISP). This marked the fourth phase in the evolution and development of business incubation in South Africa. The Incubation Support Programme was a reconfirmation of government's long-term commitment to business incubation as a vehicle to create sustainable enterprises. According to the DTI (2012) the primary objective of the ISP was to build successful enterprises with the potential to create employment opportunities and to revitalise and strengthen both local and national economies. Furthermore, the ISP aimed to broaden economic participation by ensuring that incubated SMMEs graduated into the mainstream economy. At the heart of the ISP was the notion of public-private-partnerships. The DTI identified "public-private-partnerships as critical to promoting broader economic participation, uplifting South Africa's entrepreneurial base and encouraging start up activities" (DTI, 2012). The government called on large private sector businesses to partner and participate with the Department of Trade and Industry meaningfully in national

programmes for SMME development through skills transfer, supplier development and marketing assistance. The encouragement of partnerships with the private sector supporting government SMME development initiatives was reflected also in parallel policy steps aimed at encouraging programmes for supplier diversity (Rogerson, 2012).

The ISP was launched as a 10 year programme that was expected to run from 2012 until 2022. At its inception in 2012, the Minister announced the ambitious target of establishing a total of 250 business incubators in South Africa by 2015. The ISP was to function on a grant system where approved business incubators would qualify for a maximum of R10 million per year in government support for a period of three years. The Incubation Support Programme was going to cover the costs for: “business development services (e.g. business advisory, coaching and mentoring, training, facilitation of funding, production efficiency and improvement, quality and standards acquisition); market access improvement; machinery, equipment and tools; infrastructure costs (i.e. buildings and furniture); feasibility studies for establishing and expanding incubators; product or service development; information and communication technology support; and, operational costs (Masutha and Rogerson, 2012).”

Private sector involvement in business incubation in the South African case can be regarded as a plausible move by the Ministry of Trade and Industry especially when judging the performance of business incubators under the STP. The fourth stage, the ISP, could perhaps be regarded as the DTI’s turnaround strategy. This is because in the 2012/13 financial year, the SEDA Technology Programme claimed that 376 SMMEs and 2 301 new jobs were created and 2 282 clients supported (STP Annual Report, 2013). KwaZulu-Natal took the lead and created 1 233 job opportunities, the majority of which (1 090) were in the construction sector. This was however at a cost of approximately R150 million with these enterprises generating revenue of only R147.3 million. These returns are not very satisfactory and indicate that the Ministry definitely has a lot to learn from those major private sector actors in the landscape of business incubation that are running profitably, such as: the Shanduka Black Umbrellas, Raizcorp, Aurik, Sasol Chemcity, Maxum (Innovation Hub) and Bandwidth Barn.

3.2.3 Key Success Factors for Business Incubators

A business incubator must be grounded in the real world of business. If a business incubator is to be successful it must be run like a business that adjusts and reacts to changing market

conditions. A key factor to achieving this is employing business incubator management from the business sector (Adkins, 2007). Another important factor to the success of the business incubator programme is that it must have deep support from the local business community. Sipos and Szabo (2006) list the following factors as crucial for the success of the business incubation process:

- Survival of the business incubator: effective business incubation programmes must be based on effective business plans and feasibility studies. Business incubators need to be proactive, have a focused strategy and regularly evaluate and benchmark performances.
- Graduates/ tenant companies: key factors determining business incubator success depend on the number of small companies incubated, the number of businesses graduating from the business incubator, the number of employment opportunities created, the length of stay of the businesses and the growth of revenues/ profits of the businesses in the incubator.
- Political and regional effects: business incubators need to stimulate local economic development, contribute to the diversification of local economic activity, create markets, meet the needs of the community, make regions more competitive and stimulate networking and interaction among enterprises.
- Management team: business incubators require competent and educated management teams and the managers must have an entrepreneurial mind set.
- Services: priority should be given to mentoring, networking and human resource development. Business incubator teams should develop a strong relationship with the community, reduce the number of small business failures and attract and retain new businesses.
- Research potential and networks: business incubators should have access to national and international networks, which will ensure the necessary support for small businesses. Business incubators should be involved in the transfer of technology and the commercialisation of research from university labs (Sipos and Szabo, 2006).

Buys and Mbewana (2007) also provided a more exhaustive list, from their study on key success factors that influenced business incubation in South Africa. In their investigation they discovered that the eleven key factors for successful business incubation were access to science and technology expertise and facilities, the availability of funding, quality of entrepreneurs, stakeholder support, supportive government policies, competent and motivated management, financial sustainability and networking as indicated in figure 4 below.

Figure 4: Eleven Potential Success Factors for Business Incubation (South Africa)

Set of Eleven Potential Success Factors for Business Incubation

1. Access to science and technology expertise and facilities
2. Comprehensive business plan
3. Stringent selection criteria
4. Availability of funding
5. Quality of entrepreneurs
6. Stakeholder support
7. Supportive government policies
8. Competent and motivated management
9. Financial stability
10. An experienced advisory board
11. Networking

Source: (A.J. Buys and P.N. Mbewana, 2007)

3.2.3.1 Financial Sustainability

Business incubators as enterprises must also be viable. “Some take equity, and/ or royalties and operate as businesses and have their own source of sustainability even if it is through ongoing subsidies (Richards, 2002: 45).” Business incubators also require support from the communities that they are surrounded by in order to be successful. “The success of the

incubator is accelerated by strategic partnerships with the companies that graduate from them (Richards, 2002: 102).” “The ultimate test of success will normally be whether the incubator can self-sustain as it has to be managed like a business regardless of its legal status (Wagner, 1997: 161).”

3.2.3.2 The Success of Graduate Companies

“All business incubator models are dependent on the success of companies they have within their portfolios (Barrow, 2001: 33).” In many cases the success of both is tied in how well the companies do after they graduate. Traditionally, true business incubators have yielded to the fact that the only true measures of success are the companies that come out of their pipelines. “In essence, business incubators should contribute to their companies so that they are stronger, better and faster than those who are not in business incubators (Richards, 2002: 45).”

3.2.3.3 Supportive Government Policy

Rustam Lalkaka maintains that the success of services directed to entrepreneurship promotion depends largely on a broad-based consensus on economic and industrial policy. Hence it must be emphasised that “initiatives such as business incubation make sense only if the relationship between entrepreneurship and economic growth has been acknowledged (Lalkaka, 1990: 12).” The chance of succeeding exists only if “the proposed business incubation projects are consistent with the country’s overall economic goals and strategies and with the socio-cultural environment (Lalkaka, 1990: 26).” The success of business incubation in the United States can be attributed to “a facilitative entrepreneurial environment, an expressed demand for infrastructure and advisory service and generally, a profit aim (Lalkaka, 1990: 45).”

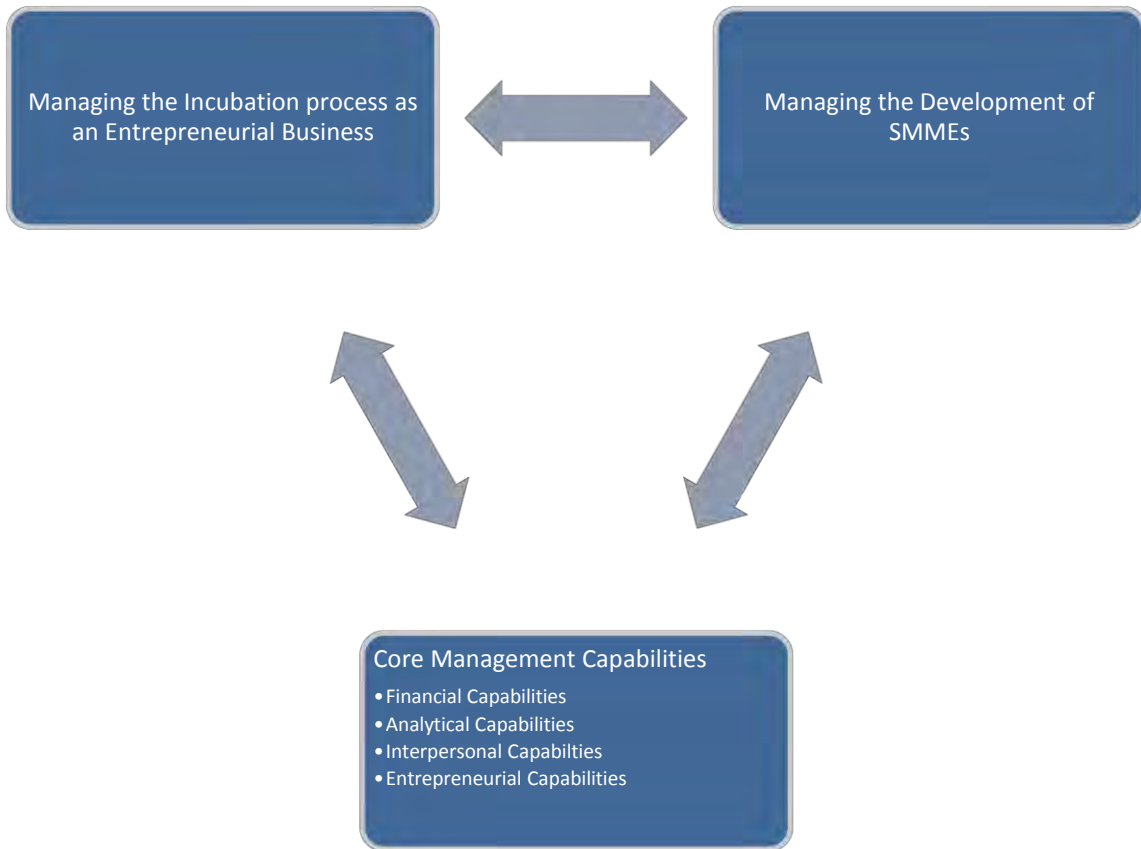
3.2.3.4 A Competent Management Team

“The best returns are expected from those business incubators that provide a highly networked but lean management team (Richards, 2002: 21).” Those business incubators that provide valuable network connections for their start-ups, while providing the opportunity for the incubated chief executive officers to develop expertise in how to grow a company could be best positioned for sustainability and growth. “Who you really need to run a business

incubator is a very experienced person who has a business background and is well networked in the community (Richards, 2002: 21).” Properly incentivised incubator managers stay for a long time (Barrow, 2001: 36). “Personal qualities are clearly critical and the person chosen to lead the team needs to possess entrepreneurial skills and a flair for leadership and organisation (Tornarty, 1996: 25).” In addition, management should be able to conduct business planning, do market research, and be able to deal with investors, as well as have experience in meeting the challenges of early stage business operations, and an understanding on how to help entrepreneurs in seeking finance.

Hannon (2005) emphasised that management capabilities, understanding and decision-making are paramount in the effective application of specific incubation policies and processes. Figure 5 below illustrates the core management profile and its various roles in the business incubation process. Most business incubator managers are adept at managing the business incubation process and the development of entrepreneurs. It is the ability of management to manage the process as an entrepreneurial business that mostly differentiates one business incubator from another in terms of success and sustainability (Hannon, 2005).

Figure 5: Core Capabilities of Business Incubator Management



Source: Adapted from (Hannon, 2005)

3.2.3.5 Networking

A network of influencers or executive champions is very important if a business incubator aims at being successful. This is because networking partners share experiences of both business successes and failures that business incubators can learn from. Networking also opens up and widens market opportunities for incubated companies. Hackett and Dilts (2004: 41) indicate that “it is important to recognise the key role that the entire business incubator network plays in incubating new ventures. This network typically includes the business incubator manager and staff, the advisory board, the incubated companies and their employees, local universities and university community members, industry contacts, professional service providers (i.e. lawyers, accountants, marketing specialists, venture

capitalists, angel investors, and volunteers.” Pena (2004: 226) asserts that “the establishment of inter-organisational arrangements helps companies in overcoming survival barriers. Another important success factor is to find partners to share risk; not only in terms of capital, but also time and reputation.” Start-ups should be introduced to angel investors, venture capitalists and potential partners. Otherwise failure is inevitable and the business incubator will be sabotaging its own success without realising it. “Strong partnerships create strong serial entrepreneurs. What makes incubated entrepreneurs successful is the value added to them by their business incubators (Lalkaka, 1990: 21).”

3.3 Assessing Business Incubator Success

What happens in a business incubator is that the odds of success for entrepreneurs are exponentially increased. That happens for a number of reasons: entrepreneurs who go into business incubators do that because they know there is something they need to know (Richards, 2002). On the assessment of business incubator performance, Lalkaka (1997: 11) advised that “business incubators are a study in contrasts, each catering to its own potential entrepreneurs, in a given cultural milieu, conditioned by the available infrastructure and policy framework.” In a UNDP/ UNIDO/ OAS⁴ sponsored study titled, “The Assessment of the role of Business Incubators in Enterprise Creation and Economic Development” which was conducted in 1995, a variety of criteria were identified for the assessment of an incubation programmes. The study pointed out that the task of assessing the role of business incubators was even more difficult in industrialising countries. This was because of the recent implementation of business incubators and the apparent lack either of local will or the attendant resources to mount the required systematic data collection and activity. “Success or failure was determined by the national and international environment as well as by the micro-environment of the business incubator. While good international technical assistance was only one of the success factors, it could help enhance effectiveness of business planning preparation and business incubator operating practices. Successful entrepreneurial development required a synergy among entrepreneurship, business know-how, technology and capital (Lalkaka, 1997: 14).”

⁴ UNDP (United Nations Development Programme)/ UNIDO (United Nations Industrial Development Organisation)/ OAS (Organisation for American States)

Barrow (2001: 32) lists the following as critical elements of a successful business incubation programme:

- “A broad range of supporting stakeholders (financial and in-kind), state and local governments and business and community-based groups such as regional development organisations (Barrow, 2001: 32).”
- “Local demand from entrepreneurs with early stage small businesses: business incubators should service, on demand, local entrepreneurs looking to improve the survival and growth prospects of their early stage small businesses (Barrow, 2001: 32).”
- “An effective business incubator needs to maintain adequate tenant occupancy to replace the regular graduation of existing tenants. A ready supply of emerging local businesses is essential to the long-term sustainability of any business incubation programme (Barrow, 2001: 32).”
- “Economic and community impacts: A business incubator has to deliver results against the outcomes that the stakeholders want. This may be economic development in the form of new jobs, or it may be valued experience for university students or profitable investment opportunities for the providers of capital (Barrow, 2001: 32).”

Matthews and Rice (1995) in their book, “Growing new ventures, creating new jobs”, identified three basic principles for successful business incubation. Their three core principles state that:

- business incubators should focus their resources on the development of companies. In addition;
- the business incubator should be managed as a business; and
- the business incubator should offer an array of services and programmes that meet the needs of the targeted companies (Matthews and Rice, 1995).

They noted that while most business incubators have the single goal of creating jobs, very few have been able to achieve this. They therefore recommended that business incubators should concentrate on developing companies rather than pursuing the goal of job creation. As the companies develop they would in turn will grow and create jobs. They also recommended

that business incubators should develop differentiated programmes that would meet the needs of their various clients (Matthews and Rice, 1995).

Lalkaka and Shaffer (1999) developed a performance evaluation framework for business incubators. In their framework they recommend “a cost-benefit approach in assessing business incubator performance. Their overall cost-benefit model analysed the flow of funds in and out of the business incubation programme to determine its ability to replace the resources that it utilises and to generate a surplus (Lalkaka and Shaffer, 1999).” This model utilised the criteria of business incubator impacts/ outreach, effectiveness and sustainability to develop a performance framework that contains twenty one performance indicators as indicated in figure 6 below.

Figure 6: Performance Evaluation Framework

IMPACT/ OUTREACH	SUSTAINABILITY	EFFECTIVENESS
Enterprises created	Revenue surplus (6 years)	Employment per net dollar subsidy
Survival rate of enterprises	Service cost recovery	Taxes paid per net dollar subsidy
Jobs created in incubated firms, graduated firms and indirect jobs (6 years)	University-business relations	Income, sales and exports generated
Entrepreneurs/ enterprises Reached	Stakeholder satisfaction	Research commercialised
Replication of „pilot“ model	Tenant/graduate satisfaction	Disadvantage groups addressed
Extra-curricular activities	Changes in culture	Incubator expansion
	Enhancement of skills	
	Leveraging state policies	

	Enhanced self esteem	
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Source: (Lalkaka and Shaffer, 1999)

In the Lalkaka and Shaffer performance evaluation framework, the effectiveness of a business incubator programme can be explained in terms of the benefits from the programme in relation to the use of all resources. The outreach depends on the ability of the business incubator’s programme to replicate the embodied concept and to reach a large number of enterprises. Sustainability refers to the business incubator’s ability to continue generating positive cash flows and to the durability of the benefits achieved. This measure is particularly important to the sponsors of the programmes as it indicates the business incubator’s ability to survive and perform after external support has been withdrawn (Lalkaka and Shaffer, 1999).

Probably the best developed practical measurement scale for business incubator performance is the one suggested by Hackett and Dilts (2004). These authors measured business incubation performance in terms of both tenant growth and financial performance and this was at the time of the company’s exit from the business incubator. They came up with five categories where categories one, two and three were indicated as “successes” and categories four and five were classified as “failures” as depicted in figure 7 below.

Figure 7: Business Incubation Performance

Category	Success/ Failure	Incubated Firm Outcome/ State
1	Success	The incubated firm is surviving and growing profitably
2	Success	The incubated firm is surviving and growing and is on a path toward profitability
3	Success	Incubated firm operations were terminated while still in the business incubator, but losses were minimised

4	Failure	The incubated firm is surviving but is not growing and is not profitable or is only marginally profitable
5	Failure	Incubated firm operations were terminated while still in the business incubator, and the losses were large

Source: (Hackett and Dilts, 2004)

3.4 Challenges in Measuring Business Incubators Performance

It is important to reiterate that the task of measuring business incubator performance is difficult in developing countries, given both the infancy of business incubators and the apparent lack of resources required for systematic data collection. Another variable can perhaps be the complacent or sluggish attitudes towards entrepreneurship and entrepreneurial development. Literature suggests that growth in business incubation is generally measured in terms of employment growth, profit growth and sales growth but a majority of performance frameworks tended to measure financial performance and organisational effectiveness, where the latter variable is gauged in terms of product quality and market share. However, because financial data was problematic to obtain from small firms, non-financial operational measures had to be devised, forming what was deemed a suitable basis for building an evaluative framework to measure the performance of start-ups. Lalkaka and Abetti (1999) put forward four non-financial variables to be included in any serious evaluation of business incubator performance. These were:

- “The number of enterprises created by the business incubator and success rates through the business incubation process, measured by numbers of firms incubated and number of discontinued businesses.
- The number of jobs in the business incubator, measured by employment years through to the end of year three.

- The number of jobs and economic activity created by companies after leaving the business incubator (graduates), measured by employment years and value added through to the end of year six.
- The amount of research commercialised through development work by companies at the business incubator, measured in the number of projects and economic activity (Lalkaka and Abetti, 1999: 204).”

3.5 Conclusion

The aim of this literature review was to enable the study to come up with an effective model for assessing the role of business incubators and in a way discover the best way to measure their impact. It was important to adopt an incremental approach in the synthesis of ideas in order to minimise the intentions of the study. The background to business incubation as a concept and business incubators as organisations that enable entrepreneurs or SMMEs go comfortably through the five stages of business growth and the positive relationship between business incubation and economic development helps one understand the important role played by business incubators. Looking at business incubators in South Africa serves an indicator of commitment towards the country’s path towards economic transformation and inclusion and the trajectory the country has taken. The picture painted here is not a rosy one as a lot of the literature claims that South Africa has below-average entrepreneurial activity and South Africans have an extraordinarily high fear of failing in business in business. There is a clear indication that the presence of business incubators for the past two decades have not done much to alleviate this challenges in the country. This chapter ends with the presentation of factors that make for successful business incubation. The most common factors were the selection or recruitment of entrepreneurs or SMMEs, the funding opportunities available to entrepreneurs, the management team, its commitment, motivation and leadership styles and strategies. These factors are crucial as they underline the basis of the theoretical framework that the study has adopted. The literature review also points out the challenges a number of evaluators have come across when measuring business incubator performance which stem mainly from the dynamic nature of the small business environment. This served as a caution so as to ensure that the research methodology was not overly ambitious.

CHAPTER FOUR

Research Design and Methodology

4.1 Introduction

The preceding chapters provided a foundation for the understanding of business incubators in modern economies and their supposedly key role in employment creation and enterprise development. This chapter focuses specifically on the research design and methodology that was used to acquire the data. As this is an evaluation study, it is meant to provide an independent assessment of the performance and impact of the interventions directed at small businesses. Shapiro (2005), when commenting on evaluation studies states, “When conducted correctly, evaluations yield useful insights that can be used to improve the design and implementation of government interventions. All evaluations require the co-operation of key stakeholders and readily available information in order to allow the evaluator to draw reasonable and objective conclusions on the performance of the programme. Therefore, all evaluations are informed by a methodology that guides the collection and analysis of information (10).” This study has attempted to incorporate all the necessary steps required to carry out an effective evaluation.

4.2 Methodology

The study utilised mixed methods of collecting data. It incorporated both quantitative methods by means of survey questionnaires directed at SMMEs under incubation programmes as well as qualitative methods by means of face-to-face interviews with managers of business incubation centres. A desktop literature survey was conducted in order to identify key perspectives on entrepreneurship, small business support and economic development in South Africa. Some documents like the latest progress reports, business plans, financial reports and feasibility studies were reviewed before the interviews. Information from these documents was recorded in order to corroborate the data obtained from the respondents. The information gathered from the survey questionnaires was utilised to determine two issues: the success of the business incubator (in terms of turnover, graduates, financial sustainability etc.) and the factors that led to that success.

4.3 Sample Size

The research was carried out in 15 business incubation centres across KwaZulu-Natal using a probability sampling method. A stratified random sample of 90 SMMEs (6 from each business incubator) was selected as respondents together with the 15 business incubation centre managers. The province of KwaZulu-Natal was selected as the sampling frame for a number of reasons. Besides ease of access, the province at the time of data collection already boasted of an over-representation of business incubation centres under the SEDA Technology Programme (STP). Eight (25%) of the 32 centres were located in KwaZulu-Natal (see Figure 8 below). The province also had a substantial number of business incubators listed by the South African Business and Technology Incubation Association (SABTIA) (see Figure 9). KwaZulu-Natal further boasts a tremendous amount of economic activity. It is the second largest economy after the Gauteng province in the country and contributes more than 16% towards the country's GDP (StatsSA, 2011). The province of KwaZulu-Natal is the country's leading producer of timber, has the third highest export propensity and the second highest level of industrialisation in the country. It has an estimated population of 10.3 million people with 3.2 million people who are economically active (StatsSA, 2011).

In terms of economic outlook, the province offers a highly competitive advantage in capital intensive manufacturing, transport, storage, and communications, as well as finance and business services. It is very well positioned in agriculture i.e. forestry and fishing, and in tourism. The province also boasts significant subsectors such as motor vehicle and component manufacturing, printing and publishing, food and beverage production, non-electrical machinery, iron and steel, wood furniture, and textiles and clothing. The province's unmatched natural resource endowments, its exceptional productive capacity, its well-developed first world infrastructure and the advantageous coastal location with two very busy ports makes it a suitable and thriving location for enterprise and equally so for small businesses too (TIKZN, 2010; StatsSA, 2011)."

Figure 8: Business Incubators under the SEDA Technology Programme (STP) in KwaZulu-Natal

CENTRE	SECTOR	PROVINCE
1. Downstream Aluminium Centre for Technology (DACT)	Aluminium fabrication and casting	Richard's Bay, KwaZulu Natal
2. Furntech Durban	Furniture manufacturing	Durban, KwaZulu-Natal
3. Furntech UMzimkhulu	Furniture manufacturing	UMzimkhulu, KwaZulu-Natal
4. INVOTECH (Innovation Technology Business Incubator)	Mixed high-tech	Durban, KwaZulu Natal
5. Seda Construction Incubator (SCI), Durban	Construction	Durban, KwaZulu-Natal
6. Seda Construction Incubator (SCI) Dundee	Construction	Dundee, KwaZulu-Natal
7. Seda Construction Incubator (SCI) Kwa-Mashu	Construction	Kwa-Mashu, KwaZulu-Natal
8. SmartXchange	ICT	Durban, KwaZulu-Natal

Adapted from the 2013 STP Annual Report (SEDA, 2013)

Figure 9: Other Business Incubators in KwaZulu-Natal listed by SABTIA

CENTRE	SECTOR	LOCATION
1. Umkhumbane Entrepreneurial Support Centre	Small-scale manufacturing	Cato Manor, Durban
2. Wiggins Economic Hive	Mixed services	Mayville, Durban
3. Raizcorp Prosperator	Mixed services	Richards Bay
4. Raizcorp Prosperator	Mixed services	Durban
5. The Business Support Centre	Mixed services	Pietermaritzburg
6. Zikulise SME Development and Skills Training Centre	Mixed services	Empangeni
7. Shanduka Black Umbrellas	Mixed services	Durban

4.4 Research Instruments

Two semi-structured questionnaires, one for SMMEs (Appendix C) and one for business incubation centre managers (Appendix B), were administered to 69 respondents (62 SMMEs and 7 incubation centre managers). 47 of the respondents were personally interviewed by the author, 18 were interviewed by well-briefed university graduates serving as research

assistants at the Maurice Webb Race Relations. The remaining 4 respondents were sent questionnaires via electronic mail with an explanatory covering note detailing the procedure to be followed in answering the questions. Interviews averaged about 40 minutes per respondent. The semi-structured questionnaires used in the study were designed based on the information obtained during the literature review. The survey questionnaire for the SMMEs under business incubation (Appendix C) was made up of three sections. These were the demographics or background information, the services received whilst under incubation as well as the observable impact brought about by business incubation. These business incubation services were measured by a total of ten items, based on Likert scales, where respondents were meant to indicate their levels of satisfaction on the business services and experience received under business incubation. In all cases there was a consistency of responses and very little interview bias was noticeable.

4.5 Validity and Reliability

To enhance the quality of the study, validity and reliability were taken into account. This was important in order to reduce the possibility of obtaining incorrect findings and consequentially flawed interpretations. “The reliability of any study is defined as the ability of a measure to produce the same results under the same conditions (Field, 2009: 792).” According to Cooper and Schindler (2011), a measure is reliable to the degree that it supplies consistent results. “Validity, on the other hand is defined as an indication of whether an instrument measures what it sets out to measure (Field, 2009: 795).” Cooper and Schindler (2011) posit that while reliability is a necessary contributor to validity, it is not a sufficient condition for it. “Reliability has to do with the accuracy and precision of a measurement procedure while validity is the extent to which a test measures what is being assessed (Cooper and Schindler, 2011: 280).”

In this study, because of the research instruments utilised, the interviews and survey questionnaires, as well as the time and place in which the study was conducted, there are a number of factors that could possibly serve as limitations to its validity and reliability. For one, the interviews and survey questions are susceptible to a number of variations due to their open-endedness and therefore the results might not always be similar and or objective in some instances. A second factor was that the study was conducted in the province of KwaZulu-Natal and SMMEs from different provinces could have very different experiences. The time lapse, the place where the study was conducted and the research instruments utilised

are all the factors that are taken into account in the discussion and interpretation of the findings.

4.6 Data Analysis and Interpretation

The collected data was coded and similar responses generated the themes of the study. It was then loaded on to a computer programme, the Statistical Package for the Social Sciences (SPSS) through which frequencies, tables and cross-tabulations of the variables (descriptive statistics) referred to in the objectives were generated for analysis. The conclusions drawn by the study are limited due to the nature of small business research in South Africa, the infancy of business incubation as well as the size of the sample in the study.

4.7 Limitations of the Study

This study suffered from two very important limitations. The first was that studies of this nature require a significant amount of resources and this attempt to evaluate the role of business incubators was rather very heuristic as it under-represented the SMMEs incubated in non-state funded business incubation centres. This therefore reduced the sample size which in a way affected the statistical analyses and tests as the study only managed a 68% response rate. There was also the issue of the limited data available to measure the impact of business incubation, which could be explained by a number of reasons. The first reason is that the impact of business incubation can be difficult to assess because the outcomes may take years to materialise, i.e. small businesses, unless they exceptionally good and ground breaking products or services, generally take time to develop suitable target markets and/ or scale their production. Literature indicates that on average, it takes about three/ four years to incubate a small business successfully, and in order to measure the viability and growth rate of the incubated business one would have to wait at least another three or four years after their graduation. Another difficulty is identifying a control group. Ideally the growth rate of small businesses should be measured against industry benchmarks. This control group could serve as a test which one can determine how small businesses under incubation perform in comparison to other companies that are not under incubation (Vanderstraeten and Matthyssens, 2010).

The second shortcoming, not very different from the first was as a result of the nature of small businesses. As Curran and Blackburn point out that, “regrettably, much of the research

on small enterprises has not been of high quality, due mainly to failures to recognise the special problems studying the small business poses for researchers (2001:18)” There has always been a tendency to see small businesses as less central to economic activities than large businesses, particularly multinationals. However, another difficulty which poses a serious problem for researchers is that there have been considerable difficulties in estimating the number of small businesses in South Africa. “Researching small businesses has proven to be difficult because by definition they contain relatively few people, are unlikely to have complex organisational structures or elaborate dealings with the outside environment and their activities are less likely to be transparent than those of larger firms. Simply put, a small business is not merely a scaled-down version of a large business (Curran and Blackburn, 2001: 20).”

Curran and Blackburn (2001) further indicate that activities in small businesses lack clear structures and recording procedures, which means that measurement and propositions are much more difficult to test. In larger enterprises researchers can access paper or computer-based quantitative data or records of how decisions were made. Unlike large business small business usually have less ability to influence their wider environment. They are in fact much closer to the ideal type of the classical economist’s model of the individual business where activities are dictated completely by the market. With such diverse phenomena as subject matter, small business research is never easy and generalisation is always going to be difficult (Curran and Blackburn, 2001). Research on start-ups and small family-owned businesses, however well-conducted, will always offer conclusions whose wider applicability will be easy to challenge. For instance, were the start-ups all from the same region? Were the owners educationally representative of the population of small business owners as a whole? Did they have any, or the same training or experience for running a small business? Did they all have access to the same amounts and kinds of finance? Were the start-ups in a range of sectors representative of the economy as a whole? Was the economy in a recession or expanding at the time of start-up (Curran and Blackburn, 2001)?

Burrows and Curran claim that “what adds further to this dilemma is that size, whether measured in terms of the number of employees, turnover, market share or whatever, is not a sufficiently robust criterion to allow small firms to be isolated and analysed as having economic and social specificity (1959: 530).” Smallness per se is not technically a necessary characteristic of an organisation but a contingent one. “Lumping together all businesses with

“less than” a certain number of employees as small businesses implies that besides having below this number of employees they also share enough other characteristics which necessitate that they be treated as members of the same category for research and policy purposes. But including furniture restorers, corner shops, computer software firms and restaurants in the same category merely because they employ less than some stipulated number of employees or their turnover falls below some level, is to ignore a wide range of sector characteristics that make them very different from each other (Curran and Blackburn, 2001: 17).” Notwithstanding the difficulties of studying small businesses, this study at times may have failed to be discriminant and reproduced some of the fallacies cautioned about in the consequent analysis of the data.

4.8 Conclusion

This research design and methodology used in this study was meant to solicit information on the role played by business incubators in fostering economic growth and entrepreneurial development in South Africa as literature suggests at least for other economies. Therefore a three-pronged method was used to collect data. The province of KwaZulu-Natal served as a sampling frame because of its centrality and accessibility as well as its robust economic climate. A simple random sample was drawn of SMMEs across the fifteen business incubation centres in the province to complete questionnaires and incubation centre managers were interviewed. Although measures were taken the validity and reliability of the findings, the study was not without limitations. The first limitation was due mainly to resource constraints and thus led to minor sampling errors. The second limitation had much to do with the nature of small businesses and the availability of critical information for researchers that attempted to study small businesses. Notwithstanding the limitations the methodology and research design provided some insight into the role played by business incubators and provided an avenue onto how to go about when enquiring about the impact played by business incubators.

CHAPTER FIVE

Research Findings and Analysis

5.1 Introduction

The fundamental aim of this study was to evaluate the role of business incubators in South Africa. Utilising the methodology outlined in the previous chapter, this section presents the results and analysis of the study. The results are organised in a way that presents the responses by the business incubator managers and the incubated SMMEs separately. The first set of results is from the business incubator managers. This set of results is meant to contextualise and provide a brief background on the business incubators and how they function and perhaps identify their role from the perspective of business incubator managers. The second set, which forms the bulk of this chapter, is from the incubated SMMEs. This set is extremely important as it provides the opinions of the incubated entrepreneurs on the services they received from their respective business incubators. Both these sets of results help in shaping our understanding of the role business incubators are meant to play and also assist us in identifying the dynamics that are responsible for shortfalls or misperceptions.

5.2 Business Incubators

The study had identified 15 business incubators to participate. However, only 7 out of the 15 agreed to participate in the study. Therefore, the information provided in this section is based on the results of interviews conducted with only 7 business incubator managers. The discussions were meant to explore the types of qualifications the business incubator managers had, the kinds of partnerships that the business incubators formed and their main sources of funding. In the discussions, the business incubator managers were also asked to state the objectives of, the kind of services offered, the entrance criteria, and the pricing policies of their respective incubation programmes. The incubator managers were encouraged to elaborate on their day-to-day challenges as well as mention, if any, success stories of their respective incubation programmes.

5.2.1 Educational Qualifications of Incubator Managers

In the interviews, the business incubator managers indicated that they had qualifications ranging from matric certificates, business degrees (i.e. Master of Business Administration/

Bachelor of Commerce), science diplomas and one instance there was a manager that held a Doctor of Philosophy (PhD) in education. Interestingly, none of the business incubator managers had any entrepreneurial experience.

5.2.2 Partnerships

Business incubators had formed partnerships with local, provincial and national government with a large majority falling under the DTI's SEDA Technology Programme; a few had formed partnerships with companies from the private sector. Those that had formed partnerships with local governments were in the eThekweni and UGu municipalities. The business incubators that mentioned the provincial government as partners had relations with the KwaZulu-Natal Department of Economic Development and Tourism. The business incubators interviewees mentioned that they partnered with private sector companies such as ABSA, the Nedbank Foundation and the National Lottery Fund – this was in the form of cash donations, others had partnered with companies like: Dimension Data, Telkom, Neotel, Vodacom, Bizworks, Dataworld, Waltons, Business Connexion, Internet Solutions and Dynatec for capacity building and other various business activities for their incubated SMMEs.

5.2.3 Sources of Funding

Those business incubator managers that were willing to disclose information on where they sourced their funding named following institutions and sources: the National Jobs Fund, SEDA/ the DTI, local governments, private donors, and this was in addition to the rent they received from their clients.

5.2.4 Objectives of the Business Incubation Programme

All the business incubator managers stated that the main objectives of their business incubation programmes" were to: create jobs in the local community, diversify local economies, accelerate growth of local industries, entrepreneurial development, commercialise technologies, and generate income for their business incubators.

5.2.5 Services Offered

The services offered by the various business incubators ranged from: providing assistance with business basics such as developing business plans and offering comprehensive business training programmes. Business incubators also offered fully equipped office/ working space together with administrative and secretarial services and linked SMMEs with strategic partners and networks. Over and the comprehensive business training programmes, business incubators provided legal services, marketing assistance, accounting and financial management assistance and assistance with human resource development and training to SMMEs. There were a few that claimed to assist SMMEs in intellectual property management and in assisting SMMEs access finance.

5.2.6 Entrance Criteria

The entrance criteria were more or less similar across all the business incubators. Interested SMMEs were expected to complete application forms, provide motivation for their business and include a business plan. They also had to attach a curriculum vitae (CV) and proof of identification (Identity Document) and had to be 100% black-owned. For the sector-specific business incubators (i.e. construction, manufacturing etc.) applicants had to be in that particular sector and had to possess some kind of business or working experience in that sector. The selection criteria was more stringent on the mixed or service sector business incubators. This is because it was dependent on applicants having well-defined business ideas or sustainable businesses, management or business experience, market viability, financial viability and exceptional leadership qualities. An important requirement for most business incubators was compliance documentation such as: BEE Certificates, Tax Clearance Certificates, Construction Industry Development Board (CIBD) grading as well as business registration documents. The average time SMMEs were permitted to remain under incubation ranged from 24 - 48 months across all the business incubators (although this was not enforced in some of them). Guidelines that dictated the graduation of SMMEs were the time they had spent in the business incubator. This included when they had spent the maximum permissible time in the incubation programme and the growth and development of the business (when businesses had outgrown the space available in the business incubator, or when they had achieved mutually agreed upon milestones e.g. revenue levels, staff sizes and composition and market penetration).

5.2.7 Pricing Policy

The business incubators all had different pricing policies. Some business incubator managers indicated that the costs of all services provided to SMMEs were fully recovered from them as they were charged a percentage of their turnover. Other business incubator managers and these were generally from the state-supported business incubators, claimed to be charging rent that was below market rates for the kind of facilities they provided to SMMEs and the rent escalation had not been more than 10% per annum.

5.2.8 Challenges

The business incubator managers stated a number of challenges faced by their respective business incubation centres. The first challenge related to funding shortages such as cuts in grant and donor funding. This meant that they had to have budget cuts and this was very worrying for them because even though the funding decreased each year, the number of applications they received increased. The second challenge related to the overall business environment as the business incubator managers felt that their SMMEs: had been hit hard by the economic downturn; struggled to access markets and the government did not offer them any business (for those that did do business with government departments, they had to endure very late payments from the departments); and were struggling to obtain finance in order to expand their businesses. SMMEs also had to deal with defaulting payers and this generally tapped into their emotional side, one incubator manager alleged.

A disturbing factor mentioned by the business incubator managers was the poor quality of entrepreneurs/ SMMEs and the retention rates of their business incubators. They claimed that the entrepreneurs had different cultures and were from different walks of life and backgrounds. A majority of these entrepreneurs chose not to attend the trainings provided and had only come to the business incubator for the infrastructure. Some of the entrepreneurs were not fully committed to their businesses whilst others suffered from sheer laziness, there were those who were very impatient and had a spirit of entitlement. There was a small portion that either lacked the confidence required to make it in business or suffered from language barriers but yet were in very competitive industries like the construction industry – this therefore affected their business performance. Finally, it was the skills adage where business incubator managers indicated that entrepreneurs had poor marketing and business

skills and generally failed to comply with legislative requirements and this at times led to their release from the business incubation programmes.

There were a few business incubator managers that found fault in their business incubation programme as they felt that there were co-ordination issues within their institutions. The business incubators had no meaningful interaction with SMMEs but instead provided them with blanket programmes which in most cases did not suit their needs. Other business incubator managers felt that the business incubation programmes were not doing justice to entrepreneurs, and this they claimed stemmed from a lack of capacity from programme sponsors, the bureaucratic processes, and the people responsible for the success of the SMMEs in the business incubator being unaware of the objectives of the business incubators and what it is they are meant to achieve.

5.2.9 Success Stories

Every business incubator manager had at least one success story to share. For instance, one claimed that their business incubator had incubated 202 entrepreneurs, created 357 direct jobs and 795 indirect jobs since inception in 2001, and currently had 20 entrepreneurs who were generating turnovers of approximately R5 million. Another claimed that their business incubator was up for a prestigious NBIA award in the United States after their business incubator was voted as runner up for the Dinah Adkins Incubator of the year. There was another one that was voted as Africa's best business incubator by the World Bank's InfoDev, the incubator manager claimed that the incubator had been the most successful flagship for the eThekweni Municipality and had incubated a company (Adapt IT) that is now listed on the Johannesburg Stock Exchange.

Other business incubator managers indicated success stories such as: "a marketing company under our incubation programme did marketing for UShaka Marine and is now doing annual reports for the mining multinational corporation, BHP Billiton." "A furniture and upholstery manufacturer now provides training and has trained over 75 women and a significant number of these women are living off their furniture and upholstery businesses or cooperatives." "One SMME has registered a food patent and has extended its business premises." One manager in a construction business incubator stated that all SMMEs under their incubation programme grew two stages up in the CIBD grading from 3-5 and two of them were now on grade 7, the highest CIBD grade. Their Dundee branch, a women-only branch of 30 women

who started the programme illiterate, now had 30 women who were now literate. As SMMEs they were making approximately R300 000 per annum and were set to be receiving graduation certificates at the 2012/13 Annual General Meeting.

5.3 SMMEs/ Entrepreneurs

Of the 62 entrepreneurs participated in the study, 26 of these were in the service sector, 22 in the manufacturing and 14 in the construction sector.

5.3.1 Sample Details

Table 1 below shows the composition and characteristics of the sample.

Table 1: Sample Composition

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 100 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Sectors												
Services	41.9	100	-	-	42.9	41.5	39.5	45.8	41.0	43.5	52.4	36.6
Manufacturing	35.5	-	100	-	57.1	24.4	44.7	20.8	46.2	17.4	33.3	36.6
Construction	22.6	-	-	100	0.0	34.1	15.8	33.3	12.8	39.1	14.3	26.8
Nature of business												
Agriculture / Agri-processing	1.6	0.0	4.5	0.0	0.0	2.4	2.6	0.0	2.6	0.0	0.0	2.4
Construction and Materials	22.6	0.0	0.0	100.0	0.0	34.1	15.8	33.3	12.8	39.1	14.3	26.8
Delivery Services / Logistics	1.6	3.8	0.0	0.0	4.8	0.0	2.6	0.0	2.6	0.0	0.0	2.4
Financial services	4.8	11.5	0.0	0.0	4.8	4.9	0.0	12.5	5.1	4.3	4.8	4.9
Education and Training	3.2	7.7	0.0	0.0	0.0	4.9	0.0	8.3	2.6	4.3	0.0	4.9
Food and Beverages	6.5	15.4	0.0	0.0	4.8	7.3	7.9	4.2	2.6	13.0	14.3	2.4
Information and Communication Technology	12.9	30.8	0.0	0.0	23.8	7.3	10.5	16.7	17.9	4.3	4.8	17.1
Manufacturing	33.9	0.0	95.5	0.0	57.1	22.0	42.1	20.8	43.6	17.4	33.3	34.1
Household services	9.7	23.1	0.0	0.0	0.0	14.6	13.2	4.2	10.3	8.7	23.8	2.4
Entertainment	3.2	7.7	0.0	0.0	4.8	2.4	5.3	0.0	0.0	8.7	4.8	2.4

Length in the business												
Less than 2 years	33.9	34.6	54.5	0.0	100	-	44.7	16.7	43.6	17.4	33.3	34.1
Above 2 years	66.1	65.4	45.5	100.0	-	100	55.3	83.3	56.4	82.6	66.7	65.9

Respondents used the following sectoral descriptions when they were asked to describe the nature of their businesses: Agriculture/ Agri-processing, Construction and Materials, Delivery Services/ Logistics, Financial services, Education and Training, Food and Beverages, Information and Communication Technology, Manufacturing, Household services, and Entertainment. Just over a third {33.9%} of the respondents had been operating their businesses for less than two years and the rest {66.1%} had been in business for more than two years.

5.3.2 Changes in Employment

Table 2 below indicates the changes in the number of employees the SMMEs had when they started (before joining a business incubator) and the number of employees they have now (after joining a business incubator).

Table 2: Changes in Employment

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
No of employees when business started												
1 - 3 people	62.9	61.5	81.8	35.7	81.0	53.7	68.4	54.2	100	-	61.9	63.4
Above 3 people	37.1	38.5	18.2	64.3	19.0	46.3	31.6	45.8	-	100	38.1	36.6
No of people employed now												
1 - 3 people	30.6	34.6	40.9	7.1	52.4	19.5	39.5	16.7	43.6	8.7	38.1	26.8
3 - 5 people	21.0	11.5	36.4	14.3	28.6	17.1	21.1	20.8	25.6	13.0	19.0	22.0
5 - 8 people	14.5	7.7	18.2	21.4	4.8	19.5	13.2	16.7	12.8	17.4	14.3	14.6
Above 8 people	33.9	46.2	4.5	57.1	14.3	43.9	26.3	45.8	17.9	60.9	28.6	36.6

Just over three fifths {62.9%} of SMMEs had between 1 and 3 employees when the businesses started, a bulk of these SMMEs were in the services and manufacturing sectors and had not been in operation for more than two years. There were significant improvements in employment patterns as approximately seven in ten {69.4%} of SMMEs employed three

employees or more with a third {33.9%} of SMMEs employing in excess of eight employees. SMMEs in the construction and services sectors accounted for a majority in these improvements. This is perfectly understandable as both these sectors are labour-intensive and attract a lot of unskilled and semi-skilled labour at the SMME level.

5.3.3 Changes in Turnover

Changes in sales or turnover serve as an objective measure in business growth. Table 3 below shows the changes in turnover from when SMMEs started operating and when they were under business incubation.

Table 3: Changes in Sales/ Turnover

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Sales/ turnover per annum when business started												
R100 000 and below	61.3	57.7	77.3	42.9	81.0	51.2	100	-	66.7	52.2	81.0	51.2
Above R100 000	38.7	42.3	22.7	57.1	19.0	48.8	-	100	33.3	47.8	19.0	48.8
Sales/ turnover per annum now												
R100 000 and below	27.4	34.6	36.4	0.0	52.4	14.6	44.7	0.0	33.3	17.4	42.9	19.5
R100 001 - R300 000	22.6	19.2	36.4	7.1	28.6	19.5	26.3	16.7	23.1	21.7	19.0	24.4
R300 001 - R500 000	12.9	7.7	18.2	14.3	14.3	12.2	10.5	16.7	15.4	8.7	9.5	14.6
R500 001 - R1000 000	17.7	23.1	9.1	21.4	0.0	26.8	13.2	25.0	10.3	30.4	19.0	17.1
Above R1000 000	19.4	15.4	0.0	57.1	4.8	26.8	5.3	41.7	17.9	21.7	9.5	24.4

Approximately three in five {61.3%} SMMEs had an annual turnover of R100 000 and below and the remaining {38.7%} were making more than a R100 000 per annum. Of the SMMEs that had an annual turnover of R100 000 or less, a majority {77.3%} were in the manufacturing sector, and four in five {81%} had not been in operation for more than two years and a similar percentage was owned by entrepreneurs with no post-matriculation qualifications. There were also significant improvements in the turnover as one in six {17.7%} SMMEs reported annual turnovers in excess of R500 000 and a further fifth

{19.4%} were generating more than a million rand annually. SMMEs in the construction sector indicated the most gains as 42.9 percent of these SMMEs reported an annual turnover of R100 000 or less before joining a business incubator. After joining, all of them witnessed significant increases with 57.1 percent claiming turnovers above one million rand annually. SMMEs in the services and manufacturing sectors also witnessed increases in turnover but no SMMEs in the manufacturing sector had reached the one million rand threshold. A majority of these SMMEs that had witnessed changes in turnover had been in business for more than two years and the owners possessed some sort of post-matriculation qualification. There were certain outliers however, especially in the construction sector and these were due to the illiterate women in the Dundee branch mentioned by one of the business incubator managers in the previous section on “Success Stories.”

5.3.4 Changes in the Legal Status of the Business

The entrepreneurs were asked to indicate the legal status of their business for two simple reasons. First, it was to measure the levels of compliance as business incubators are meant to assist SMMEs with business registrations and business regulation compliance. Secondly, April 2011 saw the New Companies Act of 2008 replace both the Corporate Laws Amendment Act of 2006 and the Companies Act of 1973. Table 4 below is a display of the changes in the SMMEs legal statuses.

Table 4: Changes in Legal Status

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Legal status: When business started												
Close Corporation	75.8	73.1	68.2	92.9	52.4	87.8	63.2	95.8	71.8	82.6	71.4	78.0
Pty Ltd	14.5	11.5	27.3	0.0	38.1	2.4	21.1	4.2	23.1	0.0	19.0	12.2
Sole trader	3.2	3.8	0.0	7.1	4.8	2.4	5.3	0.0	2.6	4.3	4.8	2.4
Co-op	3.2	3.8	4.5	0.0	4.8	2.4	5.3	0.0	0.0	8.7	0.0	4.9
Unregistered	3.2	7.7	0.0	0.0	0.0	4.9	5.3	0.0	2.6	4.3	4.8	2.4
Legal status: Now												
Close Corporation	71.0	69.2	59.1	92.9	47.6	82.9	60.5	87.5	64.1	82.6	71.4	70.7
Pty Ltd	17.7	15.4	31.8	0.0	42.9	4.9	21.1	12.5	28.2	0.0	19.0	17.1
Sole trader	4.8	7.7	0.0	7.1	4.8	4.9	7.9	0.0	2.6	8.7	4.8	4.9
Co-op	4.8	3.8	9.1	0.0	4.8	4.9	7.9	0.0	2.6	8.7	0.0	7.3

Unregistered	1.6	3.8	0.0	0.0	0.0	2.4	2.6	0.0	2.6	0.0	4.8	0.0
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Seven in ten {71%} SMMEs were now registered as close corporations, a figure slightly less than when they started their businesses at 75.8% percent. There were increases in businesses registered as private companies (Propriety Limited/ Pty Ltd) from 14.5 to 17.7 percent. This seemed to be consistent with the New Companies Act of 2008 which was created as an effort to encourage entrepreneurship and enterprise efficiency and by ensuring flexibility and simplicity in the formation and maintenance of companies. This Act was effectively doing away with close corporations in favour of private companies which accounts for the decrease. There are more stringent requirements involved in operating a private company as opposed to a close corporation. For instance, private companies are required to lodge annual returns and are penalised if they fail to do so. There were increases in sole traders and co-operatives and there was a decrease in the number of unregistered businesses for two to one.

5.3.5 *Employment Status before joining the Business Incubator*

The study needed to establish the entrepreneurs' activities or occupations prior to joining the business incubation programmes. Their responses are captured in table 5 below.

Table 5: Employment status before Incubation

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Self-employed in this business	25.8	57.7	68.2	28.6	14.3	31.7	18.4	37.5	17.9	39.1	19.0	29.3
Employed elsewhere	58.1	7.7	18.2	14.3	66.7	53.7	65.8	45.8	61.5	52.2	76.2	48.8
Unemployed	6.5	15.4	9.1	7.1	4.8	7.3	2.6	12.5	7.7	4.3	4.8	7.3
Studying	9.7	19.2	4.5	50.0	14.3	7.3	13.2	4.2	12.8	4.3	0.0	14.6

Approximately a quarter {25.8%} of the respondents claimed to have been self-employed in their current businesses, more than half {58.1%} were employed elsewhere and in most cases their employment had some relation to what they are doing in their current businesses. One in six {16.2%} of the respondents were either unemployed or were still studying before they

joined the business incubation programmes. The entrepreneurs' activities before business incubation are important as they serve, in some instances, as explanatory variables of success in business and also in the business incubation programmes. The underlying assumption here was that experienced entrepreneurs i.e. those who had already been working in their businesses before joining business incubators and those that had some kind of experience working elsewhere were more likely to witness significant growth after joining a business incubator. Entrepreneurs in these category (self-employed in their business and worked elsewhere} accounted for a huge majority {79.4%} of SMMEs with a turnover above R100 000 and also accounted for 91.3 percent of SMMEs that employed more than three people.

5.3.6 Motivation for Starting a Business

Table 6 below presents the responses of entrepreneurs when they were asked about what motivated them to start their own businesses.

Table 6: What Motivated Entrepreneurs to start their Businesses

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Wanted to be my own boss	51.6	50.0	59.1	42.9	57.1	48.8	50.0	54.2	56.4	43.5	47.6	53.7
Passion	48.4	61.5	40.9	35.7	52.4	46.3	50.0	45.8	43.6	56.5	42.9	51.2
To create a source of income	66.1	65.4	63.6	71.4	47.6	75.6	63.2	70.8	61.5	73.9	71.4	63.4
To create job opportunities	21.0	15.4	13.6	42.9	23.8	19.5	15.8	29.2	20.5	21.7	23.8	19.5
Identified a niche in the market	19.4	23.1	0.0	42.9	9.5	24.4	10.5	33.3	20.5	17.4	14.3	22.0

Participants indicated a number of reasons that motivated them to start their own businesses and these were grouped in the following five distinct categories:

Create a Source of Income:

Two thirds {66.1%} of respondents mentioned this as a factor that motivated them to start their own business. This was mentioned by entrepreneurs who felt they were just was not making enough money where they were working and decided to take a chance by going at it on their own. It was also mentioned by those who were unemployed and needed an income as well as those that wanted to see themselves doing better in South Africa's democratic dispensation. There were also those that had lost their jobs for various reasons (i.e. relocation, falling ill etc.) and wanted to keep themselves busy (by starting their own businesses) whilst searching for employment.

Wanted to be my own Boss:

Just over half {51.6%} of participants started their businesses because they liked the idea of "being my own boss and the flexibility that came with it." A majority of these wanted to create better lives for their families and believed this was the way to go and one participant claimed, "I have won some contracts and my business has been growing from strength to strength."

Passion:

Slightly less than half {48.4%} of the entrepreneurs in the study mentioned passion as a factor that motivated them to start their businesses. Of these that mentioned passion as their motivating factor, when probed to explain what they meant, they offered the following responses: "Entrepreneurship was my calling, there was so much more I could do as an entrepreneur as opposed to being a salaried employee", "I am passionate about protecting the environment and wanted to educate people about the danger of our carbon footprint", "My tertiary qualification encouraged me to start my own business and I have always been in love with the automotive industry and manufacturing and wanted to put into practice what I have learned", "I was retired and had a passion for handcraft so I met with a couple of other ladies and we registered a co-operative, we are basically a group of ladies that seamstress and do other handcraft out of love", "I love taking calculated risks and I have always had an interest in the operations of the stock market", "I am very good with my hands so I thought I should make money out of it."

To create Job Opportunities:

Only a fifth {21%} of the respondents started their businesses in order to create business opportunities. A majority of these {42.9%} were in the construction sector. One of these respondents mentioned that “I wanted financial freedom and I love creating business and employment opportunities for others”, whilst another claimed, “I grew up in a business environment and wanted to service my community.”

Identified a Niche in the Market:

Just under a fifth {19.4%} believed they had identified a niche in the market and thus started their businesses. There were participants that claimed to have learned quite a lot from previous employers and then decided to start their own businesses. Another participant wanted to provide a better service to the clients his was servicing where he was employed and after seeing a niche in the market, he opened up a business to fill the gap between missing operations and client services. Others started their business as students in varsity and made handsome profits and that was when they realised that there was demand for their services. An official from eThekweni Municipality selected us as registered caterers in the municipal database and told us to form a co-operative. There were other interesting mentions, for instance, one participant mentioned that he was encouraged by his spouse and his religion after “witnessing the amount of profanity everywhere.” This prompted him to start a record company that also specialised in events so as to expose fresh and young talent to unadulterated values. What seemed to be interesting here was that it was only respondents in the services {23.1%} and construction {42.9%} sectors who were able to identify some market niche and none in the manufacturing sector.

5.3.7 *Start-up Capital*

Conventionally, all business ideas require some capital injection before they can be converted to businesses. Table 7 outlines the sources of start-up capital entrepreneurs utilised for starting their businesses.

Table 7: Where Entrepreneurs obtained Start-up Capital

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000
	62	26	22	14	21	41	38	24
Bank loan	11.3	15.4	13.6	0.0	19.0	7.3	10.5	12.5
Own savings	54.8	57.7	54.5	50.0	66.7	48.8	60.5	45.8
Family	17.7	11.5	18.2	28.6	9.5	22.0	13.2	25.0
Retrenchment package	11.3	11.5	9.1	14.3	4.8	14.6	10.5	12.5
Grant	4.8	3.8	4.5	7.1	0.0	7.3	5.3	4.2

Participants mentioned a number of sources they used to finance their businesses. A large majority {54.8%} had used their own savings or personal contributions or just pulled together personal items and started their businesses. Just over a sixth {17.7%} relied on personal loans from families and friends or their first clients. A few {11.3%} cashed out some of their insurance policies and investments or used retirement packages/ provident funds to start their businesses. An equal number {11.3%} took out bank loans or refinanced some of their assets in order to start their businesses. A very small minority {4.8%} were recipients of grants like one co-operative that was awarded a grant of R500 000 by NPC (Natal Portland Cement)/ Cimpor Cement for equipment and initial activities.

5.3.8 Challenges encountered by Entrepreneurs

The raison d'être of business incubators is to circumvent or least limit the number of challenges SMMEs face in an effort to ensure that they become successful. This is often never an easy task especially during the hostile business cycles and global economic downturns. Entrepreneurs cited a number of challenges they encountered on their day-to-day activities and more often than not, these impinged on their growth prospects. Table 8 below highlights some of the challenges they mentioned.

Table 8: Problems/ Challenges Entrepreneurs Encountered

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Accessing finance	43.5	46.2	50.0	28.6	52.4	39.0	44.7	41.7	35.9	56.5	42.9	43.9
Accessing markets	50.0	50.0	50.0	50.0	38.1	56.1	44.7	58.3	38.5	69.6	52.4	48.8
Red tape	17.7	15.4	13.6	28.6	19.0	17.1	10.5	29.2	15.4	21.7	14.3	19.5
Suppliers not delivering on time	8.1	3.8	0.0	28.6	0.0	12.2	7.9	8.3	5.1	13.0	9.5	7.3
Customers not paying on time	25.8	23.1	18.2	42.9	14.3	31.7	23.7	29.2	23.1	30.4	23.8	26.8
Competition	17.7	11.5	27.3	14.3	19.0	17.1	18.4	16.7	20.5	13.0	14.3	19.5
Theft / crime	8.1	11.5	0.0	14.3	0.0	12.2	7.9	8.3	7.7	8.7	19.0	2.4
Staff	17.7	11.5	13.6	35.7	14.3	19.5	13.2	25.0	15.4	21.7	9.5	22.0
Politics	19.4	15.4	22.7	21.4	23.8	17.1	23.7	12.5	17.9	21.7	23.8	17.1
Increasing prices	12.9	11.5	18.2	7.1	9.5	14.6	15.8	8.3	15.4	8.7	19.0	9.8
Unfavourable working conditions	27.4	23.1	36.4	21.4	42.9	19.5	26.3	29.2	28.2	26.1	23.8	29.3
Time/ Business management	21.0	23.1	18.2	21.4	19.0	22.0	21.1	20.8	20.5	21.7	14.3	24.4

Accessing markets was the one challenge with the most mentions {50%} and this was across all three sectors. Entrepreneurs felt that marketing and getting exposure as well as getting big companies to believe in them as SMMEs was still a big challenge. Also, the cyclical nature of the South African business environment sometimes led to very low levels of demand and in most cases SMMEs did not have any budgets for advertising. Entrepreneurs especially those in the construction sector often felt they were in a conundrum as they stated that the biggest challenge in their sector was getting the first job but this was very difficult if you did not have any experience. The problem however was that you require a job in order to be experienced.

Accessing finance was another major challenge SMMEs faced and this was mentioned by approximately two in five {43.5%} of entrepreneurs especially in the services and manufacturing sectors. Entrepreneurs felt that financial institutions were not very helpful towards black SMMEs and municipalities and other government departments failed to offer

them financial support. A significant number of SMMEs did not keep any financial records as bookkeeping was still a challenge for many of them and this perhaps explains their misfortunes with financial institutions but this is one important gap business incubators are meant to fill. More than a quarter {27.4%} of the entrepreneurs in the study cited unfavourable working conditions as a challenge and complained about working conditions not being conducive, lacking equipment to work with and workspace being very small and costly. One participant in the ICT industry claimed he was planning to outsource most of his work either to India or Mauritius as he had discovered that the cost of labour there was much cheaper and ICT was much more advanced there than it was in South Africa.

Another challenge was that of customers not paying on time mentioned by a quarter {25.8%} of the participants. When customers failed to pay them on time or defaulted on payments they then ran into cash flow issues. This had a negative impact on their businesses and sometimes they were unable to pay their employees. The biggest culprits were usually government departments. A number of SMMEs, and this was prevalent especially in the construction sector, claimed that sometimes they received very huge orders but we are unable to deliver on time. This was because they did not have access to funding and government departments had failed to honour invoiced work. These SMMEs generally lost a lot of business because of this. Time management and business management were still challenges entrepreneurs were set to overcome. At least one in five {21%} of the participants felt this way as they indicated that they lacked business skills when they started their businesses and were still experiencing problems with sales, marketing, administration as well as overall business management. They felt that they required mentorship and also needed to learn how to balance family life together with having to work long hours as their businesses generally required.

One in five {19.4%} entrepreneurs cited politics as one of the challenges they encountered in their day-to-day activities. In breaking this down they cited corruption in the public sector which they felt affected the awarding of government contracts and the processing of payments, “one has to pay a bribe first before they could be awarded a tender or paid” they claimed. The second political issue was discrimination and this manifested through racism, sexism, tribalism, nepotism and cronyism. Participants indicated that there was a lot of treachery, sabotage, stealing of ideas and racial prejudices especially in unsaturated spaces like digital marketing. One participant indicated that his surname served as a barrier as it sounded Afrikaans even though he was considered black according to broad-based black economic empowerment (B-BBEE) legislation. Female participants also felt victims of

discrimination, especially in the construction sector. They mentioned that they found difficulties in having to control elderly male employees on sites; they were generally overcharged by suppliers. Engineers rejected their projects and made them re-do the work because they were female. There were also political issues in rural areas where *amakhosi* and councillors exploited subcontractors and wanted them to appoint their own people who in most cases were unqualified for the job.

There were other challenges mentioned by just over a sixth {17.7%} of the respondents such as red tape (excessive and redundant regulations), competition and staff issues. The respondents felt that the amount of red tape was counterproductive especially when it came to procurement compliance for SMMEs. Participants in the manufacturing sector mentioned that applying for the approval of certain designs was quite an onerous process because of a number of unnecessary requirements. Another participant mentioned that her compliance to be PSIRA (Private Security Industry Regulatory Authority) certified and having to pay public liability insurance and other levies over and above other capitalisation costs was very difficult and costly for SMMEs and in fact served as a barrier to entry for SMMEs. In terms of staff issues, SMMEs encountered challenges in finding the correct employees and did not have budgets to retrain their staff. A number of SMMEs were often unfortunate and landed up with lazy and incompetent employees (site supervisors) that deliberately delayed work and colluded with contractors in order to log more hours and overtime. Female respondents especially those in male-dominated sectors found it difficult to get clients to identify with their brands. This toughened competition for them and the economic recession did not make their situation any easier.

Other challenges that were not mentioned as often were inflation and increasing prices. This was mentioned by 12.9 percent of the respondents. Theft/ crime and suppliers not delivering on time were both mentioned by 8.1 percent of the respondents. SMMEs especially those in the manufacturing sector, were severely affected by inflation and increases in fuel and materials because they lacked funding and were unable to exploit any economies of scale. This in turn affected their pricing and costing. The implications of crime and theft of equipment as well as suppliers not delivering on time especially for SMMEs in the construction sector were that they ended up not having enough money to complete projects or completed projects outside of the agreed timeframes and this affected their CIBD grading.

5.3.9 Reasons for joining a Business Incubator

Table 9 below provides some of the reasons entrepreneurs stated for deciding to join business incubators.

Table 9: Reasons Entrepreneurs chose to join a Business Incubator

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Business support/ assistance	72.6	69.2	59.1	100.0	52.4	82.9	68.4	79.2	69.2	78.3	66.7	75.6
Save on rent	33.9	38.5	50.0	0.0	47.6	26.8	39.5	25.0	38.5	26.1	52.4	24.4
Save on equipment	35.5	30.8	54.5	14.3	42.9	31.7	36.8	33.3	46.2	17.4	42.9	31.7
Networking opportunities	16.1	23.1	4.5	21.4	14.3	17.1	10.5	25.0	17.9	13.0	4.8	22.0
Invitation	9.7	7.7	13.6	7.1	23.8	2.4	15.8	0.0	10.3	8.7	4.8	12.2

It seemed as if entrepreneurs were fully aware of the role played by business incubators since an overwhelming majority {72.6%} stated that they joined the business incubator in order to attain business support and assistance, particularly those in the construction sector. A further two thirds {69.4%} wanted to save on rent and other equipment/ utilities. This was prevalent amongst SMMEs in the manufacturing sector who would have struggled to purchase some of the high-tech equipment they required. Participants believed that business incubators were places where they could acquire the following: relevant business training and mentorship, all business-related information under one roof, financial assistance, and affordable workspace with internet activity and also save on general overhead costs. They also felt that business incubators would provide their businesses a professional outlook and also help them avoid mediocrity in running their businesses.

About a sixth {16.1%} of the respondents came to business incubators for networking opportunities. They felt that being in a business incubator will enable them to work with other people and discover new ideas; they also believed that business incubators were perfect platforms that were going to give them exposure to big contracts from both the public and private sectors. Just about a tenth {9.7%} of participants joined business incubators because

they received invites. One participant claimed that a municipal official invited her to join the business incubation programme after seeing a house she had done an interior décor on as a hobby. The official convinced her that she could actually start a successful business with her skill. Another participant was invited to be part of the empowerment opportunity for women in construction and that is how she ended up in the business incubator.

5.3.10 Business Incubator Marketing

Participants were asked how they heard about business incubator and how long they had been in the incubator. Table 10 below displays their responses.

Table 10: How Entrepreneurs heard about Business Incubators

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
How did you hear about this business incubator												
Word of mouth	48.4	57.7	40.9	42.9	61.9	41.5	44.7	54.2	53.8	39.1	42.9	51.2
Print media	16.1	3.8	27.3	21.4	14.3	17.1	18.4	12.5	12.8	21.7	19.0	14.6
Business fair/ road show	16.1	19.2	22.7	0.0	19.0	14.6	15.8	16.7	17.9	13.0	14.3	17.1
Public forum meeting	19.4	19.2	9.1	35.7	4.8	26.8	21.1	16.7	15.4	26.1	23.8	17.1
Length in the business incubator												
Less than 1 year	19.4	19.2	27.3	7.1	47.6	4.9	21.1	16.7	17.9	21.7	19.0	19.5
1- 2 years	21.0	23.1	31.8	0.0	38.1	12.2	26.3	12.5	25.6	13.0	23.8	19.5
2- 3 years	33.9	23.1	31.8	57.1	14.3	43.9	28.9	41.7	33.3	34.8	9.5	46.3
Above 3 years	25.8	34.6	9.1	35.7	0.0	39.0	23.7	29.2	23.1	30.4	47.6	14.6

Data shows that there was sufficient talk about business incubators in society as word of mouth seemed to be an effective marketing strategy that drew in SMMEs. Almost half, {48.4%} of SMMEs in business incubators heard about them from word of mouth i.e. from other individuals. A fifth {19.4%} attended public forum meetings where business incubators were introduced to them; and that is how they joined. A sixth {16.1%} saw advertisements on

business incubators in print media and an equal number were first introduced to them on business fairs or road shows.

About a fifth {19.4%} of the participants had only been in business incubators for less than a year but a majority {47.6%} had not been in business for more than two years. This can be interpreted as fortitude and the will to succeed on their side. More than half {54.9%} had been in business incubators for between a year and three years. About a quarter {25.8%} had been in business incubators for more than three years and just less than a quarter {23.7%} of these participants reported a turnover of less than R100 000 and employed between one and three employees which was a disturbing factor.

5.3.11 Mentorship and Capacity Building

Business incubators are meant to increase the chances of survival of SMMEs by providing necessary interventions such as mentorship and other forms of capacity building. Entrepreneurs utilised a Likert-type scale to indicate their levels of satisfaction against a series of statements. Table 11 below captures their satisfaction levels.

Table 11: Level of Satisfaction: Mentorship and Capacity Building

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Business Mentorship and Coaching												
Very dissatisfied	22.6	42.3	13.6	0.0	23.8	22.0	26.3	16.7	25.6	17.4	23.8	22.0
Neutral	11.3	11.5	13.6	7.1	14.3	9.8	7.9	16.7	17.9	0.0	4.8	14.6
Satisfied	19.4	7.7	31.8	21.4	28.6	14.6	21.1	16.7	17.9	21.7	23.8	17.1
Very satisfied	46.8	38.5	40.9	71.4	33.3	53.7	44.7	50.0	38.5	60.9	47.6	46.3
Financial Management												
Very dissatisfied	22.6	30.8	22.7	7.1	28.6	19.5	26.3	16.7	28.2	13.0	23.8	22.0
Dissatisfied	4.8	0.0	13.6	0.0	4.8	4.9	7.9	0.0	7.7	0.0	9.5	2.4
Neutral	8.1	3.8	9.1	14.3	4.8	9.8	5.3	12.5	10.3	4.3	4.8	9.8
Satisfied	24.2	19.2	18.2	42.9	14.3	29.3	23.7	25.0	17.9	34.8	14.3	29.3
Very satisfied	40.3	46.2	36.4	35.7	47.6	36.6	36.8	45.8	35.9	47.8	47.6	36.6
Human Resource Management												
Very dissatisfied	33.9	46.2	36.4	7.1	47.6	26.8	39.5	25.0	43.6	17.4	42.9	29.3
Dissatisfied	4.8	3.8	4.5	7.1	4.8	4.9	2.6	8.3	5.1	4.3	4.8	4.9
Neutral	14.5	7.7	27.3	7.1	19.0	12.2	13.2	16.7	15.4	13.0	4.8	19.5
Satisfied	17.7	15.4	13.6	28.6	9.5	22.0	21.1	12.5	17.9	17.4	4.8	24.4

Very satisfied	29.0	26.9	18.2	50.0	19.0	34.1	23.7	37.5	17.9	47.8	42.9	22.0
Marketing Management												
Very dissatisfied	30.6	42.3	36.4	0.0	47.6	22.0	39.5	16.7	38.5	17.4	38.1	26.8
Dissatisfied	3.2	3.8	4.5	0.0	4.8	2.4	0.0	8.3	5.1	0.0	0.0	4.9
Neutral	12.9	3.8	18.2	21.4	9.5	14.6	15.8	8.3	7.7	21.7	9.5	14.6
Satisfied	25.8	30.8	18.2	28.6	19.0	29.3	23.7	29.2	28.2	21.7	9.5	34.1
Very satisfied	27.4	19.2	22.7	50.0	19.0	31.7	21.1	37.5	20.5	39.1	42.9	19.5
Entrepreneurial Development												
Very dissatisfied	27.4	42.3	22.7	7.1	33.3	24.4	39.5	8.3	25.6	30.4	33.3	24.4
Dissatisfied	3.2	0.0	9.1	0.0	4.8	2.4	5.3	0.0	5.1	0.0	4.8	2.4
Neutral	9.7	7.7	13.6	7.1	14.3	7.3	5.3	16.7	15.4	0.0	9.5	9.8
Satisfied	19.4	26.9	18.2	7.1	23.8	17.1	18.4	20.8	20.5	17.4	9.5	24.4
Very satisfied	40.3	23.1	36.4	78.6	23.8	48.8	31.6	54.2	33.3	52.2	42.9	39.0

Participants were generally satisfied with the mentorship and capacity building programmes they received from business incubators. Even though the responses are not that overwhelming, but this demonstrates that there is a substantial number of participants who are finding some value in business incubators.

Business Mentorship and Coaching:

Business mentorship and coaching refers to the assistance or intervention business incubators provide to SMMEs. This is done through allocating or linking them with business mentors or coaches that are meant to help them in shaping their beliefs and values, setting goals and achieving these goals. These individuals are generally people who have done this (and are now successful) and therefore are able to provide the necessary insights and are also able to assist SMMEs in becoming successful. Approximately two thirds {66.2%} of the participants in the study were either very satisfied {46.8%} or satisfied {19.4%} with the business mentorship and coaching they received from their respective business incubation programmes. This was particularly prevalent in participants from the construction sector as seven in ten {71.4%} claimed to be very satisfied and none of the participants in this sector expressed any dissatisfactions. These satisfaction levels are not misguided since in the same cohort that expressed positive scores, two thirds {66.7%} had a turnover in excess of R100 000 per annum and four in five {82.6%} employed three or more employees.

Financial Management:

Good financial management is critical to the success of any business, but it is extremely important in the case of SMMEs where the risk of insolvency is much higher because of

limited cash flows, cash reserves and in certain instances, volatile market conditions. Slightly more than a quarter {27.4%} of entrepreneurs in the study expressed dissatisfaction with the financial management programmes business incubators were imparting to them. A number of entrepreneurs felt that these programmes were very generic and did not assist them at all whilst others indicated that their business incubators had not offered these programmes as yet or did not offer them at all.

Human Resource Management:

Human Resource Management (HRM) in businesses or organisations relates to the development and management of employees. It encompasses issues such as: recruitment; remuneration; performance management; employee motivation; employee safety and wellness; communication; administration; and training. Less than half {46.7%} of participants were satisfied with their training on human resource management from business incubators and just about a third {33.9%} were in fact very dissatisfied. Slightly less than half {47.7%} of those that claimed to be satisfied had a matric qualification or less and perhaps this could explain their dissatisfaction with the programme as they might have had some difficulties in comprehending laborious labour laws and other stringent labour practices which could sometimes be very daunting for SMMEs.

Marketing Management:

Marketing management refers to how businesses utilise their resources in an effort to increase their clientele, improve customer opinions on their products and services and thus increase the value of the business. Marketing management although a crucial element for the success of SMMEs, it seems business incubators were still fairing averagely on this as only half {53.2%} of entrepreneurs expressed some satisfaction with the marketing management programmes that were offered. The levels of dissatisfaction among SMMEs in the services {46.1%} and manufacturing {40.9%} sectors is a cause for concern. One of the biggest challenges SMMEs face is access to markets therefore, if they are to survive and become successful, it is important that they are able to market themselves efficiently and effectively and business incubators should strive to fill this gap sufficiently.

Entrepreneurial Development:

Entrepreneurial development is about harnessing an individual's ability to identify business opportunities and the ability and willingness to initiate and sustain appropriate actions

towards the actualisation of business objectives. Entrepreneurial development is about leadership, risk-taking, decision-making, business planning and using time effectively. Three in five {59.7%} of the entrepreneurs in the study were satisfied {19.4%} or very satisfied {40.3%} the business incubators’ entrepreneurial development initiatives. Almost two thirds {65.9%} of those that claimed some level of satisfaction, had been in business for more than two years. So this means that they were really learning something, were keen on becoming candid entrepreneurs and were in it for the long run.

5.3.12 Business Support Services

There are a number of pertinent business support services and resources that start-ups or nascent entrepreneurs must have access to if they are to have any chance of being successful. A majority of these services are very costly. Business incubators as institutions that are meant to increase the survival chances of SMMEs ought to create means of offering these services and resources to SMMEs at much more reasonable rates. Five of the most crucial services and resources have been selected for this section. Entrepreneurs were requested to indicate how they felt about these services and resources and table 12 captures their feelings against the selected five.

Table 12: Level of Satisfaction: Business Support Services

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Business Registration Services												
Very dissatisfied	51.6	73.1	54.5	7.1	76.2	39.0	57.9	41.7	59.0	39.1	52.4	51.2
Dissatisfied	1.6	0.0	4.5	0.0	4.8	0.0	0.0	4.2	2.6	0.0	0.0	2.4
Neutral	9.7	3.8	18.2	7.1	0.0	14.6	10.5	8.3	10.3	8.7	4.8	12.2
Satisfied	8.1	3.8	4.5	21.4	4.8	9.8	7.9	8.3	5.1	13.0	4.8	9.8
Very satisfied	29.0	19.2	18.2	64.3	14.3	36.6	23.7	37.5	23.1	39.1	38.1	24.4
Legal Issues												
Very dissatisfied	50.0	61.5	59.1	14.3	76.2	36.6	63.2	29.2	59.0	34.8	52.4	48.8
Dissatisfied	8.1	7.7	13.6	0.0	9.5	7.3	5.3	12.5	10.3	4.3	9.5	7.3
Neutral	11.3	7.7	18.2	7.1	4.8	14.6	10.5	12.5	12.8	8.7	4.8	14.6
Satisfied	14.5	7.7	0.0	50.0	0.0	22.0	10.5	20.8	10.3	21.7	4.8	19.5
Very	16.1	15.4	9.1	28.6	9.5	19.5	10.5	25.0	7.7	30.4	28.6	9.8

satisfied												
Secretarial Services												
Very dissatisfied	32.3	42.3	36.4	7.1	38.1	29.3	42.1	16.7	35.9	26.1	33.3	31.7
Neutral	6.5	7.7	4.5	7.1	0.0	9.8	5.3	8.3	7.7	4.3	4.8	7.3
Satisfied	19.4	15.4	18.2	28.6	28.6	14.6	13.2	29.2	20.5	17.4	14.3	22.0
Very satisfied	41.9	34.6	40.9	57.1	33.3	46.3	39.5	45.8	35.9	52.2	47.6	39.0
Accounting and Bookkeeping												
Very dissatisfied	37.1	50.0	36.4	14.3	47.6	31.7	42.1	29.2	41.0	30.4	33.3	39.0
Dissatisfied	4.8	0.0	13.6	0.0	4.8	4.9	7.9	0.0	7.7	0.0	9.5	2.4
Neutral	8.1	7.7	4.5	14.3	0.0	12.2	5.3	12.5	5.1	13.0	4.8	9.8
Satisfied	14.5	11.5	22.7	7.1	14.3	14.6	13.2	16.7	17.9	8.7	4.8	19.5
Very satisfied	35.5	30.8	22.7	64.3	33.3	36.6	31.6	41.7	28.2	47.8	47.6	29.3
Office Space												
Very dissatisfied	1.6	0.0	4.5	0.0	0.0	2.4	2.6	0.0	2.6	0.0	0.0	2.4
Dissatisfied	4.8	7.7	4.5	0.0	0.0	7.3	2.6	8.3	7.7	0.0	4.8	4.9
Neutral	9.7	19.2	4.5	0.0	9.5	9.8	15.8	0.0	7.7	13.0	9.5	9.8
Satisfied	16.1	15.4	18.2	14.3	23.8	12.2	13.2	20.8	10.3	26.1	19.0	14.6
Very satisfied	67.7	57.7	68.2	85.7	66.7	68.3	65.8	70.8	71.8	60.9	66.7	68.3

Participants indicated a lot of dissatisfaction with the business support services they received from business incubators with the exception of office/ working space. This was a cause for concern as these business support services are typical to business incubation and are what sets it apart from normal office parks

Business registration services:

SMMEs face a number of challenges: time, access to information, resources and money especially in the start-up phase but one of the business imperatives is that they have to have their businesses registered. More than half {51.6%} of the participants in the study were disappointed in business incubators' abilities to assist them in business registration and they generally felt that this was something they had to complete on their own. A few participants actually claimed that they were still unregistered even though they were part of an incubation programme. However, entrepreneurs in the construction sector were most satisfied with business registration services from business incubators as a total of 85.7% indicated so.

Legal issues:

Small businesses are not generally founded by legal experts. In business there are always matters of compliance with various legislations, be it labour legislation, tax laws or consumer protection. Small businesses are most likely to be obsessed with chasing new clients and winning deals in order to stay afloat and in the process, ignore important legal requirements in running their businesses. This could be very detrimental in the long run as it could eventually sink their fledgling enterprises. Business incubators are meant to assist SMMEs in skirting such scenarios by ensuring their compliance in all aspects of their business. Only three in ten {30.6%} of the respondents were either satisfied or very satisfied with the services of business incubators when it came to legal issues. A bulk of these {78.6%} were in the construction sector, which is very good as construction companies are quite prone to work and labour disputes on site as well contractual disputes at times between clients and suppliers.

Secretarial services:

Business incubators have to ensure that SMMEs under their books reduce overhead costs and one way of doing this is by providing them with a centralised secretarial service. This service allows business incubators to look after all the time-consuming, administrative day-to-day details of SMMEs and make them look great and professional in the process. These details encompass a secretary with personalised information on each SMME that is able to provide office support such answering telephones, faxing, sending emails, word processing and managing diaries for SMMEs. Business incubators in the study did not fair badly in this service as just above three in five {61.3%} SMMEs offered a positive rating with only a third {32.3%} claiming to be very dissatisfied.

Accounting and bookkeeping:

Accounting and bookkeeping are essentially the processes of recording all the information regarding the transactions and financial activities of a business. These processes are important to the operation and survival of any business as without them, businesses are susceptible not only to cash flow issues, but to potential legal problems as well. These processes require some specialised set of skill which is not possessed by a number of entrepreneurs. Business incubators generally provide or house an accountant/ bookkeeper that manages the books of all the incubated SMMEs. Just half {50%} of the respondents were happy with their accountant or bookkeepers, a meagre 8.1 percent were indifferent and 41.9

percent were not satisfied as they claimed that the business incubator did not provide this service to them.

Office space:

The core function of business incubation is to offer flexible office or working or manufacturing space that is below market rates. This space has to come with resources and equipment that makes it easier for SMMEs to do business with little capitalisation. A resounding majority {83.8%} of participants were extremely pleased with their working space and found it very affordable and professional. Participants, especially those in the manufacturing sector, were satisfied, with a sizeable portion {67.7%} extremely satisfied, with the resources and manufacturing equipment that business incubators supplied them with. They claimed that the offices were very professional with all the essential equipment and the machinery was world class and they all had sufficient access to it.

5.3.13 Business Assistance and Facilitation

Business assistance and facilitation refers to how business incubators ensure the sustenance of SMMEs. This they generally accomplish by connecting SMMEs with the correct business partners, finding them a sustainable customer base, good suppliers and suitable employees. Lastly business incubators are meant to ensure that SMMEs have adequate access to finance if they are going to be successful. Table 13 below shows how entrepreneurs rated their respective business incubators against the assistance and facilitation they provided.

Table 13: Level of Satisfaction: Business Assistance and Facilitation

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Business Partners												
Very dissatisfied	27.4	34.6	36.4	0.0	33.3	24.4	31.6	20.8	33.3	17.4	28.6	26.8
Dissatisfied	3.2	3.8	0.0	7.1	0.0	4.9	0.0	8.3	2.6	4.3	0.0	4.9
Neutral	24.2	34.6	22.7	7.1	19.0	26.8	26.3	20.8	23.1	26.1	19.0	26.8
Satisfied	24.2	11.5	36.4	28.6	38.1	17.1	31.6	12.5	28.2	17.4	28.6	22.0
Very satisfied	21.0	15.4	4.5	57.1	9.5	26.8	10.5	37.5	12.8	34.8	23.8	19.5
Accessing customers												
Very	23.8	26.9	13.6	7.1	14.3	19.5	23.7	8.3	17.9	17.4	23.8	14.6

dissatisfied												
Dissatisfied	0.0	3.8	4.5	7.1	9.5	2.4	2.6	8.3	5.1	4.3	0.0	7.3
Neutral	23.8	23.1	36.4	7.1	19.0	26.8	23.7	25.0	25.6	21.7	23.8	24.4
Satisfied	23.8	26.9	18.2	28.6	33.3	19.5	23.7	25.0	15.4	39.1	23.8	24.4
Very satisfied	28.6	19.2	27.3	50.0	23.8	31.7	26.3	33.3	35.9	17.4	28.6	29.3
Accessing Suppliers												
Very dissatisfied	27.4	38.5	31.8	0.0	38.1	22.0	36.8	12.5	30.8	21.7	28.6	26.8
Dissatisfied	9.7	7.7	18.2	0.0	19.0	4.9	10.5	8.3	15.4	0.0	9.5	9.8
Neutral	19.4	23.1	22.7	7.1	14.3	22.0	13.2	29.2	17.9	21.7	19.0	19.5
Satisfied	17.7	15.4	4.5	42.9	14.3	19.5	15.8	20.8	12.8	26.1	4.8	24.4
Very satisfied	25.8	15.4	22.7	50.0	14.3	31.7	23.7	29.2	23.1	30.4	38.1	19.5
Suitable Employees												
Very dissatisfied	25.8	30.8	27.3	14.3	28.6	24.4	34.2	12.5	28.2	21.7	23.8	26.8
Dissatisfied	6.5	7.7	4.5	7.1	9.5	4.9	5.3	8.3	7.7	4.3	4.8	7.3
Neutral	32.3	30.8	40.9	21.4	28.6	34.1	28.9	37.5	33.3	30.4	33.3	31.7
Satisfied	19.4	7.7	18.2	42.9	23.8	17.1	13.2	29.2	17.9	21.7	9.5	24.4
Very satisfied	16.1	23.1	9.1	14.3	9.5	19.5	18.4	12.5	12.8	21.7	28.6	9.8
Accessing Finance												
Very dissatisfied	21.0	26.9	22.7	7.1	23.8	19.5	28.9	8.3	20.5	21.7	28.6	17.1
Dissatisfied	9.7	15.4	9.1	0.0	14.3	7.3	10.5	8.3	12.8	4.3	9.5	9.8
Neutral	22.6	7.7	31.8	35.7	14.3	26.8	15.8	33.3	23.1	21.7	14.3	26.8
Satisfied	29.0	26.9	22.7	42.9	28.6	29.3	28.9	29.2	25.6	34.8	28.6	29.3
Very satisfied	17.7	23.1	13.6	14.3	19.0	17.1	15.8	20.8	17.9	17.4	19.0	17.1

The following interventions are essentially what business incubation is about and these interventions are meant to provide SMMEs with a comparative advantage against the rest which are not in any business incubation programmes.

Business Partners:

Business incubators are meant to facilitate possible partnerships for SMMEs in their books so as to allow the owners of SMMEs to draw on the resources and expertise of their co-partners or any strategic partners that possess unique, complementary capabilities that enable them to solve the increasingly complex challenges of business. Less than half, {45.2%} of the participants felt business incubators were doing a good job on this front and a sizeable

amount {85.7%} of these were from the construction sector. Almost a quarter {24.2%} were unsure whilst slightly less than a third {30.6%} were not very happy and did not think business incubators were doing a good job in finding them suitable business partners.

Accessing Customers:

Business is about trade of goods and services to consumers. If entrepreneurs are going to be any successful in business, it is important that they learn of creative ways to attract customers. Business incubators are meant to assist entrepreneurs in becoming successful and therefore in innovative ways of accessing, retaining and servicing customers. Just over half {52.4%} of the respondents rated business incubators favourably and once again a majority {78.6%} of these were from the construction sector.

Accessing Suppliers:

Suppliers are essential in every business and getting the best deal from suppliers is even more important as this influences the profits businesses make. Business incubators are obligated to connect SMMEs with reliable and affordable suppliers if they wish to make a success of their SMMEs. Again, slightly more than half {53.5%} of the entrepreneurs in the study were of the view that business incubators were doing something to connect them with the best suppliers. Not surprisingly, an overwhelming majority {92.9%} were those in the construction sector. These entrepreneurs in the construction sector were benefitting a lot from economies of agglomeration. This was because as business incubators placed orders on their behalf and these were in bulk and were delivered at the same time.

Finding Suitable Employees:

SMMEs generally never have much spread and therefore efficiency and optimisation are crucial. It is important that SMMEs find suitable employees who are very efficient as they need to perform various functions with non-matching remuneration. Business incubators have a duty of capacitating SMMEs in doing this. About a third {32.3%} of the respondents were not satisfied the interventions of business incubators in assisting them with finding suitable employees, a similar number {32.3%} was indifferent and only 35.5 percent claimed to be satisfied or very satisfied.

Accessing Finance:

SMMEs require adequate access to finance so that if opportunities to expand or contingencies arise out of the blue they are able to capitalise on them or are not crippled by a lack of finances. Access to finance for small businesses is a major challenge in South Africa for a number of reasons. Business incubators are meant to facilitate a different trajectory for SMMEs under their custody with regard to accessing finance. Less than half {46.7%} of the participants were either satisfied or very satisfied with the business incubators' abilities to assist them in accessing finance, the remainder {22.6%} and {30.7%} were indifferent or dissatisfied respectively.

4.3.14 Changes observed by Entrepreneurs over the Incubation Period

The study requested entrepreneurs to indicate the changes they had observed in their businesses since joining business incubators. The entrepreneurs had to utilise rating scales and their ratings are presented on the table below.

Table 14: Changes Observed over the incubation period

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Changes observed: Business competitiveness												
Grown	90.3	84.6	90.9	100.0	85.7	92.7	84.2	100.0	87.2	95.7	90.5	90.2
Unchanged	4.8	7.7	4.5	0.0	14.3	0.0	7.9	0.0	7.7	0.0	0.0	7.3
Decreased	4.8	7.7	4.5	0.0	0.0	7.3	7.9	0.0	5.1	4.3	9.5	2.4
Changes observed: Turnover/ profitability												
Grown	90.3	84.6	90.9	100.0	95.2	87.8	86.8	95.8	89.7	91.3	95.2	87.8
Unchanged	8.1	11.5	9.1	0.0	4.8	9.8	10.5	4.2	7.7	8.7	0.0	12.2
Decreased	1.6	3.8	0.0	0.0	0.0	2.4	2.6	0.0	2.6	0.0	4.8	0.0
Changes observed: Publicity of the business												
Grown	87.1	84.6	81.8	100.0	76.2	92.7	81.6	95.8	82.1	95.7	95.2	82.9
Unchanged	12.9	15.4	18.2	0.0	23.8	7.3	18.4	4.2	17.9	4.3	4.8	17.1
Changes observed: Growth in assets												
Grown	77.4	69.2	81.8	85.7	61.9	85.4	76.3	79.2	74.4	82.6	81.0	75.6
Unchanged	22.6	30.8	18.2	14.3	38.1	14.6	23.7	20.8	25.6	17.4	19.0	24.4
Changes observed: Growth in employees												
Grown	77.4	73.1	77.3	85.7	71.4	80.5	68.4	91.7	74.4	82.6	76.2	78.0

Unchanged	19.4	19.2	22.7	14.3	28.6	14.6	28.9	4.2	23.1	13.0	14.3	22.0
Decreased	3.2	7.7	0.0	0.0	0.0	4.9	2.6	4.2	2.6	4.3	9.5	0.0
Changes observed: Growth in market share												
Grown	77.4	65.4	77.3	100.0	66.7	82.9	68.4	91.7	71.8	87.0	76.2	78.0
Unchanged	22.6	34.6	22.7	0.0	33.3	17.1	31.6	8.3	28.2	13.0	23.8	22.0
Changes observed: Confidence as a business person												
Grown	95.2	92.3	95.5	100.0	100.0	92.7	92.1	100.0	92.3	100.0	90.5	97.6
Unchanged	4.8	7.7	4.5	0.0	0.0	7.3	7.9	0.0	7.7	0.0	9.5	2.4

A resounding majority {90.3%} of entrepreneurs indicated that their businesses had grown in terms of competitiveness and in turnover or profitability since joining business incubators. This comprised all {100%} of those in the construction sector whilst very small percentages of those in the services and manufacturing sectors had decreased or remained stagnant. More than eight in ten {87.1%} of the respondents felt that their business were now well-known and attributed this to the business incubation programmes. Slightly more than three quarters {77.4%} of the participants observed growth in the assets their businesses owned, in the number of employees and also in their market share. None of the participants indicated any decreases in assets or market share. There were a few {22.6%} in both instances who had not observed any changes and a bulk of these had only been in business for not more than two years. A very large majority {95.2%} of the respondents claimed that being part of a business incubation programme had done tremendous wonders for them and boosted their confidence as entrepreneurs.

5.3.15 *Accrued Cost-savings/ Benefits from Business Incubators*

Entrepreneurs were asked to list the apparent benefits or cost-savings they accrued from being part of a business incubator and table 15 below represents all the items that they listed.

Table 15: Cost-savings/ Benefits Entrepreneurs accrued from Business Incubators

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 1000 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Rent	66.1	50.0	77.3	78.6	71.4	63.4	71.4	63.4	69.2	60.9	66.7	65.9
Security	22.6	26.9	27.3	7.1	19.0	24.4	19.0	24.4	25.6	17.4	28.6	19.5
Internet/ telephone costs	53.2	42.3	50.0	78.6	52.4	53.7	52.4	53.7	51.3	56.5	57.1	51.2

Transport	17.7	34.6	4.5	7.1	14.3	19.5	14.3	19.5	15.4	21.7	23.8	14.6
Equipment	27.4	0.0	63.6	21.4	33.3	24.4	33.3	24.4	35.9	13.0	38.1	22.0
Food	4.8	11.5	0.0	0.0	4.8	4.9	4.8	4.9	5.1	4.3	14.3	0.0
Cleaning	6.5	11.5	4.5	0.0	4.8	7.3	4.8	7.3	5.1	8.7	4.8	7.3
Secretarial service	14.5	7.7	9.1	35.7	0.0	22.0	0.0	22.0	15.4	13.0	19.0	12.2
None	11.3	26.9	0.0	0.0	14.3	9.8	14.3	9.8	10.3	13.0	9.5	12.2

Two thirds {66.1%} of entrepreneurs were satisfied with the rent they were paying as they identified this as one of the benefits of being in a business incubator. There were however other entrepreneurs from one particular business incubator that claimed the office was very costly as they were charged on a square metre basis. Over half {53.2%} of the respondents cited the affordable internet use, printing and faxing facilities, telephone calls and electricity as some of the benefits they accrued from being in business incubators. A number of respondents in one particular business incubator claimed that their business incubation programme offered each and every SMME in the programme free telephone calls to the value of R500 per month. All in all, entrepreneurs felt that business incubators made their customers have more confidence in their working environment.

Half {50%} of the entrepreneurs in the study claimed that the opportunity cost of being part of a business incubation programme was less than that of working from home in a backroom setup. This was because in the business incubators they benefited from the secretarial services, cleaning services and transport (the business incubators were generally very accessible for suppliers, clients and employees). The entrepreneurs believed that business incubators provided their businesses outlook as they were able to meet with clients in respectable and professional boardrooms. This was as opposed to the previous situation where they had to wine and dine clients in expensive restaurants and sometimes nothing would come out of those meetings. Half {50%} also felt they were saving on security and equipment. They were of the view that business incubators were very secure and their assets (tools, machinery and equipment) and inventories were very safe. Others were actually saving by using the equipment that belonged to the business incubators or the storage spaces that were available for them to use.

However, there was just over a tenth {11.3%} of entrepreneurs in the study who saw no tangible benefits of being part a business incubation programme. One respondent claimed that, "I have to provide my own ADSL (asymmetric digital subscriber line) which costs me R1 500 per month as the wireless internet we are provided with here is very unreliable. We

are spending more money here and have to provide our own infrastructure and had to renovate our own offices.”

5.3.16 Improvements Required in the Business Incubation Programmes

After evaluating participants’ levels of satisfaction on their respective business incubation programmes the study sought to elicit their thoughts on what needed to be done in order to improve the various business incubation programmes. Table 16 below presents their suggestions.

Table 16: Improvements Required in the Business Incubation Programmes

	Total	Services	Manufacturing	Construction	2 yrs and below	Above 2 yrs	100 000 and below	Above 100 000	1-3 employees	Above 3 employees	Matric and below	Above matric
	62	26	22	14	21	41	38	24	39	23	21	41
Nothing, programme is great	29.0	42.3	13.6	28.6	23.8	31.7	23.8	31.7	17.9	47.8	47.6	19.5
Reconsider years under incubation	4.8	0.0	13.6	0.0	14.3	0.0	14.3	0.0	5.1	4.3	4.8	4.9
Organise networks for SMMEs	25.8	30.8	18.2	28.6	23.8	26.8	23.8	26.8	30.8	17.4	23.8	26.8
Provide tailor made programmes	25.8	19.2	31.8	28.6	28.6	24.4	28.6	24.4	25.6	26.1	9.5	34.1
Lower costs of products offered	17.7	19.2	22.7	7.1	23.8	14.6	23.8	14.6	23.1	8.7	19.0	17.1
Provide more marketing / advertising for SMMEs	41.9	42.3	45.5	35.7	38.1	43.9	38.1	43.9	48.7	30.4	42.9	41.5
Provide more mentors	19.4	3.8	27.3	35.7	19.0	19.5	19.0	19.5	15.4	26.1	9.5	24.4
Provide more space	6.5	7.7	4.5	7.1	0.0	9.8	0.0	9.8	7.7	4.3	4.8	7.3

More than half {51.6%} of the participants believed it was crucial for business incubators to organise networks for SMMEs. They also believed it was necessary to provide tailor made

programmes to enhance capacity as opposed to the generic approach. Participants were of the view that not enough was being done by the business incubators to push quality from SMMEs and there were no partnerships with corporate companies (partnerships with companies like Microsoft, Actionpack, and BizSpark etc.). Participants suggested that business incubators needed to organise networks that will enable their SMMEs to get business deals (some kind of positive spin-offs). Participants also suggested that business incubators should stop providing generic interventions that ended up inconveniencing SMMEs. Rather, they should rather provide interventions that were tailor-made for the different types of SMMEs under incubation. The business incubator, they suggested, should conduct monthly checks to see how SMMEs were performing. Then they would be able to know what is it that the SMMEs required in order to be successful. Participants mentioned a number of items that they felt were necessary to their success which the business incubators were incognisant of. Participants indicated that they required more legal assistance and human resource (HR) assistance. One participant mentioned that they were paying LabourNet R1 000 per month for HR services, and that was very steep for an SMME. Participants also mentioned that they required a resident bookkeeper to do their financials and would appreciate training on tax issues as well as computer lessons. Another suggestion from an SMME was that business incubators needed to be mindful of the challenges faced by SMMEs and therefore had to take these into consideration when charging them for some of the services.

Just above two in five {41.9%} entrepreneurs felt that business incubators should provide more marketing or advertising for SMMEs. They had a few suggestions on how business incubators could go about in accomplishing this task. Participants proposed that business incubators advertise their SMMEs in forms of media outside the incubation centre. This should also have open days for the general public where SMMEs could be afforded the opportunity to showcase their products. Participants from the government-sponsored business incubators felt that government should contract them as service providers since they were already funding their incubation programmes.

Almost a quarter {24.2%} of the respondents believed that if business incubators provided more mentors and also reconsidered the maximum time permissible for SMMEs to spend under business incubation, then they would have a much greater chance of succeeding. They suggested that exit or graduation criteria from business incubators should be determined by profitability rather than period under incubation. They also felt that business incubators

should reconsider the incubation period. They claimed three or four years under business incubation was insufficient. This was because there were still companies that had been in business incubators for three years and were about to be kicked out but were still not doing well. So they found this to be very counterproductive.

An equal number {24.2%} felt that business incubators should lower the costs of products offered and should also provide more space. “The business incubator should not charge us for office space or for telephone calls as we are still start-ups, they should wait until we start making money,” “The government should put more money into business incubation programmes.” The setup and arrangement of working space was also an important one for entrepreneurs as they suggested, especially when it came to mixed business incubators, that space in the business incubators should be allocated according to the nature of the business. “Business incubators need to study the business plans of all their SMMEs and then allocate the SMMEs space according to the type of job they are doing. So for example, those planning mini-factories should be placed accordingly. For instance, food manufacturers must not be placed next to wood or steel processors/ manufacturers. Entrepreneurs also suggested that offices be available after hours. This was because they wished to work at any hour of the day because they believed that as entrepreneurs they were not meant to be confined to “normal working hours”.

Just above a quarter {29%} of the respondents were satisfied with their business incubation programmes as they indicated that the programme was great and needed no improvements. There were a few that felt that the business incubator needed to roll out more business support services. Others were ecstatic about the programmes and wished that business incubators could invite more SMMEs to join them and also expand into other areas.

5.4 Conclusion

The aim of this chapter was to, through the synthesis of existing literature and the theoretical framework adopted, evaluate the role played by business incubators in South Africa. The study had two underlying assumptions. The first was that the idea of business incubation had countless spinoffs for emerging economies and therefore South Africa would be no different. The second was that since the concept of business incubation has been around for more than five decades, economies that „joined the bandwagon“ late were able to make use of refined best practices and thus implement successful models of business incubation. This informed

the study's theoretical frame which placed strong emphasis on the management styles and strategies of both incubator managers and SMMEs as well as the location and clustering effect of small companies that yields positive externalities and provides comparative advantages. The literature pointed out that in the South African context, it was not as simple and there were a number of factors that were responsible for the complexities that exist in South Africa. One very important complexity was the levels of entrepreneurship in the country and the subsequent confidence levels big business and government had on SMMEs.

The literature survey conducted and the analytical frame adopted then informed the research methodology and two sets of data sources were identified so as to understand the complexities in the South African case. Data was collected from business incubation centre managers as well as from incubated SMMEs in order to understand the workings of business incubators from both perspectives.

Seven business incubator managers were interviewed and they relayed sufficient information regarding their institutions and the services offered to SMMEs. The critical aspects of the information gathered was their educational qualifications, the partnerships they had managed to formulate and the types of SMMEs that were recruited into the business incubator. This was because from the theoretical framework, especially the contingency theory, an assumption was made that good or effective leadership attains when one has a common-sense view of the world and recognises that context and system dynamics are integral aspects of any situation. The belief was that education levels and experience play an important part in this and therefore the more educated and experienced the business incubator manager was, the higher the chances of success the business incubator had. Similarly with cluster theory, the formulated partnerships and the recruitment criteria when done correctly creates several advantages for SMMEs and thus leads to greater success prospects. The data indicated that the business incubator managers fared quite moderately in these aspects but what was worrying was the fact that none of them had any entrepreneurial experience.

As for the SMMEs/ entrepreneurs, the information solicited from them was to corroborate the information provided and also acquire an in-depth understanding of the workings of business incubators and the effect they have. A number of success variables or indicators were identified such as the changes in employment and turnover as well as the level of involvement of business owners. Data indicates that there were significant improvements in employment patterns and in turnover when SMMEs had been part of a business incubator for

more than a year. Being part of a business incubator was not without the day-to-day challenges that most SMMEs in South Africa come across as these SMMEs complained about the unavailability of funding opportunities for small businesses, the difficulties in accessing markets, government red tape and customers not paying them on time. It seemed as if business incubators were unable in most cases to assist them with these challenges. This therefore goes back to the experience and the leadership strategies of business incubator managers. These are issues that most entrepreneurs/ SMMEs battle with and business incubators should always be able to address or ameliorate these.

CHAPTER SIX

Conclusions

6.1 Introduction

Evaluation studies are intended to answer questions about the effectiveness and efficiency of projects, programmes or policies. This study, as an evaluation study, had one important aim. The aim was to advance an understanding of the role played by business incubators in ensuring the success of SMMEs in South Africa. To reiterate, there is a significant amount of literature that highlights the benefits of business incubation and this literature indicates that business incubators play a significant role in fostering entrepreneurship and thus stimulating economic growth. However, the observation was that a lot of this literature came mainly from developed economies or from economies with a strong focus on entrepreneurship and small business development. The literature points out that business incubators increase the odds of success for SMMEs exponentially as they assist in improving both their entrepreneurial skills and credibility.

Business incubation seemed to be more successful in instances where there was a symbiotic relationship from both the public and private sectors to promote entrepreneurship. For the public sector, business incubators helped overcome market failures, promoted regional and local economic development thus generating jobs, revenue and taxes, and also served as a demonstration of the political commitment to developing and supporting small businesses. For the private sector, it was opportunities for private companies to acquire new innovations without exhaustive capital outlays, the easing of supply chain management processes, tax breaks in meeting their targets for corporate social responsibility (CSI) as well as a number of other spin-offs (Lalkaka, 2001).

Business incubation as a strategy for promoting entrepreneurship and supporting SMMEs in South Africa is still relatively new as it only started about two decades ago. Business incubation as a strategy to promote entrepreneurship has been used by a number of countries across the globe for at least six decades. Over time the practices, methods and arrangements have evolved as is normal for any sustainability in any business intervention. So the assumption was that South Africa would follow the set and already modified international best practices when it came to setting up and running business incubators. This assumption

informed the study's hypothesis which posited a positive relationship between the performance of business incubators and their resource munificence, business assistance and monitoring efforts. After all, business incubation programmes are meant to address a number of the country's multifaceted challenges (which are immediate) and therefore had to yield rapid results. The study's conceptual framework centred around how business incubators, through organisation and providing certain contingencies, cushioned SMMEs; and on how, through agglomeration, SMMEs were able to exploit economies of scale and networking effects, and benefitted from the positive externalities.

Although the collection of primary data for the study was limited because of both a lack of resources and the refusal of a number of privately owned business incubators participate in the study, there are two important conclusions that have arisen from this research. The first is on the profile of South Africa's incubated SMMEs. This refers to the factors that motivated participants to start a business, their sources of funding, the number of people they employed, the challenges they encountered and the reasons that led them to join business incubators. The second conclusion is on the inputs and efforts of business incubators. This chapter ends with recommendations, a majority of which are from the participants, on how to improve business incubation programmes and on strategies to promote entrepreneurship in the country.

6.2 South African SMMEs under Business Incubation

This study established how important it is for South Africa to promote entrepreneurship and expand its entrepreneurial base if it is to create an inclusive economy that is capable of providing more jobs and new products and is also able to compete against other economies around the globe. In the light of the country's very high unemployment rate, improving policies and schemes that increase the number of individuals that pursue entrepreneurship as a positive employment choice is extremely important. The study discovered that the motivations and attitudes towards entrepreneurship in South Africa did not paint a good picture. This is because those that went into entrepreneurship were mainly forced into it because they needed a source of income. This meant that a majority of respondents saw starting a business as a means to survive and were half-heartedly committed to the success of their businesses. This was evident in the responses where some participants indicated that they were retrenched and needed an income or, were searching for employment and in the

process needed something to do in the meantime in order to earn some money. But there were also a few cases where some took the entrepreneurship route because they liked the idea of self-employment. Additionally they were also motivated by providing employment to others or went into business because of the passion they had or the niche they had identified in the market.

The findings of the study are supported and contextualised by a number of GEM Reports which have, for over the past decade, indicated that South Africa had unusually low total early-stage entrepreneurial activity rates. This has been coupled with low societal attitudes, low levels of opportunity and capability perceptions and a higher than average fear of failure when compared to other Sub-Saharan African countries. South Africa also reported the lowest established business ownership rates which were generally characterised by “me too” businesses. These also have very little differentiation and low growth potential and are possibly driven by necessity or survival. Despite the low participation in entrepreneurship, most entrepreneurs were employers. However a worrying observation the report made was that the South African culture did not make entrepreneurship a highly desirable career choice for its population in spite of the high unemployment levels (GEM Report, 2013). The GEM Report indicated that not only does South Africa need to increase the number of start-up businesses, it also needs to grow businesses beyond the start-up stages to the established stage in order to increase their contribution to job creation and economic growth.

The study also revealed that the few individuals that chose the path of entrepreneurship always came across a number of challenges. Accessing markets was one of the biggest challenges entrepreneurs faced, and this was exacerbated by the cyclical nature of the South African business environment which meant low levels of demand. Accessing finance was another major challenge for SMMEs. Entrepreneurs felt that financial institutions were not very helpful towards black SMMEs and that public sector institutions also failed to offer them financial support. A significant number of SMMEs did not keep any financial records as bookkeeping was still a challenge for many of them. This perhaps explains their misfortunes with financial institutions but this is one important gap business incubators are meant to fill.

For start-up capital participants mentioned a number of sources they used to finance their businesses but none were assisted by business incubators. A large majority had either used their own savings or personal contributions to start their businesses. There were quite a few

that took loans from families and friends or used their first clients (bootstrapping) in order to get their businesses off the ground. There were those that cashed out their insurance policies and investments or used retirement packages to start their businesses. Some took out bank loans or refinanced their assets and there were a few who were recipients of grants. South Africa compares well to other emerging markets in terms of the affordability and availability of capital, financial market sophistication, business tax rates and infrastructure. However, it fares poorly on the cost and availability of labour, education and the use of technology and innovation. The country is relatively small, without a huge domestic customer base, and has had for decades an unusually low rate of saving and investments. This is partly because of political uncertainties, an inadequate education system that results in an acute shortage of skilled labour, a strong and yet volatile currency which deters investors and makes exports less competitive (Ernst and Young G20 Entrepreneurship Barometer, 2013).

The study showed that a majority of SMMEs witnessed significant improvements after they joined business incubation programmes. These improvements were in the form of the number of people they employed as well as in the annual turnover they generated. Only a few of these SMMEs attributed the positive changes to the efforts of business incubators. Participants had an elevated sense of the role played by business incubators since a majority joined business incubators in order to attain business support and assistance, whilst others wanted to save on rent and other equipment or utilities. Participants believed that business incubators were places where they could acquire the following: relevant business training and mentorship, all business-related information under one roof, financial assistance, and affordable workspace with internet activity and also save on general overhead costs. They also felt that business incubators would provide their businesses with a professional outlook and also helps them avoid mediocrity in running their businesses.

The Finscope Survey discovered that there were close to six million small businesses and only 965 875 (17.3%) registered small businesses in South Africa. The small business owners cited a number of reasons for not having their businesses registered. The reasons ranged from: avoiding harassment from authorities or fines, not seeing the benefits that came with registering, not knowing how to register businesses, perceptions that the businesses were too small to be registered, or not having the money to register their businesses. Of these businesses only 27% created between one and four employment opportunities in addition to the business owner and only 6% had 5 employees and more (Finscope, 2010).

The South African press heaps praise on entrepreneurs and young people are encouraged to pursue their own enterprises. However, at the same time there is a more limited culture of innovation, with little breakthrough research and development emerging from the country's universities (Ernst and Young G20 Entrepreneurship Barometer, 2013). "From the top down, corruption is rife in South Africa. As much as entrepreneurship is lauded, there is also what is now termed "*tenderpreneurship*". This occurs when individuals create companies in order to benefit from government tenders and these tenders are awarded to companies on the basis of strong political connections. There are also high levels of crime which affect all businesses in South Africa. This already deters many entrepreneurs, particularly those in the retail and cash-based industries (Ernst and Young G20 Entrepreneurship Barometer, 2013)." Participants also complained about some of the problems that plagued the country which had impacted negatively on them such as skills shortages, costs of labour, and infrastructure. There were other issues that negatively affected SMMEs, these were late payments from customers, especially from government departments, political discrimination, and redundant and excessive legislations. Business incubators were meant to fill in the gaps by ensuring that they address these challenges or at least mitigate against them in order to smoothen the entrepreneurship path.

6.3 Business Incubator Inputs

In an effort to diminish the challenges and also in trying to ensure their success, business incubators, offered mentorship and capacity building programmes; business support services; and other kinds of business interventions. The study found that participants were somewhat satisfied with the mentorship and capacity building programmes they received from business incubators. The capacity building programmes covered essential business aspects such as financial management; human resource management; marketing management and entrepreneurial development. Even though their responses were not that overwhelmingly positive they did demonstrate that they were finding some good business coaching in business incubators and that certain business incubators were getting it right in terms of building capacity. On the downside, there was a lot of dissatisfaction from participants with regard to the business support services that they received from business incubators with the exception of office or working space. This was a cause for concern as these business support

services are typical to business incubation programmes and are what sets them apart from normal office parks.

The study also found that participants were disappointed in the business incubators' abilities to assist them with business registrations and with other issues of compliance. They generally felt that this was something they had to complete on their own. However, participants were generally happy with the secretarial and accounting and bookkeeping services, as well as the office or workspace provided by business incubators. They claimed that the offices were very professional and had all the essential equipment. The machinery (for those that required it) was of world class quality and all participants had sufficient access to these. In terms of the assistance and business interventions that were meant to ensure that SMMEs in the business incubation programmes had some form of comparative advantage, the ratings were wavered. Participants felt that business incubators were not doing a good job in identifying suitable business partners for them as SMMEs but were doing a satisfactory job in ensuring that they had access to customers. There were quite a few respondents that were assisted by business incubators in recruiting employees and in accessing finance. Participants had excellent ratings for business incubators in ensuring that they had access to good suppliers. This is in line with the study's conceptual framework which focused on the economies of agglomeration and the positive externalities accrued by SMMEs when located in a cluster.

An important observation in this study is that a lot of South African business incubators appeared to focus more on the provision of physical space and hard infrastructure. They neglected the essential soft services such training, networking and facilitation that SMMEs required for growth and development. Business incubation is meant to be an innovative approach to economic development but in this case it seems like a lot of money is being pumped into ineffectual programmes. A study conducted in 2012 by the organisation Trade and Industrial Policy Strategies (TIPS) comparing South Africa's entrepreneurship initiatives with those of its counterparts such as Malaysia, Chile and Brazil discovered that "South Africa's state-run business incubators created an average of less than one job per business. In comparison, Brazilian business incubators created on average 4.2 jobs per business, Chile's business incubators created on average 1.5 jobs and those in Malaysia create 2.5 jobs (TIPS, 2012)."

The chair of a technical task team set up at the end of 2011 under the Human Resource Development Council of South Africa (HRDCSA) which aimed at finding ways to strengthen entrepreneurial activity intimated that government business incubators were failing to make a dent. “Over the past 10 years, the 33 government business incubators have produced fewer than 1600 jobs a year while a lot of money has been spent,” he claimed. Though business incubators may not create jobs, the DTI, as the custodian of small business interests, plans to introduce more as it says they dramatically improve a start-up business’s chances of survival. One owner of a privately-owned business incubator in South Africa was sceptical about government or publicly funded business incubators: he claims, “it’s very basic, you get a business plan, access to cheaper bandwidth and maybe a place to house your business, but these business incubators are traditionally run by academics or government employees and entrepreneurs should not see any value in them (FM, 2013: 10).”

6.4 A Way forward for promoting Entrepreneurship in South Africa

There is always this fallacy that state-led growth is unsustainable but this should not be the case in South Africa. Evaluations on the state’s attempts at addressing important economic development issues should not aim at perpetuating state led growth either. South Africa needs to build a robust entrepreneurial culture. In many ways entrepreneurship is a deeply cultural thing; those countries that epitomise entrepreneurial success have it engrained in the culture of their people and their society. In South Africa, there is no short term fix that will foster a greater spirit of entrepreneurship. Society needs to integrate the issue into home life and the formal education system. There also has to be a higher level of tolerance for entrepreneurial failure. For those that take the entrepreneurship route, a lot needs to be done to encourage differentiation so as to reduce the number of “me too” businesses that clutter the space and compete in a saturated environment for limited funding and markets. Entrepreneurs with new offerings have a far greater chance of success. The country still needs to make use of business incubators but a lot more effort needs to be put into the running of these business incubators so as to ensure that they yield positive results.

The following pointers are from participants’ observations on where the gridlocks were for business incubators. Participants believed it was crucial for business incubators to organise networks for SMMEs that will enable their SMMEs to get business deals (some kind of positive spin-offs). Participants were also of the view that not enough was being done by the

business incubators to push quality from SMMEs and they were not forming partnerships with corporate companies. Participants also suggested that business incubators should stop providing generic interventions that ended up inconveniencing SMMEs. They should rather provide interventions that were tailor-made for the different types of SMMEs. Business incubators should provide more marketing or advertising for SMMEs. They had a few suggestions on how business incubators could go about in accomplishing this task. They proposed that business incubators advertise their SMMEs in different forms of media outside the business incubation centre. They also proposed that they should also have open days for the general public where SMMEs could be afforded the opportunity to showcase their products. South Africa needs to make business incubation work, with just a bit more commitment and oversight on all parties concerned, it can happen.

6.5 Recommendations for Future Research

The study offered an evaluative perspective on the role of business incubators and the research was only carried out in one province. As a direct consequence of this decision and methodology, the study encountered a number of limitations, which need to be considered. In spite of what is often reported about the disjuncture in South Africa's policy process especially in the conceptualisation and implementation phases, the country has taken strides in rectifying this especially in establishing a public-private partnership model for creating business incubators (the ISP – Incubation Support Programme) moving forward and also with the establishment of the Ministry of Small Business in 2014. The benefits of this approach are yet to be seen and further research needs to be conducted in order to ascertain the trajectory in the fight towards garnering support for small businesses and curbing the pervasively high levels of unemployment.

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APPENDICES

Appendix A: Incubators under the SEDA Technology Programme

CENTRE	SECTOR	PROVINCE
1. Chemin, Port Elizabeth	Chemicals Industry	Port Elizabeth, Eastern Cape
2. Chemin, East London	Chemical Industry	East London, Eastern Cape
3. Downstream Aluminium Centre for Technology (DACT)	Aluminium fabrication and casting	Richard's Bay, KwaZulu Natal
4. EgoliBio	Biotech	Pretoria, Gauteng
5. Furntech Cape Town	Furniture manufacturing	Cape Town, Western Cape
6. Furntech Durban	Furniture manufacturing	Durban, KwaZulu-Natal
7. Furntech George	Furniture manufacturing	George, Western Cape
8. Furntech Mthatha	Furniture manufacturing	Mthatha, Eastern Cape
9. Furntech Umzimkhulu	Furniture manufacturing	Umzimkhulu, KwaZulu-Natal
10. Furntech White River	Furniture manufacturing	White River, Mpumalanga
11. INVOTECH (Innovation Technology Business Incubator)	Mixed high-tech	Durban, KwaZulu Natal
12. Lepharo	Copper, Zinc and Base Metals	Springs, Gauteng
13. Mapfura Makhura Incubator (MMI)	Bio-fuels plant production & processing	Marble Hall, Limpopo
14. Mpumalanga Agri-skills Development & Training (MASDT)	Agricultural Capacity Building	Nelspruit, Mpumalanga
15. Mpumalanga Stainless Steel Initiative (MSI)	Stainless Steel Processing	Middelburg, Mpumalanga
16. Seda Agricultural & Mining Tooling Incubator (SAMTI)	Mining & Agricultural tooling	Bloemfontein, Free State
17. Seda Automotive Technology Centre (SATEC)	Automotive Industry	Roslyn, Gauteng
18. Seda Construction Incubator (SCI), Durban	Construction	Durban, KwaZulu-Natal
19. Seda Construction Incubator (SCI), Mthatha	Construction	Mthatha, Eastern Cape
20. Seda Construction Incubator (SCI) PE	Construction	Port Elizabeth, Eastern Cape
21. Seda Construction Incubator (SCI) Dundee	Construction	Dundee, KZN
22. Seda Construction Incubator (SCI) Kwa-Mashu	Construction	Kwa-Mashu, KZN
23. Seda Essential Oils Business Incubator (SEOBI)	Essential Oils-plant cultivation & oil distillation	Pretoria, Gauteng
24. Seda Limpopo Jewellery Incubator (SLJI)	Jewellery manufacturing	Polokwane, Limpopo
25. Seda Nelson Mandela Bay ICT Incubator (SNII)	ICT	Port Elizabeth, Eastern Cape
26. Seda Platinum Incubator (SPI)	Platinum Jewellery	Rustenburg, North West
27. Seda Sugar Cane Incubator (SESUCI)	Sugar cane, plant cultivation and sales	Nelspruit, Mpumalanga
28. Soshanguve Manufacturing Technology Demonstration Centre (SMTDC)	Small-scale manufacturing	Soshanguve, Gauteng
29. Softstart BTI (SBTI)	ICT	Midrand, Gauteng
30. Timbali	Floriculture	Nelspruit, Mpumalanga
31. Zenzele Technology Demonstration Centre	Small-scale Mining	Randburg, Gauteng
32. Smartxchange	ICT	Durban, KZN

Appendix B: Interview Guide for Business Incubator Managers

Instructions

Please answer the following questions as objectively as possible. Complete the questions by making a (×) to indicate your choice, and by writing an answer in the spaces provided.

Name of business incubator/ programme.....

A. Profile of Incubator Manager

1. Please indicate the highest qualification that you possess:

Matric

Business Degree/ Diploma

Entrepreneurship Degree/ Diploma

Science/ Technology Degree/ Diploma

Other (Please specify) _____

2. Are you presently furthering your Education?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

3. If Yes, in which field?

B. THE INCUBATOR

4. Who are the main partners or stakeholders that participate in the operation of your business unit? (Mark all that apply)

National/Provincial/Local Government

University/College

Private Sector

No partners/stakeholders

Other (Please specify) _____

access, kitchen, boardroom etc.)		
Linkages to higher education resources (student interns, faculty access, specialized lab facilities, etc.)		
Human resources support or training (personnel development)		
Logistics / distribution support or training		
Shadow advisory board or members		
Access to angel/ venture capital investors		
Help accessing finance (commercial bank loans/ in-house investment funds/ grants)		
Intellectual property management		
Linkages to strategic partners		
Help with regulatory compliance		
Comprehensive business training programs		
Economic literacy training		
Help with presentation skills		

9. What is the entry criteria employed for tenants that you utilize in the selection process for applicants? *(i.e. level of education of entrepreneur; previous experience of entrepreneur; feasibility of business/idea; financial health of business etc.)*

.....

.....

.....

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.....

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.....

.....

10. Who is involved in your selection process to accept new applicants? *(i.e. the incubator manager; a committee of people etc.)*

.....

.....

.....

11. How many applications did you receive from prospective clients during the past financial year? |__|__|__|__|

12. How many new applicants were selected to become clients? |__|__|__|__|

13. Please give the totals of these figures since the inception of the incubator:

Number of entrepreneurs incubated since inception:

.....

Number of entrepreneurs in incubation (currently):

.....

Number of entrepreneurs graduated:

.....

Sales generated by entrepreneurs:

.....

Number of jobs created by entrepreneurs while in the incubator:

.....

14. What is the length of time that tenants are permitted to remain in the business incubator? Average length: _____ months

15. What are the guidelines that you use to dictate a client's graduation from your programme?

	The client company has spent the maximum time allowable in the program
	The client company has outgrown space available at the incubator
	The client company has achieved mutually agreed upon milestones (e.g., revenue levels, staff size and/or composition, market penetration, etc.)
	No specific graduation policy
	Other, please specify _____

16. Do you track the progress of your graduates?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

17. Do graduates of your program give advice to current clients?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

18. What is your pricing policy for incubation services? (Mark one only)

<input type="checkbox"/>	All services are free (or included in the rent)
<input type="checkbox"/>	Some services are free
<input type="checkbox"/>	The cost of all services are fully recovered

19. What is your pricing policy for rent? (Mark one only)

<input type="checkbox"/>	Rent is free
<input type="checkbox"/>	Rent is at market rates for a facility of this type
<input type="checkbox"/>	Rent is above market rate for a facility of this type
<input type="checkbox"/>	Rent is below market rates for a facility of this type
<input type="checkbox"/>	Rent is provided in exchange for equity in the company
<input type="checkbox"/>	Other, please specify: _____

20. Does the rent that you charge clients increase over the time of the contract?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

21. Does this business incubator hold equity in any of the previous or currently incubated clients?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

22. Does the business incubator receive royalty payments from any of the previous or currently incubated clients?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

23. What are the challenges and barriers facing the success of the business incubator? *(i.e. finding appropriate clients; funding for incubator operations; accessing finance for clients; insufficient business/ technical skills in community; government red tape etc.)*

.....

.....

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.....

.....

24. What are the challenges and barriers facing the success of entrepreneurs under this incubation programme? *(i.e. competition from larger established firms; complying with government regulations; entrepreneurs are unwilling to accept the incubator's advice; finding appropriate markets; finding or developing appropriate business and technical skills; insufficient local skilled labour; obtaining finance etc.)*

.....

.....

.....

Appendix C: Questionnaire for SMMES/ Entrepreneurs under Business Incubation

Instructions

Please answer the following questions as objectively as possible. Complete the questions by making a (×) to indicate your choice, and by writing an answer in the spaces provided.

Name of business incubator/ programme.....

A. Profile of Incubated Entrepreneurs

1. Nature of business.....
2. For how long have you been in this business.....
3. No. of people employed when the business started.....
4. No. of people employed now.....
5. Sales/ turnover per annum (amount of work expressed in monetary terms) when business started.....**R**.....
6. Sales/ turnover per annum (amount of work expressed in monetary terms) now.....**R**.....
7. Assets (valuable items owned by the business) when the business started.....**R**.....
8. Assets (valuable items owned by the business) now...**R**.....
9. Education level before incubation/training:

Below Matric

Matric

Post- Matric

Other (Please specify) _____

10. What was your employment status before incubation/training?

Self-employed in this business

Employed elsewhere (as what) _____

Unemployed

Studying

11. Legal status of the business

When it started:

Now:

Close Corporation

Close Corporation

Pty Limited

Pty Limited

Sole Trader

Sole Trader

Co-operative

Co-operative

Section 21

Section 21

Unregistered

Unregistered

Other (please specify)

Other (please specify)

12. What motivated you to start your own business?

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

13. Where did you obtain your initial capital?

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

14. What problems have you encountered as an aspiring entrepreneur:

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

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

15. What were your reasons for coming to the incubator:

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

16. How did you hear about this incubation programme?

.....
.....

17. For how long have you been in this incubator?

.....

B. Services received in incubation

18. Which of the following services did you receive under incubation and for how long?

Please tick:

Duration:

- | | |
|--|-------|
| i. <input type="checkbox"/> Business mentorship and coaching | _____ |
| j. <input type="checkbox"/> Financial management | _____ |
| k. <input type="checkbox"/> Human resource management | _____ |
| l. <input type="checkbox"/> Marketing management | _____ |
| m. <input type="checkbox"/> Entrepreneurial development | _____ |
| n. <input type="checkbox"/> Business registration services | _____ |
| o. <input type="checkbox"/> Legal issues | _____ |
| p. <input type="checkbox"/> Secretarial services | _____ |
| q. <input type="checkbox"/> Accounting and bookkeeping | _____ |
| r. <input type="checkbox"/> Office space | _____ |

19. Please specify the level of satisfaction with the following services received by using the 5-point scale shown below.

	Very dissatisfied	dissatisfied	Neutral	Satisfied	Very satisfied
Incubation programme					
Business mentorship and coaching	1	2	3	4	5
Financial management	1	2	3	4	5
Human resource management	1	2	3	4	5
Marketing management	1	2	3	4	5
Entrepreneurial development	1	2	3	4	5
Business registration services	1	2	3	4	5
Legal issues	1	2	3	4	5
Secretarial services	1	2	3	4	5
Accounting and bookkeeping	1	2	3	4	5
Office space	1	2	3	4	5

20. For each of the programmes please indicate the explicit gains from the services you received. (probe each)

Business mentorship & coaching:
Financial management:
Human resource management:
Marketing management:
Entrepreneurial development:
Business registration services:

Legal issues:
Secretarial services:
Accounting and bookkeeping:
Office space:

C. Mediation efforts

21. Please specify the level of satisfaction with the mediation efforts of the incubation programme by using the 5-point scale shown below.

	Very dissatisfied	dissatisfied	Neutral	Satisfied	Very satisfied
Mediation of the business incubator/ incubation programme:					
In terms of finding correct business partners	1	2	3	4	5
In terms of accessing customers	1	2	3	4	5
In terms of finding the right suppliers	1	2	3	4	5
In terms of finding suitable employees	1	2	3	4	5
In terms of access to finance	1	2	3	4	5
In terms of making your business more professional	1	2	3	4	5

D. Impact brought about by Incubation

22. Please use the rating-scale below to indicate the changes observed under the business incubation period.

	Grown	Unchanged	Decreased
What has happened to business competitiveness over the incubation period?			
What has happened to the sales turnover/			

profitability over the business incubation period?			
What has happened to the publicity of the business over the incubation period?			
What has happened to the growth of the business over the incubation period? (in terms of:			
a. Assets			
b. Employees			
c. Market share			
What has happened to your confidence as a business person over the incubation period?			

23. What cost-savings has the use of incubator services brought to the business?

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24. What needs to be done in order to improve this incubation programme?

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THE.....END

Thank you for participating

Appendix D: Informed Consent Form



SCHOOL OF SOCIAL SCIENCES

INFORMED CONSENT FORM

Invitation to participate in a study on business incubators

My name is Sithabiso Khuzwayo, Student No. 206518864 from the University of KwaZulu-Natal (Howard College Campus). I am doing research project as partial fulfilment of a Master of Arts degree (Public Policy) on the role of business incubators in South Africa and I would like to invite you to be part of this research.

Title of the Research

Evaluating the role of business incubators in South Africa

Purpose of this research

This research is purely for academic purposes and may not be used against you. I'm looking at enterprise creation and entrepreneurship and the role business incubators play in fostering this.

Aim of research is:

- To evaluate the role of business incubators in South Africa
- Look at business incubation as a possible form of enterprise, and a tool that ensures SMME development and success

The critical questions that this research intends to answer are:

1. What type of services do incubators provide to entrepreneurs and SMMEs?
2. How do incubators go about selecting or recruiting incubatees?
3. What is the success rate of graduate firms from business incubators?
4. What are the major challenges facing SMMEs and aspiring entrepreneurs in South Africa and how do incubators and business support institutions go about in addressing these challenges?
5. How do SMME success rates transfer to employment creation and poverty alleviation?
6. Do incubatees really benefit from being part of an incubation programme? How?

Type of research intervention

This research project will thus be conducted in a semi-structured interview format and participants are at liberty to provide any confidential information during the interview where they can remain anonymous and all

responses will be treated in a confidential manner between the participant and the researcher. This research will involve your participation in a questionnaire survey and will not take you more than 15 minutes to complete.

Participant selection

You are being invited to take part in this research because I feel that your experiences as an entrepreneur under an incubation programme can contribute much knowledge and understanding to this research project.

Voluntary participation

Your participation in this research is entirely voluntary. It is your choice whether to participate or not. If you do not wish to answer any of the questions included in the questionnaire survey, you are free to skip them and move on to the next question.

Benefits

You will not be provided any incentive to take part in the research and although there will be no direct benefit to you, your participation is likely to help me find out more about business incubators and

DECLARATION

I..... (Full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

SIGNATURE OF PARTICIPANT

DATE

.....

Supervisor

Ms Belinda Johnson

International and Public Affairs Cluster

Tel: 031 260 2409

Email: johnsonbl@ukzn.ac.za