

An evaluation of support institutions in enhancing the commercialisation process

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BESTUURSWETENSKAPPE**

Declaration

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~ In loving memory of my Dad ~

May you rest in peace Daddy, for you truly had a life well lived.

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Summary

This research study has a dual purpose as it serves firstly, to evaluate the funding process of the government entrepreneurial support institutions in order to identify the barriers to commercialisation. Secondly, with these barriers in mind, this study argues for a newly constructed phase-oriented process based on three distinct, yet complimentary phases namely Feasibility, Viability and Sustainability. This phase-oriented process is suggested in order to guide the support institutions in their evaluation of applications for funding thus enabling them to truly identify the entrepreneurs and business ideas with merit. Moreover, this phase-oriented process will enable entrepreneurs to successfully complete the application process through a manageable, understandable process that is constantly monitored. This in turn will allow for timely changes and ultimately successful venture establishment after which entrepreneurs will be better enabled to understand their ventures, as well as the industry in which they will operate.

Opsomming

Hierdie navorsingstudie het 'n tweeledige doel waar dit eerstens gedien het om die befondsingsproses van entrepreneuriese ondersteuningsinstellings te evalueer ten einde die hindernisse tot kommersialisering te identifiseer. Tweedens, met hierdie hindernisse ingedagte, argumenteer hierdie studie vir 'n nuut-geformuleerde fase-georiënteerde proses wat baseer is op drie onderskeidelike, tog komplimentêre fases, naamlik Haalbaarheid, Lewensvatbaarheid en Volhoubaarheid. Hierdie fase-georiënteerde proses word aanbeveel ten einde die ondersteuningsinstellings te lei in hul evaluering van aansoeke vir befonding en sodoende hulle in staat stel om waarlik die entrepreneurs en ondernemings-idees met meriete te identifiseer. Addisioneel sal hierdie fase-georiënteerde proses die entrepreneurs in staat stel om die aansoekproses suksesvol te voltooi deur 'n hanteerbare, verstaanbare proses wat konstant gemonitor word. Sodoende sal tydige veranderinge moontlik wees en dit die uiteindelijke suksesvolle vestiging van 'n onderneming meebring waarna die entrepreneurs in staat gestel is om hul ondernemings, asook die industrie waarin hul gaan meeding, te verstaan.

Abstract

This research study was necessitated by the fact that entrepreneurs and the products and services they successfully commercialise are vital to the economy of any country, but given the high official unemployment rate of South Africa (SA) the need for entrepreneurship has been promulgated. Yet despite the importance of entrepreneurship, the rate of new venture start-up in SA remains alarmingly low. In order to address this issue the Government of SA has established several support institutions in order to aid and foster the establishment of entrepreneurs in SA. However, regardless of the vast investment of these institutions, the entrepreneurial start-up rate in SA remains low. Even more worrisome is the fact that the majority of early-stage entrepreneurs do not manage to progress to an established business. Moreover, the amount of entrepreneurs who manage to successfully obtain funding from these support institutions is equally low.

All of the support institutions require a business plan from the applicants even though the literature on the effectiveness of business plans is still inconclusive. This is due to the fact that business plans are acknowledged as effective internal planning tools, but majorly criticised for being expensive, the involved nature of the plan and the fact that it is based on estimations of entrepreneurs rather than factual information. This highlights an important misconception in the current literature that a business plan is the best way to validate an entrepreneurial opportunity.

The researcher therefore argues for a more structured, chronological, well defined, phase-oriented process through which to guide entrepreneurs, stage by stage, to a properly structured and solid business plan that is built on facts and expertise. This phase-oriented process would consist of three phases; feasibility, viability and sustainability. Although the argument of determining the feasibility, viability or sustainability of a new venture is not a new concept, there is a major gap in the current literature regarding the inconsistency with which these three terms are defined and the fact that these aspects are not integrated as complimentary phases, but rather viewed as studies to be conducted in isolation and that entrepreneurs need to conduct only one of these studies as opposed to all three, at different stages of venture formation. Upon completion of this advocated process the entrepreneur will truly understand the business, the industry in which this business will operate as well as the strategy that must be implemented in future in order to make a success of the venture, thereby obtaining all the benefits of entrepreneurship – for both the entrepreneur and society as a whole.

In order to achieve the objectives as stated in chapter 1 of this study, a mixed methods, exploratory-sequential (where qualitative research is conducted initially and results obtained here become the major focus of the study where-after a quantitative phase is implemented in order to validate or explain the phenomena observed during the qualitative research phase) will be implemented. The study at hand was divided into three phases; namely, a qualitative phase (where interviews were conducted with the individuals who are responsible for evaluating the business plan applications received at the three government support institutions that were included in this study); a quantitative phase (during which questionnaires were sent out to entrepreneurs who have successfully established entrepreneurial ventures that are operational for a maximum of five years) and lastly an additional qualitative phase was included in this study (this phase consisted of conducting focus groups with individuals who applied for funding or support at the identified support institutions).

The significance of the findings is that the barriers to new venture establishment were identified from three different perspectives; that of the support institutions, entrepreneurs who had established new ventures (whether they had any involvement with support institutions or not) and entrepreneurs who had applied for funding at the various government support institutions (whether they were successful in their application or not). With the results obtained it provided the author of this thesis with a thorough understanding of all the major barriers associated with the establishment of an entrepreneurial venture from a variety of perspectives. Consequently the merit of the suggested phase-oriented process can be argued from the in-depth theoretical analysis based on an investigation into the effectiveness of business plans and the aspects included in a typical business plan as well as the factors that influence successful commercialisation. Moreover, the results obtained from the data analysis equipped the researcher with a thorough, multi-perspective, practical insight into the barriers of the current commercialisation process, and through addressing these issues with the phase-oriented process; the merits of this newly constructed method are once again highlighted.

The conclusion of this study is that the debate over whether or not business plans are useful tools in venture establishment can finally be laid to rest; a business plan is a useful internal planning and monitoring tool for established ventures, but not the best way in which to guide a novice entrepreneur from the idea to commercialisation phase. Typically, entrepreneurs already have technical skills and with the implementation of the feasibility, viability and sustainability process it will reduce the time and costs associated with founding an entrepreneurial venture. Through this suggested process the support institutions will be able

to identify truly worthy entrepreneurs to assist and not base their funding decisions on a static business plan. Moreover, entrepreneurs who progress through this process will acquire the necessary skills and networks to build, and maintain a successful business. Thus the discrepancy between the high level of need for entrepreneurship in SA and the low rate of venture establishment and growth can be bridged.

The main recommendation that follows upon the completion of this study is that the government support institutions, as well as entrepreneurs who do not seek the assistance of support institutions, should implement the suggested phase-oriented process in order to ensure that all the elements that have an impact on venture establishment are identified and addressed. An additional main recommendation of this study is that the government of South Africa must truly commit to creating an environment which will foster entrepreneurship by forming an alliance with the support institutions that implement this phase-oriented process. In doing so the typical costs and legal barriers encountered during the establishment of an entrepreneurial venture should be reduced, thus providing effective support to entrepreneurs.

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Chapter 1 Background

1.1 Introduction

In essence, the purpose of this study was to conduct an in-depth and thorough evaluation of support institutions so as to determine the role they play in the commercialisation process. In order to achieve this, the importance of entrepreneurship in the South African (SA) economy had to be investigated. Hereafter the limiting factors to entrepreneurship were identified so that the effectiveness of the government support institutions in addressing these limiting factors could be determined and enhanced. Consequently these support institutions will be able to support entrepreneurs through the commercialisation process.

A thorough analysis of the commercialisation process allows for a deeper understanding of the main obstacles encountered in the current and general entrepreneurship environment. New product development can be enhanced by implementing a phase-oriented process that addresses these shortcomings and barriers and a stronger culture of SA entrepreneurship can be fostered. Henceforth recommendations can be made to the various institutions on how to improve their implementation of the commercialisation process in order to increase their rate of success.

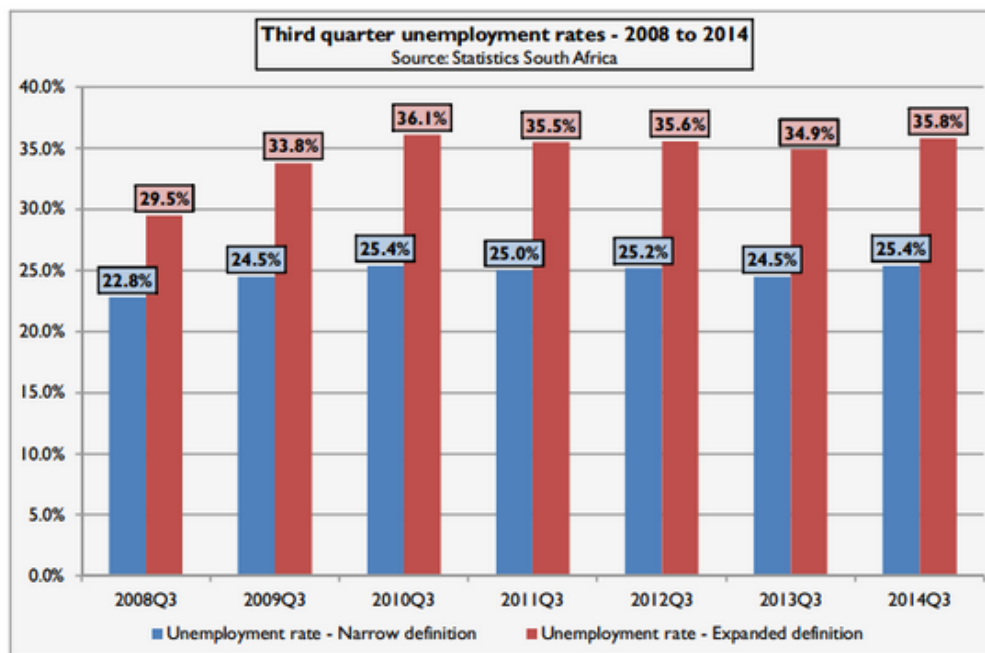
In this chapter, the need for the successful development of entrepreneurial ventures and growing these ventures into small businesses are indicated through arguing the importance of entrepreneurship to the economy of SA. Additionally, the rationale for the study is outlined after a definitional framework has been delineated with regard to entrepreneurship and support institutions. The chapter concludes by formulating the research problem, setting the objectives and outlining the research methodology.

1.2 Background to research

It is a worldwide phenomenon that entrepreneurship is vital to the economic growth and the success of a country (Mandel 2004) since small, medium and micro businesses (SMMEs) play a crucial role in any economy as they are major job creators (Duncan, 2012). However, despite good economic growth prospects in SA, unemployment is very high due to a lack of job creation. The official unemployment figure (also known as the narrow definition of unemployment) of SA is now 26.4% (Ferreira, 2015). However, the unofficial unemployment rate (also referred to as the expanded definition of unemployment) which includes those

people no longer seeking work, rose to 35.8% in 2014 (BusinessTech, 2015). Figure 1.1 offers a summary of the unemployment rates from 2008 to 2014 according to the official unemployment rate (narrow definition) as well as the unofficial unemployment rate (expanded definition).

Figure 1.1: The official and unofficial unemployment rates of 2008 - 2014.



Source: (BusinessTech, 2015).

Nieman and Nieuwenhuizen (2009) state that “Economic development can be directly attributed to the level of entrepreneurial activity in a country. Entrepreneurship ensures growth in the economy as entrepreneurs intend to grow their businesses and are responsible for job creation in the economy”. In SA the SMMEs that employ fewer than 50 people constitute approximately 70% of the employment of the country and contribute to 30-40% of the country’s gross domestic product (Duncan, 2012; Kachembere, 2011). It can therefore be deduced that entrepreneurs who start and sustain their own businesses successfully, are vital to the economic well-being of SA and that the successful establishment of more SMMEs in SA as well as their sustainability and growth are thus a vital topic of research. Apart from the distinct and crucial role that SMMEs play with their contribution to the economic growth and job creation (Beaver & Prince, 2002), they have to be innovative if they are to survive in a turbulent and highly competitive environment (Allocca & Kessler, 2006).

Notwithstanding the importance and benefits of innovation, the success rate of commercialisation, regardless of whether it is a big organisation or an individual that innovates, remains exceptionally low. In an era of rapid changes, the process of taking an innovation from the idea phase to successful commercialisation is haphazard and riddled with risk and uncertainty. There are extreme risks involved for the innovator as the speed of the diffusion of an innovation plays a crucial role, along with shorter product life cycles, a highly competitive environment and a culture of zero tolerance (Knowledge that matters, 2003). The failure rate of new consumer products that come to market is typically estimated at 80-90% (Ernst & Young, n.d.).

The key challenge is to take innovations through value creation and more often than not, the problem is not with generating ideas (innovations), but with the commercialisation of this innovation. Regardless of the best efforts of organisations, SMMEs and individuals, the development of new products and services often still fails (Hanna, Ayers, Ridnour, & Gordon, 1995; Hivner, Hopkins & Hopkins, 2003). The problem is that most organisations and individuals do not know all the steps of turning ideas and innovations into a successful product on the market (Innovation frustration, 2005). This inability of organisations and individuals to turn ideas and innovations into successful products plays a crucial role in the economy as new product failures are widespread.

Globally the failure rates of new products are especially high, preventing innovators from gaining financial benefits. New product failure rates are estimated at between 50-80% and even major companies with sufficient resources who evaluated 58 internal proposals for new inventions only approved twelve ideas in the initial screening. Of the twelve remaining ideas, only one successful new product emerged. Further research found that from 100 ideas submitted for evaluation by innovators, 85 ideas had too many faults to even consider and could be eliminated immediately. From the remaining fifteen ideas it was estimated that only five would be produced and only one of the five ideas might be a success (Can You Make Money With Your Idea or Invention, 2007).

In SA the situation appears particularly bleak. The cross-national data of the Global Entrepreneurship Monitor (GEM) indicates that SA's Total Entrepreneurial activity rate (TEA) performance, in terms of relative position, has consistently been below the medium since 2001 (Maas & Herrington, 2006). SA's TEA index for 2014 is 7.0 per cent. The implication thereof is that merely seven out of every hundred adults in SA between the ages of 18 and 64 have started a business (Singer, Amorós & Moska, 2014). This in itself is an improvement

from 2006, where SA's TEA index was 5.29%. However, when it is kept in mind that SA is consistently performing below the average of 23 other efficiency driven economies surveyed in the 2012 GEM report, a need for concern arises.

Dr Mike Herrington (2013) states that: “[t]hese findings are cause for serious concern, particularly as they continue to confirm the trend of below-average entrepreneurial activity demonstrated in previous GEM surveys” (GEM study shows recession has hit SA entrepreneurship hard). When the entrepreneurial rates of SA are compared with the averages of 24 other efficiency driven economies, SA's entrepreneurial dilemma becomes clear. These differences are summarised in table 1.1.

Furthermore, merely 2.7% of these entrepreneurial excursions end in established businesses. Therefore the economic benefit that SA can gain can simply come from the 2.7% of the ventures that managed to enter the market. Couple this with the high failure rates of even large organisations and the crisis SA faces is clear. When these statistics are compared to the average of the other African economies (including Angola, Botswana, Burkina Faso, Cameroon and Uganda) the reason for concern is evident. The average TEA rate of the other African economies surveyed amounts to 26% which is significantly higher than the 7% TEA rate of SA. Moreover, the average rate of established businesses for these economies amounts to 13.2% where SA has a rate of established businesses of merely 2.7% (Singer et al., 2014). Considering the current unemployment rate of 25% in SA, it indicates that 25 out of a 100 people are jobless. This highlights the need to increase the establishment rate of new entrepreneurial ventures from the current rate of 2.7% in order to assist in decreasing the high unemployment rate in SA.

Table 1.1: The entrepreneurial rates of SA versus 24 other efficiency driven economies.

	SA	Africa economies
Nascent entrepreneurship rate (which is business in the process of starting)	3.9%	14.1%
Rate of new business ownership (which is new businesses operating for up to three and a half years)	3.2%	13%
Early-stage entrepreneurial activity (TEA)	7.0%	26%
Established businesses	2.7%	13.2%

Source: (Singer et al., 2014).

Additional pressure is placed on the speed at which an innovation is diffused. The term diffusion refers to the time that passed from initial development to successful commercialisation (Hivner, Hopkins & Hopkins, 2003). In a rapidly changing environment, not introducing an innovation to the market in a timely manner may mean that the need the innovation was supposed to address has already changed again.

SMMEs are highly vulnerable against environmental forces and for these individuals/institutions it becomes crucial to innovate and successfully commercialise in a timely manner. In order for SMMEs to overcome the challenges associated with commercialisation, it is essential that they gain knowledge of the factors influencing commercialisation as well as the commercialisation process.

Many innovators need help in various ways during the commercialisation process, as the path from idea generation to successful commercialisation remains a relative mystery for innovators. The focus of past studies has been on critical success or failure factors, activities in the process of product development and recommendations related to aspects of the product development process. However, when considering the prevailing high failure rates of all innovations, it is clear that the true problems confronting innovators are overlooked.

A wide variety of research is available on innovation which provides valuable insights into innovation. There is, however, a scarcity of in-depth studies on the problems entrepreneurs encounter in their attempts at successfully commercialising a product (Storey & Salaman, 2005). If the commercialisation process is understood and managed, it enables innovators to introduce innovations to the market in a timely manner, and therefore it is crucial to find a faster encompassing route to commercialisation to improve the chances of success (Booyesen, 2010).

The high failure rates of inventions can be attributed to a wide variety of factors, including limited access to resources, failure of innovators to sufficiently protect their inventions or weak marketing efforts, among others. One such reason for failure, however, is the fact that innovators are unsure about the steps to follow in commercialising an invention. Innovators either take false steps and waste valuable time, or they leave out critical steps in the process (Booyesen, 2010).

The low success rate of start-up businesses in SA does not just mean financial losses for the entrepreneur, but also that the contribution to economic growth and job creation is very

limited (Von Broembsen, Wood & Herrington, 2005) and this emphasises the significance of inculcating a culture of entrepreneurship in SA (Thale, 2005).

From the 1990s, entrepreneurial activities and the related competencies became the focal point of research. Attention moved to research that can help the practice of entrepreneurial action (Nieman & Nieuwenhuizen, 2009). In other words, while the important contribution that entrepreneurship makes to the economic development of SA remained the centre of research on entrepreneurship, it was acknowledged that entrepreneurs need help in many other areas, as well as the process of taking innovations successfully to the market. Research in later years therefore started to focus on the support systems that entrepreneurs need as well as the basic entrepreneurial activities that entrepreneurs need to complete (Booyesen, 2010).

In light of this governments across the globe invest heavily in SMME development and the next section is dedicated to a discussion on the support institutions that were established by government in order to aid entrepreneurs.

1.3 Support institutions

Van Praag and Versloot (2007) identified four economic benefits of entrepreneurship: job generation, innovation, productivity and growth, and the potential for entrepreneurship to increase the “utility” of individuals by increasing, for example, their satisfaction or income. Governments, however, can exert either a positive or a negative influence on the extent to which these benefits materialise, in practice. The government therefore plays a crucial role in shaping the present and future of the SMME sector of any country.

The SA government focuses greatly on small business development in order to increase job creation and contribute to economic growth. This is evident in the fact that they established several local, provincial and national level institutions and programmes to support entrepreneurs (Department of Trade and Industry (DTI), National directory of small business support programmes, 2010).

It is the aim of governments in most countries to support SMMEs through finance and training, but in general, the results have been poor (SME’s access to finance in SA, A supply-side regulatory review, n.d.). The SA government no doubt also aims at enhancing and promoting SMMEs in SA, however, the implementation of the strategies seems to be

lagging behind the set aims (Makgoe, n.d.). This requires a critical analysis of the policies and the challenges and successes.

In SA specifically, various support institutions exist that promote entrepreneurship. Governments continue to invest heavily in these institutions in an attempt to generate economic benefits from the successful commercialisation of inventions. Many of these institutions will provide financial assistance; while some institutions offer mentorship only and others focus on uplifting the previously disadvantaged community. From an earlier study, the main barriers to commercialisation, as identified by the respondents were i) lack of funding and ii) lack of mentorship (Booyesen, 2010). Therefore the general notion of providing either mentorship or funding is valid, however the researcher maintains that providing simply funding without mentorship or mentorship without funding will not increase an entrepreneur's chances of success. A well balanced relationship between mentorship and funding – each given at the right time – is necessary to increase innovators' chances of success.

Each of these government support institutions employs a specific process. Generally, the applicants need to prepare a certain amount of work, in a specific order (which is unique for every support institution) and only once their application for funding is successful will they receive assistance towards the rest of the process. Applicants will usually submit various documents (including a business plan as well as financial projections) to the institution of their choice and be subjected to first round evaluation. At this point the viable business opportunities are separated from the applications with little potential from the unique evaluation criteria that each of the institutions employ. The applicants who were successful in this phase will move to the next phase. Here even more information is required of the applicants. They will have to provide sureties (depending on the support institution), improve or complete their business plan, do relevant market research and comply with various other requirements. At this phase many of the applicants with viable business ideas are lost in the process, as they have little or no knowledge of how to complete and deliver the required documents and do not meet the cut-off date.

Therefore, regardless of the various mandates of, or processes followed by the different support institutions, the rate of successful commercialisation remains very low (SME's access to finance in SA, A supply-side regulatory review, n.d.). The implication of this is twofold – firstly the vast amounts of capital invested by government into the various institutions are lost and secondly, no economic benefits are generated when inventions fail before a business could be established.

It is therefore crucial to critically investigate and analyse the current commercialisation process, as implemented by the various support institutions, in order to identify the barriers to commercialisation in this process. Thus the proposed research focused on the different support institutions and compared the following:

- the success rate of the various support institutions
- the evaluation criteria that the different institutions employ in determining whether an invention has commercial potential or not
- the different commercialisation processes implemented by the various support institutions
- the barriers that the applicants experience during the process as well as the reasons for struggling with these elements.

Once the above-mentioned information was obtained a new commercialisation process could be recommended to the institutions in which all of the above-mentioned aspects and identified barriers are addressed. Ultimately these recommendations can assist the various support institutions in improving the commercialisation process and consequently increase their rate of successful commercialisation. The benefits of this are that the invested money will not be wasted on a business idea that is not viable in the first place and that the right support can be given at the right time.

The purpose of this study can therefore be stated as determining the effectiveness of government interventions through a critical analysis of the difficulties innovators encounter in the current process implemented, ultimately developing a framework through which the process of support institutions can be improved. Consequently the rate, and speed, of successful commercialisation of each of the institutions can be improved.

1.4 Concept definitions

Innovation should not be confused with creativity (Storey & Salaman, 2005) which is the process of idea generation; the precursor to innovation (Cumming, 1998). The distinction that is made between **creativity and innovation** is thus that creativity is the original idea and innovation is when the idea is developed for commercialisation (Von Oetinger, 2005).

Furthermore, a distinction should be made between **invention and innovation**. Invention refers to new ideas, products or services that arise from individuals' creativity or scientific

research. Innovation, on the other hand, refers to the commercialisation of the invention. The distinction between these two terms is important as an invention may have no, or little, economic value and to monetise an invention, innovation is essential (Invention vs. Innovation, 2006). Any new concept must be used successfully before innovation takes place (Cumming, 1998; Stokes & Wilson, 2006).

A great deal of discussion exists on the difference between innovation and entrepreneurship. What has become clear, however, is that without the presence of some form of entrepreneurial activity to exploit opportunities as they arise within organisations, innovation remains little more than an aspirational, rather than a tangible destination (von Oetinger, 2005).

Innovation is the specific tool of entrepreneurship by which entrepreneurs exploit change as an opportunity for a different business or service. Moreover, innovation has to address market needs, and requires entrepreneurship if it is to achieve commercial success (Zhoa, 2005).

Entrepreneurship is defined as the act of initiating, creating, building, expanding and sustaining a venture, building an entrepreneurial team, and gathering the necessary resources to exploit an opportunity in the marketplace for long-term wealth and capital gain (Booyesen, 2015).

The **innovator** is described as a person who introduces new methods, ideas, or products (Oxford dictionary).

Whereas the **entrepreneur** is defined as a person who sets up a business or businesses, taking on financial risks in the hope of profit (Oxford dictionary).

It must be stressed that just as innovation and entrepreneurship is complementary, so are the terms innovator and entrepreneur. Innovation (by the innovator) is the source of entrepreneurship and entrepreneurship allows innovation to flourish and helps to realise its economic value (through the entrepreneur). A combination of the two is vital to organisational success and sustainability in today's dynamic and changing environment (Zhoa, 2005).

Commercialisation is the process whereby new products, processes or services are sold or used in an attempt to profit from the investment made in research and innovation (Herdman, 2002). This definition will be elaborated on in section 3.2.

Diffusion is a process by which innovation spreads throughout a social system over time (Etzel, Walker & Stanton, 2001).

Mentoring is defined as “A mentoring relationship is one that may vary along a continuum from informal/ short-term to formal/ long-term in which a person (mentor) with useful experience, knowledge, skills, and/or wisdom offers advice, information, guidance, support, or opportunity to another person (protégé) for that individual’s professional development” (Berk, Berg, Mortimer, Walton-Moss & Yeo, 2005). When this definition of mentorship is acknowledged, it is clear why support and knowledge can be grouped as mentorship.

The term **institutional support** refers to: “the part of economic environment of industry and business. It consists of authorities and institutions whose decisions and active support in the form of laws, regulation, financial and non-financial help brings a lot of changes in the functioning of any business. These institutions could be government owned, statutory, semi-autonomous or autonomous and are authorised to take up certain activities such as financing, marketing, project preparation, training and training to promote industrial activities in the state” (Reddy, n.d.).

1.5 Problem statement

The importance of taking new innovations through the commercialisation process and introducing them to the market in a timely manner in order to create economic benefits, for the innovator and society as whole, is not contested. Regardless of the accumulated knowledge, the failure rates of new products are still very high and successful commercialisation remains a daunting task for most innovators.

Since innovation is vital to the economic growth and development of a country it is crucial to investigate why entrepreneurs experience difficulties in the commercialisation process which the support institutions implement. Hereafter it is possible to argue a new phase-oriented process which the institutions can implement as it has been determined what these institutions must change in their criteria to move from one phase to the next to commercialisation thus improving the speed, and rate, of successful commercialisation.

1.6 Objectives of the study

1.6.1 Primary objective

A critical evaluation of the reasons why innovators find it difficult to successfully move through the commercialisation process, regardless of the best efforts of support institutions.

1.6.2 Secondary objectives

The secondary objectives of this study, which support the primary objective, are:

1. To evaluate the factors limiting entrepreneurship.
2. To investigate the effectiveness of the government entrepreneurial support institutions in addressing these limiting factors.
3. To investigate the current application to approval process implemented by the support institutions.
4. To determine the role of the business plan in the application process of support institutions.
5. To compose a list of the most significant factors that influences the successful evaluation, funding and commercialisation of the applications received by support institutions.
6. To identify the aspects that influence the commercialisation process as experienced by entrepreneurs.
7. To develop a new feasibility, viability and sustainability phase-oriented process for the various support institutions in order to improve the success rate of the commercialisation of innovations through implementing an encompassing commercialisation process.

1.7 Methodology of the study

1.7.1 Literature study

The aim of this research study was first, to gain a body of knowledge regarding the importance of entrepreneurship to SA and thereafter to specifically identify the main limiting factors to entrepreneurship. A thorough investigation was conducted into the three government support institutions (Industrial Development Corporation, Business Partners and

the National Empowerment Fund) that were included in order to scrutinise the functionality of each of these institutions in totality. Moreover the importance of a business plan in the establishment of an entrepreneurial venture was investigated and the concepts feasibility, viability and sustainability, which represent the three phases of the argued phase-oriented process of this study, were examined. Lastly, the literature study provides a better understanding of the relationship between these constructs: the barriers to entrepreneurship, the impact of the support institutions and the process implemented; and successful commercialisation).

In the literature study, secondary data, such as published and unpublished reports, articles, academic journals and other publications and the Internet were consulted to provide a background for the problem, as well as previous related research.

1.7.2 Research design

Wiid and Diggins (2013) define methodology as ‘the description of the research design, the sampling method and the methods used for gathering and analysing data’. The methodology intends to provide the rationale for using a particular approach and the methods employed to obtain analysed data (Jankowicz, 2000).

Cooper and Schindler (2008) argue that an appropriate research design must be decided on before any research study can commence, as the research design provides the guidelines within which the data collection, measurement and analysis will be conducted in order to best answer the research questions. Bryman (2008) supports this definition of the research design, but adds the dimension that, the research design: “gives an indication about the priority being given to a range of dimensions of the research process”. Mouton (2001) simply refers to the research design as: “A plan or blue print of how you intend conducting the research”. Thus a research design is vital as it guides the investigator to focus on the research question(s) and plan an orderly approach to the collection, analysis, and interpretation of data that addresses the question(s) (McGaghie, Bordage & Shea, 2001).

The following section (1.7.3) will consequently provide an overview of the methodology to be implemented in this study.

1.7.3 Methodology of the study

This study is based on the pragmatic school of thought since the research problem that will be investigated is the main focus as well as posing practical solutions to the problem researched (Giacobbi & Poczwardowski, 2005). Thus it is argued that the aim of pragmatism is to “provide practical solutions to contemporary problems experienced by people and society” (Giacobbi & Poczwardowski, 2005). In order to provide the most encompassing understanding of the research problem, the researcher will employ mixed methods research which will enable the researcher to draw liberally from both quantitative and qualitative assumptions (Giacobbi & Poczwardowski, 2005). In order to best address the contemporary research problem of the current study and provide reliable and reasonably accurate data, an exploratory sequential method was implemented. More specifically, a sequential-exploratory, dominant QUALITATIVE - quantitative research design was best suited for answering the research problem stated in this study. Exploratory mixed methods design is defined as: “the procedure of first gathering qualitative data to explore a phenomenon, and then collecting quantitative data to explain relationships found in the qualitative data. A popular application of this design is to explore a phenomenon, identify themes, design an instrument, and subsequently use it” (Creswell, 2003).

In this research study the process commences with a qualitative phase (interviews) where certain themes were identified by the interviewees and the information obtained during this phase led to the development of an instrument (i.e. questionnaires). In other words the data gathered in the qualitative phase of this study informed the quantitative research phase. The main disadvantage of exploratory research designs is the fact that they are time consuming as it requires extensive data collection. However, this disadvantage is acceptable when considering the main benefit which is the fact that the researcher is able to identify measures which are grounded in the data obtained from the study participants. As a result, the data, although time consuming to acquire, is of a much higher quality (Creswell, 2003). Johnson and Onwuegbuzie (2004) also noted that researchers should not be limited by the research design as specified in literature, but encouraged creativity and designs that would effectively answer their research question(s). It is with this in mind that the researcher included an additional phase of qualitative research in the form of focus groups.

1.7.4 Population

Wiid and Diggines (2013) state that a population “consists of a comprehensive number of individuals, units or items that can become objects for observation. The concept “population” (or universe) is defined as the total group of people from whom information is needed.

This study consists of three populations: the first population is the three support institutions included in this study (IDC, Business Partners and NEF); secondly, all of the individuals in and around Bloemfontein who had established an entrepreneurial venture and been in operation for a maximum of five years. Thirdly, the individuals who had applied for funding at the three support institutions included in this study between January 2014 and December 2014 regardless of whether they had been successful in their application or not (Refer to Chapter 5, page 310 – 316 for the detailed motivation for selecting this particular population).

1.7.5 Sample size

A sample is defined as a group of cases, participants, or records that consist of a portion of the target population, which are carefully selected in order to represent that population (Cooper & Schindler, 2008). According to Wiid and Diggines (2013) “deciding which sample size to use is often a case of judgement rather than calculation. The researcher must choose a sample that is big enough to yield a relatively precise estimate of the population values, but at the same time be executed economically and practically”.

The sample for the first part of this study; conducting interviews with the individuals responsible for the evaluation of applications at the support institutions, was drawn based on judgement sampling.

The second research phase of this study was marked with the distribution of questionnaires to the entrepreneurs who had successfully started their own entrepreneurial ventures (with or without funding received from the support institutions), providing that these ventures had not been in existence for more than five years. A list of all of the entrepreneurial ventures in the Mangaung area (Van Zyl, Hegazy & Christensen, 2014) was used to determine the entire population. In this report there are 8971 businesses listed. In order to get to a sample for this study, the researcher implemented probability sampling, specifically systematic sampling, was applied. A random start was identified at the beginning and from there subsequent sampling units were selected at uniform intervals relative to the first sampling

unit. In this instance, every fiftieth element in the population was contacted. For the ventures to be included in the study, they would have to be operational for a maximum of five years and not be regarded as a large business or a franchise. All of the ventures that had been operational for more than five years were excluded from the study and the next business listed was contacted. The aim of the telephone conversation was to set up an appointment to complete a structured questionnaire in a face to face setting with the trained fieldworkers. Due to the cost implications of paying the fieldworkers, the sample size was limited to 116 completed questionnaires and it took approximately two hours to complete a questionnaire.

The third phase of this study involved conducting focus groups with individuals who had applied for funding at IDC, Business Partners or NEF. The researcher obtained a client list from each of these institutions from January 2014 to June 2014 and all individuals who had had any form of interaction with the institutions, regardless of whether or not their funding was approved, were identified on these lists. Again, systematic sampling would be implemented in order to derive the sample included in this study. From each of these lists every fifth person was contacted and invited to a focus group discussion on the process implemented by the support institution they approached. Two focus groups with eight individuals in each were conducted to further investigate the research problem.

1.7.6 Data analysis

1.7.6.1 Qualitative Approach

This study is an exploratory mixed methods study with a primary focus on qualitative data, however, quantitative data such as numbers of participants, gender composition, age and descriptive statistics, are also included in the study.

The Interactive Qualitative Approach (IQA) provides tools and processes to analyse the information collected in the group and individual interviews. In the IQA approach data generated is analysed through coding in three recursive steps; clarification, clustering and refining. Both induction and deduction are used in the process of coding. Central to this process is the identification of themes – the identified affinities are simply thematically organised groupings. Through a process of inductive coding affinities are identified, the researcher then uses axial coding processes to refine and reorganise describing the range of meaning for each affinity (Northcutt & McCoy, 2004).

The IQA approach provides the focus group with a formal methodology for measuring whether there is direct possible influence between all pairs of affinities identified in the group sessions. Individuals are interviewed in a parallel process adding layers and depth to the picture. This individual interview process relies on the information from the focus group that will guide the development of the interview protocol.

In order to improve or ensure reliability, focus will fall on synchronic reliability. This refers to the extent to which observations from different sources (the different support institutions in which the study will run concurrently) are similar within a specified time period (Berg, 2007).

1.7.6.2 Descriptive statistics

In order to present the data that will be obtained during Phase 2 of this research study (the quantitative phase where the themes that were identified in the qualitative phase of this study was tested amongst entrepreneurs who currently own a new venture) descriptive statistics were used. Descriptive statistics allow the researcher to describe each variable in the data gathered through frequencies, ranges, means, modes, medians and standard deviations (Quinlan, 2011).

The procedures implemented in a study are nonetheless dependent on whether a study contains categorical or continuous variables. In order to provide descriptive statistics for categorical variables, researchers should implement frequencies as this will enable the identification of the number of people giving each response. For continuous variables, descriptives such as means and ranges provide researchers with the basic summary statistics of a study (Pallant, 2013). For the purposes of this study, the frequencies, means and ranges of the data obtained will be identified. Frequencies indicate the way in which the variable is distributed by condensing information into a simple format. The mean refers to the arithmetic average where all the values are added up and divided by the total number of values and the range indicates the minimum and maximum values in a range of data (Quinlan, 2011). Hereafter an accurate summary of the quantitative data gathered can be presented in an attempt to support the qualitative data obtained in phase 1 of this study.

1.8 Ethical considerations

The researcher aims to address any ethical issues by ensuring that:

- The participants gave their informed consent to partake in this research study.

- This study, although in no way advancing the respondents, would also not harm them
- The respondents would be assured of anonymity and confidentiality at all times.

1.9 *Outcomes of the study*

This study contributes to the field of entrepreneurship in a variety of ways. Firstly an academic contribution is cited in the fact that the terms feasibility, viability and sustainability have been aptly defined and the aspects that should be included in each of these concepts are identified.

Secondly this study identified the barriers to entrepreneurial start-up in terms of the process implemented by the government support institutions. These barriers were argued from three perspectives (the individuals who evaluated the business plans received at the support institutions, the entrepreneurs who have successfully established an entrepreneurial venture and the entrepreneurs who applied for funding at the various institutions included in this study). This is the empirical contribution of the research study.

Thirdly this study contributes to the literature of entrepreneurship through the construction, and validation, of the suggested phase-oriented process. This process is validated from a theoretical perspective, as all the aspects currently included in a business plan and the factors cited as key factors influencing successful commercialisation are included. More so, it is also validated from an empirical perspective as all of the results obtained from the data analysis are included and addressed in this suggested phase-oriented process.

In arguing for the phase-oriented process to be implemented in all entrepreneurial support institutions, the last contribution of this study is noted as the end of the debate on the impact of business plans on venture establishment. A business plan would henceforth no longer mark the start of the venture establishment process, but would be the outcome of the phase-oriented process and thus be cited as the final document as opposed to the commencing document of venture establishment.

1.10 *Demarcation of the study*

Chapter 1: Introduction and research design

A broad overview regarding the importance of innovation and successful commercialisation thereof and the low success rate of SA in terms of commercialisation will be discussed.

Chapter 2: Government Support institutions

Identify the support institutions in the Free State; evaluate their selection criteria, processes and overall success rate.

Chapter 3: Feasibility, viability and sustainability as encapsulated in Business plans

Study the aspects identified in literature as the criteria that innovators must comply with in order to draw up a sufficient business plan and clarify the concepts feasibility, viability and sustainability in order to indicate the overlapping nature between these concepts and the business plan.

Chapter 4: Factors of successful commercialisation and the phase-oriented process

This chapter serves as validation for the phase-oriented process as the process is compared to the layout of a typical business plan as well as the factors that are cited as key factors to successful commercialisation.

Chapter 5: Research methodology

The methodology and processes that the researcher will use to ensure reliable and valid information gathering and interpretation will be discussed in this chapter.

Chapter 6: Results (Empirical study)

The results as obtained by the research process will be identified, discussed and interpreted.

Chapter 7: Conclusions and Recommendations

Based on the results as obtained from the empirical study the researcher will present certain conclusions and recommendations based on the findings.

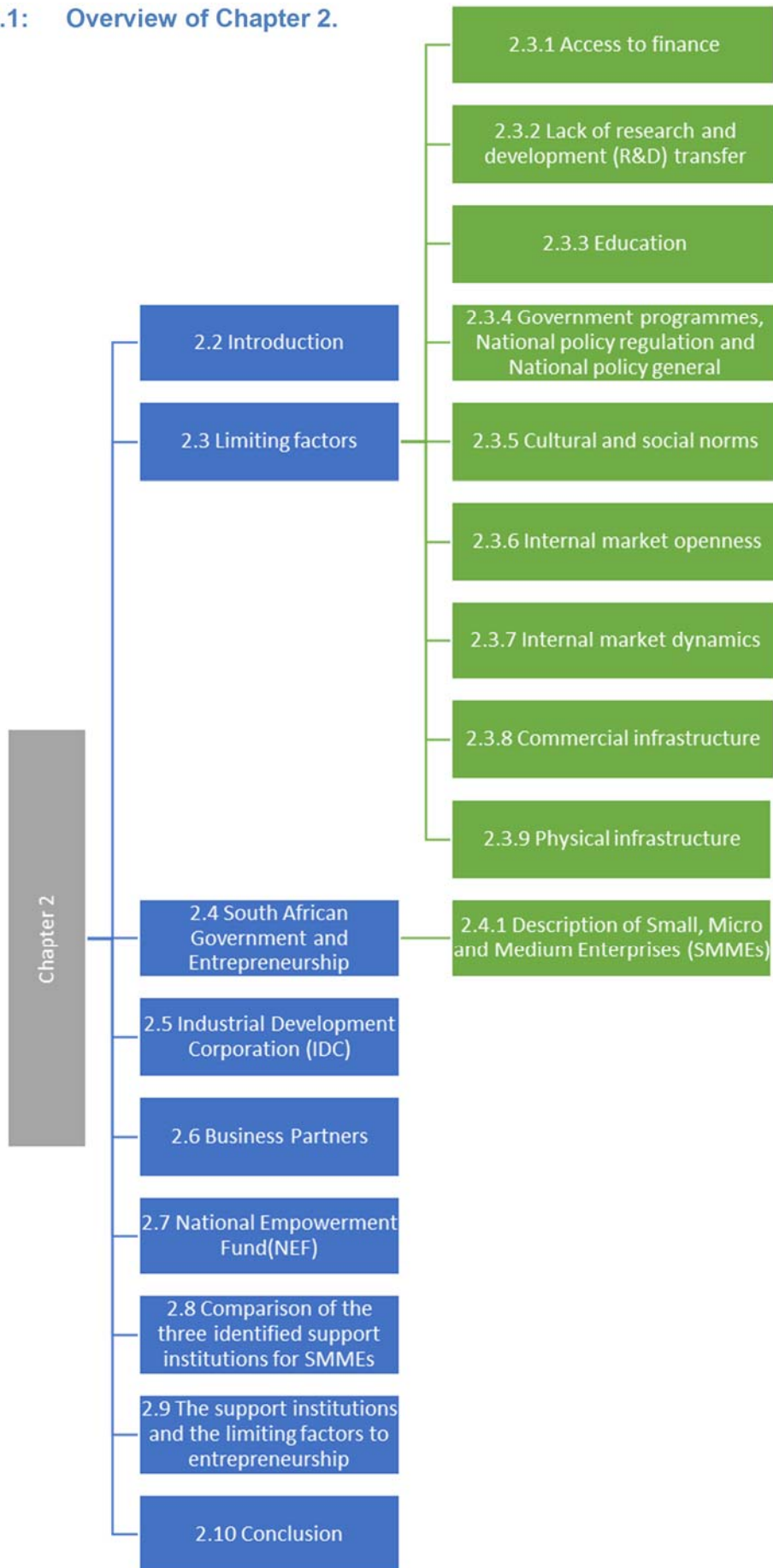
Chapter 2 *Government Support institutions*

2.1 Overview of the chapter

This chapter commences with a discussion of the vital role that SMMEs play in the economic growth of any country. Yet, despite the paramount role that SMMEs fulfil, an exceptionally low start-up rate of SMMEs in SA is recorded. In order to address the problem of the low start-up rate of SMMEs, the GEM Report (Turton & Herrington, 2012) highlighted a variety of limiting factors which arguably results in poor entrepreneurial performance. Each of these factors will be discussed (2.3.1 – 2.3.9) in order to gain an encompassing overview of the impact that each of these limiting factors have on the start-up rate of entrepreneurial ventures. Thereafter the focus falls on the South African government and its attempts to foster entrepreneurship in SA through an emphasis on the importance of entrepreneurship. The establishment of several entrepreneurial support ventures was a specific action plan implemented by the Government to aid entrepreneurial development.

This study investigates several aspects of three of these support institutions; namely, the mandate, vision and mission statement; funding activities; due diligence; the process each of these institutions implements; the services offered and the success rate of each. This section concludes with a comparison between the three identified support institutions, where-after the institutions are equated to the limiting factors of entrepreneurship. Lastly an overview is presented of why the government's support of SMMEs has failed. Figure 2.1 is offered as a summary of the above-mentioned elements which are included in this chapter.

Figure 2.1: Overview of Chapter 2.



2.2 Introduction

There is consensus among policy makers, economists and business experts that SMMEs are the drivers behind the generation of economic growth and employment (Business Partners Annual Report, 2013). A healthy SMME sector contributes prominently to the economy through creating more employment opportunities, reducing the challenges of poverty and inequality which afflict much of the developing world (Business Partners Annual Report, 2013), generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The objectives of developing countries can be achieved through SMMEs as the engines of growth. This prominent role of SMMEs has long been recognised in any economy, and especially in developing countries (Mahembe, 2011). Additionally, socioeconomic development that stems from the benefits derived from a flourishing SMME sector denotes the key role SMMEs fulfil in the development of a nation. SMMEs create employment for a rural and urban growing labour force and provide desirable sustainability and innovation in the economy as a whole (Mahembe, 2011).

Globally, the importance of entrepreneurship for any economy is not contested and for the past decade, SA has had its focus firmly on the importance of building an entrepreneurial culture and encouraging the start-up of entrepreneurial ventures in order to help create employment opportunities (Jones, 2013). The Deputy Minister of Trade and Industry, Elizabeth Thabethe, indicated that SA has approximately 2.8 million SMMEs and that these SMMEs provide roughly 61% of all employment in SA (DTI, 2013). The official unemployment rate in SA (at September 2014 according to SA Statistics) was 25.4% (Statistics SA, 2014). If the continuous government investment in SMMEs can reap the rewards of increased employment and economic growth, the importance of entrepreneurship in SA is clear (Statistics SA, 2013).

The key market indicators of SA are summarised in table 2.1. Here it can be seen that merely 42.6% of the population in SA can be absorbed into the labour force (Employment/population ratio; absorption rate). This further accentuates the importance of SMMEs for creating employment opportunities.

Table 2.1: Key labour market indicators according to SA Statistics.

	Jul-Sep 2013	Apr-Jun 2014	Jul-Sep 2014	Q/Q Change	Y/Y Change	Q/Q Change	Y/Y Change
	Thousand				Per cent		
Population aged 15–64 yrs	34 868	35 332	35 489	157	620	0,4	1,8
Labour force	19 916	20 248	20 268	19	351	0,1	1,8
Employed	15 036	15 094	15 117	22	81	0,1	0,5
Formal sector (non-agricultural)	10 709	10 755	10 843	88	134	0,8	1,3
Informal sector (non-agricultural)	2 323	2 379	2 407	28	85	1,2	3,6
Agriculture	740	670	686	16	-54	2,4	-7,4
Private households	1 264	1 290	1 180	-110	-83	-8,5	-6,6
Unemployed	4 880	5 154	5 151	-3	271	-0,1	5,5
Not economically active	14 952	15 084	15 221	137	269	0,9	1,8
Discouraged job-seekers	2 297	2 419	2 514	95	217	3,9	9,4
Other (not economically active)	12 655	12 665	12 707	42	52	0,3	0,4
Rates (%)							
Unemployment rate	24,5	25,5	25,4	-0,1	0,9		
Employment/population ratio(absorption rate)	43,1	42,7	42,6	-0,1	-0,5		
Labour force participation rate	57,1	57,3	57,1	-0,2	0,0		

Source: (Statistics SA, 2014).

Notwithstanding the importance of entrepreneurship to SA, the start-up rate of SMMEs in SA is very low. According to Singer et al. (2014) the nascent entrepreneurship rate (which includes all businesses between 0 – 3 months) are at 3.9%, which is well below the average of the other African regions which is 14.1% (Singer et al. 2014). This is a particularly big problem as the development of the SMME sector in SA is crucial in order to address the serious issue of poverty and unemployment (Jones, 2013). However, SA's performance is described as mediocre when compared to other developing countries, according to Turton and Herrington (2012). Furthermore, Turton and Herrington (2012) noted that only 7% of SA's population is involved in early-stage entrepreneurial activity. When considering the percentage of SA's population who had firmly established small businesses, and in other words can truly generate employment opportunities, this number decreases to 2% of the population. The additional burden can be seen in that approximately 4% of businesses close within a year (Jones, 2013). This emphasises the reality that the already low start-up rate of

entrepreneurial ventures is compounded by the inability of entrepreneurs to sustain and grow their ventures as the rate of established businesses is even lower. Regardless of the statistics on the low rate of entrepreneurial activity, a recent study conducted by Abor and Quartey (2010) estimates that 91% of the formal business entities in SA are SMMEs and that these SMMEs contribute to between 52 to 57% of the GDP and account for approximately 61% of employment.

Additionally, the GEM Reports of 2001 – 2010 noted that the SMMEs of SA are still faced with numerous challenges that inhibit entrepreneurial initiation and growth. Not only are SMMEs confronted with the challenge of obtaining funding, but typically, South African SMMEs suffer from poor management skills. This is a direct result of a lack of proper entrepreneurial training and education in SA. When the inability of entrepreneurs to acquire the needed capital and their incompetence to successfully manage their entrepreneurial ventures are considered, the high rates of business failure in SA are no surprise. Moreover, the fact that SA is deemed as the country with one of the lowest SMME survival rates in the world is cause for serious concern (Mahembe, 2011).

The low survival rate of businesses in SA can be seen in that just 3.2% of all the businesses established in SA manage to progress from nascent entrepreneurship (0 -3 month old businesses) to new businesses (which are all businesses that exist for up to 3.5 years) and merely 2.7% reach established business status (operational for more than 3.5 years) (Singer et al., 2014). The averages for the other African countries are noted as; nascent entrepreneurship rate 14.1%, newly established business 13.0% and established business 13.2% (Singer et al., 2014). From these statistics it is clear that SA is vastly under-performing in terms of entrepreneurial start-up when compared to other African countries.

Turton and Herrington (2012) identified several conditions that will influence the facilitation of innovation and entrepreneurship nationally. The features that are expected to have a significant impact on the entrepreneurial sector are illustrated in table 2.2.

Table 2.2: Features significantly impacting the entrepreneurial sector.

<p>Entrepreneurial Finance The availability of financial resources, equity, and debt, for new and growing firms, including grants and subsidies.</p>	<p>Government Policy The extent to which government policies, such as taxes or regulations) are either size- neutral or encourage new and growing firms.</p>	<p>Government Entrepreneurship Programs The extent to which taxes or regulations are either size-neutral or encourage new and growing firms.</p>
<p>Entrepreneurial Education The extent to which training in creating/ managing new, small or growing business entities is incorporated within the education and training system at all levels. There are two sub-divisions – primary and secondary school entrepreneurship education and training; and post-school entrepreneurship education and training.</p>	<p>R&D Transfer The extent to which national research and development will lead to new commercial opportunities, and whether or not these are available for new, small and growing firms.</p>	<p>Commercial and Legal Infrastructure The presence of commercial, accounting and other legal services and institutions that allow or promote the emergence of small, new and growing business entities.</p>
<p>Entry Regulations There are two sub-divisions – market dynamics, i.e. the extent to which markets change dramatically from year to year; and market openness, i.e. the extent to which new firms are free to enter existing markets.</p>	<p>Physical Infrastructure Ease of access to available physical resources – communication, utilities, transportation, land or space – at a price that does not discriminate against new, small or growing firms.</p>	<p>Cultural and Social Norms The extent to which existing social and cultural norms encourage, or do not discourage, individual actions that might lead to new ways of conducting business or economic activities which might, in turn, lead to greater dispersion in personal wealth and income.</p>

Source: (Turton and Herrington, 2012).

The purpose of this report was to highlight the key features that have a significant impact on the entrepreneurial sector and although nine themes were identified; namely, Entrepreneurial finance, Entrepreneurial education, Entry regulations, Government policy, Research and Development (R&D) transfer, Physical infrastructure, Government entrepreneurship programs, Commercial and legal infrastructure as well as Cultural and social norms, four themes were identified as key features.

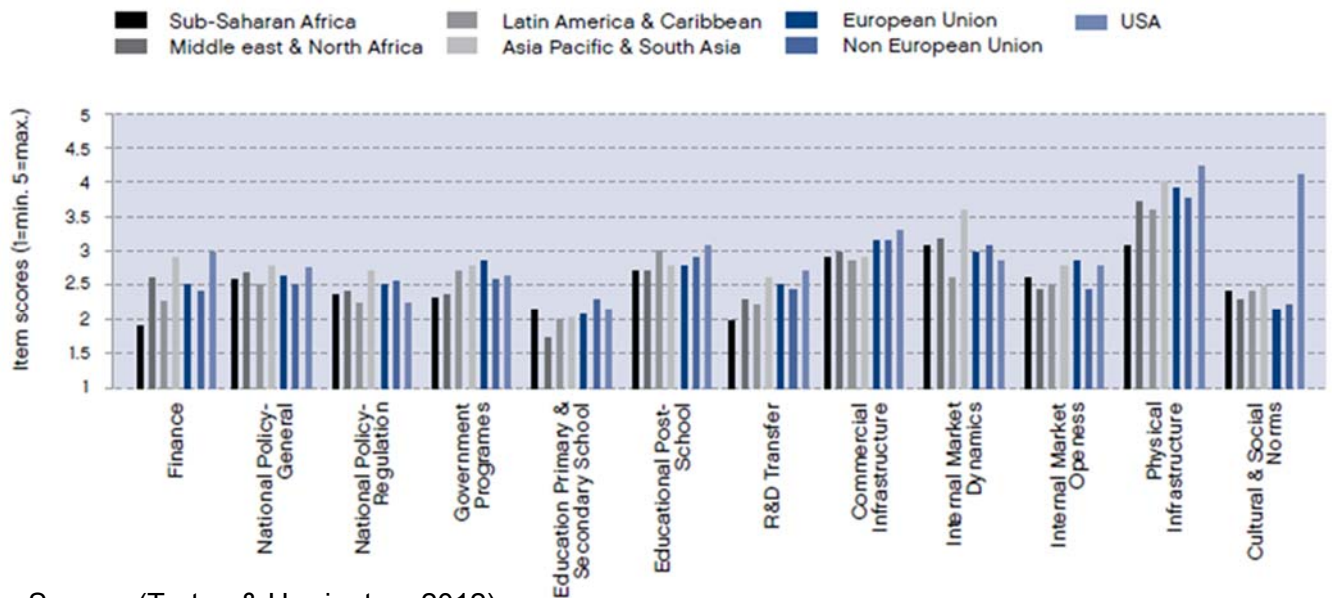
According to Xavier et al. (2012), the following aspects were underscored as the most frequently cited limiting factors to entrepreneurship, specifically in Sub-Saharan Africa:

- Entrepreneurial finance,
- Research and Development (R&D),
- Education; primary and secondary, as well as
- Government programs.

According to Turton and Herrington (2012) national experts in the field of entrepreneurship listed conditions that are regarded as the most important factors influencing the

entrepreneurial environment of a region. These factors are illustrated in figure 2.2 and will be discussed thereafter.

Figure 2.2: Scores on entrepreneurship framework conditions rated by national experts, by geographic region (Unweighted country averages).



Source: (Turton & Herrington, 2012)

From figure 2.2 the limiting factors of Sub-Sahara African are clear. In descending order, limiting factors with the largest negative impact on entrepreneurial initiatives are:

1. Access to finance
2. A lack of R&D transfer
3. Education in Primary and secondary school
4. Government programmes
5. National policy regulation
6. Cultural and social norms
7. National policy general
8. Internal market openeness
9. Education post school
10. Commercial infrastructure
11. Physical infrastructure
12. Internal market dynamics

Each of these above-mentioned limiting factors will be discussed in terms of the mitigating strategies and/ or policies that the South African Government has put in place in order to

support entrepreneurs. Additionally, in the section where the government support institutions are discussed (section 2.5 – 2.9), special mention will be made of the approach of each of the institutions included in the study, in terms of these limiting factors.

2.3 Limiting factors to entrepreneurship in South Africa and the Government's role

In this section each of the limiting factors to entrepreneurship as identified by Turton and Herrington (2012) will be discussed in detail.

2.3.1 Access to finance

Regardless of the vital contribution SMMEs make towards socio-economic growth, their long-term survival, growth and competitiveness have been severely compromised by the constant lack of access to formal sector finance. It is estimated that 75% of new SMMEs fail within the first two years of operation and one of the primary causes noted by entrepreneurs for SMME failure is the lack of external finance. Apart from the fact that SMMEs need financing for start-up, they often require finance to expand operations, develop new products and invest in new staff or production facilities (Fatoki & Asah, 2011). It is therefore not surprising that access to funding was cited as the paramount problem for all innovators in Sub-Saharan Africa (which includes SA) (Xavier et al., 2012). When considering the information from figure 2.2, access to funding is a significantly greater barrier in Sub-Saharan Africa than in any of the other participating countries. Generally the access to finance for SMMEs in Africa is lagging. A lack of sufficient capital is often a major handicap to the development of SMMEs, particularly in their early growth stages as investors prefer to finance a proven concept, i.e. proven profits as opposed to merely an idea (Conor & Pui-Wing, 2010).

However, research conducted by the South African Venture Capital Associations (SAVCA) contradicts the above-mentioned findings as they suggest that: “the economic impact of private equity and venture capital (VC) is significant in SA” (SAVCA, 2009). According to Sayed (2010) South African venture capitalists (VCs) believe they are performing their roles sufficiently well in relation to support services, while most entrepreneurs do not agree with this perception. It appears that the actual problem is not the availability of funding, as there is sufficient finance available through VCs and government institutions, but rather accessing the funds available. Jones (2013) supports this argument by stating that “funding is not

easily accessible and comes at a high cost.” This aspect was also raised in the Finscope Study (Jones, 2013) which indicated that the application process of most support institutions is often bureaucratic and that the majority of SMMEs do not possess the collateral and financial records which are required of them in order to obtain a loan.

Furthermore, Mahembe (2011) argues that the terms and conditions under which the credit must be accessed are unfavorable to SMMEs and this is an additional problem. This implies that the amount of funding available is not the real barrier to funding, but rather that the product design/ services that are offered do not match the needs of the sector which it should serve (Mahembe, 2011). Jones (2013) found that approximately 75% of credit applications by new businesses were rejected outright, merely 2% of SMMEs succeeded in obtaining loans and only a further 2% was successful in securing private equity. It is notable that regardless of these low success rate statistics in obtaining funding, the entrepreneurs of the SMMEs required relatively small amounts of finance. The majority of the early-stage entrepreneurs required R10 000 or less to start a new business (Jones, 2013).

According to international indications, approximately 95% of all SMMEs rely either on capital invested by the founders or relatives and friends to finance these enterprises (Cook & Nixon, 2000). However, when capital beyond the abilities of the entrepreneur and relatives are needed, it is common practice to turn to the diverse funding mechanisms, including debt and equity funding (Sayed, 2010). Equity funding, such as venture capital, are generally the funding source for entrepreneurs as obtaining debt financing is extremely difficult due to the risk and uncertainty associated with entrepreneurship (Sayed, 2010).

In this light, Beck (2007) argues that commercial banks are wary to invest in start-up ventures, as the costs associated with lending to SMMEs are high due to the risk involved in establishing a new business venture. For financial institutions such as commercial banks, a proven track record, security and collateral is needed to deem an entrepreneur as credit worthy. This significantly reduces the ability of venture start-ups to obtain funding from these institutions. To minimise the risk involved in funding a start-up venture, commercial banks charge fees and transaction costs, which entrepreneurs consider to be too high (Okeahalam, 2001). This further highlights the problematic aspects of obtaining funding from commercial banks, as the repayment of loans is very expensive. As such, Mahembe (2011) asserts that the policy response from government should not necessarily be to increase the amount of credit that is available to the SMME sector, but rather to adjust the product offering of the credit that is already available. If the terms on which credit is available can be adjusted to

better meet the needs of the SMME sector it is intended to serve, it will reduce the constraining effect of this barrier (Mahembe, 2011).

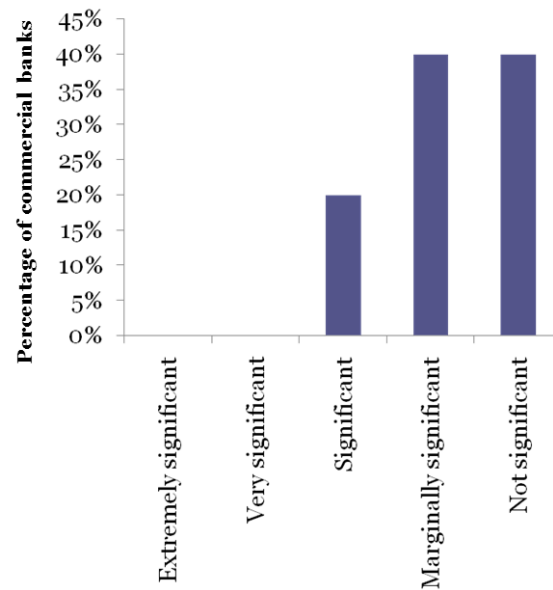
Additionally, the lack of awareness regarding the financing options that are available is a reason for concern. Instead of investing in continuously new initiatives, Government should supply the funds via the existing funding institutions (Mahembe, 2011). The fact that the typical entrepreneur is not aware of the different types of funding available, significantly impacts the entrepreneur's ability to pursue the right funding option, given the amount of security or own contribution they have available. In principle there are four basic types of financing available to entrepreneurs who are in the process of starting, or expanding their businesses. The four types of financing are:

- Private loans from family and friends or other interested parties
 - Typically the amount of finance obtained here is limited and often unstructured. This has severe implications for the pay back terms such as the rate of interest or the timeframe. Often the party who offers the loan do so for a stake in the business.
- Bank loans in the form of either overdrafts or fixed period personal or business loans
 - The amount of finance that an entrepreneur can obtain via bank loans will be limited by the security (e.g. property, fixed assets, insurance policies, etc.) which an entrepreneur can offer against the loan. The disadvantage of this form of funding is the collateral or security that is demanded from the entrepreneurs, which often makes this form of funding unattainable for ambitious entrepreneurs. With this form of funding there is no vested interest in whether the business is a success or not.
- Term financing such as hire purchase or leasing
 - This is a loan from an institution for a specified amount which has a stated repayment schedule and a floating interest rate. Typically, term financing matures between one and 10 years.
- Private-or quasi equity investment.
 - This type of investment considers two main criteria, namely:
 - The new venture's potential for market success and
 - The abilities and skills of the entrepreneur(s) in terms of business management abilities.
 - With regard to this form of funding, the decision to fund is based solely on the evaluation of the viability of the business and therefore enables entrepreneurs with limited security but a viable business idea, to obtain funding for their

business. It must be noted that these funders have a vested interest in the business as ultimately they will share in the profit, or losses, of the business (SME Toolkit: SA, 2014).

In light of the importance of SMMEs to the growth of SA's economy, the government has made SMME funding a core priority and thus many government programmes and regulations pertaining to SMME funding were introduced. The effect of the government programmes on the willingness to lend is very limited, as can be seen in figure 2.3.

Figure 2.3: Impact of Government programmes on willingness to lend.



Source: (Financing of SMEs in SA, 2011).

In research conducted on the most significant obstacles to SMME lending, 83% of the bank respondents indicated the legal framework affecting banks as a severe obstacle. A significantly lower percentage (67%) note macroeconomic factors as a barrier and merely 58% of the concerns are related to SMME specific factors (Berg & Fuchs, 2013).

Figure 2.4: Most significant obstacles to SMME lending.

	Kenya	Nigeria	Rwanda	South Africa
Macroeconomic factors	70%	75%	0%	67%
SME specific factors	54%	75%	70%	58%
Legal framework affecting banks	38%	38%	0%	83%
Legal framework affecting SMEs	38%	25%	20%	33%
Contractual environment	27%	13%	0%	42%
Bank specific factors	32%	0%	10%	33%
Competition in the SME market	11%	0%	10%	17%
Characteristics of SME lending	19%	25%	20%	25%
Lack of adequate demand	8%	13%	10%	33%

Source: (Berg & Fuchs, 2013).

Finance is vital for any business. Newly established ventures will require funding, as will ventures that are experiencing growth or where change is necessitated due to competition or shifting market needs. However, regardless of the attempts of government to improve access to finance, it is still noted as the most influential barrier to entrepreneurial start-up. In order to address this concern, the government has established various funding institutions in order to aid entrepreneurs in the establishment of their businesses. The effectiveness of these government institutions will be discussed in detail later in this chapter.

In the following section the limiting factor to entrepreneurship with the second biggest impact, namely lack of research and development transfer, will be discussed.

2.3.2 Lack of research and development (R&D) transfer

There is a direct and vital connection between the level of a country's investment in R&D and innovation and the economic growth and development it experiences. Advanced economies continue to invest in these areas to maintain and strengthen their long-term growth and development (Department: Science and Technology, 2011). In a statement by Wild (2013) it is argued that "unless we invest in scientific research, we will continue to lag behind other developing economies. The importance of R&D spending can be seen in the fact that it is seen as an important indication of a country's ability to compete internationally, offer new products and grow. If these three aspects (international competition, offering new products and growth) are achieved, SA would have an increased ability to reduce unemployment by creating jobs" (Wild, 2013). Realising the importance of R&D investment,

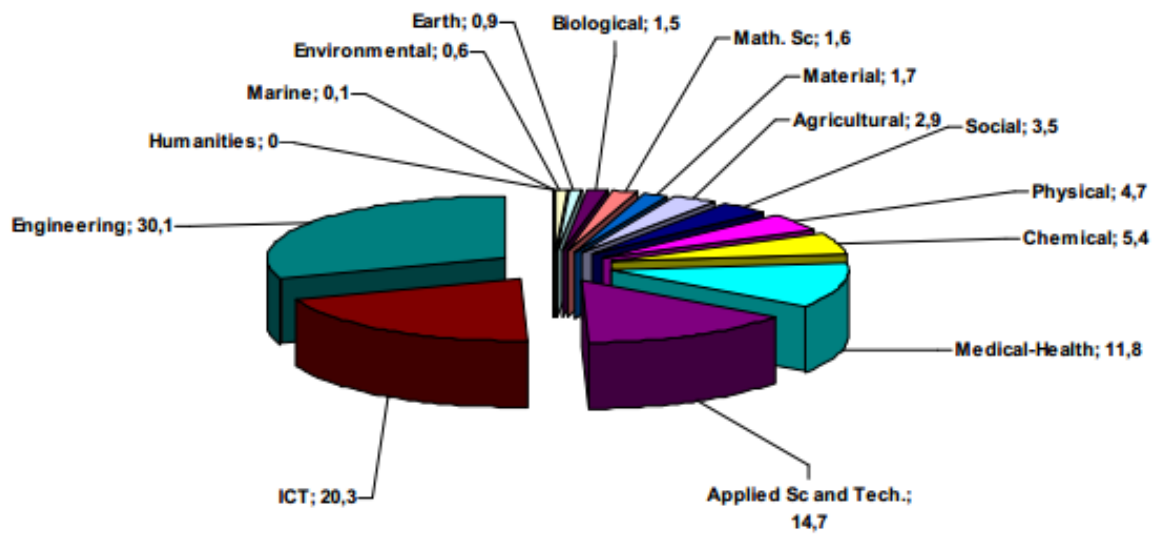
SA has maintained a steady growth in R&D expenditure over the past decade, with gross expenditure on research and development (GERD) growing from R4 billion in 1997/98 to R21 billion in 2008/09. The ratio of GERD as a percentage of GDP has also expanded over this period, from 0.69 percent to 0.92 percent, indicating a growing role of R&D within the economy (Department: Science and Technology, 2011).

In 2009 – 2010, however, the SA Government allocated merely 0.87% of its GDP of R2.395 trillion on R&D. When comparing this statistic to the average for Organisation for Economic Co-operation and Development countries (OECD), which are at 2.4% of their GDP, it is clear that SA will remain largely unable to compete with developed countries. Particular reason for concern is that SA is not only lacking when compared to developed countries, but is also being outperformed by other emerging countries (Wild, 2013). According to David Kaplan, an economics professor at the University of Cape Town, the actual reason for the decline in R&D investment is an overall reluctance to invest in SA and the products produced here. The South African Government is still spending vast amounts of money on acquiring overseas technology, rather than investing in South African-made products. It must be noted that it is often more expensive to procure local technology than it is to import technology, however, the spin-off in terms of company and job creation should nullify (or at least reduce) the negative aspect of the increased costs.

The science and technology department of SA has introduced various incentives to encourage local R&D, which includes tax incentives and reducing the administrative burden on R&D tax. However, many South African companies are not aware of these incentives offered by Government to increase R&D among local organisations and additionally, when compared to other countries, more could be done in terms of tax breaks (Wild, 2013).

The South African Government is the main funder of local R&D as they invest 45.7% of the Gross Domestic Expenditure on R&D (GERD) in R&D while the business sector of SA contributes approximately 42.7% of the GERD (Martinez, 2011). Even though the R&D expenditure of the South African Government and the South African business sector is more or less equal (45.7% of the Government versus 42.7% of the business sector), the main focus areas of these two funders differ significantly. Figure 2.5 to figure 2.8 indicate the R&D expenditure of the business sector, government, universities and research councils. A brief discussion of these figures will follow after figure 2.8.

Figure 2.5: Business R&D Expenditure by research field, 2007/08.

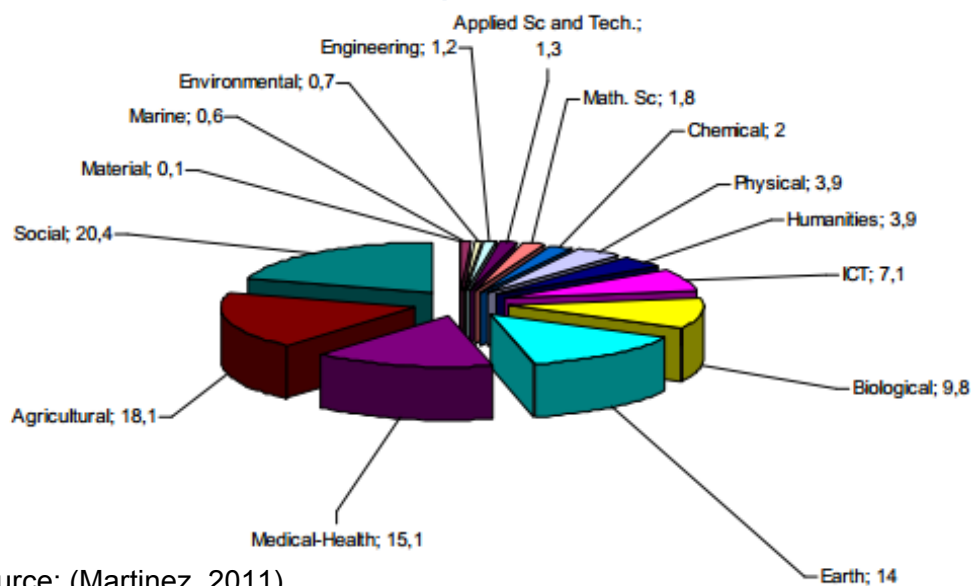


Source: (Martinez, 2011).

The expenditures of the Business sector are indicated in figure 2.5. The main focus areas of businesses R&D expenditure is Engineering with 30.1%, ICT (20.3%) and Applied Science and Technology (14.7%). A table (table 2.3) summarising the different focus areas of the business sector, Government, Universities and research councils will follow after figure 2.8.

The next figure (figure 2.6) is an illustration of the expenditure by the research field of government.

Figure 2.6: Government R&D Expenditure in the research field, 2007/08.

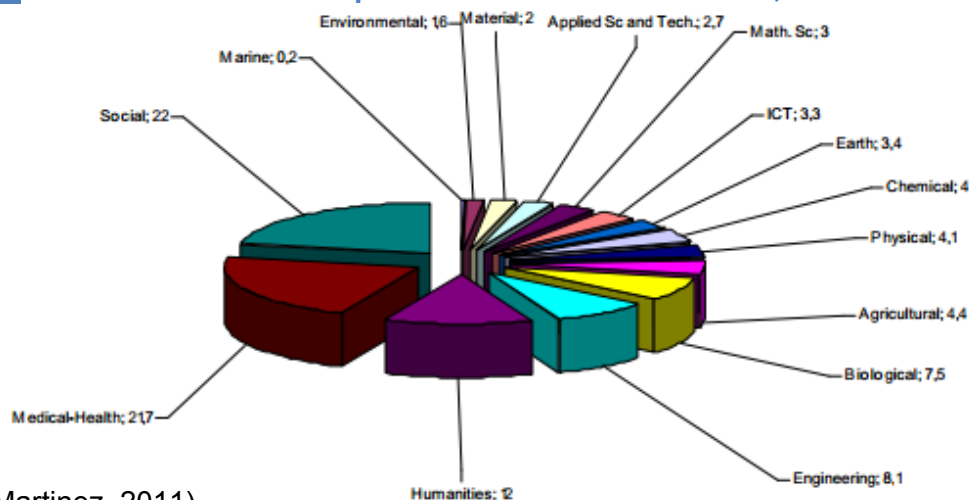


Source: (Martinez, 2011).

The main funding areas of Government R&D are Social (20.4%), Agricultural (18.1%) and Medical health (15.1%). A summary of these results is seen in figure 2.6.

Figure 2.7, below, visually illustrates the focus of R&D expenditures of universities.

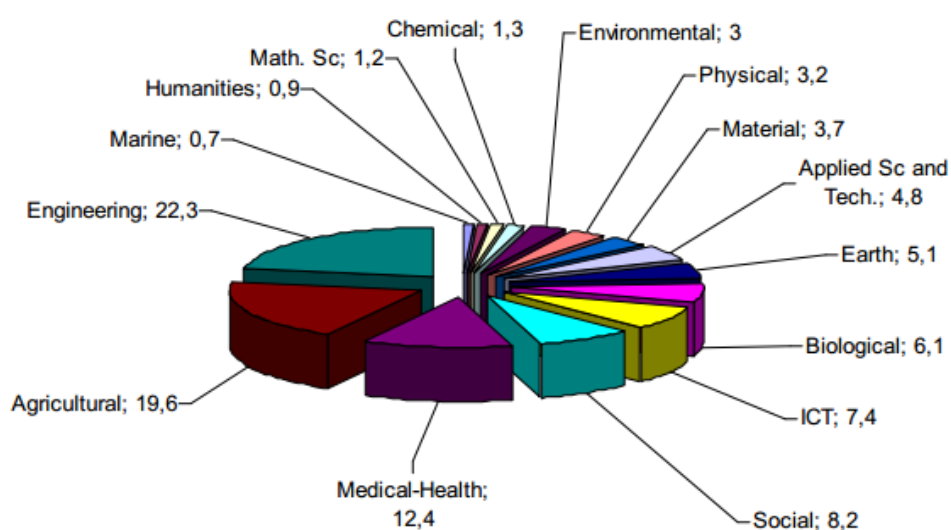
Figure 2.7: Universities' R&D Expenditure in the research field, 2007/08.



Source: (Martinez, 2011).

The focus of universities' R&D expenditure is noted as Social (22%), Medical-health (21.7%) and Humanities (12%). A detailed description will follow after figure 2.8. The last figure in this regard, figure 2.8, illustrates the R&D expenditures in the research field of the national Research Councils.

Figure 2.8: Research Councils' R&D Expenditure in the research field, 2007/08.



Source: (Martinez, 2011).

The R&D expenditure of Research Councils are engineering (22.3%), agriculture (19.6%) and medical health (12.4%). A summary of the different R&D funding institutions is seen in table 2.3, followed by a discussion of this table.

Table 2.3: A summary of the R&D investment focus of the business sector, government, universities and Research Councils.

Business R&D expenditure		Government R&D expenditure		Universities R&D expenditure		Research Councils R&D expenditure	
Top 3 sectors	Bottom 3 sectors	Top 3 sectors	Bottom 3 sectors	Top 3 sectors	Bottom 3 sectors	Top 3 sectors	Bottom 3 sectors
Engineering (30.1%)	Humanities (0%)	Social (20.4%)	Material (0.1%)	Social (22%)	Marine (0.1%)	Engineering (22.3%)	Marine (0.7%)
ICT (20.3%)	Marine (0.1%)	Agriculture (18.1%)	Marine (0.2%)	Humanities (12%)	Environmental (1.6%)	Agriculture (19.6%)	Humanities (0.9%)
Applied science and technology (14.7%)	Environmental (0.6%)	Medical Health (15.1%)	Environmental (0.7%)	Engineering (3%)	Material (2%)	Medical Health (12.4%)	Math-Science (1.2%)

Source: (Authors own construction).

From table 2.3 it can be seen that the engineering and social industries receive focus from the businesses, government, universities and Research Councils in terms of R&D expenditure which signals a great deal of consistency. However, from this point onward large discrepancies exist between the business R&D expenditure vs. government, universities and Research Councils' R&D expenditure. Where the business R&D expenditure has a strong focus on technology-driven research, the government, universities and Research Councils tend to invest their efforts in agriculture, humanities and medical health. From the discrepancies identified in table 2.3 it could be argued that the issue is not as much a lack of R&D transfer, but more a lack of prioritised and coordinated R&D investigation and transfer amongst all parties involved.

The following section will focus on education – both primary and secondary as well as post school, as a limiting factor to entrepreneurship.

2.3.3 Education

2.3.3.1 Primary and secondary school education

Globally, entrepreneurship is often regarded as the solution to improving economic activity. It is therefore not surprising that developing business and entrepreneurship education has become a political issue and a high priority of public policy (Muofhe & du Toit, 2011). Research proves that there is a causal relationship between education levels and entrepreneurial activity which lead to the failure or success of business ventures (Nicolaidis, 2011).

As most entrepreneurial traits are predictable early on in an individual's life, entrepreneurship training and development in pre- and early childhood is paramount (Nieuwenhuizen & Groenewald, 2008). It is argued that entrepreneurship training should commence at primary school level in order to enhance the learners' perception of their ability to start a business later on in life (Nicolaidis, 2011). In order to address this, Government has finalised the National Curriculum Framework for children from birth to four years of age, as well as Guidelines for Developing Learning Programmes in 2012. With the significant support from Government, there are now 19 261 registered early childhood development (ECD) centres with approximately 845 000 children who obtain ECD and partial care services. Additionally, 767 865 Grade R learners enrolled for school in 2012 and the department of Basic Education provided 900 000 Grade R workbooks (South African Government Online, 2014).

However, one of the biggest challenges that SA faces is the low level of overall education and training. The improvement of the level of overall education and training and promotion of entrepreneurship should be a critical performance area for the South African Government to focus on (Nicolaidis, 2011). Since the importance of education for entrepreneurship from an early age is clear, the Government has increased spending on education from R207billion in 2012/13 to R236billion for 2014/15. Additionally, the subsidies for no-fee schools and expanded access to Grade R were also implemented (South African Government Online, 2014).

Regardless of the vast amount of Government investment in improving access to, and the quality of schooling in general, this will not address the South African dilemma of low entrepreneurial start-up, and even lower success rates. In order to accurately address this problem, the South African education curriculum must be transformed. Entrepreneurship should be made one of the most important subjects at school level as well as in Higher Education to truly inculcate an entrepreneurial culture in the minds of young individuals (Nicolaidis, 2011). Moreover, according to the World Economic Forum the quality of South African schools is exceptionally low as SA schools are ranked 146 out of 148 countries, which has a further negative impact on the general quality of education obtained (Du Preez, 2014).

Although education in primary and secondary schools was identified as a much greater limiting factor to entrepreneurship (third from a list of twelve options) and post school education was perceived as less severe,(ninth from the list of twelve factors), these two factors will be discussed together. The rationale for this is that post school education builds on that of the primary and secondary schools' and much of the information overlaps.

2.3.3.2 Education post-school

The realisation that young people will need to be encouraged to become job-creators instead of job-seekers once they leave the school system has had a significant impact on the higher education institutions and their focus on entrepreneurship (Nieuwenhuizen & Groenewald, 2008).

Nieuwenhuizen and Groenewald (2008) argues that individuals who have completed entrepreneurship courses are much more inclined to start entrepreneurial ventures when compared to the individuals who attend other business related course. The importance of training young people in the field of entrepreneurship in order for them to be accommodated in the economy is therefore vital (Nieuwenhuizen & Groenewald, 2008). In light of this, Nieuwenhuizen and Groenewald (2008) further state that entrepreneurship education in higher education institutions must be strengthened as entrepreneurial training is critical to venture start-up and success. However, it should be noted that much inequality exists in the content and quality of the entrepreneurial education programmes which are offered by the various higher education institutions (Muofhe & du Toit, 2011). Likewise, the higher education system of SA has a reputation for being too theory-based and largely non-respondent to the demands of the business world in terms of the needed entrepreneurial

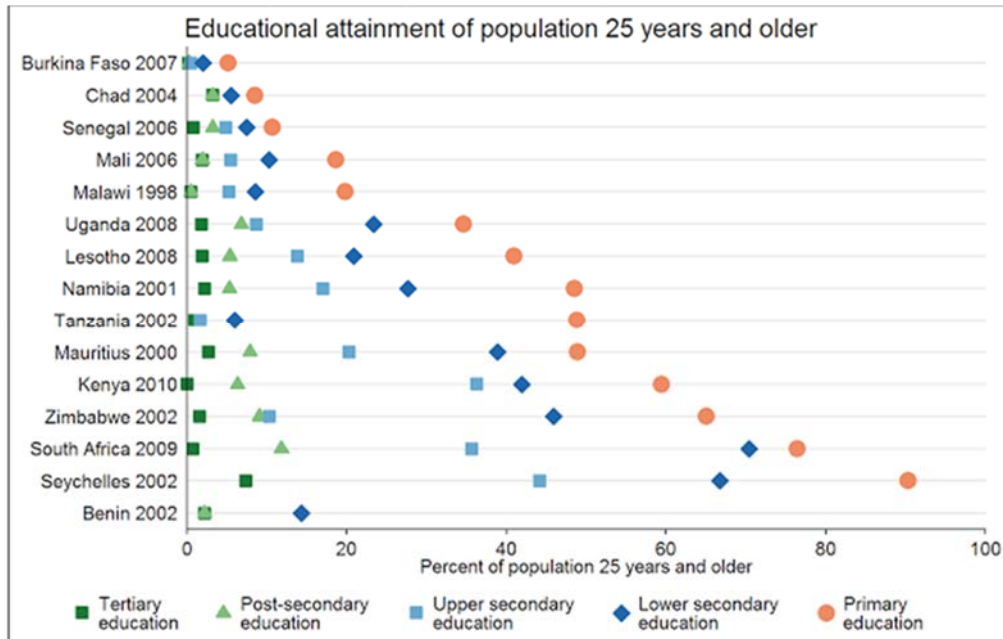
skills (Muofhe & du Toit, 2011). Researchers (Muofhe & du Toit, 2011; Nicolaidis, 2011) argue that this phenomenon starts as early as primary school which again highlights the fact that school education and higher education must be addressed as a holistic set of factors that build continuously on each other.

Although entrepreneurial training can dramatically increase the level of entrepreneurial start-ups, the entrepreneurship education in SA is still in its developmental stage. The higher education institutions provide access to a spectrum of knowledge-based resources that support the development of the technologically sophisticated enterprises needed to compete in the international marketplace, but as they are too theory-based, the true advantage of this is nullified (Muofhe & du Toit, 2011). The implication is that higher education institutions have an important role to play in terms of promoting entrepreneurship in SA. However, for higher education institutions to efficiently fulfil their role, the following must be in place:

- the ability to produce knowledge, teach and act as agents of exchange in a society
- an ability to provide the requisite research, knowledge and a highly skilled workforce if the nation is to compete in the global arena
- more faculties should offer entrepreneurship as a course or make it a greater part of existing courses
- entrepreneurship courses should carefully separate business skills from entrepreneurial skills
- ample opportunity for practical experience
- creation of a strong knowledge base for entrepreneurship via research and the findings of such research must be disseminated
- an environment wherein students' ideas can be generated and tested
- by educating the students about pitfalls and risks to avoid when embarking on a new business venture many of the fears of failure of potential entrepreneurs can be allayed (Nicolaidis, 2011).

In figure 2.9 below, the educational attainment of the population of SA that is 25 years and older is depicted.

Figure 2.9: The Educational attainment of population 25 years and older.



Source: (Huebler, 2012).

In figure 2.9 Huebler (2012) illustrates the dilemma that SA faces in terms of the education levels of the population. The vast majority of the population of SA that is 25 and older have only Primary and Lower secondary education. Those among the population, who have a tertiary education, are in the minority. The importance of education is seen as there “exist important links between education, venture creation and entrepreneurial performance as well as between entrepreneurial education and entrepreneurial activity (Raposo & do Paco, 2011).

Moreover Raposo and do Paco (2011) argue that the Government has an essential role to play in influencing the rate of entrepreneurship – both through legislation and through educational systems. The reasons offered by Raposo and do Paco (2011) for why education is important for stimulating entrepreneurship is cited as a) the fact that education equips individuals with a sense of autonomy, independence and self-confidence; b) education elucidates alternative career options for individuals; c) the horizon of individuals are broadened through education, thus better enabling them to perceive opportunities and d) the knowledge generated through education can enable individuals to develop new entrepreneurial opportunities.

2.3.4 Government programmes, National policy regulation and National policy in general

Although featuring on different levels with reference to the limiting effect of each of these aspects on entrepreneurship, these three factors overlap as the responsibility to develop sustainable programmes and an enabling national policy is the responsibility of the South African Government. Generally, specific policies regarding entrepreneurship and SMMEs are the origin of government programmes through which SMMEs are supported. Therefore these three factors will be discussed under one heading. It should be noted though, that the government programmes and national policy regulation were seen as significant limiting factors to entrepreneurship (ranking fourth and fifth from twelve limiting factors) and national policy in general is ranked seventh.

In order to achieve economic growth and development, the South African Government has prioritised entrepreneurship and the advancement of SMMEs. One of the major roles that government must fulfil in terms of supporting SMMEs is to provide an enabling policy, legal and regulatory environment for the development of businesses and to assist in the provision of basic infrastructure, education and information services (Baloyi, 2010).

Various government departments and institutions have also been established in order to develop and implement SMME-related policies to ensure that the SMME sector receives the needed support (both financial and non-financial) to achieve long-term prosperity. The DTI, amongst others, is tasked with implementing these SMME-related policies and the information that follows was obtained from the Integrated Small-Enterprise-Development Strategy of the DTI.

In 1995 the government adopted the *White Paper on the National Strategy for the Development and Promotion of Small Businesses of SA* which was generated to create an enabling environment for the accelerated growth of small enterprises. The Integrated Small Enterprise Development Strategy is based on three pillars:

- i) promoting entrepreneurship through campaigns, leadership training and awards,
- ii) strengthening the enabling environment through more flexible regulations, better access to finance and markets, improved infrastructure facilities and business support and
- iii) enhancing competitiveness and capacity at the enterprise level through skills training, more focused quality-, productivity- and competitiveness-support and the facilitation of technology transfer and commercialisation of incubation.

These strategic pillars of support that are offered to the SMME sector are summarised in table 2.4. These three pillars each have several aspects that constitute the successful attainment of each of these pillars. In order to ensure that entrepreneurship is effectively promoted, for example, government must ensure that all the aspects that are encapsulated under Pillar 1 are attained, otherwise the promotion of entrepreneurship cannot be achieved. This is also relevant with regards to creating enabling environments and enhancing the competitiveness and capabilities at enterprise level.

The *White Paper on the National Strategy for the Development and Promotion of Small Businesses of SA* requires the sustained funding commitment by the government and the DTI for six drives that were highlighted, namely:

- Substantially strengthen support for SMMEs' access to finance,
- Create an enabling regulatory environment,
- Further expand market opportunities for specific categories of small enterprises,
- Localise small-business support through a grid of SEDA- coordinated information advise-access points,
- Initiate a national entrepreneurship drive and expand education and training for small business and
- Co-fund minimum business-infrastructure facilities in local-authority areas across the country.

Table 2.4: Strategic pillars of SMME support.

PILLAR 1 Promoting entrepreneurship		PILLAR 2 Creating enabling environments	PILLAR 3 Enhancing competitiveness and capabilities at enterprise level
a)	Strengthen national awareness about the critical role of entrepreneurship	a) Maintain small-business-sensitive business regulations	a) Strengthen managerial, business and technical skills
b)	Promote alternative focus on ownership	b) Improve access to finance	b) Facilitate improved quality, productivity and competitiveness
c)	Expand franchise opportunities	c) Strengthen access to markets via procurement, exports and business linkages	c) Support technology transfer, incubation and the commercialisation of business services
d)	Strengthen business associations and networks	d) Facilitate the availability of business infrastructure and premises	d) Expand SMME-focused sector-support strategies
		e) Increase the effectiveness of enterprise support	
		f) Localise support infrastructures	
4	Cross-cutting foundation services	Information, research, monitoring and evaluation	

Source: (Integrated Small Enterprise-Development Strategy, 2005).

Moreover, a wide range of tools, instruments or interventions are applied by the national government, national parastatals, provincial and local authorities, NGOs and business associations in order to support SMMEs in all sectors of the economy with the vast amount and diversity of issues and problems to be addressed. These support instruments are listed in table 2.5.

Table 2.5: Instruments to advance small-business development.

	Type of instrument	Examples
A	Policy frameworks with relevance to SMMEs	<ul style="list-style-type: none"> • Integrated Small-Enterprise-Development Strategy • Micro-economic reform, poverty alleviation, BEE, local economic development, provincial growth and development strategies, etc.
B	Legislation	<ul style="list-style-type: none"> • National Small Business Act • Co-operatives Act • Companies Act
C	Regulations and administrative procedures	<ul style="list-style-type: none"> • Company regulations • Tax regulations • Intellectual-property regulations • Procurement regulations • Trade administration
D	Advisory structures	<ul style="list-style-type: none"> • National Small Enterprise Advisory Council
E	Co-ordination mechanisms	<ul style="list-style-type: none"> • National-government co-ordination structures (interdepartmental) • Provincial and local co-ordination structures • Co-ordination structures across delivery partners, including private sector, NGO and international assistance
F	Research	<ul style="list-style-type: none"> • Baseline sector and area research
G	Information and advice	<ul style="list-style-type: none"> • Industry and market information • Information about support services • Information channelled via institutions, mass media, networks, etc.
H	Monitoring and evaluation	<ul style="list-style-type: none"> • Development of indicators, monitoring systems, evaluation systems and feedback mechanisms
I	Institutional capacity building	<ul style="list-style-type: none"> • Enhancement of small-enterprise specialist institutions • Alignment of related institutions dealing with small-enterprise issues
J	Leadership and promotion of SMME concerns	<ul style="list-style-type: none"> • Public leadership, providing direction • Catalytic projects • Piloting of initiatives • Interest promotion
K	Training and capacity building	<ul style="list-style-type: none"> • Specialist small-enterprise training • Sector-based training • Entrepreneurship training
L	Networking organisations	<ul style="list-style-type: none"> • Chamber structures • Sector associations • BEE structures • Interfirm, supply chain and cluster networks
M	Provision of finance	<ul style="list-style-type: none"> • Grants • Loans • Venture capital • Sureties and guarantees
N	Access to infrastructure and utilities	<ul style="list-style-type: none"> • Transport (passenger and freight) • Utilities: water, electricity, waste • Information and telecommunications • Security • Street lighting • Property
O	Targeted projects	<ul style="list-style-type: none"> • Sector-specific projects • Competitiveness projects • Technology-enhancement projects • Small-business incubators

Source: (Integrated Small Enterprise-Development Strategy, 2005).

The instruments indicated in table 2.5 above are used to streamline small-business support within the framework of the integrated strategy through improving access to finance, improving access to markets, skills development and regulations affecting small business and business premises and infrastructure.

The integrated institutional framework for the supply of small-enterprise support is summarised in figure 2.10. According to this figure, four aspects are needed for SMME support, namely 1) National-government support, 2) Local, regional and provincial support, 3) Private-sector initiatives and services and 4) Combined community and private services. For each of these aspects various programmes/ initiatives exist through which support is given to SMMEs in different sectors.

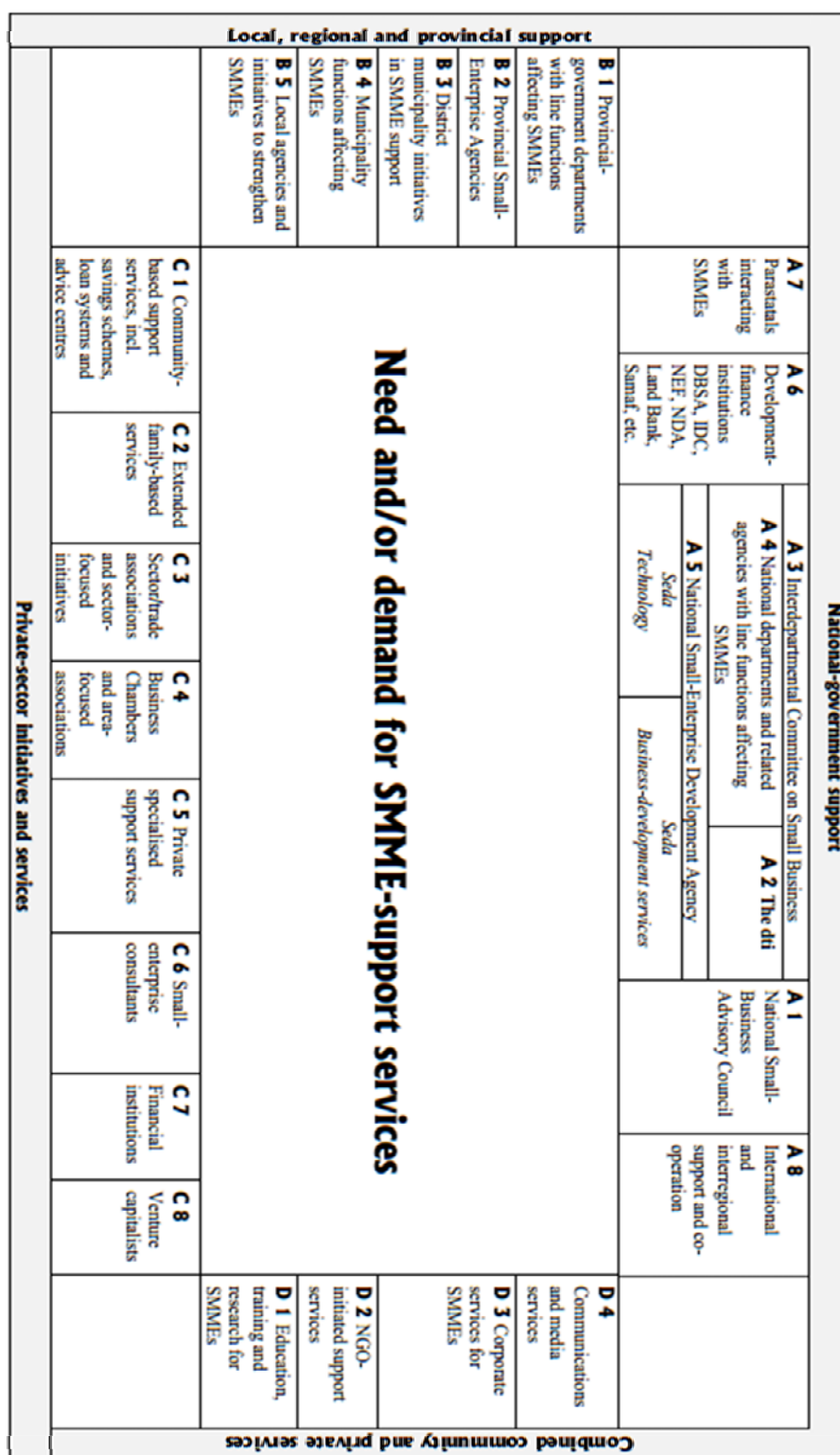
The government of SA has also developed and implemented the national small business strategy. This strategy aims to address common problems faced by SMMEs such as an unfavourable legal environment, lack of access to markets and procurement, lack of access to finance and credit, low skills levels, lack of access to information and a shortage of effective supporting institutions.

Additionally, the White paper and Act sets out the objectives of the SMME development policy as:

- Alleviating poverty, by making it possible for poor people to generate income to meet basic needs;
- Reducing poverty through employment creation;
- Redistribution of wealth, income and opportunities; and
- Contributing to economic growth, by improving innovation and thus competitiveness (Small Business Development, n.d.).

Figure 2.10 above serves as an illustration of the vast amount of assistance that is available to entrepreneurs in terms of local, regional and provincial support; National Government support; private sector initiatives and services as well as combined community and private services. From this figure it is clear that there are many options available in order to supply support to entrepreneurs.

Figure 2.10: An integrated institutional framework for the supply of small-enterprise support.



Source: (Integrated Small Enterprise-Development Strategy, 2005).

2.3.5 Cultural and social norms

The Government of SA has a strong focus on increasing the nation's entrepreneurial orientation as a significant component of the ten year vision of the Accelerated and Shared Growth Initiative of South Africa (ASGISA) due to the critical role of entrepreneurship in the economic and social development (Nicolaidis, 2011).

Many strategies have been put in place in order to encourage entrepreneurial intentions. In particular, regulations pertaining to SMMEs that were considered as barriers to start-ups were significantly reduced and many initiatives and institutions were established to provide funding and assistance in general to SMMEs. However, regardless of the progress that has been made in terms of developing economies, entrepreneurial activity remains low in SA (Van Vuuren & Groenewald, 2007; Lee & Peterson, 2000). One explanation for this is the growing recognition that the wider cultural and social values influence the individual intentions to engage in entrepreneurship. SA is yet to experience a cultural shift to a paradigm that supports entrepreneurs in their entrepreneurial endeavours (Van Vuuren & Groenewald, 2007; Lee & Peterson, 2000).

As is noted by Lee and Peterson (2000), economic reform is only one step in the overall process of modernisation - modernisation must include cultural transformation. As such, entrepreneurship develops from the "bottom up" such that culture gives rise to entrepreneurial potential. It is culture that serves as the conductor and the entrepreneur as the catalyst (to entrepreneurship). A favourable legal and economic environment is conducive to entrepreneurship. However, for entrepreneurship to flourish, the individuals who consider entrepreneurship as a career need a national culture that supports and encourages entrepreneurial activity in terms of the financial rewards, sense of achievement, social status and individual fulfilment that the entrepreneurs experience (Lee & Peterson, 2000). It is thus vital that the aspects of the culture of a specific region, which either promote or inhibit entrepreneurship, is thoroughly analysed.

Research continuously points to the fact that South Africans lack entrepreneurial spirit. On average, school-leavers have the perception that they will find work in the corporate world as opposed to considering creating their own businesses. However, the South African labour market is not creating jobs at a fast enough rate (Luiz & Mariotti, 2011).

The socio-cultural approach to entrepreneurship expresses entrepreneurship as an aspect of cultural change. Cultural change includes transforming human agents and the socio-economic setting in which these individuals operate. Aspects that should be examined as part of creating cultural change are:

- Present and past political, social and economic institutions
- The relationship of these institutions with current values, motivations and incentives
- The conditioning effect of the current cultures on role structures.

The South African government has implemented various strategies to encourage entrepreneurs and small businesses without much success and SA's performance in terms of entrepreneurship remains poor. Considering that the socio-economic factors play such a significant role in entrepreneurial behaviour, these factors must be considered, and accounted for in entrepreneurial models, in an attempt to increase the success rate of entrepreneurship in SA (Luiz & Mariotti, 2011)

The South African environment inhibits entrepreneurial intentions as the culture:

- Has a low tolerance for entrepreneurial failure.
- Fails to recognise the contribution that entrepreneurs make to the country
- Deems a corporate career more desirable than starting a new venture (Grubb, 2011).

It is therefore vital that a deliberate effort is made to foster a culture of entrepreneurship in SA. Not only for the current generation of individuals who need to become job providers rather than job seekers, but also for the future generations. There is growing recognition that experiences, attitudes and events prior to new venture creation has a critical influence on an individual's propensity to start-up. Therefore, individuals who have a family history of entrepreneurship or who can see their immediate peer groups recognise the value of entrepreneurship are more inclined to consider starting their own business (Endeavour SA, n.d.; Van Vuuren & Groenewald, 2007).

This supports the notion that entrepreneurship is a self-reinforcing process and that a culture of entrepreneurship, once established, will lead to an increase in entrepreneurship (Bygrave & Minniti, 2000). Given the exceptionally high rate (25.4%) of unofficial unemployment (Statistics SA, 2015), it is essential that the mindset regarding entrepreneurship and the culture surrounding it is adapted to create an environment where entrepreneurship is regarded as a desired career option instead of a last resort when official employment cannot be attained.

2.3.6 Internal market openness

The importance of entrepreneurship to economic growth and job creation is not contested. Various initiatives have been launched to encourage individuals to start small businesses in order to support job creation. However, regardless of dedicated government agencies, training initiatives and various programmes all developed to support and encourage individuals to engage in entrepreneurship, a study by Jones (2013) established that only 14% of South Africans have the intention to establish a new business within the next three years. Furthermore, with a failure rate of 75%, South African SMMEs have one of the highest failure rates world-wide. One reason for this statistic is the fact that SMMEs are utterly vulnerable to the business environment in which they operate (Van-Staden, n.d.).

Market openness is one of the limiting factors with the biggest negative impact on entrepreneurship. Even though market openness is internationally acknowledged as a driver of economic growth, most countries are still struggling with regulatory barriers which has a negative impact on true market openness (OECD Reviews of Regulatory Reform, 2002). As mentioned, the South African Government has taken action to stimulate the growth of new businesses and to aid in their survival. However, if the barriers to entry are not identified and strategies to reduce their impact are not developed, it would remain a large challenge to increase the rate of entrepreneurship in SA (Robertson, Collins, Medeira, & Slater, 2003). Barriers to entry are defined as those factors that discourage new firms to enter into a specific industry, even though the current firms in the industry are earning vast amounts of profits.

Generally these barriers are either behavioural or economic barriers to entry. However, the characteristics of the specific industry can also serve as barriers to entry. These industry characteristics include demand, technology, costs and licenses. For an economic or behavioural barrier, including industry characteristics, to be considered a barrier to entry, it must imply costs for new entrants which the established businesses do not bear (De Bruyn & Gibson, n.d.). Many researchers have investigated potential barriers that will impact on an individual's decision to either enter into entrepreneurship or not. These entry barriers are listed in Appendix A.

Gatt (2012) argues that SA has made significant improvements in terms of regulatory and institutional barriers with regards to SMME growth and development. Furthermore, in comparison with other African countries, SA has short processing times, high access to

credit and the least amount of bureaucracy involved for obtaining construction permits (Gatt, 2012). However, Supermarket.co.za, the website for FMCG, retailers, wholesalers and suppliers (2013) stated that: "It is becoming increasingly difficult to operate a small business in SA, and the SMME community expects that this will become ever more so in the future." This information was collected during the second round of the SMME Growth Index, which is produced by the business environment specialists, Strategic Business Partnerships (SBP).

A survey conducted by the Business environment Specialist (SBP) established that 74% of the respondents indicated that it has become more difficult to start and operate a business than it was in the previous year (2012). Of all the industries surveyed, the manufacturing sector was the most negative about trends in the business environment. Typically, the manufacturing sector requires fixed capital investment and the options for disposal, should the business fail, are limited. Additionally, the input prices are climbing and often the manufacturing sector requires scarce and pricy, hard artisanal skills. These scarce artisanal skills are usually also prone to unionisation. Although these barriers to entry are related specifically to the manufacturing sector, it is a cause for concern as the government emphasised the importance of manufacturing for a growth area (Supermarket.co.za: The website for FMCG, Retailers, Wholesalers and Suppliers, 2013). If a sector which was identified by government as an area in which growth and progress is vital is struggling to do business in the South African environment, it is a serious cause for concern.

In order to address some of these barriers to entry and thus encourage individuals to become entrepreneurs, the competition law (CL) was established through the Competition Act, 1998 (Act No 89 of 1998). The primary economic aim of this competition policy is to safeguard competition and thus maximise social welfare gains. The Act will be implemented with the establishment of three institutions, namely The Competition Commission, the Competition Tribunal and the Competition Appeal Court (Whelan, n.d.; Erwin, 2001). It must be noted though, that the argument also exists that the market is not protected by government licensing or price controls. Often the most aggressive behaviour of established competitors towards new entrants is legitimate. Furthermore, that established competitors co-operate on matters of mutual interest is not preventable (Vegter, 2013).

In essence government is launching several initiatives to aid the establishment of entrepreneurial ventures, however if the core barriers to entry are not addressed, it will remain challenging for individuals to successfully establish entrepreneurial ventures.

According to the limiting factors of entrepreneurship (Turton & Herrington, 2012), internal market openness is ranked as the 8th limiting factor to entrepreneurship and internal market dynamics only as the 12th. However, as the internal market dynamics closely relates to internal market openness, it will be discussed next as an addition to internal market openness.

2.3.7 Internal market dynamics

The market dynamics of SA is cited as one of the limiting factors in terms of entrepreneurship. The market shifts of SA do not change dramatically enough and thus opportunities are limited as competition and innovation are restricted in this environment. This in turn can explain why SA's rate of perceived opportunities is below average (Turton & Herrington, 2012). The market is too stable and provides few opportunities for nascent entrepreneurs. Nevertheless, a dynamic market is vital for entrepreneurship in SA. When there are continuing shifts in demand and supply, business opportunities invariably arise (Turton & Herrington, 2012). Demand is defined as the amount of goods or service that a potential buyer is willing and able to buy (Department: Basic Education, n.d.). Supply on the other hand is the quantity of goods or service that suppliers plan to sell at each possible price during a specific period (Department: Basic Education, n.d.). This implies that the demand for products remains fairly stable and the supply for these stable demands is met. In other words, this imposes yet another form of entry barrier for new entrants.

With the above-mentioned in mind it seems there is much that government can do to promote entrepreneurship. Duncan (2012) quotes the minister of economic development, Ebrahim Patel on admitting that they "have not created an environment where entrepreneurs can flourish and at the same time jobs are being lost on a daily basis". The Sage Business Index (SBI) conducted research on this phenomenon and asked several newly established entrepreneurs what government should be doing to help their business. The factors which the respondents indicated as areas in which government should help their business were as follows (starting with the aspect most often cited):

1. Skills development and education
2. Reduce bureaucracy and legislation
3. Reduce business tax
4. Invest more in physical infrastructure projects
5. Control energy/ utility costs
6. Create special assistance programmes

7. Reduce interest rates
8. Stabilise currency value/ exchange rates
9. Invest more in technology infrastructure
10. Reduce national debt
11. Put pressure on banks to lend more.

Although the national small business development strategy aims to level the playing field between big and small business (Small Business Development, n.d.), it should be noted that the limiting factors that nascent entrepreneurs consider as negatively impacting on entrepreneurial initiatives are vastly different from the factors that established SMMEs want the government to focus on. The importance of this seen in that the majority of government focus, in terms of laws and support institutions, is on improving the rate of nascent entrepreneurship and increasing the amount of entrepreneurial ventures that are established. However, this is not where economic growth lies. Newly established entrepreneurial ventures generally contribute very little to economic growth or job creation. It is when entrepreneurial ventures mature into small and medium enterprises that the true economic benefit of entrepreneurship is achieved.

While it remains vital that government focus on continued empowerment to increase the number of individuals who consider entrepreneurship as a career possibility, still greater efforts are required. In order for entrepreneurial ventures to grow into income earning ventures with true economic benefits for SA as a whole, resources, laws, assistance and policies supporting this must be prioritised.

2.3.8 Commercial infrastructure

Commercial infrastructure refers to a variety of aspects, including sub-contractors, suppliers, consultants, professional services (e.g. accountants and lawyers) and banking services. The concern relating to the commercial infrastructure with regards to SMMEs is the fact that typically, SMMEs struggle to afford access to the above-mentioned, services which are essential to SMMEs (Turton & Herrington, 2012).

In order to minimise the impact of factors that relate to commercial infrastructure, several entrepreneurs have established independent forums and through these forums they offer a variety of services and support to start-up entrepreneurs. Some of these forums include:

The South African Black Entrepreneurs Forum (SABEF)

This non-profit company was established by a group of entrepreneurs who endorse pure, broad-based, black economic empowerment. The aim of SABEF is to “facilitate entry of emerging entrepreneurs into prominent sectors of the mainstream economy, through access to markets, networking, lobbying and advocacy, and by implementing solution-focused development and networking programmes aimed at ensuring the growth and sustainability of the emerging business sector in South Africa” (SABEF, n.d.).

Business Leadership South Africa (BLSA)

The core mission of BLSA is to “facilitate an effective dialogue between business, government and other stakeholders. This, as with other activities requires working closely with other business bodies. Individual or sectoral interest of members continue to be addressed and promoted by existing sectoral bodies or the individual companies concerned” (BLSA, n.d.).

Small Business Hub

The transaction and business support services of this forum are aimed at start-up as well as existing businesses. The start-up support services offered include a company registration service, company secretary services, registered address service, virtual office services, business identity service, website design and hosting services and VAT registration service (Small Business Hub, n.d.).

The Small Business Forum

This is an independent network of entrepreneurs and small business owners that was established in order to “encourage and support the creation, growth and development of small business in South Africa” (SBF, n.d.).

The Businesswoman’s Association (BWA)

The BWA is a non-profit, voluntary organisation that was established to “promote opportunities to support, connect and grow women in business through lobbying, mentoring, network, strategic alliances, and developing and recognising excellence in woman” (BWA, n.d.).

The forums mentioned here is by no means an exhaustive list, but it serves as an illustration that specific groups of individuals, including women and black entrepreneurs, have

established their own commercial infrastructure in order to support upcoming and potential entrepreneurs and reduce the impact of a lack of general infrastructure.

According to Turton and Herrington (2012), a low percentage of experts cite commercial infrastructure as one of the top three limiting factors for entrepreneurship (Turton & Herrington, 2012) and this is in line with the perception of the entrepreneurs' view of commercial infrastructure. The entrepreneurs ranked commercial infrastructure in the bottom three of twelve limiting factors to entrepreneurship (Turton & Herrington, 2012).

2.3.9 Physical infrastructure

Turton and Herrington (2012) note that research conducted by the National Planning Commission in the discussion on infrastructure development in SA established that inadequate investment in the energy and transport sectors, along with ineffective operation and maintenance of existing infrastructure had a severe limiting effect on the economy. The lack of investment in and development of infrastructure in SA, results in many new opportunities that could have emerged, being lost and the cost of doing business increases dramatically (Pottas, n.d.). While SA is experiencing greater economic activity, enhanced efficiency and increased competitiveness, however, the inadequate transport, communication, water and power infrastructure severely hampers the country's growth. As Pottas (n.d.) notes, the world is eager to do business with Africa, but finds it difficult to access African markets, especially in the interior, due to poor infrastructure.

According to the National Treasury, "SA's critical infrastructure needs are in part the outcome of two decades of underinvestment [...] public infrastructure spending tailed off from the early 1980s. From the mid-1990s, government began to increase capital spending, with a sharp rise after 2003 as prudent management of the economy created the fiscal space for long-term investment" (The Presidency, 2012).

Consequently, infrastructure is increasingly placed at the forefront of the government's agenda and this has led to government committing substantial resources for its development to redress these backlogs and inadequacies which have become a constraint to economic growth. The significant influence that infrastructure has on transforming the economy through growth and job creation is now recognised and highly sought after (The Presidency, 2012).

To illustrate the importance of infrastructure to the government, a Presidential Infrastructure Coordinating Commission (PICC) was inaugurated as an integrated planning initiative to provide direction. The members of this commission include key ministers, premiers and metro mayors and is headed by the President and assisted by the Deputy President (The Presidency, 2012). A major result from the formation of PICC is that the future plans of various state-owned enterprises as well as national, provincial and local government departments have been clustered. From this, 17 strategic integrated projects (SIPs) were identified to maximise the returns on investment in infrastructure through the creation of more jobs, economic growth and potential and thus unlocking the economic development of SA (The Presidency, 2012). In order to reap the benefits of these improvement plans, the successful implementation of intentions is vital (The Presidency, 2012).

According to The Presidency (2012) various studies have been conducted on the impact that infrastructure has on economic development. To summarise, through the establishment and maintenance of infrastructure in SA, the following conclusions can be drawn:

- Infrastructure contributes to economic growth, through both supply and demand channels, by; reducing costs of production, contributing to the diversification of the economy and providing access to the application of modern technology, thus increasing the economic returns on labour (by reducing workers' time in non-productive activities or improving their health).
- Infrastructure contributes to raising quality of life by creating amenities, providing consumer goods (transport and communication services), and contributing to macroeconomic stability.
- Infrastructure does not create economic potential; it only develops it where appropriate conditions (i.e. other inputs such as labour and private capital) exist (The Presidency, 2012).

When considering SA's ranking in terms of overall physical infrastructure (53rd out of 144 countries in the Global Competitiveness Report), it may appear as if there is no real cause for concern. However, when noting that the same report states that inadequate infrastructure provision is the fourth most problematic factor for doing business with SA, it is clear that SA is not doing enough in terms of infrastructure development. Early-stage business activity is negatively impacted by the high costs and long delays that are associated with the country's physical infrastructure and as entrepreneurship is vital to the economic growth of SA, it is paramount that sufficient attention is given to this limiting factor of entrepreneurship (Turton & Herrington 2012).

Without the development of infrastructure, Africa will not achieve the growth levels expected or required. Infrastructure planning and investment are therefore critical if Africa's huge economic and developmental potential are to be realised. Key in helping the continent realise its economic potential, is the careful construction of a sustainable infrastructure that can assist to turn the situation around (Pottas, n.d.)

In the next section (section 2.4) the focus of the Government of SA on entrepreneurship will be highlighted along with the various government support institutions that were established in order to support and expand the SMME sector of SA.

2.4 The South African Government and entrepreneurship

Since 1995, the Government of SA has been aware of the importance of SMMEs to the economy. Trevor Manuel, then Minister of Trade and Industry (1996 – 2009), clearly articulated this when he said: "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. "We believe that the real engine of sustainable and equitable growth in this country is the private sector. We are committed to doing all we can to help create an environment in which businesses can get on with their job" (Manuel, 1995).

This emphasis on the importance of SMMEs as the catalyst to achieving economic growth and development paired with the barriers to entrepreneurship in terms of the above-mentioned constraints meant that the government of SA had to find novel ways of supporting entrepreneurs in venture start-up (Msimang, 2005). As a result, Government has invested in a wide range of initiatives aimed at supporting and growing the SMME sector for the past fifteen years (Mahembe, 2011; Department: Trade and Industry, n.d.).

In order to increase the SMME start-up and survival rate, thereby attaining the actual benefits of entrepreneurship in terms of creating employment and reducing poverty, the South African Government is investing heavily in entrepreneurial support and has committed to creating five million new jobs by 2020 through their investments in SMMEs in SA (Jones, 2013). Indeed, in SA, the National Development Plan – recently adopted by the government as a roadmap for the next two decades – envisages the role of SMMEs as follows: "A large

percentage of the jobs will be created in domestic-oriented activities and in the services sector. Some 90 percent of jobs will be created in small and expanding firms. The economy will be more enabling of business entry and expansion, with an eye to credit and market access. By 2030, the share of small- and medium-sized firms in output will grow substantially. Regulatory reform and support will boost mass entrepreneurship. Export growth, with appropriate linkages to the domestic economy, will be critical in boosting growth and employment, with small and medium-sized firms the main employment creators” (Business Partners, 2013).

SA’s small business policy was outlined in the White Paper by the Department of Trade and Industry, titled “A National Strategy for the Development of Small Business in SA”, it was released in 1995 and was aimed at creating an environment in which SMMEs could be established and would prosper (Timms, 2011; Simplybiz, 2011). Outlined in this 1995 White Paper are, among other things, the need for the Government to create an enabling legal framework, facilitate access to information and advice, boost access to markets and procurement from small firms, improve access to finance and affordable physical infrastructure, improve the low skill levels and provide a solution to the shortage of effective support institutions (Mahembe, 2011; Simplybiz, 2011).

In addition, The National Small Business Act (Act 102), based on the White Paper, was established in 1996 to promote access to funding and information for SMMEs. The objectives of the 1995 White Paper now find practical expression in the Integrated Small Business Development Strategy for 2005 to 2014. The three pillars on which the strategy is founded, are:

1. Increasing the supply of financial and non-financial support
2. Creating demand for SMME products/services
3. Reducing regulatory constraints (Mahembe, 2011; Simplybiz, 2011).

The formation of this Act led to the establishment of Government institutions for the support and expansion of the SMME sector in SA. Distribution of the main governmental agencies and funds occurs across various departments; the following five being the key recipients:

1. the Department of Trade and Industry (DTI)
2. the Department of Economic Development (DED)
3. the Department of Science and Technology (DST)
4. the Presidency
5. the Department of Agriculture (Mahembe, 2011).

The above-mentioned departments are listed and briefly discussed in table 2.6 below, along with the sub-departments falling under their mandate, services offered and their intended target markets.

Table 2.6: The Departments and sub-departments of Government’s main agencies.

	Sub-department	Services	Target Market
Department of Trade and Industry (the dti)	<p>Small Enterprise Development Agency (Seda)</p> <p>Seda was formed in 2004 when the following three organisations merged:</p> <ol style="list-style-type: none"> 1) Ntsika 2) National Manufacturing Advisory Centre (NAMAC) 3) Community Public Private Partnership Program (CPPP) <p>Seda provides business development and support services for small enterprises through its national network in partnership with other role players in small enterprise support. Seda also implements programmes targeted at business development in areas prioritised by the Government.</p>		
	Ntsika Enterprise Promotion Agency	<p>1) Non-financial support such as mentoring programmes, business advice, help with government tenders and technology support to small enterprise, through:</p> <ol style="list-style-type: none"> a) Local business centres (LBSC) b) Tender advice centres (TACs) 	<p>Survivalist, micro and very small enterprises</p> <p>Start-up business, targeting unemployed, woman and youth.</p>
	NAMAC	<p>Two key programmes:</p> <ol style="list-style-type: none"> 1) Manufacturing advisory centers (MAC), providing support for small scale manufacturing businesses. 2) Business Referral and Information Network (BRAIN) – information and a help line. 	<p>The MACs are mainly for small and medium and more formal businesses.</p> <p>BRAIN for the entire spectrum of SMMEs.</p>

	Community Public Private Partnership Program (CPPP)	This program combines the Sector Development and Cooperative Program with the CPPP Program in order to provide leadership in the establishment and growth of viable, sustainable cooperatives and collectively owned enterprises in various sectors, thus facilitating successful participation in the economy.	This program supports forms of non-traditional organisational enterprises with a special focus on rural areas and the use of local resources.
Seda Technology Program (Stp) In 2006 Seda Technology Program (Stp) was formed when the GODISA Trust and the Technology Programs integrated into Seda			
	National Small Business Advisory Council (NSBAC)	NSBAC acts as an advisory body to the Minister of Trade and Industry on strategies to address matters pertaining to the promotion of small business in the country.	All relevant role players who can inform the council are consulted; however the council exists to serve the Minister of Trade and Industry.
	National Empowerment Fund (NEF)	Funded by government, provides funding for black empowerment ventures.	Black-owned and empowered businesses. Large, but also small and medium enterprises.
	Centre for Small Business Promotion	1) Responsible for policy and coordination of support programmes for SMMEs. 2) Mobilises funds and supervises the establishment of new institutions.	The Centre for Small Business Promotion was established to focus on policies, as well as to aid entrepreneurs.
The Small Enterprise Finance Agency (SOC) Ltd, commonly known as SEFA			

Department of Economic Development (DED)	SEFA was established in 2012 as a result of the merging of South African Micro Apex Fund, Khula Enterprise Finance Ltd and the small business activities of the IDC.		
	SA Micro-finance Apex Fund (Samaf)	<ol style="list-style-type: none"> 1) Provide micro loans and support to the social capital mobilisation. 2) Facilitate affordable access to funding. 3) Grow the income and asset base of micro, small and survivalist businesses. 4) Reduce poverty and unemployment. 5) Extend financial services on a broader scale into the rural and peri-urban areas. 6) Provide micro-finance to financial intermediaries and MFIs 7) Loans can be used for paying school fees, medical fees and improvements to the household 	Micro, small and survivalist businesses.
	Khula	<ol style="list-style-type: none"> 1) Funding for retail financial institutions (RFI). 2) Credit guarantee scheme. 3) Equity capital. 4) Gearing capital for public and private sector funds targeting small enterprises in specific sectors. 5) Micro credit in rural areas. 	<p>Mainly targets very small, small and medium enterprises.</p> <p>Two small programmes for the survivalist and micro sector.</p>
Industrial Development Corporation (IDC)	Supports and funds various industrial development programmes.	Predominantly large scale projects, but some small to medium enterprises. Specific BEE mandate.	

Department of Science and Technology	Technology Innovation Agency (TIA)	Support the development and commercialisation of competitive technology-based services and products.	TIA invests in the following sectors: Advanced manufacturing, Agriculture, Industrial Biotechnology, Health, Mining, Energy and ICT. Their services are available to science councils, public entities, higher education, private research institutions and entrepreneurs.
Department of Agriculture	Micro-Agricultural Financial Institute of SA (Mafisa)	Run existing agricultural businesses, start new ones and to be able to develop these into fully commercial operations.	The working poor'. Very small and micro level farmers, farm workers, farm tenants, small holders; landless, emerging farmers and processes.
The Presidency	National Youth Development Agency (NYDA)	1) Assist the youth with career skills and business start-ups. 2) Fund training and provide loans	Youth.

Source: (Small Enterprise Development Agency, n.d.; Small Enterprise Finance Agency, n.d.; Mahembe, 2011; Simplybiz, 2011; Small Business Development, n.d.; Small Enterprise Development Agency, n.d.; The Department of Trade and Industry. Report of the DTI Annual Small Business Summit, Pietermaritzburg, n.d.; The Technology Innovation Agency (TIA or the Agency), n.d.).

As can be seen from table 2.6, the five departments that were established as a result of the National Small Business Act (Act 102) each have a specific mandate, services they offer and target market to which they offer these services. In essence some of these departments function solely as an advisory institution to micro, small and medium enterprises, whereas other departments were established to provide funding opportunities. Moreover, these departments do not always link directly with the entrepreneurs as the role of some of these departments is to provide advice to the Minister of Trade and Industry as well as to provide

inputs in terms of policy coordination – both of which ultimately will influence the entrepreneurs.

Despite the dedicated government agencies and vast amounts of funding, training initiatives and private-sector involvement, entrepreneurship in SA is in a dire state. This can be attributed to the fact that entrepreneurs struggle to access useful advice and finance (Jones, 2013). According to Vanhanen (2007) the outcomes of overcoming the challenges that entrepreneurs encounter in obtaining seed capital will include, amongst others, economies of scale and an attractive environment for investments. This highlights the importance of effective government intervention in addressing the challenges that innovators experience, enabling SMMEs to exploit their full potential and the economic benefits to be realised.

According to Jones (2013) one of the reasons for the ineffective government support lies in the fact that the government programmes are largely uncoordinated and the many training initiatives are not standardised. Additionally, Jones (2013) stated that although there are many initiatives, they are frequently not understood, nor are they integrated and argues that this is proven by the fact that numerous GEM surveys have concluded that the majority of entrepreneurs are not aware of government programmes.

A recent literature review on the access that small and medium enterprises have to credit and support in SA indicated the ignorance of entrepreneurs towards government programs (Mahembe, 2011). Table 2.7 summarises the percentage of businesses that are aware of the government initiatives as well as the percentage of businesses that have made use of these initiatives.

Table 2.7: Small business awareness and use of Government support.

Government initiative	% of businesses which are aware of program	% of businesses which have used program
SETAs	61	32
IDC	45	7
Competitiveness Fund	32	11
Ntsika	13	1
Export incentives	12	2
Manufacturing Advisory Centres	11	1
Khula	9	1
Brain	9	1
Umsobomvu	4	1

Source: (Mahembe, 2011).

Although institutions such as Ntsika, Khula and Umsobomvu are not in existence anymore since the above-mentioned study was conducted in 2011, table 2.7 illustrates that many entrepreneurs are simply not aware of all of the options available to them in terms of support for establishing an entrepreneurial venture. In addition, apart from the ignorance of entrepreneurs of government programs, entrepreneurs also indicate additional complaints against government institutions that lead to difficulties experienced. These complaints include:

- weak economy
- steep rises in administered process and municipal accounts
- uncertainty about the supply of services
- tumultuous political climate
- labour laws are a constraint to hiring staff
- compliance with regulations diverts attention away from companies' core business
- government policies are a constraining factor on new business development (Jones, 2013).

In spite of Government's vast efforts to create and maintain several support institutions in SA for facilitating the initiation of entrepreneurial ventures, the rate of new venture establishment (early stage entrepreneurial activity of 7%) and established businesses (established business ownership rate of 2.7%) in SA remains alarmingly low. This highlights the discrepancies between the action plans of the Government and the actual needs of the entrepreneurs (Singer et al., 2014).

The next section (2.4.1) is dedicated to defining small, micro and medium enterprises where-after the support institutions that are included in this study will be investigated.

2.4.1 Description of Small, Micro and Medium Enterprises (SMMEs)

According to the Small Business Development (n.d.:1 of 7) SMMEs are divided into the categories as outlined in table 2.8.

Table 2.8: Categories of SMMEs.

Category of SMME	Description
Survivalist enterprises	<ul style="list-style-type: none"> - Operates in the informal sector of the economy. - Mainly undertaken by unemployed persons. - Income generated below the poverty line, providing minimum means to keep the unemployed and their families alive. - Little capital invested, not many assets. - Not much training. - Opportunities for growing the business very small.
Micro enterprises	<ul style="list-style-type: none"> - Between one to five employees, usually the owner and family. - Informal- no license, formal business premises, labour legislation - Turnover below the VAT registration level of R300 000 per year. - Basic business skills and training - Potential to make the transition to a viable formal small business.
Very small enterprise	<ul style="list-style-type: none"> - Part of the formal economy, use technology - Less than 10 paid employees - Includes self-employed artisans (electricians, plumbers) and professionals.
Small enterprise	<ul style="list-style-type: none"> - Less than 100 employees - More established than very small enterprises, formal and registered, fixed business premises. - Owner-managed, but more complex management structure.
Medium enterprise	<ul style="list-style-type: none"> - Up to 200 employees - Still mainly owner managed, but decentralised management structure with division of labour - Operates from fixed premises with all formal requirements.

Source: (Small Business Development, n.d.).

While there is growing recognition of the substantial economic and social contributions entrepreneurship brings, hardly any research has been done on the effectiveness of Government programs, despite the fact that the topic has been receiving increased attention

from both scholars and the public press. It seems clear that a study of this nature is necessary (Jones, 2013; Mahembe, 2011).

This chapter is dedicated to describing the role that Development Finance Institutions (DFIs) fulfil (through government subsidiaries) in providing start-up capital and support to entrepreneurs. The two government supported DFIs examined in the study are the Industrial Development Corporation (IDC) and National Empowerment Fund (NEF) as well as the privately funded DFI Business Partners. The distinctive operations of these institutions will be elicited in order to determine their efficiency and effectiveness in supporting entrepreneurs in the process of new venture start-up.

Each of these institutions will now be discussed (section 2.5 – 2.7) and each of the following will be considered for each of the institutions included in this study:

- The vision and mission of each of these institutions,
- The main focus areas of each institution (e.g. the industry, size of venture etc. they focus on),
- The processes implemented,
- The evaluation criteria for business plans and
- The outcomes expected of entrepreneurial ventures that are successful in obtaining funding.
- The degree to which these institutions address the limiting factors that negatively impact on entrepreneurial intention as mentioned earlier in the chapter.

2.5 Industrial Development Corporation (IDC)

As mentioned, the IDC is a government supported institution that forms part of the Department of Economic Development.

This section will provide an overview of the Industrial Development Corporation (IDC) in order to ensure that the mandate of the institution as well as the process that applicants will undergo is clear.

2.5.1 The mandate of the IDC

During the Second World War trade between Europe and SA was disrupted, which led to severe shortages in manufactured goods for SA and hence the IDC was established in order to address these shortfalls. Since its inception through an Act of Parliament (Industrial Development Corporation Act, No. 22 of 1940) in 1940, the IDC has played a central role in establishing industries in fields such as petro-chemicals and mineral beneficiation, fabricated metals, agro-industries and clothing as well as textiles, which had a significant impact on SA's manufacturing sector (Industrial Development Corporation, 2012). The IDC was founded as a self-financing development finance institution (DFI) with a specific mandate to contribute to sustainable economic growth in SA and development of the domestic industrial capacity the main focal point. The IDC is capable of promoting and sustaining entrepreneurship through the creation of competitive industries and business ventures based on sound business principles (IDC, 2008).

In the 1990s the IDC expanded on their mandate in order to stimulate investment in the rest of Africa, with the aluminium smelter in Mozambique as the first major project to be successfully established. The inclusion of the rest of Africa in their mandate enabled the IDC to implement strategies to create and integrate value chains across the continent. The strengths of each country can thus be identified and built on, which will lead to a more competitive industrial base throughout Africa (Industrial Development Corporation, 2012).

Nieman and Nieuwenhuizen, (2009) highlight the following as core strategies of the IDC which aid in adhering to their mandate:

- Maintaining financial independence.
- Providing risk capital to a wide range of industrial projects.
- Serving areas not yet addressed by the market.
- Empowering new entrants of the entrepreneurship market and medium- sized manufacturing businesses.
- Developing and investing in diverse human capital.
- Promoting global involvement in partnerships rooted in and for the benefit of SA and the rest of Africa.

In the following section the vision and mission of the IDC will be outlined.

2.5.2 Vision and mission statements of the IDC

The vision and mission statements of the IDC, as described on their official webpage are listed below. These statements indicate the institution's intentions and aims, not only for the employees of the IDC, but to their current and prospective customers as well.

The vision of IDC is:

"To be the primary driving force of commercially sustainable industrial development and innovation to the benefit of SA and the rest of the Africa continent".

The mission statement of IDC is:

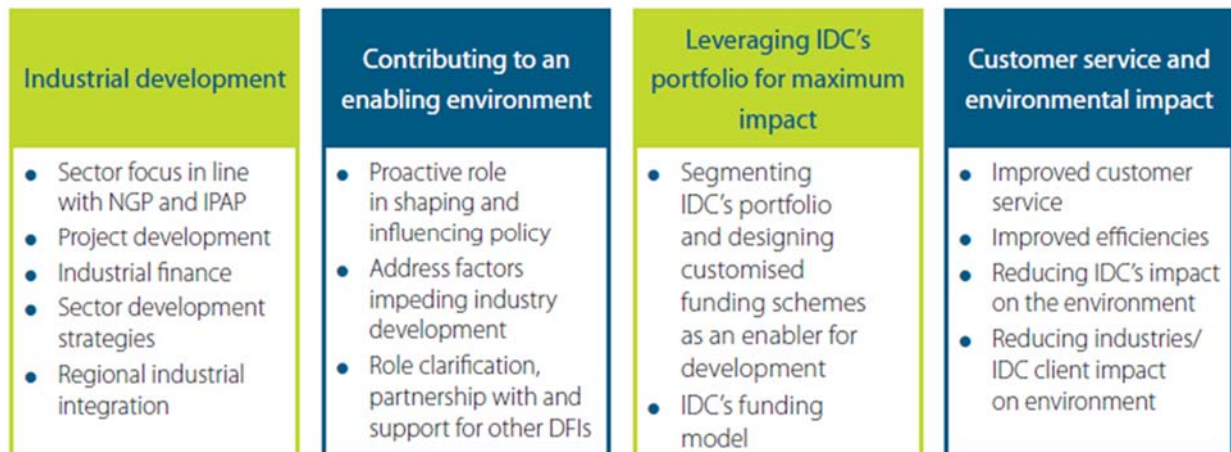
"The Industrial Development Corporation (IDC) is a self-financing, national development finance institution whose primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and to the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens. The IDC achieves this by promoting entrepreneurship through the building of competitive industries and enterprises based on sound business principles" (Industrial Development Corporation, 2014).

From the above-mentioned vision and mission statements it is clear that the IDC sets out to drive sustainable development in SA by providing affordable financial support to entrepreneurs with viable business models. Furthermore, the Leadership in Industrial Development strategy of the IDC was created in order to aid the IDC in achieving the objectives and aims as set out in the mandate, as well as the vision and the mission. This strategy is built on four pillars, namely:

- Industrial development
- Contributing to an enabling environment
- Leveraging IDC's portfolio for maximum impact
- Customer service and environmental impact (Industrial Development Corporation, 2012).

These four pillars, along with the components of each of these pillars are shown in figure 2.11.

Figure 2.11: The Four pillars of the Leadership in Industrial Development strategy of the IDC.



Source: (Industrial Development Corporation, 2012)

In order for the IDC to achieve their mandate (as specified in section 2.5.1) they need to ensure that the four pillars as specified above, along with the supporting aspects of each of these pillars, are adhered to.

In addition to the Leadership in Industrial Development strategy, the IDC (2008) fully supports the Black Economic Empowerment (BEE) initiative of the government. Thus, the assessment of each funding application is based on the proposed project's ability to meet the BEE requirements of job creation, urban renewal and rural development, the empowerment of women, poverty alleviation, skills development, education and access to finance for wealth creation. The IDC achieved four awards for their commitment to BEE in 2007 at the Business Map Business Report BEE Awards.

2.5.3 Funding activities of the IDC

According to the Frequently asked Questions section of the official website of the IDC, the following funding criteria is taken into account in determining the suitability of an application:

- The business venture or project exhibits economic merit in terms of profitability and sustainability.
- Shareholders and owners make a reasonable contribution to the business venture which will be evaluated at the time of the application.
- Compliance with international environmental standards is adhered to.

- The business venture or project should have a significant socio-economic impact such as job creation potential, value addition to raw materials, rural development, empowerment or township development.
- The business has security; the form and nature of which must be related to the applicants' specific circumstances (Industrial Development Corporation, n.d.).

The IDC strategies aimed at promoting and sustaining entrepreneurship led to the identification of three main focus areas; namely, Agro and New industries, Mining and Manufacturing industries and Services industries. Thirteen Strategic Business Units (SBUs), each focused on the various sectors identified in the New Growth Path (NGP) and Industrial Policy Action Plan (IPAP) carry out the core developmental funding interventions of the IDC.

Recently, the IDC emerged as a leader in the development of green industries by establishing a Green Industries Strategic Business Unit and launching the Green Energy Efficiency Fund (GEEF) to provide low-cost funding to businesses in order to encourage them to implement energy saving technologies (Industrial Development Corporation, 2012).

The main focus areas of the IDC, with the exception of the additional focus area, the green industries, are listed in table 2.9.

Table 2.9: The main focus areas of the IDC as well as the operational divisions and respective SBUs.

Agro and New Industries	Mining and Manufacturing Industries	Services Industries
<ul style="list-style-type: none"> • Agro-Industries • Green Industries • Strategic High Impact Projects • Venture Capital 	<ul style="list-style-type: none"> • Chemicals and Allied Industries • Forestry and Wood Products • Metals, Transportation and Machinery • Mining and Mineral Beneficiation • Textiles and Clothing 	<ul style="list-style-type: none"> • Information and Communication Technologies • Healthcare • Media and Motion Pictures • Tourism

Source: (Industrial Development Corporation, 2012)

Although the IDC focuses its funding activities on the private sector it also collaborates with different levels of government, government agencies and sector organisations thus ensuring a coordinated effort between the different institutions. Furthermore, the development

objectives of the government, such as research and fund management, are also supported by the IDC (Industrial Development Corporation, 2012). Apart from involvement with and support for the government, the IDC is involved in various funding activities (Industrial Development Corporation, 2012) and the main business and funding activities are summarised in table 2.10 below.

Table 2.10: The main business and funding activities of the IDC.

Activities	Customers	Business lifecycle	Sectoral involvement	Funding products	Regional involvement
<ul style="list-style-type: none"> • Provision of development finance • Project development • Research and policy inputs • Fund management • Non-financial forms of business support • Capacity building 	<ul style="list-style-type: none"> • Business • Government • Other DFIs 	<ul style="list-style-type: none"> • Conceptual • Pre-feasibility • Feasibility • Establishment • Product commercialisation • Expansion • Mature 	<ul style="list-style-type: none"> • Agricultural value-add • Mining and mineral beneficiation • Manufacturing • Green industries • Industrial infrastructure • Tourism • ICT • Media and motion pictures • Healthcare 	<ul style="list-style-type: none"> • General debt • Quasi-equity • Equity • Export/import finance • Short-term trade finance • Bridging finance • Guarantees • Venture capital • Wholesale funding through intermediaries 	<ul style="list-style-type: none"> • South Africa • Rest of Africa • Global imports of South African equipment

Source: (Industrial Development Corporation, 2012)

From this table (table 2.10) it is clear that the IDC funds a specific variety of sectors and boasts a wide range of services. They have an African footprint and offer various funding products to their customers. According to the IDC (Industrial Development Corporation, 2014) record levels of funding activity were achieved in 2014 with approved funding applications amounting to R13 835 million (figure 2.12 serves as an indication of the value of funding approvals of the IDC). These facts are illustrated in Figure 2.12 below.

Figure 2.12: The Rand value of funding approvals by the IDC, 2010-2014.



Source: (Industrial Development Corporation, 2014).

The sharp increase in the amount of applications funded by the IDC in 2012 had a severe impact on job creation as up to 45 900 jobs were created and/or saved in SA through funding approvals. This was a dramatic increase from 39 400 in 2011. During 2014 a total of 22962 jobs were noted as created and saved (Industrial Development Corporation, 2014). The impact that the IDC has on employment creation is illustrated in figure 2.13 below.

From figure 2.13 the job creating effect of the IDC is apparent. Cumulatively more jobs are created and saved than in the previous years of IDC's existence and when considering SA's high unemployment rate, the impact of IDC's efforts are clear.

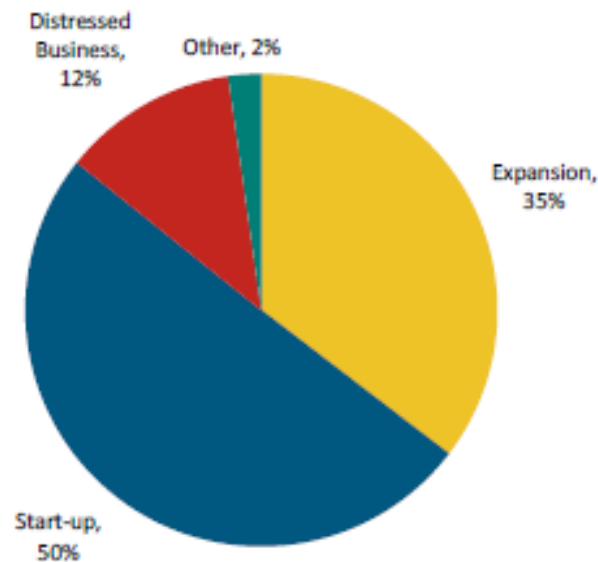
Figure 2.13: The employment opportunities generated or saved by the IDC, 2014.



Source: (IDC, 2014).

In order to illustrate where the job creation occurred, the IDC has compiled figure 2.14 below. This is an indication of where their funds were spent from 2009 – 2012.

Figure 2.14: Utilisation of New Funding Approved –February 2012.



Source: (Industrial Development Corporation, 2012).

Half of all the capital resources available to IDC are dedicated to establishing new ventures. The fact that IDC commits 35% of their resources to expansions is noteworthy. Through existing organisations that expand, many new jobs are created. Most start-ups do not have the ability to employ several employees; however, an established organisation that expands continuously needs to enlarge its personnel base too. Merely 12% of the funding approved by IDC is allocated to distressed businesses - a possible explanation for this can be that businesses who are already in distress fail to meet the criteria (whether it is in terms of management capability or sureties) to access financial support from the IDC.

The funding range of the IDC begins at a minimum of R1million and a maximum of R1billion. This clearly indicates that the IDC focuses on larger projects and given the industrial industries on which they focus, it is to be expected that the loan amounts will be high. The IDC funding and support model includes, typically, the phases outlined in figure 2.15 below.

Figure 2.15: The IDC funding and support model.

Agency development phases	Objectives
Phase 1: Pre-funding phase	<ul style="list-style-type: none"> • Political buy-in of the agency concept • This is a not a funding phase for the IDC
Phase 2: Pre-establishment phase: Funding capped at R800 000	<ul style="list-style-type: none"> • Prepare internal and external systems and procedures and initiate operational planning
Phase 3: Establishment phase: funding capped at R2, 5 million	<ul style="list-style-type: none"> • Agency establishment and project planning
Phase 4: Operational Phase: funding capped at R5 million pa for three years	<ul style="list-style-type: none"> • Programme and project implementation
Phase 5: Exit phase	<ul style="list-style-type: none"> • Final evaluation and IDC withdrawal

Source: (Industrial Development Corporation, 2014).

On 1 April 2014, the Small Enterprise Finance Agency (sefa) was established after the merger of South African Micro Apex Fund, Khula Enterprise Finance Ltd and the small business activities of IDC (Industrial Development Corporation, 2014). The South African Government had to identify manners in which to grow the SMME sector of SA, and with access to funding being proven as one of the main constraints to SMME establishment, coupled with the tighter lending criteria of main stream lenders, sefa was launched as an IDC subsidiary saved (Industrial Development Corporation, 2014). Thus the aim of this funding unit is to address the funding constraints that SMMEs experience saved (Industrial Development Corporation, 2014). The vision, mission and values of sefa illustrate their commitment to the empowerment of SMMEs. The mandate of sefa is noted as: “To foster the establishment, survival and growth of SMMEs and thereby contribute towards poverty alleviation and job creation.” The vision statement of sefa clearly supports this mandate as it is described as: “To be the leading catalyst for the development of sustainable Survivalist, Micro, Small and Medium enterprises through the provision of finance”.

The mission statement of sefa is to provide access to finance for Survivalist, Micro, Small and Medium businesses throughout SA by:

- Delivering wholesale and direct lending.
- Providing credit guarantees to Small, Medium and Micro businesses.

- Supporting the institutional strengthening of Financial Intermediaries so that they can be effective in assisting SMMEs.
- Creating strategic partnerships with a range of institutions for sustainable SMME development and support.
- Monitoring the effectiveness and impact of our financing, credit guarantee and capacity development activities
- Developing (through partnerships) innovative finance products, tools and channels to catalyse increased market participation in the provision of affordable finance (Small Enterprise Finance Agency, n.d.).

Sefa includes a variety of funding options: sefa Direct Lending Products, Bridging Loan, Term loan, structured finance, sefa Wholesale Lending Products, Micro-Finance Intermediaries (MFI) and Retail Financial Intermediaries (RFI). Each of these funding options are summarised in table 2.11 below.

Table 2.11: The various funding options of sefa.

Funding option:	1. sefa Direct lending products		
	Description	Funding range	Duration
1.1 Bridging loan	Short term loan to finance the working capital needs of an enterprise (e.g. stock). This option provides immediate cash flow and enables an enterprise to meet current obligations.	R50 000 – R5 million	Short term (up to 1 year)
1.2 Term loan	Specified loan amount with a specified repayment schedule along with a floating of fixed interest rate. This loan is used to finance assets with a medium to long term lifespan (e.g. machinery). Start-ups, expansions and acquisitions are also financed with this loan.	R50 000 – R5 million	1 – 5 years

Funding option:	2. Structured finance		
	Description	Funding range	Duration
	When the required funding falls outside the parameters of term and bridge loans, structured finance is used. This type of finance is a debt facility that is tailored around the requirements of the specific project.	Project specific.	A maximum of 5 years.
Exclusions		Eligibility criteria	
Tobacco, liquor, gambling, sex trade; Armaments; Speculative real estate; Leveraged buy-out funds; Illegal trade; Any business whose trade or operations may prejudice the reputation and good standing of sefa; Any political organisation; People under debt review; Any business with un-rehabilitated insolvents individual directors; Technically insolvent businesses and individuals		Only provided to enterprises that have secured firm contracts/ orders from their clients; Valid RSA ID document holders; Legally constituted enterprises; Must have the necessary contractual capacity; All business operations must be operated within SA; The enterprise must be compliant with generally accepted corporate governance practices; Completed official loan application forms; Have a written proposal or business plan that meets the requirements of sefa's loan application criteria; Have provided all initial and supporting documentation for application in a professional manner; Demonstrate the character and ability to repay the loan; May incur debt in terms of relevant legislation; Have provided personal and / or credit references; Be owner manager; A trust that has within the trust deed the power to borrow money and pledge assets as security and to give surety for borrowing.	
http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=883 http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=884 http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=885			

Funding option:	3. SEFA Wholesale Lending Products		
	The target market of this funding option is survivalists, micro, small and medium business including co-operatives. This funding option is specifically dedicated to making funding available to small businesses across SA.		
	Funding range	Duration	
3.1 Survivalists and micro enterprises	R500 – R50 000	Not specified.	
3.2 Small Enterprises	R50 000 – R1 million	Not specified.	
3.3 Medium Enterprises	R1 million – R5 million	Not specified.	
http://www.sefa.org.za/Admin/ProductsServices/ProductListing.aspx?ContentSelectionID=142			
Funding option:	4. SEFA Micro-Finance Intermediaries (MFI)		
	Description	Funding range	Duration
	This funding option is for micro and survivalists business that require funding in order to grow their income through their asset base.	R50 000 (In special circumstances, based on proper credit vetting This amount can increase to R100 000)	
Eligibility criteria	Minimum of two years in operation, with the demonstration of microfinance lending; Early growth and established intermediary (start-up by exception) who display the potential to meet microenterprise needs and expectations in line with sefa's mandate; ability to meet basic criteria and the extent of risk sharing with sefa; Alignment of the institution's operations to sefa's developmental objectives; Must be registered and operate within SA and comply with all the laws that apply to legal entities in the Republic; Must comply with relevant statutory and regulatory requirements in terms of governance and compliance; Lending to be		

	<p>in line with the National Credit Act with relevant and up-to date registration; Key personnel – (e.g. senior and executive management) must have the relevant investment and development finance credentials and no less than 5 years proven working experience as SMME investment analysts and / or microfinance specialists; Loan methodology including policies and systems to be able to assess, disburse, monitor and collect on loans; Financial systems ability and appropriateness; A 5-10% own contribution as percentage of loan amount or capital commitment may be required; Must comply with B-BBEE codes of good practice; Must be prepared to accept sefa interventions and business institutional support services</p>		
<p>http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=935</p>			
Funding option:	5. Retail Financial Intermediaries (RFI)		
	Description	Funding range	Duration
	<p>RFI's who finance SMMEs that do not fall into the specific markets/ sectors that are serviced by SEFA's lending activities can also engage with SEFA. The investment strategy into the RFI's includes various equity instruments such as self-liquidating. Sureties need to be provided for this specific loan.</p>	Up to R100 million	Flexible
Eligibility criteria	<p>A minimum of two years in operation with demonstration of small and medium enterprise lending; Early growth and established intermediary (start-up by exception) who display the potential to meet SMME needs and expectations in line with sefa's mandate; Intermediary to play a complementary role to sefa's direct lending activities by addressing specific markets and /or sectors; The institution's ability to meet basic criteria and the extent of risk sharing with sefa; Alignment of the institution's operations to sefa's developmental objectives; Must be registered and operate within SA and comply with all the laws that apply to legal entities in the Republic; Must comply with relevant statutory and regulatory requirements in terms of governance and compliance including a board, regulatory compliance, risk management policies, reviewers and all other governance requirements as per Companies Act. Institutional Strengthening support will be provided where gaps have been identified; Where applicable</p>		

	<p>lending to be in line with the National Credit Act with relevant and up-to date registration; Key personnel – senior and executive management must have the relevant investment and development finance credentials and no less than 5 years’ proven working experience as SMME investment analysts and / or specialists; Loan methodology including policies and systems to be able to assess, disburse, monitor and collect on loans; Financial systems ability and appropriateness; A 5-10% own contribution as percentage of loan amount or capital commitment may be required, Must comply with B-BBEE codes of good practice. Where the criterion is not met, sefa to be a catalyst towards meeting this transformation requirement based on the opportunity and willingness of the borrower to transform; Must be prepared to accept sefa interventions and business institutional support services.</p>		
<p>http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=936</p>			
<p>Funding option:</p>	<p>6. Specialised Funds (SFI)</p>		
	<p>Description</p>	<p>Funding range</p>	<p>Duration</p>
	<p>These joint ventures/partnerships are the basis for sefa’s wholesale proposition. The synergistic partnerships of cooperation, coordination and collaboration will not only reduce the risks associated with the market but, more importantly, it allows for both government and the private sector to take responsibility in addressing the challengers faced in enterprise development.</p>	<p>Not specified.</p>	<p>Not specified.</p>
<p>Eligibility criteria</p>	<p>Must be registered and operate within SA and comply with all the laws that apply to legal entities in the Republic; Fund must be a trust or a company; Where applicable lending to be in line with the National Credit Act with relevant and up-to date registration; Loan methodology including policies and systems to be able to assess, disburse, monitor and collect on loans; Synergistic partnerships with role players within specific markets and/or sectors with developmental objectives similar to sefa; Partnership to be based on knowledge, expertise, competencies, technical knowhow, access to market and resource capabilities of the partners to service the SMME market needs; Demonstrated financial and developmental returns; Preference will be given to forming partnerships with full value chain</p>		

	capability in which SMMEs can participate to develop sustainability; Must be prepared to accept sefa interventions and business institutional support services		
http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=937			
Funding option:	7. Credit Guarantee Scheme (BFS/ SF)		
	Description	Funding range	Duration
	<p>The purpose of the scheme is to issue a range of credit guarantee products to lenders (commercial banks and other financial institutions) for SMME borrowers whose access to finance is impeded by the fact that they do not have collateral required by the lenders. SMMEs would normally require finance in order to establish, expand or purchase existing businesses. The three broad categories of indemnities that are available are individual, portfolio and institutional indemnities. The financial institution will assess the business plan and loan application in terms of its lending criteria. sefa will set certain guidelines for the assessing and monitoring of the loan process on which the indemnity will be enforced. Once the application has been approved, the financial institution will approach sefa for indemnity cover and a mentor may be appointed to help with the implementation of the business plan, setting up of operational systems and general business management. The financial institution manages the loan and collects payments for the duration of the loan. The full repayment of the loan remains the responsibility of the applicant.</p>	Not specified.	Not specified.
	Eligibility criteria for Banks and Financial Sector (BFS):		

<p>Eligibility criteria</p>	<p>Commercial banks are automatically eligible to participate in the Scheme by virtue of them being professional money lenders, registered, regulated and monitored by the Financial Services Board and overseen by the South African Reserve Bank. Other lenders will be incorporated into the scheme provided they meet the legislative conditions; They must agree to the terms and conditions of the Scheme, as they would appear in the Indemnity Agreement, and thereafter sign the agreement; sefa will have the right to review their credit lending policies and procedures to the SMME market.</p> <p>Eligibility criteria for non-bank financial intermediaries:</p> <p>Commercial banks are automatically eligible to participate in the Scheme by virtue of them being professional money lenders, registered, regulated and monitored by the Financial Services Board and overseen by the South African Reserve Bank. Other lenders will be incorporated into the scheme provided they meet the legislative conditions; They must agree to the terms and conditions of the Scheme, as they would appear in the Indemnity Agreement, and thereafter sign the agreement; sefa will have the right to review their credit lending policies and procedures to the SMME market.</p>		
<p>http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=938</p>			
<p>Funding option:</p>	<p>7. Credit Guarantee Scheme (BFS/ SF)</p> <p>The Land Reform Empowerment Facility (LREF) is a Broad Based Black Economic Empowerment Fund capitalised by the Department of Rural Development and Land Reform and supported by the European Union. LREF is a wholesale financing facility through which sefa lends money to commercial banks and other reputable agricultural lenders for on-lending to land reform beneficiaries. The aim of LREF is therefore to broaden the control of, management and ownership by black South African citizens in land-based high-value income generating assets in the agricultural sector. To increase the commercial success of LREF-funded projects, sefa assists these projects with training and skills development interventions by means of a training grant.</p>		
	<p>Description</p>	<p>Funding range</p>	<p>Duration</p>
<p>7.1 Mortgage Loan Facility</p>	<p>Financing facility that enables the target market to buy and own land for agricultural production purposes.</p>	<p>Maximum of R15 million per project</p>	<p>Not specified.</p>

<p>7.2 Maximum loan</p>		<p>R1 million per Black person participating in the project.</p>	<p>Loan repayment period must not exceed 12 years.</p>
<p>7.3 Equity share scheme</p>	<p>An equity share scheme is a business arrangement in which both land reform beneficiaries and private sector partners buy equity in the form of shares in a land-based agricultural enterprise</p>	<p>R1 million per person participating in the project.</p>	<p>Loan repayment period must not exceed 12 years.</p>
<p>7.4 Production loans</p>	<p>This loan is for the purchase of agricultural inputs such as fertilizer and seeds for land reform projects. Own contribution of 10% may be required.</p>	<p>< R500 000 per production cycle</p>	<p>Repayable within 12 to 18 months.</p>
<p>7.5 Agricultural asset finance</p>	<p>For the purchase of agricultural machinery and equipment.</p>	<p><R800 000 per farmer</p>	<p>Within the useful lifespan of the financed asset, to a maximum of five years.</p>

<http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=939>

<p>Funding option:</p>	<p>8. Post Loan Business and Institutional Strengthening Support credit</p> <p>The purpose of the Post Loan Business Support and Institutional Strengthening is to provide non-financial support to SMME businesses via the RFI/BFS/SF and also directly to the intermediaries. In the provision of these services, sefa will leverage the resources of other government agencies such as seda, Productivity SA and the others.</p>
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	Description
8.1 Post Loan Business Support for SMMEs	This program is designed to provide business support services to enterprises during the life cycle of the business from early stage (growth/development/compliance mentorship) as well as the decline phase (turnaround specialists). This service is only provided to small businesses that have benefitted from loan facilities provided by sefa and its financing partners. The program will be facilitated through the Direct Lending Division and will allow the Wholesale Lending Division to access such support as and when needed. Pre loan support will be considered if and when required using seda.
8.2 Institutional strengthening support	The main objective of this program is to support the needs of sefa funded MFI/RFI/SF in terms of the strategic and organisational needs of the organisation and focusing specifically on key business processes and systems of the organisation
http://www.sefa.org.za/Admin/ProductsServices/Product.aspx?ContentSelectionID=940	

2.5.4 The process which IDC implements

As specified above, the IDC has a variety of funding phases – from the pre-funding- to the exit phase. However, regardless of the phase in which applicants find themselves, they will have to adhere to certain minimum requirements of the IDC in order for their applications to be considered. These minimum requirements include:

- Security, the form and nature of which will relate to applicants' specific circumstances.
- Compliance with international environmental standards.
- Shareholders/owners are expected to make some financial contribution:
 - The contribution of historically disadvantaged people under special circumstances may be lowered, in which case the IDC will be prepared to extend finance in excess of the owner's contribution.
- The project/business must exhibit economic merit in terms of profitability and sustainability.
- The IDC does not re-finance fixed assets since their aim is to expand the industrial base (Small Enterprise Finance Agency, n.d.).

The regulations above are the minimum requirements which are applied to all funding activities of the IDC, regardless of whether the project is a start-up business, take-over or buy-in, business expansion or business in distress. Additional requirements come into play however, for funding specific applications. In other words, when entrepreneurs apply for start-up funding, additional requirements will apply and these will differ from the additional requirements which entrepreneurs of the business buy-in fund will have to comply with.

The additional requirements that entrepreneurs who consider take-over or buy-ins and historically disadvantaged people must comply with are as follows:

- A signed Offer to Purchase agreement between the seller and the buyer or a signed Letter of Undertaking from the seller indicating the buyer's preferred bidder status.
- The Offer to Purchase should be valid for at least three months and give the IDC an exclusivity period of at least two months.
- Detailed information on the partners, such as the group structure and business activities.
- An independent valuation (including underlying assumptions) of the target company.
- Details of IDC funding and the application thereof.
- Details of the contribution by the purchaser.
- A signed draft plan explaining involvement of historically disadvantaged people in operational and/or executive management.
- Proof of limited scope of due diligence performed by historically disadvantaged people on the seller's business.
- A business plan.
- Latest audited financials, management accounts and financial projections for the target company.
- A covering letter with details of the finance required from the IDC (Small Enterprise Finance Agency, n.d.).

For entrepreneurs who aim to expand their current business, the additional requirements are stated as:

- Latest audited and actual financials (signed by the finance director, MD or CEO).
- Updated business plan focusing on the proposed project/expansion.
- A detailed description of the nature of expansion, its related costs and revenues.

Entrepreneurs who apply for funding in order to establish a new SMME must comply with the minimum requirements of the IDC (as stated above) as well as develop a comprehensive

business plan according to the specifications of the IDC. The IDC specific business plan guidelines are noted in Appendix B.

2.5.5 IDC's services

The IDC continually aims to offer the most appropriate financial package to their clients based on the needs of the clients as well as the guidelines of the IDC. This is achieved by taking three aspects into consideration; namely, capital and interest moratorium, terms of loans and equity investments. The IDC puts together the most appropriate financial package for the client, taking into account the IDC guidelines and the client's requirements by means of, among others:

- **Capital and interest moratorium** where entrepreneurs who are establishing a new venture, or expanding a current business have a grace period (typically one year, but is can be extended to up to five years) during which capital is not payable. Additionally, in certain instances, interest payments can be capitalised for 18 months.
- **Terms of loans** the general term of IDC loans are between 3 to 7 years. However, in specific cases the term can be increased to 15 years or even 25 years.
- **Equity investments** are when the IDC takes up equity in the business, thus ensuring that the business is adequately financed. It should however be highlighted that the IDC does not typically seek control in a venture they fund and the level of participation is established based on the specific case. Moreover, the IDC offers the entrepreneur a buy back option with mutually beneficial terms (Mondi, n.d.).

Funding through the IDC can be structured through several instruments, namely Debt; Equity/ Quasi-equity; Guarantees; Trade finance and Venture capital (Industrial Development Corporation, 2014).

2.5.5.1 IDC's approach to clients in financial distress

The IDC makes provision for entrepreneurs who experience financial distress with a unique approach to these entrepreneurs as well as the special development orientated pricing schemes which they implement; both of which will be discussed below.

a) The unique approach of the IDC to entrepreneurs in financial distress

The IDC actively involves itself with entrepreneurs who experience financial distress. In order to control the exposure, and potential losses, of the IDC, while focusing on the sustainability of their returns, the IDC identifies high-risk profile clients early on in the evaluation period. This is due to the fact that it is a key objective of the IDC to prevent financial failure. High-risk clients are those who are unable to meet their financial commitments and the following support from the IDC is available to these entrepreneurs:

- The IDC initiates the restructuring and turnaround of such client (this will only be done if the client exhibits potential economic viability).
- The IDC aims to ensure the continuity of the normal business operations of the high-risk client, thus preventing possible losses in terms of job opportunities, technology, exports, etc.
- The IDC will safeguard its own position.

However, their support is not just precautionary, the IDC also assists companies that are recovering from difficulties, thereby limiting potential job losses. However, there are certain restrictions that entrepreneurs must adhere to before the approvals for distressed funding will be done (done on a case-by-case basis). These restrictions include:

- Management remuneration
- Payment of dividends
- Repayment of shareholder loans
- Existing shareholders disposing of their shareholding
- Payments to creditors
- Capital repayment of bank loans
- Job losses (Mondi, n.d.).

From time to time (as the need is identified), the IDC develops specific pricing schemes aimed at addressing market failures and the achievement of strategic objectives such as SMME development, sector development, exceptional impact on job creation, broad-based Black Economic Empowerment (BBBEE), industrial development zones and rural development.

These pricing schemes have a pre-determined validity period and budget, and typically involve lower interest rates/ required internal rates of return (IRR) and different conditions

such as lower collateral requirements, longer-term financing, lower contribution from promoters and longer repayment holidays than other financing (Mondi, n.d.).

2.5.5.2 Basic business support

The IDC also offers business support to entrepreneurs on two levels, catering to prospective clients and existing clients through their Business Support Programme (BSP). Prospective clients who aim to improve their business plans in order to meet the funding criteria posed by the IDC can be assisted by the BSP through regional offices and satellite branches (Industrial Development Corporation, 2012). The existing clients of the IDC that face distress or growth challenges are also referred to the BSP where the management consultants and industry experts of the BSP will provide professional services, advice, guidance and mentoring to the entrepreneurs. These business consultants are funded through grant funding where the entrepreneurs share in the costs incurred (Industrial Development Corporation, 2012).

In general the BSP programme of the IDC was developed to provide support in terms of:

- Potential clients in preparing a business plan.
- Existing clients where for example, shortcomings in the management capacity have been identified, if a short term intervention is required or if they experience financial difficulties.
- The funding for the business support is born partly by IDC.

Furthermore the IDC will aim to empower their current and prospective clients by sponsoring customised, demand-driven courses such as basic business skills for SMMEs, building contractor workshops, transport-owner driven seminar and franchisors training (Mondi, n.d.).

2.5.5.3 Post investment client monitoring

Once any type of funding has been approved by the IDC, the Post Investment Monitoring Department (PIMD) will become involved in order to proactively monitor the investments of the IDC and will do so on a continuous basis. As a result, early warning signs are identified and corrective measures can be taken, thus protecting the interests of the IDC while limiting potential losses (Industrial Development Corporation, 2012).

The monitoring and corrective actions of PIMD include:

- Receiving and analysing the financial statements of the client. This involves a comparison between the projections of when the funds were approved to the actual statements and ensuring compliance to the predetermined agreements.
- The performance of the investments made by the IDC is monitored through regular meetings of the Equity- and Loans Investment Monitoring Committees (IMCs) through which non-performing and potentially non-performing clients can be identified and the best corrective course of action can be determined.
- Annual business reviews ensure that the IDC can identify clients with high-risk profiles in order to identify and address challenges in a timely manner.
- The IDC has the right to appoint a director to serve on the client's board in order to protect the equity investment of the IDC.
- The PIMD also monitors whether the proposed developmental outcomes, such as job creation, B-BBEE, etc., are achieved and whether the funds which IDC availed are used for the intended purpose.

Should the PIMD identify companies that are in serious distress, these companies will be referred to the Workout and Restructuring Department (W&R) of the IDC. This unit is responsible for developing turnaround solutions and assists entrepreneurs in the recovery phase (Industrial Development Corporation, 2012).

2.5.5.4 Workout and Restructuring

As mentioned above, only companies which PIMD regards as facing financial distress are referred to the Workout and Restructuring Department (W&R). The W&R is responsible for developing turnaround solutions for the specific company, thus saving jobs and fostering a sustainable business. Additionally, the W&R can also assist the Legal department with recoveries when businesses fail (Industrial Development Corporation, 2012).

2.5.6 Success rate of the IDC

According to the Integrated Report of the IDC (For the year ended 31 March 2014), its key achievements cited for the period are:

- A record of R13.8 billion in approved funding; higher than the previous record of R13.5 billion in 2011/12.

- Projects in rural areas funded with R6.5 billion, up from R6.1 billion the previous year.
- Support of renewable energy as the basis of a new industry with a R6.6 billion investment in Round 3 of government's REIPPP Programme.
- Attaining the second highest disbursement funding level of R11.2 billion.
- R1 billion of the Gro-E scheme earmarked for businesses owned by young people as part of the Youth Employment Accord signed during the year.
- Increased pre-tax profits by 11% to R2.2 billion.
- Successfully launched a R1.5 billion public bond to meet growing funding commitments.
- IDC subsidiary SEFA approved R1.1 billion in funding for SMME development; a 142% increase on the R440 million approved in 2012/13.

(Industrial Development Corporation, 2014).

In the next section the Business Partners institution will be discussed.

2.6 *Business Partners*

This section will provide an overview of Business Partners Limited in order to ensure that the mandate of the institution as well as the process the applicants will go through is clear.

2.6.1 **The mandate of the Business Partners**

As an acknowledgement of the impact that entrepreneurship can have on the South African economy, the Rupert family established Business Partners Limited in 1981 to aid SMMEs in overcoming the challenges that they encounter. . Business Partners Limited was established with two strategic objectives:

- **“doing good”** – facilitating access to funding for entrepreneurs who pursue wealth for themselves, intent to grow the economy thus enlarging the tax base by creating employment opportunities; and
- **“doing well”** – centres on the notion of sustainability. Business Partners Limited must be profitable enough to provide return on equity, thus ensuring that there is a large enough (and growing) reservoir of funds available in order to aid “doing good” (Business Partners, 2013).

The main objective of Business Partners Limited is noted as: “to develop the small and medium business sector in Southern Africa, and to be interested, either through direct investment or through the management of funds, in small enterprises in Southern Africa and other regions of the world” (Business Partners, 2013).

In addition to the main objective of Business Partners Limited, the main business is cited as: “the financing of small and medium business undertakings in Southern Africa by the provision of share and loan capital on a short-, medium- and long-term basis” – “the provision of business infrastructure, advice, after-care service, as well as underwriting and loan guarantees” and – “the promotion of private enterprise in Southern Africa” (Business Partners, 2013).

Moreover, Business Partners have five strategic principles which underpin the company’s operations:

- 1) A single-minded, unwavering focus on SMMEs:** Business Partners Limited has acquired skills and knowledge of all of the factors that affect SMMEs due to their specialisation in the growth of SMMEs which enables them to contribute to the success of the SMMEs they support.
- 2) A comprehensive SMME-friendly service offering:** this entails risk finance solutions, mentorship, technical assistance and consulting services as well as the provision of business premises in order to aid entrepreneurial SMMEs.
- 3) World class systems, processes and infrastructure:** Business Partners Limited can provide all of their services in an efficient and cost-effective manner due to the fact that their processes and systems have been developed in accordance with the International Organisation for Standardisation (IOS).
- 4) Our people are passionate about SMMEs:** Business Partners Limited has skilled employees, who are committed to entrepreneurship in all of its facets. These employees continuously receive training and opportunities to progress in order to retain them.
- 5) Our decentralised offices ensure proximity to clients:** This enables Business Partners Limited to have a wide local network which can assist with due diligence, post-investment and value-added services (Business Partners, 2013).

From the above-mentioned information regarding the mandate of Business Partners Limited, the following vision and mission statements were derived.

2.6.2 Vision and mission statements of Business Partners

According to the 2013 Annual Report of Business Partners, the vision and mission statements of the organisation are outlined below.

a) Vision

“Our vision is to live our name, being the premier business partner for small and medium enterprises, facilitating wealth creation, job creation and shared economic development.”

b) Mission

“Our mission is to invest capital, skill and knowledge into viable entrepreneurial enterprises in SA, Africa and all markets where we have a presence.”

The focus of Business Partners therefore falls squarely on job creation and thus economic development which Business Partners aims to achieve through investing resources in the creation of knowledge.

From the vision and mission statements of Business Partners, the following goals and values are identified:

c) Goals

“Our goal is to be an internationally respected, successful and profitable business partner for SMMEs.”

d) Values

- **Business and Personal Integrity:**
 - Honesty, integrity and respect for human dignity are imbued in both our business and personal conduct.
- **Superior Client Service:**
 - We exist for our clients and enjoy serving them. We aim to delight our clients with our products (innovative solutions) and the quality of our service.
- **Economic merit:**
 - Underpins all our investment decisions, ensuring access to business finance and added value service for all communities we serve. Economic merit also

underpins all our operational decisions, ensuring our long-term sustainability to deliver optimum value for clients and shareholders alike.

- **Entrepreneurship:**
 - Our entrepreneurial approach to doing business enables us to partner with our clients in the success of their businesses (Business Partners, 2013).

2.6.3 Funding activities of the Business Partners

The financing model implemented by Business Partners Limited has been acclaimed internationally due to its innovativeness. The due diligence process of Business Partners Limited ensures that any proposed funding can be thoroughly assessed before the funding is granted, thus ensuring that it is a working financing solution for developing countries. The viability of the proposed venture is the paramount investment criteria on which Business Partners Limited base their funding decision. Two main aspects constitute a viable business, namely 1) the business and 2) the entrepreneur.

In order to determine the viability of a proposed venture, the following aspects of the product/ service are taken into consideration when the business plans are evaluated: 1) market acceptability, 2) market size, 3) gearing of the business, 4) ability to exist and grow, 5) history, 6) the stage of its development, 7) medium- to long-term profit potential, 8) technical aspects and the location. The other aspect of a viable business, namely the entrepreneur is evaluated in terms of the ability of the individual to run a successful business, the integrity and drive of the entrepreneur and whether or not the entrepreneur has the needed experience and vision.

The official website of Business Partners Limited describes the funding potential of a venture as follows: “All entrepreneurs with a viable or potentially-viable formal business will be considered for investment financing. Each application is considered on its merits and on the potential profitability of the enterprise. The skills, experience and industry knowledge of the entrepreneur (or entrepreneurs), as well as the market need for the business’s products or services, are two of the most important criteria considered when assessing an application for investment financing” (Business Partners, 2014).

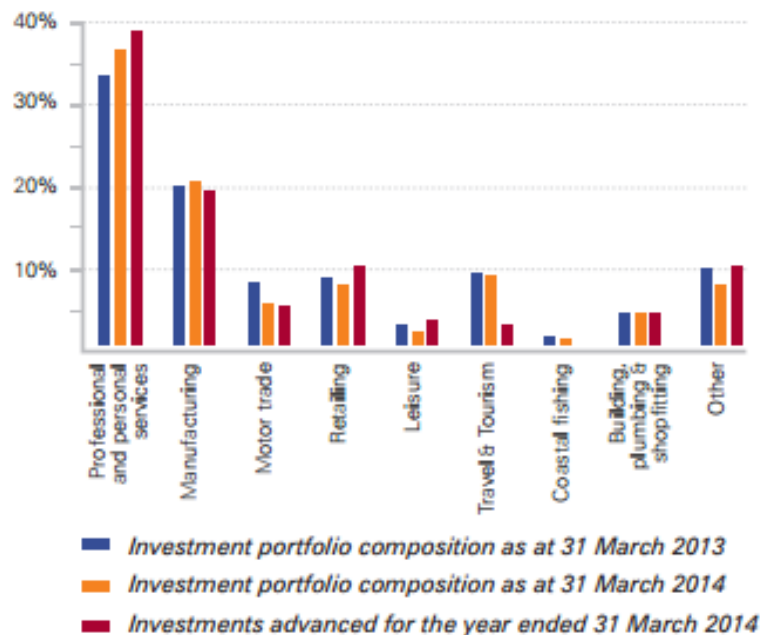
Business Partners Limited finances all sectors of the economy, with the following exceptions:

- on-lending activities, direct farming operations, underground mining and non-profit organisations

- Maximum of R25 million
- Gross assets must be below R100 million
- Turnover cannot exceed R200 million
- Employees are less than 500 in number
- Applications below R500 000 as Business Partners Limited does not operate in the informal or micro enterprise sectors (funded only in exceptional cases) (Business Partners, 2014).

The composition of the investment portfolio of Business Partners Limited as at 31 March 2013 is indicated in figure 2.16. From this figure it is clear that the majority of Business Partners Limited funding activities is in the professional and personal services industry as well as the Manufacturing industry. Coastal fishing and Leisure are the least funded industries.

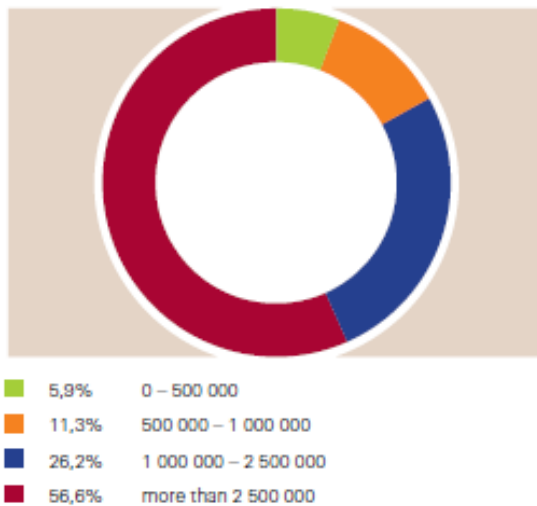
Figure 2.16: The distribution of the Business Partners Limited investment by sector.



Source: (Business Partners, 2013)

The investment parameters within which Business Partners Limited invest ranges from financing options of more than R500 000 (preferably) and will in exceptional cases provide up to R5million worth of funding. The majority of the investments made for 2013 was in the “more than 2 500 000” bracket with 56.6% of the total investments. Figure 2.17 provides an overview of the stratification of the investments of Business Partners Limited.

Figure 2.17: Stratification of investments.



Source: (Business Partners Annual report, 2013).

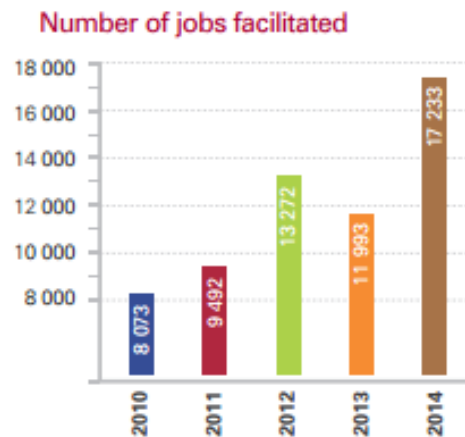
The specific focus of the funding activities of Business Partners Limited falls specifically on the SMMEs who require a minimum of R500 000 funding, however, this institution has also recognised the importance of start-up and small businesses to continuously bring new products to market and therefore the Venture Fund has been developed. This fund considers early stage investments once the research and development phase of the proposed venture is completed and the product is market ready in high potential industries. Industries such as clean energy, agri-processing, bio-tech and ICT are considered high potential industries.

Additionally, ideas that are generated at tertiary institutions, incubator programmes, innovation hubs and industry groups will also be considered in this fund (Business Partners, 2014). It must be noted that the current investment in this fund is still very limited as merely 5.9% of the current investment falls in the R0 – R500 000 funding bracket.

Moreover the Property Investments and Property Management Services of Business Partners Limited own, manage and develop industrial as well as commercial properties. These properties are specifically for the benefit of small and medium businesses throughout SA as they can rent these premises from Business Partners Limited (Business Partners, 2014). Entrepreneurs who make use of this portfolio of Business Partners Limited will have two options as they can go into a joint venture with Business Partners Limited or acquire owner occupied property. Joint venture implies that Business Partners not only leases business premises to entrepreneurs, but they will also co-invest in multi-tenanted property projects with entrepreneurs. Owner occupied property refers to entrepreneurs who choose to buy their own premises, and obtain up to 100% of the funding from Business Partners Limited, should the entrepreneur qualify for this agreement (Business Partners, 2014).

Through the investments of Business Partners Limited, the creation of several job opportunities has been facilitated. In 2014 a noteworthy 17 233 jobs (which is significantly higher than 11 993 jobs in 2013) were facilitated. Figure 2.18 below serves an illustration of the employment opportunities created.

Figure 2.18: Number of jobs facilitated by Business Partners Limited between 2010 – 2014.



Source: (Business Partners, 2014).

The own contribution of entrepreneurs remain important as it effects the viability of the project. If entrepreneurs cannot contribute it places strain on the gearing of the business, which negatively influences the viability of the venture. However, Business Partners Limited does not require a fixed minimum own contribution from entrepreneurs, as this is influenced by each unique transaction. The security required by Business Partners Limited is influenced by the transaction which the entrepreneurs are able to offer; and this in turn effects the overall pricing of the finance. Typically the repayment period of Business Partners Limited is five years, although this period increases to ten years for property transactions. Business Partners Limited does not offer bridging finance over short periods of time, as investments are structured using term loans, equity and shareholders' loan accounts or any combination of these (Business Partners, 2014).

Nevertheless, before an entrepreneur can apply for finance from Business Partners Limited, a complete business plan is required. This business plan must be according to the guidelines of Business Partners Limited, which are discussed in the following section (Business Partners, 2014).

2.6.4 The process which Business Partners implements

As noted, Business Partners focus on two aspects when evaluating an investment proposal namely the entrepreneur and the business. The entrepreneur must demonstrate the ability to successfully manage a business, and the business plan must prove the business is viable. However, each application is considered on its merits and on the potential profitability of the enterprise.

For an entrepreneur to apply for funding, a complete business plan (according to the specifications of Business Partners) is needed. This business plan will be evaluated and the entrepreneur will receive a principle decision within 7 days of receiving the business plan. Hereafter, negotiations, due diligence and a submission to the investment committee of Business Partners will follow. These negotiations are vital as the terms and conditions (such as interest rates, security, repayment term, own contribution, etc.) of investments vary from business to business as each investment is individually structured.

The key aspects that Business Partners Limited requires in a successful business plan are listed below:

1. A comprehensive breakdown of what needs to be financed;
2. The entrepreneur's own contribution;
3. Up-to-date financials and realistic projections that present a sustainable viable business (if it's an existing business);
4. Providing the viability of the transaction, ability to meet all cash flow commitments (debt repayment, creditors and other cash expenses) and to generate a decent and acceptable return to the shareholders;
5. Demonstrating that all aspects relating to a successful business have been considered (including human resources, marketing, finance, technical, production and corporate governance);
6. Demonstrated regulatory compliance (tax affairs must be in order, for example);
7. Demonstrating the ability and experience of managers and key staff to successfully implement and manage the business into the future;
8. Basing all intentions and forecasts in the business plan on reasonable assumptions, supported with relevant documentation as far as possible;
9. Documenting all information in the business plan. The business plan should be a single document, comprising all elements as per the guide and key factors mentioned.

Through their business plans, the potential clients of Business Partners Limited must illustrate their understanding of the existing/ proposed business and specific attention must be given to four key areas, namely:

- the business itself,
- the management of the business (the entrepreneurs involved),
- the market in which the business operates,
- the financial management, and planning – the risks and rewards associated with the total investment in the business.

Business Partners Limited requires a variety of sections to be present in every business plan that reaches them for funding consideration and these sections are listed in Appendix C.

2.6.5 Business Partners' services

Business Partners Limited acknowledges the importance of mentorship as a practice where business problems are identified and solved while knowledge and expertise is shared. Thus Business Partners Limited has established a division that focus on the mentorship aspect, however the mentorship provided in this division can only be obtained once the funding has been approved. Entrepreneurs will still have to go through the process of developing the business concept and business plan on their own, obtaining help only once the loan has been approved clients. The mentorship is provided by retired business executives, who can guide entrepreneurs through general business aspects and by consultants who are deployed when specialist knowledge is required (Business Partners Annual Report, 2013; Business Partners, 2014).

2.6.5.1 Basic business support

The services offered can be categorised into four types of services, namely counselling, specialised assistance, sectoral assistance and turnarounds. Each of these will be summarised in table 2.12.

Table 2.12: Summary of the types of business support offered by Business Partners Limited.

Counselling	Specialised assistance	Sectoral assistance	Turnarounds
Full spectrum of functions of managing a business will be covered once funding has been approved.	Deployed when specialised assistance is needed with specific management functions such as budgets, administration, credit control, cash flow, information systems, marketing, expansion etc., only when the needed expertise are not internally available and the support is needed for a short period of time.	Consultants or mentors with knowledge of a specific business may be required for sectoral assistance, when a specific type of business, such as restaurant, hotel, bakery, garage, etc. needs assistance.	Should a business run into financial trouble a mentor or consultant can assist to turn the business around to profitability.

Source: (Author's own construction).

From table 2.12 it is clear that Business Partners Limited offers a variety of different types of business support. However, it should be noted that these business services can only be obtained once the entrepreneur has managed to successfully apply to funding. These services are not available to entrepreneurs who are in the process of structuring their business in terms of the business plan.

2.6.6 Success rate of the Business Partners

Despite the tough and challenging global and local economic and business environment, Business Partners Limited posted good financial results and credible operational results during its 2012/13 financial year ending March 2013.

The financial results include:

- Total income of R428,5 million was 6,2 percent higher than in the previous financial year, largely attributable to a healthy increase in net property revenues
- Staff costs and other expenses were tightly managed, decreasing by 0,9 percent

- Net credit losses, at R44,9 million, were 31,0 percent lower than during the previous financial year. The low interest rate environment, as well as the efforts of the post investment team in assisting clients out of distress, paid handsome dividends during the course of the year
- Net profit after tax was R136,3 million, 36,2 percent higher than the previous financial year's result The operational results were somewhat mixed. New business concluded during the 2012/13 year (with the corresponding performance in the previous year in parentheses) was as follows:
 - 331 (361) deals were approved to the value of R891,7 million (R935,2 million)
 - 251 (307) deals were disbursed to the value of R600,8 million (R803,4 million)
 - Approving a total value of R891.7 million to finance SMMEs in 331 transactions Outstanding balances of clients in distress decreased significantly from 21.1 percent to 17.9 percent
 - Net credit losses declined by 31% compared to the previous year (Business Partners, 2013).

From the above-mentioned statistics regarding the financial well-being of Business Partners it is clear that they have managed to establish a successful venture and through continuously monitoring and updating every section of their process they are able to reduce financial losses and increase their net profit rather significantly from the previous year.

The next institution that will be discusses is the National Empowerment Fund (NEF).

2.7 National Empowerment Fund (NEF)

This section will provide an overview of the National Empowerment Fund (NEF) in order to ensure that the mandate of the institution as well as the process the applicants will go through is clear.

2.7.1 The mandate of the NEF

During 1998 the National Empowerment Fund (NEF) was established with Act no 105 (NEF Act) with the mandate for BB-BEE in order to enable black South Africans to participate meaningfully in the economy. The NEF achieves this mandate by providing financial and non-financial support to black empowered businesses while promoting a culture of saving and investment among black people.

The NEF focuses on assuming a predominantly equity-based risk to maximise the Empowerment Dividend as the reward should balance the risk. Sound commercial decisions by the NEF must support national priorities and government policies such as the Accelerated and Shared Growth Initiative for SA (AsgiSA) (National Empowerment Fund, 2014a:1 of 2; National Empowerment Fund, 2014b:1 of 2; National Empowerment Fund, 2014c:1 of 2). Additionally the Public Finance Management Act No 1 of 1991 (PFMA), along with the National Treasury Regulations, the King III Report on Governance for SA and the Protocol on Corporate Governance in the Public Sector, 2002, governs the operations of the NEF.

The Codes of Good Practice as outlined in the Broad-Based Black Economic Empowerment (BB-BEE) Act No. 53 of 2003 which apply specifically to the NEF are:

- **Participation by Black women:** The target set by NEF for woman's participation is 40% of the BEE ownership level in each transaction.
- **Job Creation:** The NEF focuses on the number of jobs that were either created, or sustained, through their investments
- **Investment in Priority Growth Sectors:** New Growth Path and the National Industrial Policy Framework (NIPF) and Industrial Policy Action Plan (IPAP) have identified priority sectors of the economy and the NEF facilitates Black ownership particularly in these sectors.
- **Geographic Spread:** The NEF aims to achieve a geographic spread of investments and contribution towards increased economic activity across all provinces.
- **Investment Return** - The real return that each Fund realises on capital employed, after the impairment ratios experienced for that fund, as a combined measure of debt, equity and quasi-equity invested. Targeted invested returns are in the range of 12% to 15%.

2.7.2 Vision and mission statements of the NEF

The vision and mission statements of the NEF can be obtained from the official NEF website. The vision and mission, as outlined on the website, is discussed below.

Vision

The NEF's vision is to become the leading provider of innovative transformation solutions for and economically inclusive SA.

It should be noted that the NEF focus their funding and support activities exclusively at black economic empowerment (National Empowerment Fund, 2014).

Mission

The NEF is a catalyst for Broad-Based Black Economic Empowerment (B-BBEE) in SA. We promote, enable, implement and develop innovative investment and transformation solutions to advance sustainable black economic participation in the economy.

The **values** that drive the NEF is summarised with the acronym EMPOWER.

Ethics, Motivation, Performance, Ownership, Worthy, Excellence, Respect.

The NEF has outlined specific policy objectives in the NEF Act to enable them to attain the vision and mission statements as mentioned above. These policy objectives are:

1. Provide black people with the opportunity of acquiring shares or an ownership interest in SOCEs (State Owned Commercial Enterprises)
2. Encourage and promote savings, investment and meaningful economic participation by black people
3. Promote and support business ventures pioneered and run by black enterprises
4. Promote a thorough understanding of the concept of equity ownership among black people
5. Contribute to the creation of employment opportunities
6. Encourage the development of a competitive and effective equities market that involves all persons in the Republic
7. Generally employ such schemes, businesses and enterprises as may be necessary to achieve the objectives of the NEF Act

The mandate of the NEF is structured in such a manner that the above-mentioned objectives are met through the following core activities:

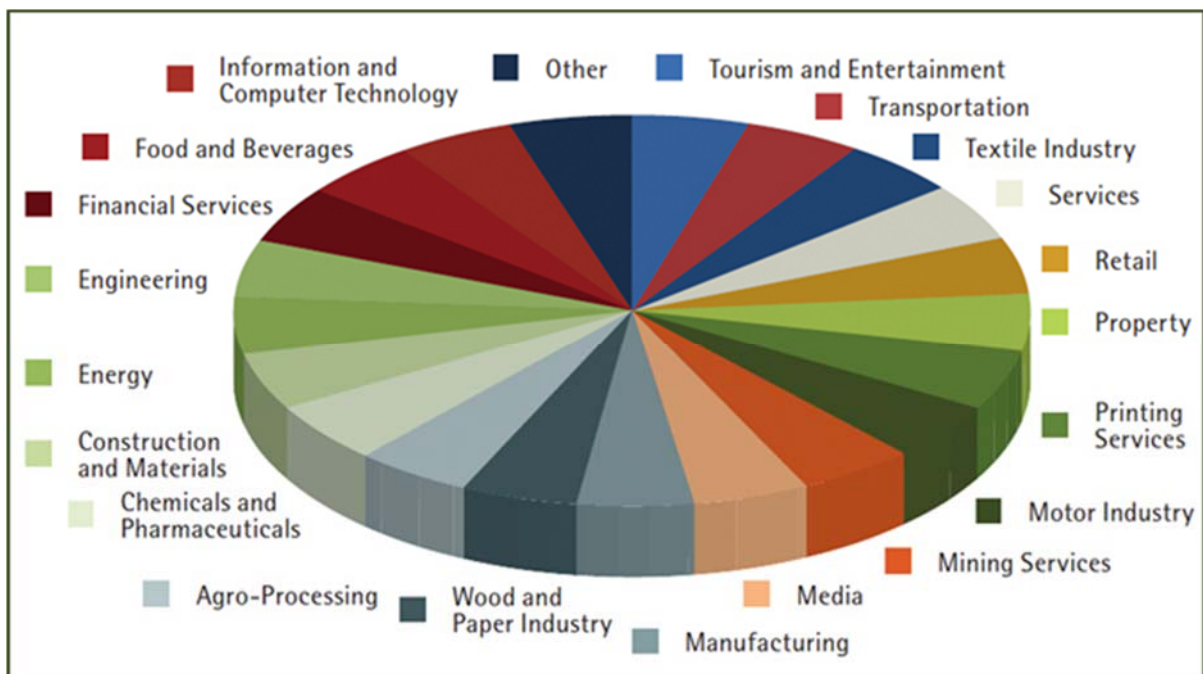
- The Venture Capital and Corporate Finance Division, consisting of uMnotho Fund and the Strategic Projects Fund
- The SME and Rural Development Division, which consists of the Pre-Investment Unit, iMbewu Fund, the Rural and Community Development Fund, the Socio-Economic Development Unit and Regional Offices. The iMbewu Fund focuses on providing funding for SMEs (Small and Medium Enterprises) while the Rural and Community Development Fund is committed to supporting the financing and establishment of sustainable rural enterprises

- Office of the General Counsel, which consists of the Legal Department and the Post Investment Unit, supports services to the invested portfolio its beneficiaries.

2.7.3 Funding activities of the NEF

The NEF does not focus their funding activities on specific sectors, thus the NEF funds a wide variety of sectors. Regardless of this, 18% of the funding that the NEF provides has been invested in manufacturing and related sectors due to the impact of industrialisation on job creation. The sectors the NEF fund is illustrated in figure 2.19 (National Empowerment Fund, 2014c:1 of 2).

Figure 2.19: The sectors which the NEF fund.



Source: (National Empowerment Fund, 2014c:1 of 2).

The funding range of the NEF varies from R250 000 – R 75 million in the various funding initiatives they boast. These funding initiatives are discussed following section 2.7.5 (NEF's services).

2.7.4 The process which NEF implements

Upon applying for funding at the NEF, entrepreneurs must submit an application form where their business case is presented for assessment. These applications must include

comprehensive information in order to prove both the commercial viability and the financial position of the business and will be evaluated in terms of the following criteria:

- Commercial viability of the business case being presented
- The business must comply with all relevant laws and regulations
- There must be operational involvement at the managerial and board levels by black people
- Minimum percentage of black ownership or interest of 50.1% is a requirement
- The business must be able to repay NEF funding
- The business must create a reasonable number of jobs
- Geographic location of the business is also important with the focus on rural or economically depressed areas encouraged
- Meaningful black women participation is viewed more favourably
- Rural and Community Development Projects must have meaningful participation by communities
- Possibility of co-funding with private or public sector institutions is encouraged in larger projects (National Empowerment Fund, 2014e:1 of 2).

Additionally, the business plan guidelines which the NEF provide differ from existing businesses to start-up businesses. In order to assist entrepreneurs in this, the NEF has developed business plan guidelines which highlight the various topics you need to include when submitting the application form. An outline of the required documentation as well as the business plan guidelines as expected by the NEF will be given in Appendix D.

Any application submitted to the NEF for review will go through several steps before the funding decision is made, these steps are:

- Screening of funding application form
- Submission to investment committee
- Due diligence process
- Re-submission of final report
- Legal process and procedures
- Disbursement

2.7.5 NEF's services

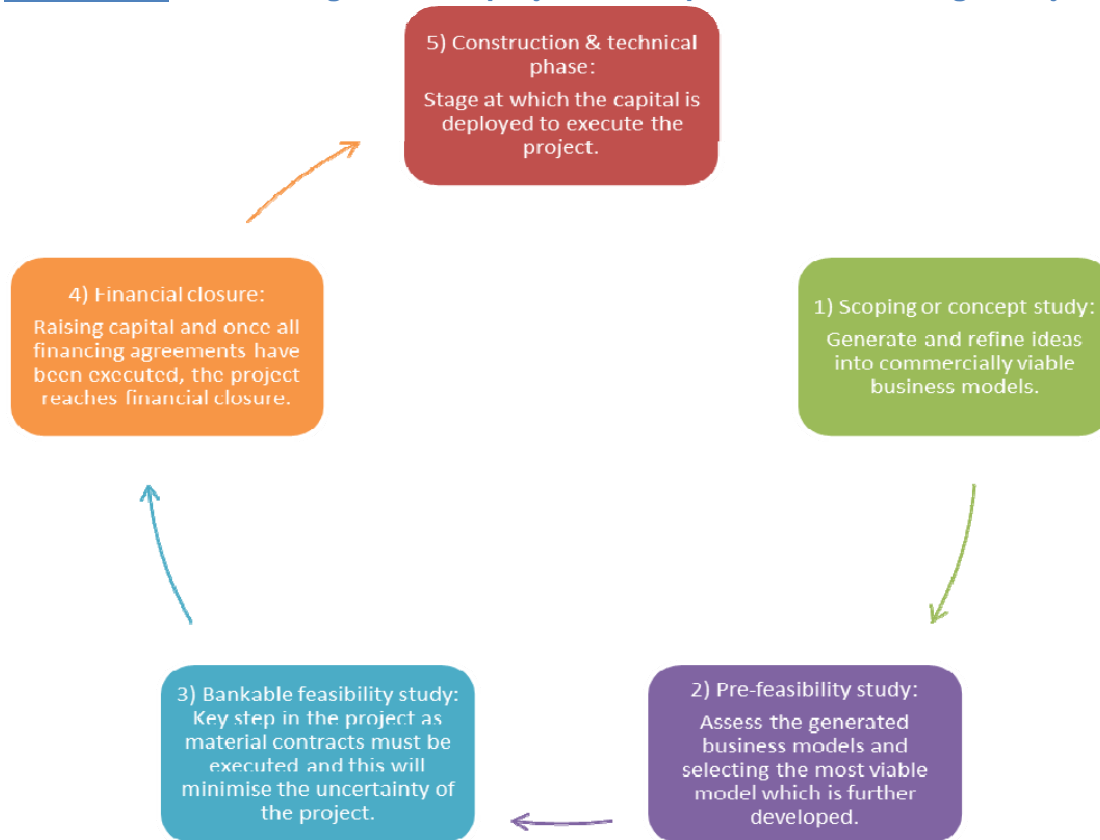
The NEF offers a variety of services to support black entrepreneurs and businesses as it implements in mandate in three ways, namely 1) Asset Management, 2) Fund Management

and 3) Strategic Projects Fund. It is thus vital that applicants do needs- analysis to determine how the NEF is able to assist them in their business needs.

Through 1) Asset Management accessible retail saving is structured for black people through the NEF, this also aids the NEF with their aim to foster a culture of savings and investment. The 2) Fund Management supports BB-BEE through offering financial and non-financial services to black empowered businesses in a range of sectors. The aim of the 3) Strategic Projects Fund (SPF) is to identify opportunities for the early-stage involvement of black empowered businesses within the sectors identified by the RSA government as key drivers to the economic growth (National Empowerment Fund, 2014b:1 of 2; National Empowerment Fund, 2014b:1 of 2). The sectors identified based on the IPAP and the New Growth Path are Agriculture; Business Process Outsourcing [Call centres, data storage centres and termination centres]; Textiles; Mining, Mineral Processing and Mineral Beneficiation; Automobiles; Renewable Energy and Biofuels [solar, biomass, hydro, co-gen and wind]; Plastics; Pharmaceuticals and Chemicals; Forestry, Pulp and Paper; Infrastructure [telcoms, healthcare, roads, rail airports, dams and water]; Manufacturing and Tourism [hotels, resorts, tourism attractions and leisure].

Projects which are in the sectors identified by government as key drivers to SA's economic growth will be taken through 6-stages of project development. These stages are 1) Scoping and Concept Study; 2) Pre-Feasibility Study; 3) Bankable Feasibility Study; 4) Financial Closure; 5) Construction Phase; and 6) Technical Completion although the construction phase and technical completion phase are regarded as the combined last stage in figure 2.20. All of these stages are indicated in figure 2.20.

Figure 2.20: The 5-stages of NEF project development in the Strategic Projects Fund.



Source: (National Empowerment Fund, 2014e:1 of 2)

Additionally the NEF offers the following products and services, as indicated on their website:

- iMbewu Fund
 - This fund supports both black entrepreneurs who are in the process of starting a new business as well as existing black-owned enterprises with expansion capital. This fund offers debt, quasi-equity and equity finance products. The funding threshold ranges from a minimum of R250 000 to a maximum of R10 million.
 - This fund is delivered through Entrepreneurship Finance, Procurement Finance and Franchise Finance.
 - The key criteria of this product are:
 - BEE applicants should be actively involved in the day-to-day management of the business
 - Minimum black ownership of 50.1% is a requirement

- Business and/or industry experience by black entrepreneurs is also considered
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme where there is lack of business and/or Industry experience
- The business should be able to repay NEF's investment
- Funding Instruments include term-loans, shares and other structures with ordinary share characteristics
- NEF funding is charged at prime linked interest rates
- Business must have a clear value-add with a sustainable business case
- Maximum NEF funding is R5 million
- The NEF will exit from the investment in 5 to 7 years (National Empowerment Fund, 2014g:1 of 2).
- uMnotho Fund
 - This fund was developed to improve access to BEE capital and has five products:
 - Acquisition Finance, Project Finance, Expansion Finance, Capital Markets Fund and Liquidity and Warehousing
 - Through these products, the NEF provides a) capital to black-owned and managed enterprises, b) black entrepreneurs who are buying equity shares in established black and white owned enterprises, c) entrepreneurs who are starting new ventures, d) expanding existing businesses and e) BEE businesses that are, or wish to be, listed on the JSE.
 - Funding in this fund ranges from R2 million to R75 million.
 - Key criteria of this product are:
 - BEE applicants seeking to fund equity purchases of between R2 million and R75 million in existing businesses
 - Focus on medium to large companies
 - Focus on partnerships with existing management teams and other equity investors
 - Minimum BEE ownership of 25.1% post NEF investment
 - Active BEE management participation
 - Active BEE involvement in investee companies
 - BEE Financial contribution determined on case-by-case basis

- Investment instruments can include a combination of debt, equity and mezzanine finance
 - The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme
 - Typical investment horizon of 4 to 7 years
 - Security to include personal suretyship (National Empowerment Fund, 2014h:1 of 2).
- Rural and Community Development Fund
 - This fund was designed to finance sustainable enterprises in order to promote sustainable change and economic relations in the rural economy, while supporting the goals of growth and development. This would be achieved through the mobilisation of rural communities in legal entities or cooperatives, in order to participate in the broader economic activities and realise the economic transformation goals in rural SA.
 - The fund has four products: Project Finance, Business Acquisition, Expansion Capital and Start-up/Greenfields
 - The funding threshold ranges from a minimum of R1 million to R50 million.
 - The sectors that this funded by this specific fund include:
 - Primary and Secondary Agriculture, Agro Processing, Manufacturing, Tourism, Agro Forestry, Retail Property Development, Aqua and Marine Culture, Small Scale Mining, Renewal Energy (National Empowerment Fund, 2014i:1 of 2).

The NEF launched the Enterprise Development Fund (NEF ED Fund) during 2011 with the critical focus of enterprise development. The aim of this fund is to encourage contributors to identify opportunities for new enterprise creation in their own value chains and provide technical support to the entrepreneurs (National Empowerment Fund, 2014j:1 of 2).

The non-financial business support that the NEF offers are seen in two units namely the pre-investment unit (PIU) and the post-investment unit (POIU). The PIU assists entrepreneurs with funding advice, business planning and general assistance as some applicants may be excellent entrepreneurs, but struggle with the application process and to manage their businesses. Hence the quality of applicants can be raised to a level where all the steps in the application process can be completed through the assistance of this unit.

The primary functions of the PIU are:

- To provide information on NEF products and procedures to applicants
- Control and assist applicants in drawing up funding applications
- Identify applications that will qualify for funding
- Keep clients informed on the progress of their applications
- Advise applicants and assist them in drawing up business plans
- Facilitate business development

The POIU on the other hand was established to monitor successful applicants in order to identify risks in a timely manner and to provide advice as needed. The POIU is responsible for:

- Regular portfolio monitoring
- Regular collections management and credit control
- Mini restructure of distressed investments
- Turnaround and rescue of highly distressed investments
- Legal and workouts
- Active board seats on larger investments
- Mentorship and technical assistance
- Valuations of investee companies
- Impairments of investments; bad debt write-off
- Legal Compliance
- Portfolio Management
- Portfolio Risk Management
- Additional funding on existing investments
- Exits on matured investments
- Knowledge Management
- Providing a superior customer relationship management channel for all NEF's Investees (National Empowerment Fund, 2013).

2.7.6 Success rate of NEF

The NEF has identified typical reasons for market failure from the customer's point of view and developed specific solutions to these issues in order to improve their success rate. These issues, and the solutions the NEF offers, are:

- Limited own capital
 - NEF solution:

- Funding of between R250 000 and R75 million for start-up, expansion and equity transformation purposes as well as use of concessionary facilities
- Access to affordable capital
 - NEF solution:
 - Online business-planning solution and dedicated mentorship support
- Limited management skills, including financial, marketing and technical expertise
 - NEF solution:
 - Competitive cost of finance with a higher risk appetite as well as requirement for operational involvement (sweat-capital) reduces the need for collateral payment
- Lack of accurate and reliable financial information
 - NEF solution:
 - Online business-planning solution, dedicated mentorship support and technical assistance
- Poor quality of business plans
 - NEF solution:
 - Online business-planning solution with a module for financial projections and mentorship support
- Lower bargaining power and strong competition from established business with entrenched market dominance
 - NEF solution:
 - Linkages and emphasis on the implementation of the codes of Good Practises (BB-BEE)
- Lack of access to local and international markets
 - NEF solution:
 - Linkages with off-takes (National Empowerment Fund, 2014k:1 of 2)

The highlights of the NEF are summarised in the following key points in figure 2.21:

Figure 2.21: 2014 performance highlights of the NEF.

2014 HIGHLIGHTS				
Approved investments	Disbursed amount	Jobs supported	Cash collected	Value of industrial projects
30 transactions worth R418.4 million	R636 million	3 621	84% more than 2013 R351 million	R32 billion

Source: (NEF Annual Report, 2014).

From figure 2.21 above, it can be seen that the NEF approved 30 transactions which was worth R418.4 million. The total disbursed amount (i.e. the amount paid to entrepreneurs) amounted to R636 million. Through the efforts of the NEF 3 621 jobs were created while R351 million was collected from the funded entrepreneurs. The total industrial value of the projects funded by the NEF is reported as R32 billion (NEFCORP, 2014).

2.8 Comparison of the three (3) identified support institutions for SMMEs

In this section a comparison is drawn between the three support institutions that were included in this study. Through this the distinction between these institutions will be clear and additionally, possible shortcomings in terms of entrepreneurial needs may become evident.

Table 2.13: Comparison of the three (3) identified support institutions for SMMEs.

	IDC	Business Partners	NEF
Sectors funded	Agro-culture; Green industries; Strategic high impact projects; Chemicals and allied industries; Forestry and wood products; Media and motion pictures; Healthcare; Information and Communication technology; Metal, transport and machinery products; Mining and minerals beneficiation; Tourism; Textiles and clothing	Professional and personal services; Manufacturing; Motor trade; Retailing; Leisure; Travel and tourism; Coastal fishing; Building, plumbing and shop fixing	Information and computer technology; Food and beverages; Financial services; Engineering; Energy; Construction and materials; Chemicals and pharmaceuticals; Agro-processing; Wood and paper industry; Manufacturing; Media; Mining services; Motor industry; Printing services; Property; Retail; Textile industry services; Transportation; Tourism and entertainment
Size of loans offered	Minimum R1 Million Maximum R1 Billion	Minimum R500 000 (Can be lower in specific cases) Maximum R10 million	Minimum R250 000 Maximum R75 million (differs from fund to fund)

		(differs from fund to fund)	
Due diligence expected from entrepreneur	Security (Negotiated) Financial contribution	Security required, fixed minimum contribution	Business should be able to repay NEF's investment charged at prime linked interest rates
Application process	Standard and lengthy Outline of business plan expected for new venture: 1. Executive summary: General overview of the business 2. Legal entity 2.1 Shareholders and management 2.2 Broad-based black economic empowerment 2.3 Organograms 3. Technical 4. Capital Expenditure: land and buildings 4.1 Capital Expenditure: plant and equipment, furniture, motor vehicles, computer equipment, and so on 5. Production 6. Staffing 7. Marketing analysis 8. Financial information and forecasts 8.1 Balance sheet 8.2 Income statement	Customised Standardised business plan required Outline of business plan expected for new venture: 1. A cover or title page 2. Executive summary 3. Business overview 3.1. Business profile 3.2. The product or service 4. Company management 4.1. The entrepreneurs 4.2. The management structure of the business 4.3. Franchise information (where applicable) 5. The market 5.1. Industry analysis 5.2. Market analysis 6. Sales and marketing strategy 7. Financial statements and projections 8. Legal and regulatory environment	Fixed and lengthy process for established businesses as well as start-ups Outline of business plan expected for new venture: 1. Five (5) year financial projections (income statement, balance sheet, monthly cash flow statement) with the first year prepared on a monthly basis 2. Personal statements of assets and Liabilities of all company members or directors including those of spouses if person is married in Community of Property 3. Registration Documents and all the legal documents relevant to the entity 4. Detailed CV of principal applicant

		9. Swot analysis and risk/reward assessment 10. Appendices and supporting documentation	
Support services	Financial distress support (already in business through IDC) Basic business support (distress or growth concerns) Post investment monitoring (pro-actively monitor approved loans) Workout and restructuring (at risk of financial distress)	Counselling and support Diagnostic tools Turnaround Property management Venture fund (for small entrepreneurs)	Post investment and mentorship support

Source: (Author's own construction).

When considering the table above (table 2.13), all of the support institutions included in this study fund a variety of sectors. Since the due diligence process of each institution requires that a team of experts conduct an in-depth evaluation of the applications with potential the due diligence team must have in-depth, industry specific expertise in order to enable them to conduct a thorough evaluation. The implication hereof is that each of these support institutions must have a several experts for each sector they fund. Should each institution identify only a limited number of industries, they can truly gain in-depth expertise in the market conditions, industry life-cycle, potential opportunities and threats, etc. of those specific industries by conducting research in the specified sector. The research conducted in order to become sector-specific experts can then lead to further Research and Development (R&D) from the support institution, which again enables then to better assist entrepreneurs.

Furthermore, the size of the loans between the support institutions investigated differs significantly. The funding activities of the IDC commences at R1 million, which implies that the prospective entrepreneur would have to offer an escalated level of surety as well as a higher amount of their own contribution. Since the entrepreneurs who apply for financial support from the institution lack the needed funds to establish their own ventures, this might

be a barrier to these entrepreneurs. However, through the establishment of sefa in 2014, the IDC acknowledged the gap in the market for entrepreneurs who require lower amounts of start-up capital by creating three lending categories. The first category is for survivalist and micro enterprises where the entrepreneurs can apply for funding from R500 – R50 000. The second category is Small enterprises where the funding bracket is R50 000 – R 1 million and the third category is for the medium enterprises where the funding commences at a minimum of R1 million.

The positive effect of sefa on entrepreneurial development can be seen in the results of their 2014 Annual Report (2014) where it is noted that 46 407 entrepreneurs benefited from the various loan products that sefa offer to the value of R822 million. The entrepreneurs who were aided by sefa represent the section of the market that typically struggles to obtain financial support from the support institutions, namely youth (10 291 youth owned enterprises); woman (44 302 woman owned businesses), rural based enterprises (36 729) and black owned enterprises (43 643) (SEFA, 2014).

The minimum loan amount that Business Partners fund is R500 000, although they will venture below this mark in exceptional cases. Again security along with a fixed minimum contribution is required from the entrepreneur. It is only the NEF of the support institutions included in this study that will consider funding applications from R250 000 and the deal is structured in such a manner that the entrepreneur should be able to repay NEF's investment charged at prime linked interest rates. Availing funding for entrepreneurs who need smaller capital investments can be an excellent manner in which to further inculcate an entrepreneurial culture. Often times entrepreneurs need insignificant amounts of money from the institutions, such as R25 000 – R50 000 to fund their start-ups or a specific aspect pertaining to start-up. The risk associated with this amount of lending is limited; however it is acknowledged that the possible return on investment is limited too. This in turn can lead to more entrepreneurs being able to access funding in order to establish an entrepreneurial venture.

For all of these institutions the application process is a long and complicated one. There are several criteria to which the entrepreneurs need to comply as well as numerous documents to complete. The NEF is the only support institution that offers the applicants support during this phase. Both the IDC and Business Partners have many support programmes available to entrepreneurs after their application has been approved. Support in the form of day-to-day management tools, diagnostic tools and restructuring funds are available to entrepreneurs

once they have successfully obtained funding from IDC and Business Partners. However, the majority of the applicants are not successful in their application for funding as the business plan aspect of their application is not on standard or information have been omitted. The first barrier to overcome, i.e. adhere to all the initial requirements of these institutions are also the biggest barrier, as the entrepreneurs often lack the skills to, for example, draw up three years' worth of financial statements. Indeed entrepreneurs need the support of running the business and to identify possible risks or turn the business around should it head for failure; however the institutions are missing the opportunity to develop a business from idea phase (i.e. in the business plan phase) and truly construct the business in a way that restructuring and turnaround might not even be necessary.

Hereafter (section 2.9) a comparison will be made between the factors that serve as limiting factors to entrepreneurship and the support institutions discussed in section 2.5 – 2.7. This will be done in order to illustrate the possible discrepancies there might exist between the actions implemented by government in order to reduce the impact of the barriers to entrepreneurship and the cited limiting factors to entrepreneurship.

2.9 The support institutions and the limiting factors to entrepreneurship

Regardless of whether an institution to support new venture creation is established by the Government or privately funded organisations, the purpose of such an institution is to ease the process of establishing an entrepreneurial venture by providing efficient funding and support mechanisms.

In this section, the support institutions that were discussed above are scrutinised in terms of their contribution to alleviate the pressure/ impact of the limiting factors to entrepreneurship.

Table 2.14: Comparison of the support institutions to the limiting factors of entrepreneurship.

Limiting factor	Industrial Development Corporation (IDC)	Business Partners (Business Partners)	National Empowerment Fund (NEF)
Access to funding	Minimum loan amount = R1million	Minimum loan amount = R500 000	Minimum loan amount = R250 000

Theory	<p>Jones (2013) stated that “funding is not easily accessible and comes at a high cost.” Furthermore, Jones (2013) states that the application process of most support institutions is often bureaucratic and that the majority of SMMEs do not possess the collateral and financial records which are required of them in order to obtain a loan.</p> <p>Furthermore Mahembe (2011) argues that the terms and conditions under which the credit must be accessed are unfavourable to SMMEs and this is an additional problem. This implies that the amount of funding available is not the real barrier to funding, but rather that the product design/ services that are offered does not match the needs of the sector which it should serve (Mahembe, 2011).</p>
Lack of R&D transfer	No indication of R&D activities was made in the sources consulted.
Theory	<p>According to Wild (2013), unless SA invest in scientific research, we will continue to lag behind other developing economies. The importance of R&D spending can be seen in the fact that it is seen as an important indication of a country’s ability to compete internationally, offer new products and grow. If these three aspects (international competition, offering new products and growth) are achieved, SA would have an increased ability to reduce unemployment by creating jobs (Wild, 2013). In 2009 – 2010, however, the South African Government allocated merely 0.87% of its GDP of R2.395 trillion on R&D (Wild, 2013).</p> <p>According to David Kaplan, an economics professor at the University of Cape Town, the actual reason for the decline in R&D investment is an overall reluctance to invest in SA and the products produced here. The South African Government is still spending vast amounts of money on acquiring overseas technology, rather than investing in South African-made products.</p> <p>One of the key action plans by the Department: Science and Technology (DST) (2011) to increase investments in R&D is to develop and strengthen the National System of Innovation (NSI) by increasing the human skills base, research infrastructure capacity and knowledge generation through government funded science and research.</p>

<p>Education in primary and secondary school Education post school</p>	<p>Through the establishment of sefa, the IDC has expanded their focus to also assist youths.</p>	<p>No mention is made of outreach to schools/youth specifically.</p>	<p>The age range which the NEF focuses on is 18 to 35.</p>
<p>Theory</p>	<p>One of the biggest challenges that SA face is the low level of overall education and training. The improvement of the level of overall education and training and promotion of entrepreneurship should be a critical performance area for the South African Government to focus on (Nicolaidis, 2011).</p> <p>In order to support this statement, Nieuwenhuizen and Groenewald (2008) argue that individuals who have completed entrepreneurship courses are much more inclined to start entrepreneurial ventures when compared to the individuals who attend other business related courses, the importance of training young people in the field of entrepreneurship in order for them to be accommodated in the economy is vital (Nieuwenhuizen & Groenewald, 2008).</p>		
<p>Government programmes; National policy regulation; National policy general</p>	<p>Each of these institutions has a variety of pre-funding requisites including many legal and compliance aspects and they offer no support during this phase to entrepreneurs.</p>		
<p>Theory</p>	<p>In order to achieve economic growth and development, the South African Government has prioritised entrepreneurship and the advancement of SMMEs.</p> <p>In order to achieve economic growth and development, the South African Government has prioritised entrepreneurship and the advancement of SMMEs. One of the major roles that Government must fulfil in terms of supporting SMMEs is to provide an enabling policy, legal and regulatory environment for the development of businesses and to assist in the provision of basic infrastructure, education and information services (Baloyi, 2010). Thus the South African Government has invested in a wide range of initiatives aimed at supporting and growing the SMME sector for the past fifteen years (Mahembe, 2011; Department: Trade and Industry, n.d.).</p> <p>However, regardless of the vast amount of dedicated government agencies,</p>		

	<p>funding, training initiatives and private-sector involvement, entrepreneurship in SA is in a dire state as entrepreneurs struggle to access useful advice and finance (Jones, 2013).</p>
Cultural and social norms	<p>No mention was made of this aspect in either one of the three support institutions investigated.</p>
Theory	<p>A favourable legal and economic environment is conducive to entrepreneurship. However, for entrepreneurship to flourish, the individuals who consider entrepreneurship as a career needs a national culture that supports and encourages entrepreneurial activity in terms of the financial awards, sense of achievement, social status and individual fulfilment that the entrepreneurs experience (Lee & Peterson, 2000). The aspects of the culture of a specific region, which either promotes or inhibits entrepreneurship, must thus be thoroughly analysed.</p> <p>However, research continuously points to the fact that South Africans lack entrepreneurial spirit. On average, school-leavers have the perception that they will find work in the corporate world as opposed to consider creating their own businesses, however, the South African labour market is not creating jobs at a fast enough rate (Luiz & Mariotti, 2011).</p> <p>It is therefore vital that a deliberate effort must be made to foster a culture of entrepreneurship in SA. Not only for the current generation of individuals who need to become job providers rather than job seekers, but also for the future generations. There is growing recognition that experiences, attitudes and events prior to new venture creation has a critical influence on individual propensity to start-up. Therefore, individuals who have a family history of entrepreneurship or who can see their immediate peer groups recognise the value of entrepreneurship is more inclined to consider starting their own business (Endeavour SA, n.d.; Van Vuuren & Groenewald, 2007).</p>
Internal market openness	<p>No mention was made of this aspect in either one of the three support institutions investigated.</p>
Theory	<p>Even though market openness is internationally acknowledged as a driver of economic growth, most countries are still struggling with regulatory barriers which has a negative impact on true market openness (OECD Reviews of Regulatory Reform, 2002).</p>

	<p>Barriers to entry are defined as those factors that discourage new firms to enter into a specific industry, even though the current firms in the industry are earning vast amounts of profits. Generally these barriers are either behavioural or economic barriers to entry. However, the characteristics of the specific industry can also serve as barriers to entry. These industry characteristics include demand, technology, costs and licenses. For an economic- or behavioural barrier, including industry characteristics to be considered a barrier to entry, it must imply costs for new entrants which the established businesses do not bear (De Bruyn & Gibson, n.d.).</p>
Commercial infrastructure	No mention was made of this aspect in either one of the three support institutions investigated.
Theory	<p>Commercial structure refers to a variety of aspects, including:</p> <ul style="list-style-type: none"> ▪ Sub-contractors ▪ Suppliers ▪ Consultants ▪ Professional services (e.g. accountants and lawyers) ▪ Banking services <p>The concern relating to the commercial infrastructure with regards to SMMEs is the fact that typically SMMEs struggle to afford access to the above-mentioned services, which are actually vital to SMMEs (Turton & Herrington, 2012).</p>
Physical infrastructure	No mention was made of this aspect in either one of the three support institutions investigated.
Theory	<p>Turton and Herrington (2012) note that research conducted by the National Planning Commission in the discussion on infrastructure development in SA established that inadequate investment in the energy and transport sectors, along with ineffective operation and maintenance of existing infrastructure had a severe limiting effect on the economy. Due to the lack of investment in, and development of, the infrastructure of SA, many new opportunities that could have emerged are lost and the cost of doing business increases dramatically (Pottas, n.d.).</p>

	<p>Consequently, infrastructure is increasingly placed at the forefront of the government's agenda and this led to government committing substantial resources to infrastructure development to redress economic infrastructure backlogs and inadequacies which have become a constraint to economic growth. The significant impact that infrastructure has on transforming the economy through economic growth and job creation is now recognised and highly sought (The Presidency, 2012).</p>
Internal market dynamics	<p>No mention was made of this aspect in either one of the three support institutions investigated.</p>
Theory	<p>The market dynamics of SA is cited as one of the limiting factors in terms of entrepreneurship. The market shifts of SA do not change dramatically enough and thus opportunities are limited as competition and innovation are restricted in this environment. This in turn can explain why SA's rate of perceived opportunities is below average (Turton & Herrington, 2012). The market is too stable and provides few opportunities for nascent entrepreneurs.</p> <p>Nevertheless, a dynamic market is vital for entrepreneurship in SA. When there is continuing shifts in demand and supply, business opportunities invariably arises (Turton & Herrington, 2012). This implies that the demand for products remains fairly stable and the supply for these stable demands is met. In other words, this imposes yet another form of entry barrier for new entrants.</p> <p>With the above-mentioned in mind it seems there is much that government can do to promote entrepreneurship. Duncun (2012) quotes the minister of economic development, Ebrahim Patel on admitting that they "have not created an environment where entrepreneurs can flourish and at the same time jobs are being lost on a daily basis".</p>

2.10 Conclusion

Several limiting factors to entrepreneurship have been identified, with access to funding cited as the biggest barrier to entrepreneurship. When considering the fact that the Government has established several support institutions in order to aid entrepreneurs on their journey, and continuous to invest heavily into entrepreneurial development, it is hard to believe that SA is still confronted with a low entrepreneurial rate.

With table 2.14 as the centre of the argument, it is evident that certain rudimentary changes to the manner in which these support institutions are structured as well as the typical functions they perform can have immediate positive effects on the rate of entrepreneurship. The majority of the government funded support institutions require entrepreneurs to submit a complete business plan as the primary evaluation tool without providing any support to prospective entrepreneurs through this process. The first implication hereof is that many entrepreneurs fail to get past the first round of evaluation as their business plan is not written in the format expected from the institution. Secondly, the business plans of the entrepreneurs who managed to illustrate the potential of their venture will be scrutinised by a panel of experts which has a severe cost and time implication for the support institution.

Lastly, the institutions provide no mentorship while the new venture is in the process of being established, which could lead to the timely identification of opportunities and threats. This in turn could save the venture from poor performance and minimise potential losses – be it income, jobs, or procurements. The current practise of the support institutions is to provide mentorship only after ventures have noted distress.

Since a business plan remains the fundamental evaluation tool in the decision to fund a new venture or not, the next chapter is dedicated to discussing the concept business plan.

Chapter 3: Feasibility, viability and sustainability as encapsulated in Business plans

3.1 Introduction

This chapter is dedicated to discussing the current literature available on business plans, thus providing an encompassing view on the various arguments found in literature with regard to the possible impact of business plans on venture success. Although the literature pertaining to business plans, and the impact it has on the commercialisation rate and speed of new ventures, have been inconclusive, business plans are still used by funding institutions as the major evaluation tool to determine the feasibility, viability and sustainability of proposed ventures. Essentially, this chapter is not devoted to arguing for or against the process of business planning, but rather to argue that the general process of business planning should be more efficient.

The central theme of this chapter is to suggest a phase-oriented process (Feasibility, Viability and Sustainability) in order to improve the efficiency of business planning. These concepts are already encapsulated in the business planning process but by clearly defining each of these concepts it is possible to identify the core aspects that should be included during each of these phases and create a logical sequence for the process of business planning.

This chapter commences with a discussion on the function of business plans in the evaluation of innovations, where after the history of business plans are explained. The current debate in the literature on the planning vs. learning school of thought regarding business planning are highlighted, as well as how business plans relate to establishing a new venture vs. an established small business. Hereafter the conditions that influence the decision to draw up a business plan or not are identified along with the impact that business plans have on the success rate of ventures. Once this discussion is complete, the focus turns to a thorough examination of the three components of the phase-oriented process; namely, feasibility, viability and sustainability.

The discussion on each of these concepts will commence by defining the term as well as a general discussion on each of these terms. From here the focus turns to identifying the aspects that the current literature includes in a feasibility, viability and sustainability study and demonstrating the link/ overlap between each of these types of studies and a business

plan. Finally, the discussion of each of these concepts ends with an argument on what aspects should be included in each of these concepts in order to minimise duplication, yet find a suitable connection between the various phases.

Figure 3.1 offers a visual representation of the layout of the chapter where-after table 3.1 summarises the main contents included in this chapter for quick recall and reference purposes.

Figure 3.1: Overview of chapter 3.

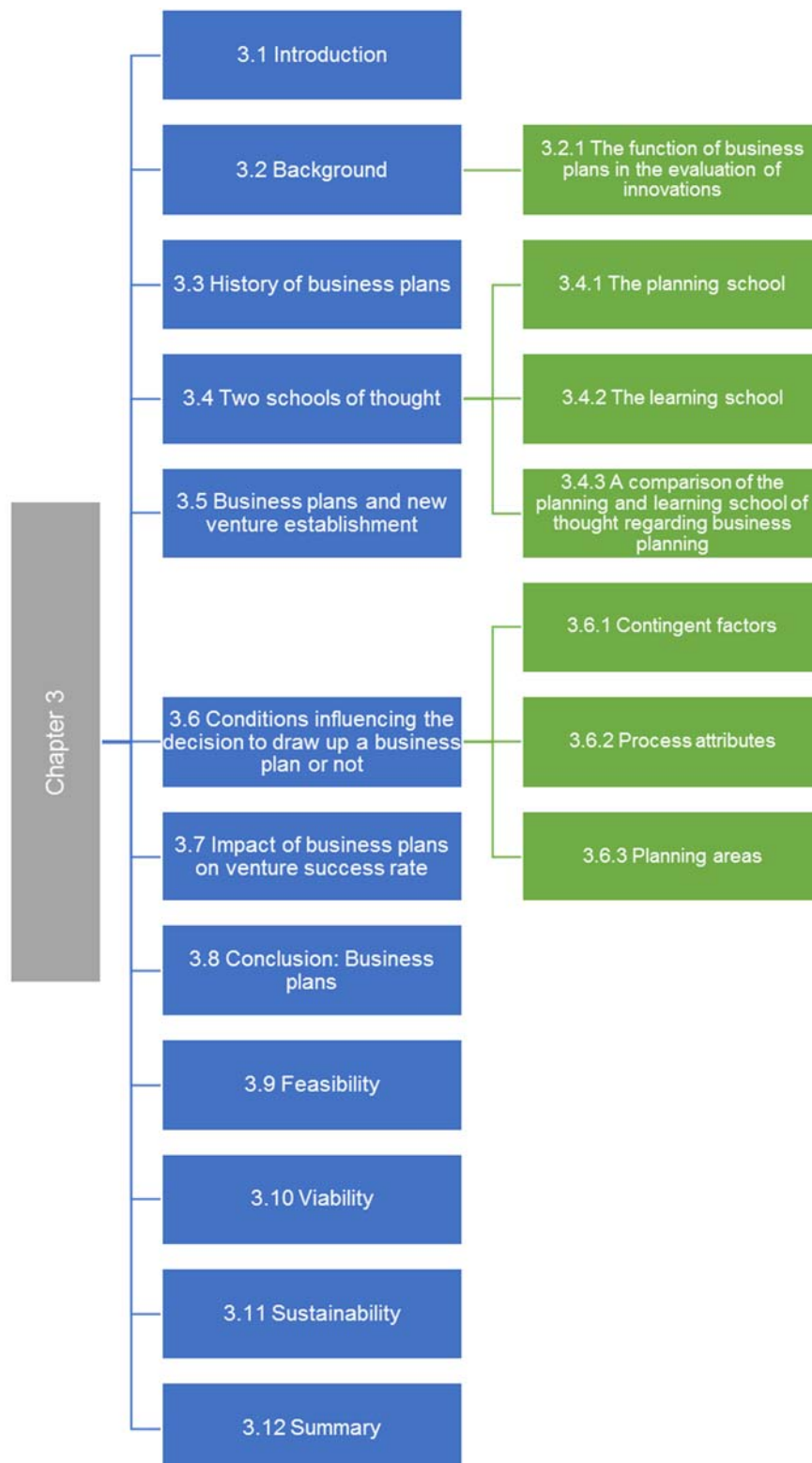


Table 3.1: Summary of the outline of chapter 3.

Content	Summary	Outcome
3.1 The function of business plans in the evaluation of innovation	Broad overview regarding the importance and function of business plans highlighting the core benefits that business plans offer.	Compare these advantages to the benefits offered by the phase-oriented process, thus proving that business plans are not the only/ best way to achieve the benefits.
3.2 History of business plans	Business plans originated in the 1970's when venture capitalists needed a standardised method to compare and evaluate the business plans received and needed a method to force entrepreneurs to do a certain level of planning. However, since then, there is still no consensus of the impact that business plans have on the success rate of new ventures.	The phase-oriented process addresses the main purpose of business plans, as the entrepreneur will need to conduct a certain level of planning and a standardised method of evaluation is offered, but in a more structured manner.
3.3 School of thought [Planning vs. Learning]	Planning school advocates thorough planning in order to be prepared for future challenges. Learning school argues that the environment changes constantly and rapidly and issues should be addressed as they arise.	The key advantage of both schools of thought is highlighted and it is shown that the phase-oriented process includes both sets of advantages and nullifies the debate on the two schools of thought.
3.4 How business plans relate to establishing a new vs. an established small business	New ventures face a lot of uncertainty and information is critical. Business plans for new ventures rely heavily on the assumptions of knowledge, yet the main advantage remains to attract investors. Established ventures have less uncertainty as they have actual financial performance and a current market to focus projections on.	The major advantage of business plans is to serve as a planning tool, thus setting goals and monitoring performance. The major disadvantage associated with business plans is the large degree of uncertainty. The phase-oriented process maximises the planning benefit, however, it reduces the negative impact of uncertainty.

Table 3.1: Summary of the outline of chapter 3 (Continued).

Content	Summary	Outcome
3.5 Conditions that influence the decision to draw up a business plan	<p>Contingent factors: Dynamic environment plagued with uncertainty</p> <p>Process attributes: Key activities in establishing new ventures</p> <p>Planning areas: Many functional areas that can be included in a business plan, however not all of them are equally important for different ventures in different stages and/ or industries.</p>	<p>Entrepreneurs must make trade-off decisions when establishing different ventures in unique circumstances. Additionally, there is no link between business plans and venture success.</p> <p>The phase-oriented process makes provision for different stages and industries and is based on an encompassing process that includes all of the factors of successful commercialisation.</p>
3.6 Impact of business plans on the success rate of new ventures	<p>The fact that business plans are associated with new venture establishment is not the problem. The problem is that business plans are associated with new venture success, and this simply is not the case.</p>	<p>The aim of this study is not to prove or disprove the merit of business plans. A certain degree of planning is essential; however different stages of venture start-up, different industry and factors will have a big impact on every new venture. The phase-oriented process provides a more structured, encompassing and adaptable planning process that is adaptable to the unique circumstances.</p>

Table 3.1: Summary of the outline of chapter 3 (continued).

Content	Summary	Outcome
3.7 Feasibility	Provide an appropriate definition for each of these terms in order to base the arguments that follow on these core definitions.	Upon the completion of this section it is clear that the suggested phase-oriented process is not a new process, as all of the aspects/features currently included in business planning, are also included in the phase-oriented process. By clearly defining each of the phases as well as identifying the core aspects of each of these phases, the business planning process can be structured in a more efficient and logical manner, which ultimately will lead to better odds for the entrepreneur in establishing their new ventures, but also for the institutions who have to evaluate applications received for funding. Furthermore, the phase-oriented process is based on the factors of successful commercialisation and it is therefore not merely a logical sequence, but also a thorough, encompassing process.
3.8 Viability	Based on the definition of each of these concepts/ phases, the main activities/ aspects that should be included in each of these concepts/ phases are identified thus enabling a thorough evaluation of these phases. Additionally the overlap between the concepts feasibility, viability, sustainability and business plans are indicated, thus proving that the unique contribution that each of these aspects can make to venture establishment is lost in inaccurate application. Hereafter a logical flow of the suggested phase-oriented process as well as the interaction between each of these concepts is highlighted.	
3.9 Sustainability		

3.2 Background

Worldwide the importance of entrepreneurship is increasingly emphasised due to the fact that entrepreneurship is seen as a significant contributor to economic growth (Rotger, Gortz & Storey, 2012). The establishment of new ventures provides a country with a host of positive outcomes; however, the advantages of new ventures are not created instantaneously. It requires various activities from entrepreneurs, ranging from identifying the opportunity to seeking funds, employing personnel and establishing a business (Delmar & Shane, 2004).

Entrepreneurship, in essence, involves uncertainty and it is often the ability of an entrepreneur to interpret and respond efficiently to these uncertainties which largely determines the ultimate success or failure of the new venture. Opportunities for new ventures are often nestled in identifying market gaps through imprecisely defined market needs and ideas surrounded by uncertainty. Therefore it is vital that entrepreneurs go through a process of factual validation of their business idea in order to increase the success rate of their business (Gruber, 2006; McKelvie, Haynie & Gustavsson, 2011).

3.2.1 The function of business plans in the evaluation of innovations

Developing a sound business plan is a widely accepted manner in which to found a new venture. This is because developing a business plan helps the entrepreneur to develop vision for the venture and thus improve decision making related to start-up. Also, potential stakeholders can be convinced of the potential for success and sustainability of the new venture as thorough business planning will lead to the elimination of poor venture opportunities before the entrepreneur invests scarce resources (Chwolka & Raith, 2011).

Additionally, business plans can afford entrepreneurs a holistic analysis of the proposed venture. Through business planning the resources available to the entrepreneur along with the environment in which the new venture will operate is analysed and the best route to success is determined given the constraints of the entrepreneur's resources and environment. Thus, the real value of a business plan is the planning process of the business itself, as it forces entrepreneurs to consider aspects they might have overlooked and truly gives a holistic view of their proposed ventures (Gleeson, 2011).

The benefits for the entrepreneurs who invest in planning activities before venturing into the establishment of a new venture are listed below:

- A business plan allows entrepreneurs to think more clearly in terms of what they aim to do and where they are going. However, for a business plan to truly have the benefit of clarity, it must be updated and improved continuously.
- The idea on which the proposed venture is based can be thoroughly assessed to determine whether it truly holds the potential for success.
- A business plan demands a clear statement of the vision and the mission of a proposed venture. This will ensure that the entrepreneur, and the entrepreneurial team, remain focused and dedicated to what the venture was envisioned to be.
- Business planning forces entrepreneurs to account, and plan, for an uncertain future. Through a business plan, entrepreneurs will set goals and objectives for alternative future scenarios which will enable entrepreneurs to prepare (to a certain degree) for a variety of possibilities.
- An accurate, credible business plan is essential to obtain external funding to establish or grow your venture.
- Business planning presents the entrepreneur with a clear analysis of the industry in which the venture will operate, thus enabling entrepreneurs to accurately identify opportunities and threats for the proposed venture.
- The potential customers of a new venture as well as their buying behavior will be identified through business planning. This will enable entrepreneurs to gain a deep understanding of the market and truly determine whether the market is big enough and worth pursuing and to customise their marketing strategies.
- The major competitors in the specific industry will be identified through business planning along with the strategies for facing them.
- A business plan provides entrepreneurs with an honest assessment of the strengths and weaknesses of the venture. This will enable entrepreneurs to identify suitable opportunities and true threats given the strengths and weaknesses of the venture.
- Future opportunities can be identified through a business plan. This will enable entrepreneurs to assess each of these opportunities and commit to the best option given the resources and environment of the entrepreneur. Thus all other possibilities are marginalised and the entrepreneurial team can be focused in pursuing a specific opportunity.
- Business plans can be used as a blueprint for the entrepreneurial team, focusing their energy and keeping the venture on track with regards to the specific vision and mission, along with the objectives of the venture.

- A business plan demands of entrepreneurs to conduct thorough financial projections for their ventures in terms of revenues, costs and projected profits. This will enable entrepreneurs to carefully determine, and manage, the cash flow of their ventures.
- By developing a well-written business plan for a proposed venture, the true value of a venture is highlighted for potential investors.
- Entrepreneurs can focus on what is important and avoid the trap of focusing solely on the idea and merely reacting to the events as they occur. Business planning forces entrepreneurs to consider all the aspects of business formation and to dedicate their attention to the key aspects of the opportunity they are seeking to pursue.
- Business plans establishes benchmarks and thus enable entrepreneurs to continuously monitor the actual performance of the venture and compare it to the planned venture performance. Consequently, negative deviations can be identified early which will allow for faster corrections as midcourse corrections are possible.
- The business plan also describes the manner in which the venture will make money and stay in business. This is also referred to as identifying the business model of the venture. (The Young Entrepreneur Council, 2013; Gleeson, 2011; Peterson, Jaret & Schenck, 2014; Berry, 2006).

In summary, there are three main aspects to business planning:

- It serves as a tool with which the entrepreneur can evaluate a market opportunity and the possibility of ultimate success.
- It validates the business opportunity for the entrepreneur and future investors, even when there is little observable evidence to prove the merit of a new venture.
- It outlines the approach the entrepreneur will implement to exploit the opportunity. (Chwolka and Raith, 2011; Delmara and Shaneb, 2004; Petty, Palich, Hoy and Longenecker, 2012).

The above-mentioned highlight the importance for potential entrepreneurs of drawing up business plans. As such, even government aims to support entrepreneurs in establishing sustainable new ventures through the implementation of microeconomic policies. These policies include guided business preparation and advice through the many support institutions established to serve entrepreneurs (Rotger et. al., 2012).

Business plans are not only beneficial to the entrepreneur, as there are many additional users. This has an important implication for the manner in which entrepreneurs develop their business plans as they must keep the intended audience of the business plan in mind and

ensure that the relevant aspects or facts for the specific user of the business plan are included.

Entrepreneurs who aim to attract investors with their business plans must focus strongly on two aspects in order to appeal to potential investors. These aspects are: 1) illustrating the possibility of business growth and 2) demonstrating how and when return on investment can be expected (Schwetje & Vaseghi 2007). It is therefore crucial for a strong and validated financial component to accompany this business plan. The scope of the market, which will have a significant impact on the profit potential of a new venture, the collateral the entrepreneur will invest into this new venture and the projected revenue and costs must be clearly stated and well-motivated in this business plan (Moore, Petty, Palich & Longenecker 2008; Reference for Business: Encyclopedia of Business, n.d.).

For a venture that is already established, potential buyers are also users of business plans. For potential buyers to commit to buying the business, proof of long-term viability linked to the strategic position of the venture in the industry will be a necessity. The paramount strengths and weaknesses throughout the venture must be clearly stated as well as the necessary contingency plans on how to overcome these weaknesses as well as possible threats (Reference for Business: Encyclopedia of Business, n.d.).

A business plan that is developed in order to reorganise or restructure a venture can be used by the internal management, the creditors of the venture and/ or the new owners of the venture. This business plan must focus on the reason why the reorganising or restructuring is necessary and how the advantages of this reorganising or restructuring will be attained. Thus the type of changes and the operational and financial impact of these changes must be clearly stated as well as the influence the reorganising or restructuring will have on key personnel and their responsibilities (Reference for Business: Encyclopedia of Business, n.d.).

The internal users of business plans typically develop these plans in order to improve the implementation of the plan within the venture. This could be in an attempt to improve performance and obtaining consistency, improving coordination and consistency among the various functional units of the venture, empowering the workforce, etc. This business plan must provide an all-inclusive framework and overall direction for the ongoing operations of the venture (Reference for Business: Encyclopedia of Business, n.d.).

Regardless of the audience of the business plan, business plans have become a vital part of establishing new businesses or growing already established businesses. Considering the fact that business plans offer a variety of benefits and are such a widely accepted manner through which to conduct business planning, the origin of business plans will be discussed in the next section.

3.3 History of business plans

Venture capital firms and small business investment companies were already in existence by 1970 and this signalled the introduction of business proposals as well. The investors were inundated with applications for funding and needed a method through which they could judge the merit of a suggested new venture; therefore, a written proposal was required. However, the discrepancies between the various proposals received were of such a nature that it became important to standardise applications of would-be entrepreneurs. In 1973 this issue was resolved when the first outline for business plans was created, forcing applicants to include certain aspects in their business proposals. The business plan outline that was expected from entrepreneurs from this era is included in Appendix G, where after the outline of today's requirements for a business plan are specified.

This concept of a business proposal was later improved on by the Federal Reserve Bank of Boston in 1976 and the term business plan was formed. In essence the business plan was conceived with a dual purpose in mind: 1) to attract possible investors and 2) to force the entrepreneurs to conduct a certain level of planning in order to ascertain whether the business idea made sense (Giraudeau, 2010).

Ever since the 1970's a fundamental process through which funding was approved was by drawing up a business plan. Consequently, the effects of planning on venture performance have been the focus of research since then. . Although the bulk of the research focus was from the strategic management scholars, the field of business planning is now widely studied (Gruber, 2007). Regardless of the fact that business plans have been around for the past 40+ years, and are considered a vital prerequisite for successfully establishing a new venture, there is still no consensus amongst the researchers, entrepreneurs or reviewers of business plans on whether or not it is indeed a worthwhile activity to conduct. This has far-reaching consequences as the inability to concur on the importance, or lack thereof, of business plans for new venture creation has serious implications for both the entrepreneurs

who have to draw up business plans as well as the venture capitalists who have to review these business plans (Chwolka & Raith, 2012).

This ongoing debate on the importance, or lack thereof, of business plans has led to the emergence of two distinct schools of thought. In essence the two opposing schools of thought are those who regard business planning as a fundamental activity for successful business creation and those who view it as a tedious process flawed with inaccurate predictions. A full discussion on these two schools of thought follows in the next section.

3.4 Two schools of thought

A vast amount of research has been conducted since the 1970's pertaining to business plans and the usefulness and importance for establishing new ventures. However, despite all the academic focus this field has received, research is still inconclusive (Gruber, 2006; Chwolka & Raith, 2012).

The environment in which new ventures must be established and operated is plagued with high levels of ambiguity and volatility (Gruber, 2006). Additionally, the planning process is a rich and multifaceted occurrence and little tested knowledge exists on the planning process in new ventures, and the above-mentioned characteristics of small business environments are at the heart of the on-going debate on the usefulness of business plans for new venture creation (Gruber, 2006).

However, the contradicting views on the importance of business plans remain troublesome as they influence new venture creation and the opportunity exploitation process that entrepreneurs implement (Gruber, 2006). The one school of thought underlines business planning as a key activity for successful new venture establishment while the other group challenges this point of view strongly.

The two schools of thought on the importance of business plans can be described as:

- 1) The planning school which advocates a rational paradigm emphasising a formal, synoptic model of strategic planning, and
- 2) The learning school which implements an incremental paradigm stressing the emergent characteristics of strategies (Gruber, 2006; Brinckmann, Grichnik & Kapsa, 2010).

3.4.1 The planning school

With regard to business plans, the planning school advocates a rational, formal and encompassing approach to business establishment. Central to this school of thought is the argument that individuals and organisations that plan can better predict future challenges and thus better prepare for these challenges, thus enhancing goal achievement (Brinckmann et al., 2010).

Based on the planning school of thought, the business plan is summarised in a process with four key steps. The first step to this process is to clearly define the strategic goals of the innovator and/or organisation. Once the goals are clear, step two must commence, which is generating several alternatives that will support goal achievement. However, during the third step these alternatives are evaluated in order to identify the alternative with the highest possibility of success. Lastly, the selected alternative is implemented and controlled in order to further increase the possibility of achieving the strategic goals of the innovator and/or organisation (Brinckmann et al., 2010).

As can be seen from the steps in business planning, this process becomes especially important as a means of successfully evaluating and choosing among alternatives. In order to be able to successfully evaluate the potential of success of each alternative, market research, forecasts and detailed analysis are required. This planning however, relies heavily on prediction and not necessarily factual information (Brinckmann et al., 2010).

Furthermore, the planning school of thought accentuates the importance of business planning by focusing solely on the positive effects of planning; namely, rapid decision-making (as opportunities and threats can be anticipated and planned for, testing assumptions without using resources), optimising resource flows and avoiding bottlenecks in the new venture. Additionally, planning, by definition, implies specifying goals and strategies to reach the set goals and thus control goal achievement. This enables entrepreneurs to identify deviations from the plan early on and to implement the necessary corrective actions. Individuals who support the planning school of thought argue that these advantages of planning accentuate the importance of planning in a dynamic and unstable environment as uncertainty and bias are reduced (Brinckmann et al., 2010).

In essence, the planning school argues a holistic approach to establishing a new venture. The more thorough the information obtained in the early stages of venture planning, the

higher the possibility of success becomes. The argument for the planning school of thought is hailed by many as the optimum manner in which to start a new venture due to the fact that the goals, and alternatives to achieve these goals, are clearly stated and continuously evaluated and the implementation of these goals will be continuously controlled. This is proof of this being a rational-comprehensive and formal approach to strategy development.

The opposing approach, namely the learning school, will be discussed next. Thereafter, a comparison is drawn between these two schools in 3.4.3.

3.4.2 The learning school

The learning school of thought argues that emergent strategies can allow quick action to seize opportunities or avoid threats that arise from a rapidly changing environment, as opposed to predetermined and formal planning (Brinckmann et al., 2010). In essence, this school of thought is centered on the notion that entrepreneurs should focus on learning, as formalised and predictive plans might cause a new venture or established organisation to be inflexible in a rapidly changing environment. Thus, the learning school argues that entrepreneurs should identify and develop manners which will enable them to adapt their strategies when the situation demands it. Furthermore, the learning school of thought points out that a rapidly changing environment causes uncertainty of information and this impacts drastically on the reliability of the initial plans (Brinckmann et al., 2010).

From the practical perspective, conducting business planning consumes a lot of an entrepreneur's resources; albeit time or money spent on acquiring the needed information. According to Brinckman et al. (2010), it is argued that these resources could instead be applied to value adding activities. Moreover, Brinckmann et al., (2010) stated that, "especially in new and established small firms, the downside risk of losing resources due to managerial mistakes is limited".

To summarise the learning school of thought, it can be described as an approach where entrepreneurs go about starting their businesses with very little formal planning and focus their resources on establishing the venture, only addressing the issues when they arise. The learning school argues that as the opportunities and threats that lie in the future it cannot be accurately defined or anticipated, thus starting your venture with minimal planning, but with a definite focus on opportunities and threats that might arise, along with the ability to quick action, is the best manner in which to move forward.

Although vast amounts of research have been conducted on business plans, the empirical evidence available to substantiate the argument for either school of thought is limited (Brinckmann et al., 2010). This has led to a situation where some entrepreneurs are writing refined business plans and others launch new ventures with an elementary business plan in hand. Considering the persisting high failure rates among new ventures, it is crucial to understand which approach to new venture creation is likely to increase an entrepreneur's chances of success (Gruber, 2006). In order to shed more light on the continuing debate between the planning school and the learning school, the next section is dedicated to listing the arguments for business plans (the planning school) and against (the learning school), as noted in the literature.

3.4.3 A comparison of the planning- and the learning school of thought regarding business planning

Since there is still very little agreement on the necessity or, for that matter, relevance of business plans this section will contrast arguments for (the planning school) and against (the learning school) business plans. In order to aptly summarise the viewpoints of the researchers on this topic, the comparison of the planning school of thought and the learning school of thought will be discussed in tabular format (Table 3.2).

Table 3.2: Summary of the various attributes of the planning school of thought and the learning school of thought.

Attributes of the planning school of thought (For business planning)	Attributes of the learning school of thought (Against business planning)
<ul style="list-style-type: none"> ✓ Resources are used effectively ✓ Decision speed is increased ✓ Flexible actuation ✓ Improves decision-making as missing information can be identified ✓ Assumptions are tested without expending resources ✓ Develops an orientation to the unforeseen environment of the future ✓ Match supply and demand of resources ✓ Estimate the timing of resource flows 	<ul style="list-style-type: none"> ✓ Dedicating top management's time to business planning leads to lower returns than dedicating time to activities of acquiring resources and building the organisation ✓ Causes cognitive rigidities ✓ Organisational inertia ✓ Limited strategic flexibility ✓ Formal planning reduces the responsiveness of organisations to environmental change, due to lengthy

<ul style="list-style-type: none"> ✓ Minimise bottlenecks across the value chain ✓ Allows systematic way to pursue goals ✓ Develop concrete action steps ✓ The ability to recognise and terminate poor venture projects before start-up ✓ Determine whether entrepreneur's proposal for generating revenue is consistent with the plan for obtaining raw materials ✓ Visible, voluntary, irreversible act that demonstrates a founder's commitment to the new venture ✓ Legitimises the new venture ✓ Institutionalises the founder's intentions to develop the venture ✓ Signal to external stakeholders that the entrepreneur understands the business and the process of creating an organisation ✓ Provides information about the key aspects of the business ✓ Even if the plans themselves are little more than fiction, evidence of a consistent story enhances the legitimacy of the new venture, and facilitates the initiation of social relationships with external stakeholders and the acquisition and recombination of resources. ✓ Increases the likelihood that the venture will complete product development, begin marketing, obtain inputs and talk to customers ✓ Proactive learning occurs because it expands the founder's knowledge about the intended business and reduces decision-making uncertainty ✓ Improve entrepreneur's access to capital as investors generally demand written 	<p>decision processes across multiple levels of organisations</p> <ul style="list-style-type: none"> ✓ Formal planning can create a false illusion of control ✓ Formal planning is thought to hinder flexible, adaptive learning processes that are required in uncertain business environments ✓ Formal planning may run the risk of becoming a meaningless ritual instead of an activity that serves a specific purpose ✓ Can stifle much-needed creativity ✓ Planning is time consuming and just keeps entrepreneurs from starting their business ✓ Particularly in new firms, the business planning process is generally characterised by scarce, unstructured, and missing information. Thus, the costs of sophisticated planning might outweigh its benefits. ✓ The facts they constitute are "future facts". The possibility for their empirical grounding are therefore scarce ✓ Induce higher cost due to extensive research activities and forecasts ✓ A high degree of uncertainty and a high degree of missing and ambiguous information characterising the business planning in new firms could explain why the positive effect of business planning on performance is significantly reduced ✓ Planning would take time away from more important organising actions such as buying facilities and equipment ✓ Planning is not required in emerging firms, because the intuition of entrepreneurs is sufficient for effectively serving a chosen market
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<p>plans</p> <ul style="list-style-type: none"> ✓ Improves effectiveness of business approach and thus the chances of founding success ✓ Communicate goals, strategies and operational tasks to internal and external stakeholders ✓ Enable prospective suppliers, customers or employees to assess the viability of the business and attractiveness of economic exchange ✓ Identify critical tasks ✓ Assure economic use of resources ✓ Important impact on the achievement of venture development milestones ✓ Coordinates entrepreneurs and funders to agree on business venture ✓ Accompanies and fosters action ✓ Access funding opportunities by persuading potential investors of the benefits of funding your company ✓ Facilitates systematic analysis based on multiple variables ✓ Enables entrepreneurs to better understand the relationship between intention, action and performance ✓ Set specific milestones and develop action steps by which to reach those milestones in a timely manner ✓ Good planning enables the entrepreneur to improve his chances of success by allowing him to exit an unsuccessful venture before entering the market ✓ The learning effects of business planning play a key role in augmenting small firm performance ✓ Proliferated on the market for entrepreneurial finance, as a sufficiently efficient tool in making supply and 	<ul style="list-style-type: none"> ✓ Entrepreneurs do not have much to lose from erroneous forecasts, because their investments are typically small. Hence, elaborate planning efforts can hardly be justified in new ventures. ✓ Entrepreneurs might prefer to limit initial costs of market analysis and research and focus on controllable business aspects (such as building partnerships, etc.) than on predicting and planning ✓ Detailed planning activities takes up time and the start of projects are delayed causing interest expenses and a decline in the present value of the future receipts over the planning time ✓ Requires time, effort and money which is already scarce in a new venture ✓ Planning can hinder the adaptability required of new firms entering uncertain markets.
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demand meet and eventually reach an agreement over the future ✓ Powerful coordination tool	
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Sources: (Brinckmann et al., 2010; Giraudeau, 2010; Gruber, 2006; Chwolka & Raith, 2012; Delmara & Shaneb, 2004; Go 4 Funding (n.d.).

It appears that the systematic, analysing, fixed direction benefit that the planning school of thought argues as the prime reasons for business planning is the very reason that the learning school of thought opposes the notion of business planning. The advantages obtained from having strategic clarity in terms of goals and action plans in order to pursue these goals is hindered by the dynamic and constantly changing environment in which new ventures will be established. When business plans are used as monitoring documents through which negative variances from the set goals can be identified early on in the process, the use is clear; however, when business plans are regarded as “set-in-stone” decisions, the unpredictability and volatility of the environment will surely surprise entrepreneurs.

Apart from the discussion on whether business planning contributes to success or not, it must also be noted that there exists significant differences in the planning conducted for start-up ventures vs. the planning that is conducted for established businesses. The next section (3.5) will highlight some of the prominent differences between business plans pertaining to venture creation as opposed to business planning for established small firms.

3.5 Business plans and new venture establishment

Much of the literature consulted maintains that business planning is beneficial specifically in establishing new ventures (Brinckmann et al., 2010; Chwolka & Raith, 2012; Gruber, 2006; Delmara & Shaneb, 2004). Nevertheless, new venture creation is characterised by great amounts of uncertainty as problems and opportunities are less predictable due to the element of newness associated with establishing an untried venture (Brinckmann et al., 2010). Therefore the more the new venture finds itself in a novel situation, the greater the needs for information and consequently, learning, will be (Brinckmann et al., 2010). As a result, it is often necessary for entrepreneurs to envision what is unknown, highly uncertain and not yet clear to the rest of the market (Gruber, 2006). Formulating business plans

require entrepreneurs to stretch their cognitive abilities and decongest a great variety of information. Therefore, business plans will always be a useful tool for complex tasks such as establishing a new venture. Even in highly dynamic environments, business plans have great value for new ventures as they assist entrepreneurs in achieving milestones (Gruber, 2006; Brinckmann et al., 2010).

With the above-mentioned in mind, it is important to note that the establishment of new ventures relies heavily on the assumption of knowledge (Gruber, 2006) and is plagued with missing and/or inaccurate information. Consequently, the planning associated with establishing a new venture succumbs to many challenges (Gruber, 2006). An additional factor that puts strain on the planning for establishing new ventures is the dynamic environments in which these ventures will operate. Dynamic environments complicate decision-making as rapid changes constantly occur in the demands of customers, available technology and the nature and strength of competitors (Gruber, 2006).

However, it seems that the main advantage that new ventures can gain from business plans is the support of external stakeholders during the initial months of venture start-up where survival is dependent on their assistance (Delmara & Shaneb, 2004; Brinckmann et al., 2010). New ventures rely heavily on acquiring resources and thus a business plan serves as a form of legitimising the new venture to external stakeholders (Brinckmann et al., 2010). As a result it can be argued that going through the process of drawing up a business plan is primarily to aid entrepreneurs in thinking through the process of establishing a new venture. Ambiguous information and a large degree of uncertainty are ever-present, and it can in turn be useful to compile the business plan in such a manner that external investors will also be convinced of the merit of the proposed venture.

When considering the varying degrees of usefulness of business planning for new ventures and established small businesses, it should be emphasised that the planning process itself as well as the effects on performance, differ significantly between the different stages of business formation (Gruber, 2006). Where business plans for new ventures rely heavily on assumptions and missing and/or inaccurate information, established small business can consult actual financial performance and historic events to reduce the uncertainty involved in business planning (Brinckmann et al., 2010; Delmara & Shaneb, 2004). Entrepreneurs who establish new ventures are necessitated to develop business plans in order to obtain external financing and support. However, when considering the fact that new ventures are

subject to inaccurate and missing information, the debate on the validity of standard format business plans, especially when establishing new ventures, remains relevant.

Although business plans offer a great approach in which to set goals and measure progress, they are seldom used as an internal management tool for entrepreneurs who are establishing new ventures. Established small businesses on the other hand, who have access to accurate past performance measures, and can thus base their future planning on accurate predictions, tend to disregard the importance of business plans as a management tool. This is due to the fact that they do not experience any external pressure for drawing up a business plan, unless they aim to grow their business or expand into new industries.

In conclusion, the debate on whether or not the business plan in essence is a useful tool for entrepreneurs and external stakeholders alike should not be the main focus of research. The advantages of business planning are clear. However, the conditions that will have a moderating impact on the decision to draw up a business plan or not must be considered. As an accurate summary of the debate between propagandists of the learning vs. the planning school regarding the preparation of a business plan, it appears that the conditions in which the decision to either draw up a business plan or simply establish the new venture will be the main decider.

Section 3.6 synthesises the conditions under which drawing up a business plan is advised and thus a better understanding of the debate can be obtained.

3.6 The conditions influencing the decision to draw up a business plan

The debate on the usefulness of business plans has been one that is ongoing for many years and where there is still no agreed-upon answer among researchers and practitioners alike (Chwolka & Raith, 2012). Gruber (2006) argues that three variables in terms of the planning process (contingent factors, process attributes and planning areas) influences the usefulness of business plans. These factors are discussed in more detail below.

3.6.1 Contingent factors:

In an environment with high uncertainty and dynamism, the value of business planning can be limited. As such, the contingent factors such as organisational lifecycle and the amount of environmental uncertainty may induce moderating effects in terms of the planning-performance relationship. This argument does not imply that planning is not important or

relevant in highly dynamic environments, but rather that trade-off decisions must be made early on in the planning process in order to enable the entrepreneur to focus on high value planning activities (Gruber, 2006).

3.6.2 Process attributes:

The planning process when establishing a new venture comprises a multitude of aspects which the entrepreneur needs to consider. It is proposed that key activities are identified and that the entrepreneur focus their effort on these planning activities (Gruber, 2006).

3.6.3 Planning areas:

A business plan includes various functional areas – financial aspects, marketing considerations and the management structure of a venture to name a few. However, these different areas are not executed in the same manner and therefore the time spent, and the type of activity conducted, differs from one functional area to the next. Additionally, not every area will have the same impact on different types of new ventures' success (Gruber, 2006).

As a summary to the conditions influencing the decision to draw up a business plan or not is the fact that planning should not just be conducted for the sake of planning. When establishing a new venture, entrepreneurs need to be efficient planners and dedicate their resources to activities that will enable them to achieve superior results. The value that business planning will yield will be influenced by the type of planning activities which are implemented coupled with the effort and time spent on completing these activities (Gruber, 2006).

Additionally, the value of planning must be evaluated for each new venture's unique situation. If the relevant information that is readily available for the new venture is low in reliability or quality due to a highly dynamic environment, basic business planning might suffice. As the amount and dependability of information increases, the benefit of in-depth business planning will increase as well (Brinckmann et al., 2010).

It is therefore recommended that new ventures, which will be plagued with a high degree of uncertainty and low amounts of accurate information, focus on basic business planning while ensuring that contingency plans are readily available. Contingency plans will enable resource control and flexibility throughout the establishment of new ventures (Brinckmann et al., 2010).

This in turn highlights the importance of trade-off decisions for entrepreneurs regarding which planning activities they should focus on. However, there is not a set guideline on which planning activities to implement in a certain industry, market size, competitors, status, development status of the venture, etc. (Gruber, 2006). The importance of business planning lies in the fact that it should enable entrepreneurs to validate the feasibility, viability and sustainability of a business idea. It is argued in this literature study that this should be the core focus of business planning - as opposed to going through a fixed set of planning activities merely to convince funders of inaccurate facts of a highly dynamic environment.

Considering the fact that complying with the typical formats of business plans take a lot of hard work, drawing up a business plan is often described as a “costly investment in forms” (Giraudeau, 2010). Taking into account that the criticism relating to business plans is always an attack on their “fictiveness” due to the fact that business plans are comprised of future facts that cannot be verified, it is hard to believe that the notion remains to develop a standardised business plan for every type and size of business and industry (Giraudeau, 2010).

A new theoretical perspective on business planning has emerged since 2006. This perspective emphasises a business planning process that adapts to the environment in which the venture will be established, i.e. a contingency based perspective. The rationale for this perspective is that the situation of a specific business will determine which planning activities must be considered in the value creation process (Gruber, 2006). This approach still requires entrepreneurs to think deeply about their proposed business and find effective ways in which to communicate their business aspirations to potential investors (Feld, 2012). This contingency based viewpoint on business planning enables the entrepreneur to “follow different, sometimes cyclical, planning and learning patterns depending on the selected planning activities”. The implication of this approach, as Chwolka and Raith (2011) argue is: “that the entrepreneurs must scrutinise the planning process in order to reveal where measurable value is created”.

However, the fact remains that nascent entrepreneurs who approach professional investors in order to obtain funding to establish their new ventures, will find that business plans are a necessity when pursuing funding (Davidson & Honig, 2003; Brinckmann et al., 2010). This notion continues even if there is not consistent evidence that the production of a business plan is associated with success (Davidson & Honig, 2003; Brinckmann et al., 2010). Considering the suggested contingency approach above, it can be argued that the typical

activities which support institutions require from entrepreneurs may be displaced from the true requirements for the successful establishment of new ventures (Davidson & Honig, 2003).

3.7 The impact of business plans on venture success rate

Regardless of the fact that there is no consensus in the current literature regarding the relationship between business plans and the success/ performance of a new venture (Chwolka & Raith, 2012), the majority of nascent entrepreneurs associate the establishment of a new venture with the development of a business plan (Gruber, 2006). In essence, this is not a problem at all. The issue that arises is the fact that these entrepreneurs equate business planning to business success. The debate on the impact of business planning on performance has been an ongoing debate with unclear results (Brinckmann et al., 2010; Gibson & Cassar, 2002).

It appears that the inability of researchers to agree on the impact of a business plan on new venture performance relates to the fact that the majority of empirical studies draw from both established ventures and new ventures. The implication is that nuanced and contextual differences between established ventures and new ventures are omitted (Brinckmann et al., 2010). Further arguing this point, Gibson and Cassar (2002) point out the vast differences in the strategic processes (which include planning) between larger and smaller ventures. According to these researchers, established ventures have access to more resources and have progressed to increased internal differentiation, which in turn increases the level of planning. Newly established ventures on the other hand are faced with resource gaps, which can include aspects such as a lack of staff, expertise or time. This confirms the differences in the sophistication of the planning, and by implication the impact of the conducted planning, between new and already established ventures (Gibson & Cassar, 2002).

In essence a positive relationship exists between business planning and business performance, however it is essential that entrepreneurs are aware that this relationship will be moderated by different factors (Brinckmann et al., 2010).

3.8 Conclusion: Business plans

As is noted in the sections above, there is very little agreement amongst researchers on the importance and/ or necessity of business plans. Currently the debate centres on the rigidity

of formal planning vs. the accuracy of this planning as all the decisions are based on estimates or assumptions. Although entrepreneurs gain strategic clarity in terms of known and shared goals, they sacrifice flexibility which a constantly changing and dynamic environment demands of a new venture.

Additionally, business plans enable entrepreneurs to legitimise their venture to prospective investors, but the question remains whether the information included in a business plan is accurate and valid. It is commonly agreed that business plans are developed based on perceived or possible opportunities and threats as well as projected market share and cash flow. Moreover, potential investors often expect entrepreneurs to go through the lengthy, resource-consuming and challenging process of developing a business plan on their own. Only once the business plan is developed and up to standard, will these entrepreneurs obtain their support. This then raises the question as to whether or not business plans should be the only document on which investors base their funding and/or support decision. Should typical innovators go through the process of arguing the profit potential of a business venture or should they focus their resources, and thorough knowledge, on describing the business concept to people knowledgeable about a specific industry and market?

In literature it is often recommended that a feasibility study pre-empts business planning. Although these two concepts are often regarded as synonyms, it should be noted that a feasibility study should be conducted prior to developing a business plan. However, a feasibility study can easily be converted into a business plan (Hamilton, 2012). The main difference between the business plan and feasibility study is the amount of detail that is included in each of these documents. A feasibility study is not a planning tool, but an exploratory endeavor (A Feasibility and Business Plan Guide, n.d.).

In other words, a feasibility study offers an upfront reality check for the entrepreneurs and possible investors regarding the potential viability of a business (Should I go into business? A guide for business operators in South Australia, 2012). A feasibility study and business plan are thus two separate documents that must be regarded as complementary in order to determine the true potential of a new venture.

The feasibility plan must determine the viability of a new venture, whereas a business plan must go forth and determine the sustainability of a new venture (Business Plans versus Feasibility Studies, 2012).

In this discussion, three concepts that are vital to new ventures are encountered, namely feasibility, viability and sustainability. However, these three concepts are used with such inaccuracy that they are often regarded as synonyms. Although they are overlapping and complementary aspects of a new venture, each of these aspects make a unique, specific and much needed contribution towards the process of new venture forming. In the next sections, each of these concepts will be discussed in such a manner that they are accurately defined and that the function of each of these concepts in the business planning process can be argued.

Sections 3.9 – 3.11 will be structured in the following manner:

- Each of these sections will commence with a discussion on the current literature available on the concept's feasibility, viability and sustainability.
- Thereafter, each of these sections will highlight the aspects that must be included in feasibility, viability and sustainability studies according to the current literature.
- Upon completion, a comparison is made between each of these terms (feasibility, viability and sustainability) and the layout of a business plan. This is done in order to prove that these concepts overlap to such an extent that, in essence, they comprise the same elements.
- The link between a feasibility, viability and sustainability study and a business plan will be highlighted. In other words, the literature will be reviewed in order to illustrate that, regardless of the vast amount of overlap between the aspects included in these concepts, it is acknowledged that it should contribute different aspects to venture establishment.
- Since it is the argument of the researcher that these concepts are used with such inaccuracy, the following section is dedicated to accurately define each of these concepts in order to argue the aspects that must be included in each of these concepts (feasibility, viability and sustainability), thus eliminating the overlap and ensure that the full benefit of each of these studies can be achieved.
- Henceforth it is possible to base the argument of the aspects that should be included in each of these studies – feasibility, viability and sustainability – on a thoroughly argued core definition of these terms.

3.9 Feasibility

3.9.1 Current literature on feasibility study

There is consensus in the literature for the argument that a feasibility study should be developed before entrepreneurs move on to developing a long and involved business plan (Hamilton, 2012). More precisely, a feasibility study should determine the potential of the proposed new venture and thus be conducted before external stakeholders (such as financiers etc.) are contacted (Feasibility studies: A Guide to Good Practice, 2009).

The following reasons serve as arguments as to why a feasibility study must be conducted prior to establishing a business.

These reasons include:

- The **profitability** of a new venture will be determined through a feasibility study. If the profitability of a proposed new venture cannot be determined, entrepreneurs can abandon the concept before investing a lot of resources in developing a business plan.
- The feasibility study is able to argue the **existence of a market**, the liquidity of a venture as well as the expected return on investment. Information on these elements is critical to possible financiers of a new venture.
- As feasibility study forces entrepreneurs to scrutinise the proposed venture from the beginning to the end, entrepreneurs are able to identify flaws in the venture, along with the business **challenges, strengths, weaknesses as well as opportunities** and threats that might be expected.
- Through a feasibility study entrepreneurs will be enabled to determine the **human and technological resources** that must be in place in order to establish a successful venture.
- The **capital requirements** for starting the proposed venture can be determined which will enable entrepreneurs to estimate a budget, working capital and cash flow projections for the new venture (Martins, n.d.).

Furthermore, the Government of South Australia (2012) argues that a feasibility study answers several key questions, namely:

- Will the business be viable?
- What level of risk is involved?
- What return on investment can be expected?

- What amount of money does the business require for establishment and ongoing working capital needs?
- In the case of an existing business, is the asking price reasonable?
- When will the business reach break-even point?
- What business skills will be critical to success?
- What deficiencies in skills do you have and how can they be addressed?
- Why will customers conduct their business with you?
- What legal issues need to be addressed?

A feasibility study can achieve the above-mentioned as it demands an investigation of the operations, financial, human resources and marketing aspects of a new venture, even before operations of a new venture commences (Saxena & Sodhi, 2011). Moreover, the market size for the proposed venture in terms of the products and services that will be offered must be determined; the technical knowledge that is needed in order to produce the product and/ or deliver the service must be identified and the funding requirements to successfully start the new venture must be acknowledged (Saxena & Sodhi, 2011). Additionally, Martins (n.d.) argues that the aspects that need to be investigated in order to determine the feasibility of a proposed new venture include real market demand, good return on investment, competitiveness, meeting the objectives of the entrepreneur as well as the competence of entrepreneurs and their teams (Martins, n.d.).

These factors are explained.

a) **Real market demand.** Your proposed new venture must be able to capture a large enough share of the market by either satisfying a need or solving a problem.

b) **Good return on investment.** It is not only vital that the proposed venture can identify a need or solve a problem in the market. It must also be able to address this need or problem at a profit. Proving that the business you want to establish will yield a good return on investment is a crucial aspect of feasibility.

c) **Competitive.** Your business concept must be new or unique to the market or able to stand out amongst competitors if the business is to be feasible.

d) **Meet the objectives of the entrepreneur.** Before an entrepreneur embarks on the journey of establishing a new venture, they have certain objectives in mind. These could include objectives such as dominating in the South African market or expanding internationally. If a business concept does not have the potential to meet the entrepreneur's objectives, it lacks feasibility.

e) **The competence of the entrepreneur and his team.** A business opportunity will only be feasible if it will be supported by a capable entrepreneur/ team (Martins, n.d.).

From the above-mentioned it is clear that a feasibility study must cover a multitude of aspects. A new venture concept must be proven sound in terms of technological, economical and commercial aspects. However, this is not a trade-off decision. In other words for a new venture concept to be feasible, it needs to be sound in terms of all the aspects surrounding the venture, namely technological, economical and commercial aspects (Saxena & Sodhi, 2011). Should entrepreneurs obtain positive outcomes after analysing the above-mentioned aspects, the proposed venture is considered a feasible venture.

Thus a feasibility study is aimed at guiding entrepreneurs in their decision on whether or not to proceed with their proposed new venture concept before investing resources in developing a complete business plan. In order to develop a feasibility study entrepreneurs will necessarily incur demands on their resources, regardless of whether it is time or money. However, the information obtained in the feasibility study will direct the development of the business plan and thus it does not account for wasted investment.

The aspects that should be part of a feasibility study include a range of financial facets, market-related matters, organisational issues, technical components, competitive characteristics and legal concerns. The discussion will now turn to these issues in the next section.

3.9.2 Aspects of a feasibility study

In the literature many different, and overlapping, aspects are identified as specific areas that must be included into a feasibility study. In order to summarise the diverse opinions of researchers on the aspects that should be included in a feasibility study, Table 3.3 lists all the aspects identified.

According to the Royal Incorporation of Architects in Scotland (Feasibility studies: A Guide to Good Practice, n.d.) a feasibility study does not have a fixed list of contents that must be included, but rather a set of related questions that must be answered. However, of paramount importance in a feasibility study is the focus on market demand. Regardless of the type of venture or industry - when a new venture lacks market potential, the business will fail. Additionally, the market demand will enable entrepreneurs to argue the capital and

running costs that are needed (Feasibility studies: A Guide to Good Practice, n.d.; How is a feasibility study different to a business plan? n.d.). Additionally, once the market potential is determined, focus should move to developing an organisational structure to deliver the products and services in order to meet and satisfy the market's needs (How is a feasibility study different to a business plan? n.d.).

However, when considering the various aspects identified in table 3.3 (as identified by the authors cited) it is clear that the current practise of feasibility studies is not efficiently executed. This list of aspects that various authors argue a feasibility study should entail is much more complex and involved than originally stated.

Table 3.3: The aspects that should be included in a feasibility study as cited by various authors.

Market feasibility	Organisational feasibility	Financial feasibility	Technical feasibility	Competition feasibility	Legal feasibility	Commercially feasible
Has market research on the following aspects been carried out and if so, how has this been executed?	Organisational design.	Financial projections, calculations and analysis.	Translating idea into product.	Evaluation of competition to determine:	Can the idea be protected?	Motivation and expectation; purpose and objectives, which in turn:
Describe the Industry.	a) Organisation management, ownership	How organisation will perform and succeed.	Can it be built?	a) Who are the competitors, present and future?	Regulatory standards/ requirements that must be met.	a) Give focus to project and outline alternatives. This will:
Niches.	b) Skill level, professionalism and number of employees to be hired.	Potential income.	Production process/ Method of production/ Production features and practices	b) What is known about any competitors (products, pricing, strengths, weaknesses)?	Regulation and environmental issues.	a) Provide quality information for decision making and:
Collaboration.	a) and b) which will be summarised in: Organisational structure that delivers products and services that meet market needs.	Return on investment.	Development outline – key steps in development and timeline.	Benefits/ solutions to needs that customers will gain, answering:	Regulation and environmental issues.	b) Investigates sustainability plan. This will give rise to:

Market feasibility	Organisational feasibility	Financial feasibility	Technical feasibility	Competition feasibility	Legal feasibility	Commercially feasible
a) Market potential/ Market share expectation.	a) and b) which will be summarised in: Organisational structure that delivers products and services that meet market needs	Sound investment.	Resources needed – equipment, plant, raw materials, skill, technology	a) Why will people buy the product?	Impact and implications of social and economic factors (HIV, youth, gender bias).	b.1) Business model, which needs to address the:
b) The need/ demand.		Valuation of assets to be acquired.	Suppliers/Procurement/ contracts. Supply and materials.	b) What is the business's competitive edge?		b.1.1) Value chain linkages.
c) What are the buying patterns? This will answer whether:		Depreciation of assets.	Facilities.	Weaknesses in product and strategies to overcome this.		Examines issues and assesses probability of success.
c.1) The product is sold in sufficient volume at a sustainable price? In order to answer whether there:		Cost of goods.	Site development.	Sensitivity to competition.		Sell in sufficient volume to generate profit.

Market feasibility	Organisational feasibility	Financial feasibility	Technical feasibility	Competition feasibility	Legal feasibility	Commercially feasible
c.2) Is there a market?		Overhead costs.	Nature of factory building, fencing etc.	Liquidation rate of companies in the industry.		When is the business likely to be operational? Which makes it vital to determine:
d) Target segments, which will allow for the answering of the following:		Operational and maintenance costs (labor, insurance).	Is the product or service ready to be sold?			a) How long can the business survive before making its first sale?
d.1) The market profile of who will buy the product. This in turn will lead to answering:		Forecast assumptions.	Availability of supply for key components, market scope and delivery.			Possible delaying factors
d.1.1) Market demographics and psychographics.		Cash flow statement.	Go/ no-go factors during production.			Key success factors for business (those the business must have to achieve its objectives).
d.1.2) Where the target market is located.		Income statement.	How far away from the marketplace is the product and the costs associated with getting it there?			

Market feasibility	Organisational feasibility	Financial feasibility	Technical feasibility	Competition feasibility	Legal feasibility	Commercially feasible
d.1.2) Who makes the buying decision?		How long till breakeven?				Strengths, weaknesses and opportunities of, along with threats to, the business.
d.1.3) What are the buying patterns of the business? The above will answer:		Revenue potential.				Identify barriers and enhance probability of success by addressing barriers.
How will the product/ service be sold?		Projected sales revenue.				Analyse risk to reward ratio.
Potential sale volumes.		Price sensitivity.				Best location – traffic lights, nearness to schools, accessibility to customers, ease of transportation of raw materials, nearness to cheap labor.

Market feasibility	Organisational feasibility	Financial feasibility	Technical feasibility	Competition feasibility	Legal feasibility	Commercially feasible
Packaging and promotion.		Commercial sense for funder.				
		Align planned business with economic situation.				
		Government fiscal policies, import and export rate, inflation rate, tax rate, currency exchange rate.				
		Help secure funding.				
		How much money is needed to start up?				

Market feasibility	Organisational feasibility	Financial feasibility	Technical feasibility	Competition feasibility	Legal feasibility	Commercially feasible
		How much money is needed as working capital to sustain operations?				
		External sources of finance that will be approached.				
		Budgeted return on investment.				

Source: Author's own construction from the following sources: (Area Development Online, 2014; Feasibility studies: A Guide to Good Practice; Government of South Australia, 2012; British Columbia Co-operative Association, n.d.; First Steps In Building Business Plans for Sustainable CDSMP, n.d.; Martins, n.d.; Hamilton, 2012; Urban-Econ: Development Economists, n.d.).

3.9.3 Discussion of the table

Once a feasibility study has proven that the answers to the *what, why, where and when* questions are achievable, a new venture can be considered feasible (The global sports project consultancy Pmp legacy, 2014). Thus a feasibility study is aimed at guiding entrepreneurs in their decision on whether or not to proceed with their new venture concept before investing many resources in developing a complete business plan.

However, when considering table 3.3, it is clear that the information required from the cited theorists in order to complete a feasibility study is much more involved and complex than simply establishing whether the venture has the capability of being achieved. More-over, when comparing the aspects required for a feasibility study to those expected to complete a business plan, there is very little difference between these documents (this will be illustrated in table 3.4 below).

It appears that the line between an initial feasibility study and a complete business plan has become blurred as is indicated in table 3.4 where the layout of a business plan is compared to that of a feasibility study. The feasibility study, in essence, is supposed to consume little of an entrepreneur's resources in order to prove an idea feasible enough to continue to investing in an encompassing business plan. The complete business plan on the other hand has a significant impact on the resources of an entrepreneur, as the entrepreneur either needs thorough knowledge of the industry, product and financial component, or needs to be able to contract the help of professionals in developing a business plan.

Paradoxically, all government support institutions require a complete business plan from entrepreneurs before they will assist them financially. Moreover, as noted previously, the facts obtained in a business plan are future facts. This implies that the typical business plan that the support institutions receive are based on estimates of what could be. Entrepreneurs who do not have thorough knowledge of the industry in which they will compete make even more assumptions in the estimates they offer in their business plans.

In table 3.4, the typical aspects that should be included in a business plan, according to Spinelli and Adams (2012), are listed in the first column. In order to compare the layout of a business plan to what is expected in a feasibility study, the aspects of a feasibility study (as noted by the various authors from table 3.3 above) are cited in the second column.

This comparison makes it clear that while a feasibility study is, in essence, supposed to be a predecessor to a business plan (with limited information included in order to simply determine whether a new venture idea is practically achievable) in reality the distinction seems to have faded and they are often very similar documents.

Table 3.4: Comparison between the layout of a business plan and a feasibility study.

<u>Business plan</u>	<u>Feasibility study</u>
Executive summary.	Not included.
Description of the business concept and the business.	<ul style="list-style-type: none"> ▪ Motivation and expectation, purpose and objectives. ▪ Business model. ▪ Strengths and weaknesses, opportunities and threats of the business.
Opportunity and strategy.	<ul style="list-style-type: none"> ▪ Translating idea into product. ▪ Examines issues and assesses probability of success.
Target market and projections.	Gives focus to project and outlines alternatives.
Competitive advantages.	Key success factors for business.
The team.	Skill level, professionalism and number of employees to be hired.
The offering.	Not included.
The industry and the company and its product(s) or service(s).	Not included.
The industry.	Describe the Industry.
The company and the concept.	Sound investment.
The product(s) or service(s).	Not included.
Entry and growth strategy.	Not included.
Market research and analysis.	Whether or not market research has been carried out.
Customers.	<ul style="list-style-type: none"> ▪ The need/ demand. ▪ What are their buying patterns? ▪ Target segments. ▪ The market profile of who will buy the product.

<u>Business plan</u>	<u>Feasibility study</u>
Market size and trends.	<ul style="list-style-type: none"> ▪ Is there a market? ▪ Market demographics and psychographics. ▪ Where is the target market located? ▪ Who makes the buying decisions? ▪ What are the buying patterns? ▪ Potential sale volumes.
Competition and competitive edges.	<ul style="list-style-type: none"> ▪ Niches. ▪ Evaluation of competition. ▪ Who are the competitors, present and future? ▪ What do you know about your competitors (products, pricing, strengths, weaknesses)? ▪ Benefits/ solutions to needs that customers will gain. ▪ What is the business' competitive edge? ▪ Sensitivity to competition. ▪ Align planned business with economic situation.
Estimated market share and sales.	Market potential/ Market share expectation.
Ongoing market evaluation.	Not included.
The economics of the business.	Not included.
Gross and operating margins.	How long can the business survive before making its first sale?
Profit potential and durability.	Not included.
Fixed, variable, and semi-variable costs.	Not included.
Months to breakeven.	Not included.
Months to reach positive cash flow.	Sell in sufficient volume to generate profit. When is the business likely to be operational?
Marketing plan.	Not included.
Overall marketing strategy.	Not included.
Pricing.	Not included.
Sales tactics.	How will the product/ service be sold?
Service and warranty policies.	Not included.
Advertising and warranty policies.	Not included.

<u>Business plan</u>	<u>Feasibility study</u>
Advertising and promotion.	Packaging and promotion.
Distribution.	Not included.
Design and development plans.	Not included.
Development status and tasks.	<ul style="list-style-type: none"> ▪ Can it be built? ▪ Production process/ Method of production/ Production features and practices.
Difficulties and risks.	Go/ no-go factors during production
Product improvement and new products.	Development outline – key steps in development and timeline.
Costs.	<ul style="list-style-type: none"> ▪ Resources needed – equipment, plant, raw materials, skill, and technology. ▪ Supply and materials. ▪ Facilities. ▪ Nature of factory building, fencing etc.
Proprietary issues.	<ul style="list-style-type: none"> ▪ Can the idea be protected? ▪ Regulatory standards/ requirements that must be met. ▪ Regulation and environmental issues.
Manufacturing and operations plans.	Not included.
Operating cycle.	<ul style="list-style-type: none"> ▪ Is product or service ready for sale? ▪ Availability of supply for key components, market scope and delivery.
Geographical location.	<ul style="list-style-type: none"> ▪ How far away from the marketplace is the product and what will getting it there cost? ▪ Best location – traffic lights, nearness to schools, accessibility to customers, ease of transportation of raw materials, nearness to cheap labour.
Facilities and improvements.	Site development.
Strategy and plans.	Help secure funding.
Regulatory and legal issues.	Government fiscal policies, import and export rate, inflation rate, tax rate, currency exchange rate.
Management team.	

<u>Business plan</u>	<u>Feasibility study</u>
Organisation.	Organisational design.
Key management personnel.	Skill level, professionalism and number of employees to be hired.
Management and compensation and ownership.	Organisation management, ownership.
Other investors.	Commercial sense for funder.
Employment and other agreements and stock option and bonus plans.	Not included.
Board of directors.	Not included.
Other shareholder, rights, and restrictions.	Value chain linkages
Supporting professional advisors and services.	<ul style="list-style-type: none"> ▪ Collaboration. ▪ External sources of finance you intend to approach. ▪ Suppliers /Procurement/ contracts.
Sustainability and impact.	Not included.
Issues of sustainability of the venture.	Sold in sufficient volume at sustainable price. Investigates sustainability plan.
Impact on the environment.	Not included.
Impact on the community and nation.	Not included.
Overall schedule.	Possible delaying factors.
Critical risks, problems and assumptions.	<ul style="list-style-type: none"> ▪ Impact and implications of social and economic factors (HIV, youth, gender bias). ▪ Weakness in product and strategies to overcome it. ▪ Liquidation rate of companies in the industry. ▪ Identify barriers and enhance probability of success by addressing barriers. ▪ Analyse risk to reward ratio.
The financial plan.	Not included.
Actual income statements and balance sheets.	Income statement.
Pro forma income statements.	<ul style="list-style-type: none"> ▪ Potential income. ▪ Forecast assumptions. ▪ Projected sales revenue.

<u>Business plan</u>	<u>Feasibility study</u>
Pro forma balance sheets.	<ul style="list-style-type: none"> ▪ Valuation of assets to be acquired. ▪ Depreciation of assets.
Pro forma cash flow analysis.	<ul style="list-style-type: none"> ▪ Cash flow statement. ▪ Overhead costs. ▪ Operational and maintenance costs (labour, insurance).
Break-even chart and calculation.	<ul style="list-style-type: none"> ▪ How long till breakeven? ▪ Return on investment.
Cost control.	<ul style="list-style-type: none"> ▪ How much money is needed to start up? ▪ How much money is needed as working capital to sustain operations? ▪ Financial projections, calculations and analysis. ▪ Cost of goods. ▪ Price sensitivity.
Highlights.	<ul style="list-style-type: none"> ▪ How organisation will perform and succeed. ▪ Revenue potential.
Proposed company offering.	Not included.
Desired financing.	Not included.
Offering.	Not included.
Capitalisation.	Not included.
Use of funds.	Not included.
Investor's return.	Not included.
Appendixes.	Not included.

Source: (Adapted from Spinelli & Adams, 2012).

With the exception of certain of the marketing components, such as overall marketing strategy, pricing, service and warranty policies, advertising and warranty policies and distribution (as can be seen from table 3.4 above), it is evident that a feasibility study has become a business plan in nature. Although a vital and complementary link exists between feasibility studies and business plans, the degree of overlap between these two concepts

has led to the emphasis shifting from the complementary nature of a feasibility study and a business plan, to the amalgamation of these two distinct concepts into a single document.

3.9.4 The link between a feasibility study and a business plan

The Department for Manufacturing, Innovation, Trade, Resources and Energy aptly illustrates the link between a feasibility study and business plan as follows: “A feasibility study forms the initial assessment of a business or business idea and is part of the business planning process. If the business or idea is deemed feasible, the information that is gathered and evaluated for the feasibility study can be used in the preparation of your business plan” (Government of South Australia, 2012; First Steps In Building Business Plans for Sustainable CDSMP, n.d.).

In this description of the relationship between a feasibility study and a business plan it is evident that a feasibility study should precede a business plan in order to determine whether or not entrepreneurs should commit the needed resources to proceed with a specific new venture concept (Area Development Online, 2014).

A business plan should only be developed once the business venture has been deemed feasible. Once the suggested new venture is proven feasible, a business plan must be developed to serve as the blueprint for implementing this project (Services/ Feasibility studies and Business Planning, n.d.).

As mentioned in the previous section, a feasibility study will answer whether or not entrepreneurs should continue to pursue the venture opportunity. Once a positive outcome is obtained from this study, a business plan is needed to direct entrepreneurs on how to proceed. These two documents are so complementary in nature that the investment made into conducting the feasibility study must be seen as an investment in the business plan (Area Development Online, 2014).

The main difference between a feasibility study and business plan is the amount of information obtained in it regarding the proposed new venture. The main aim of the feasibility study is to explore whether a proposed new venture can practically be established. The business plan serves as an enriching document by planning the new venture in terms of strategies for the implementation and growth of a venture (British Columbia Co-operative Association, n.d.). This description is confirmed by Dr. Diane Hamilton with the statement, “A

feasibility study is carried out with the aim of finding out the workability and profitability of a business venture. Before anything is invested in a new business venture, a feasibility study is carried out to know if the business venture is worth the time, effort and resources. A feasibility study is filled with calculations, analysis and estimated projections while a business plan is made up of mostly tactics and strategies to be implemented in order to grow the business” (Hamilton, 2012).

In addition to the above-mentioned basic differences, further differences between a feasibility study and business plan include:

- Feasibility studies can be used for non-business projects as this study enables you to determine whether or not to proceed with any project. Business plans on the other hand are only business related, whether it is start-up, expansion, etc.
- Feasibility studies are made up of calculations, analysis and estimates as the relevance of a feasibility study is seen in “measurement”, whereas a business plan focuses on strategies needed to start and grow the business.
- Feasibility studies determine the approximate profit potential of a proposed new business, while a business plan assists entrepreneurs in raising the needed capital to start the ventures.
- The feasibility study is a researched document on the practical feasibility of a new venture. Business plans are action orientated in order to stipulate the actions (Martins,n.d.; Saxena & Sodhi, 2011).

3.9.5 Definition of feasibility

As is proven above, the current literature available on feasibility studies have become fairly distorted, with various authors including additional aspects into a feasibility study to the extent that feasibility studies (in their current form) have essentially become a business plan. In order to correct this distortion, the focus must return to the fundamental definition of feasibility and therefore it is argued that the fundamental definition of feasibility must be identified from an accepted dictionary. The online Oxford dictionary quite simply defines feasibility as: “The capability of being done, practicability” (Oxford English Dictionary, n.d.).

Moreover, Investopedia expands its definition of the term feasibility and describes the term as: “An analysis of the ability to complete a project successfully, taking into account legal, economic, technological, scheduling and other factors.” Thus, according to their definition of a feasibility study, entrepreneurs are enabled to investigate the possible positive and

negative outcomes of an endeavor before investing too many resources (Investopedia, n.d.:1 of 1). Thus, in its most basic form, a feasibility study is a systematic, orderly and documented method of scrutinising a new venture from a sound beginning to a sound end and thus the reasonable indication of what requirements need to be satisfied and whether or not a new venture will work, can be determined (First Steps In Building Business Plans for Sustainable CDSMP, n.d.; Government of South Australia, 2012). In essence, the aim of a feasibility study is to give concise and factual answers to the what, why, when, where, who and how questions of new venture establishment (Business plans versus feasibility studies, 2012).

In order to create an apt definition of the term feasibility for the purposes of this study, it will be defined as follows:

“A feasibility study is the controlled process of defining the practicality of a proposed venture. Determining whether the practical implications of a venture can actually be done in such a manner that the benefits obtained will outweigh the preliminary costs associated with venture establishment.

The next section will describe what a feasibility study should entail based on the definition formulated in this section.

3.9.6 What should a feasibility study entail?

Considering the definition of feasibility which centres on the practicality of a proposed venture, this section is dedicated to specifying the aspects that must be included in an evaluation of the feasibility of a venture in order to determine whether a proposed venture is feasible or not. Analysing the feasibility of a venture precedes the establishment of a new venture. However, determining the practicality of a proposed venture is a continuous process as well. Throughout the stages of the development of the venture, the continued practicality must be ensured (Van Baren, n.d.). This continuing nature of feasibility studies serve as a flow chart which monitors and plans how the products and/ or services must evolve in a venture in order to reach the target market (Lahle Wolfe, n.d.).

However, at the heart of a feasibility study is simply answering the question: “Can a product be made, or if it is a service, delivered using currently available, or at least feasible technology?” (The small business feasibility assessment, n.d.). Once a feasibility study has been conducted and the technical merit (i.e. that the product can be produced and have the

needed performance) is proven, entrepreneurs can argue whether or not to proceed with a proposed venture with greater certainty (The small business feasibility assessment, n.d.). The main advantage of a feasibility study is that entrepreneurs can determine whether a new venture, in its most basic form, will work without investing a lot of time and money (Feasibility study, n.d.). Entrepreneurs should thus take this basic concept as far as they can in order to prove the superiority of their proposed venture over the alternatives currently available (Greenwood & Greenwood, 2010).

An efficient manner in which to prove technical feasibility is by developing a prototype. A prototype is a small, workable model of the actual product that entrepreneurs aim to develop. By developing a prototype, entrepreneurs can make improvements to the function or design in order to improve the end-product in a much cheaper and quicker manner than to move to production and discover glitches (Feasibility study, n.d.). Additionally, proof-of-concept prototypes will enable entrepreneurs to improve their estimations, schedules and therefore, budgets, concerning the new venture (Are the project features feasible? n.d.). Should the proposed new venture require a great deal of, or complex technology, it is advisable to enlist the help of a professional in order to accurately assess the technical feasibility and truly gain the benefit of conducting such a study (The small business feasibility assessment, n.d.).

Due to the inconsistency in the literature regarding the elements that should be included into a feasibility study, there are many different authors (indicated as the authors for table 3.5) citing many different aspects that should be included in a feasibility study. However, as mentioned, the boundary between a business plan and a feasibility study does not exist, when all of these aspects are taken into account. The practical aspects answering whether it is possible to successfully produce the proposed product or deliver the proposed service should, by implication, be the only aspects included in a feasibility study. Since this is a preliminary investigation into the proposed new venture, addressing aspects such as the financial components and marketing related to the product and/or service should be kept until a later stage.

In order to purely determine the technical merit, i.e. feasibility of a new venture, the following aspects are recommended as the elements that should be included into a feasibility study:

- Generate proof of concept by means of a prototype.
- Provide a clear description of the product or service being developed (to the extent that all users will understand).

- Clearly describing the benefits of the proposed product or service when compared to current alternatives.
- Prove that the invention works better than the competing solutions.
- Determine whether the current technology can support the new invention.
- Identify the type of technology that is needed.
- Demonstrate that the proposed technology is practical.
- Compare the cost to benefit ratio of the proposed invention.
- Develop project development plans in terms of:
 - List of materials that are needed.
 - Determine whether these materials are available.
 - Determine that the materials are affordable.
 - Identify nonrecurring costs such as engineering and prototype.
- Ensure that the planned project schedule is reasonable.
- Identify the suppliers of the raw materials needed.
- Ensure that the proposed invention complies with the governing regulations, laws and ordinances.
 - Confirm that there is not a patent of the idea that already exists.
 - Ensure that the invention adheres to SABS testing procedures.
- Identify operational risks.
- Ensure that the products are safe and durable.

Once entrepreneurs have paid attention to these aspects and it is determined that a proposed product/ service is practical and can be done, it must be determined whether this product/ service is viable. In the next section, the concept of viability will be defined and discussed as to clarify the aspects that relate to a viability study. However, as the information, such as the costs, obtained from the feasibility study is bound to change over time, a positive outcome of the feasibility study must be swiftly acted on (Feasibility studies: A Guide to Good Practice, 2009 8-9 of 12). It is then advised that the entrepreneurs move on to prove the next aspects, namely the viability of the proposed venture.

3.10 *Viability studies*

3.10.1 Current literature on viability studies

According to the theory, as derived from the definition, a viability study has three main aspects that must be addressed, namely positive cash flow from operations, positive earnings and sustainable future growth (Fabich & Gauthier, n.d.).

Vitez (2014) further clarifies the concept of a viability study with the following statement: “A business often conducts a viability study to determine the potential profit that may exist in a new business idea. The study may come from several different angles, so all aspects of a new idea or business are under review prior to implementation. Common areas under a viability study include studies on the market, technical aspects, business model, and management. Other aspects may also have inclusion in the analysis depending on the idea and potential for unsuccessful implementation. The length of time a company spends on the study also varies based on the aspects of the new operations”.

A viability analysis, especially for a new business, is a comprehensive exercise. Determining the viability of a venture includes analysing the probability of venture success which can only be done through research, experience and business principles. Hereafter it can be determined whether a venture will be able to not only sustain itself, but also to grow. Once it is established that the venture can indeed be established and grow, it can also be argued that the objectives of the venture will be met and thus that the inventor(s) will realise the expected return on investment growth (SME Toolkit: SA, 2014).

Embedded in this definition of viability is the focus on obtaining advice and information during the research phase from an individual or an institution with the needed/ relevant knowledge of the related industry. Very few prospective entrepreneurs have the skills and expertise to accurately evaluate aspects such as location of the venture, the competitors to the new venture and the market for the product or service offered (SME Toolkit: SA, 2014). The importance of obtaining professional support is highlighted when considering the fact that a viability study needs to review external factors which are beyond the control of the entrepreneur. These external factors include aspects such as consumer demand, regulatory environment, competition and resource availability. Each of these factors will represent opportunities or threats to the proposed venture and should they be inaccurately defined or overlooked, they can have serious consequences for the entrepreneur (Vitez, 2014).

In order to summarise, the current theory argues that a viability study must analyse all of the aspects of a new venture, including aspects such as the market, technical aspects, business model and management of a proposed new venture. By addressing each of these issues, the profit potential of a venture can be contended with a greater degree of certainty.

3.10.2 Aspects of a viability study

As can be seen from the theory above, viability studies, as currently noted in the theory entail a wide variety of factors ranging from cash flow projections to determining consumer demand and evaluating the regulatory environment. This is due to the fact that a viability study does not just focus on the business idea – it has to address the internal aspects of a venture as well as the external factors that will impact on a proposed venture (Vitez, 2014; Watsona, Stewart & BarNira, 2003).

A study conducted by Coimbra & Coimbra (2013) accurately indicates the wide variety of aspects that should be included in a viability study and these include: market viability, technical viability, business model viability, economic and financial viability and exit strategy viability. Additionally, Coimbra & Coimbra (2013) argue that in order to determine the viability of each of these aspects, it is necessary to analyse a variety of other factors pertaining to each of these aspects. In other words, the aspect of market viability constitutes several factors, namely market size, competitors, similar products, pricing, packaging and distribution, to name a few. Only once the viability of each of these factors has been determined, can the overall viability of the market be assessed. This is true for all the aspects included in a thorough viability study. Table 3.5 summarises all the aspects that should be included in a viability study, according to the various authors cited below the table. When scrutinising this table it becomes clear that a viability study, according to the current literature available, is an encompassing process, covering a multitude of aspects to be evaluated.

Table 3.5: Aspects that must be included in a viability study as cited by various authors.

<u>Market studies</u>	<u>Technical aspects</u>	<u>Management and business model</u>	<u>Financial</u>	<u>Legal aspects</u>	<u>Operations assessment</u>	<u>Sales and marketing assessment</u>	<u>Risk assessment</u>
Industry analysis.	Products and services that are offered.	Entrepreneur and his ability	Investment amount needed	Contracts and agreements such as leases, buy and sell agreements, franchise agreements and statutory conformation such as VAT etc.	Analysis of product costs and gross margins.	Assessment of sales and marketing strategies.	General economic factors.
What is the size of the market?	Will the product work as planned?	Sound business principles.	Cost of the product.	Compliance to acts such as Insolvency Act.	Review of purchasing methodologies.	Review of effectiveness of salespeople and sales rep management process.	Levels of demand for the product or service.

<u>Market studies</u>	<u>Technical aspects</u>	<u>Management and business model</u>	<u>Financial</u>	<u>Legal aspects</u>	<u>Operations assessment</u>	<u>Sales and marketing assessment</u>	<u>Risk assessment</u>
What percentage of the market needs to be captured to achieve expected turnover levels?	Was the product tested?	Technical expertise.	Margins and expense structure		Review of inventory controls and materials handling	Review of compensation structures and incentive programs	
Will the product or service sell?	Will the product last?	Analysis of staff requirements.	Breakeven.		Review of product quality assurance processes.	Review of product line, completeness, and product pricing methodologies.	
Why will the customers buy the product or service?	Is the product toxic or does it cause irritation?	Management skill set assessment.	How much profit will be made?		Review of multiple location rationale and cost-effectiveness.	Rudimentary market analysis.	
How will the market know about the product or service?	Manufacturing process.	Venture team.	What losses are expected?		Complexity of procurement process.		

<u>Market studies</u>	<u>Technical aspects</u>	<u>Management and business model</u>	<u>Financial</u>	<u>Legal aspects</u>	<u>Operations assessment</u>	<u>Sales and marketing assessment</u>	<u>Risk assessment</u>
Marketing strategy including the four P's (Product, Price, Place and Promotion).	Study of the plant required to operate successfully, factory layout, location of the factory, costs associated with the plant, waste factors and availability of infrastructure.	Interpersonal processes.	Does the business have surety and is access to funding possible?				
Maturity of the relevant industry	Capacity of the business to supply	Organisational demography	Costing exercises, sensitivity analysis, cash flow forecasts and income statements.				

<u>Market studies</u>	<u>Technical aspects</u>	<u>Management and business model</u>	<u>Financial</u>	<u>Legal aspects</u>	<u>Operations assessment</u>	<u>Sales and marketing assessment</u>	<u>Risk assessment</u>
Understanding of the characteristics of the industry in which the venture will operate		Work experience and education of employees	Cash flow review				
Geographic location		Entrepreneur characteristics.	Review of selling, general and administrative expenses.				
		Human capital	Understanding profit margins in the relevant industry.				
		Connections to outside resources					
		Venture's strategy on sales, employment and market share growth.					

Source: Author's own construction from the following sources (Australian Government, 2008; Foo, Sin, and Yiong, 2006; Gilbert, McDougall, and Audretsch, 2006; Lake Pointe Partners LLC, 2006; SME Toolkit: South Africa, 2014; Vitez, 2014; Watsona, Stewart. and BarNira, 2003).

3.10.3 Discussion of the table

As can be seen in table 3.5 above, the noted theorists indicated a wide variety of aspects that should be included in a viability study. These aspects range from market studies, technical aspects, management and the business model, financial aspects, legal issues, operations assessment, sales and marketing assessment to risk assessment. Considering these aspects it is clear that a lot of input, whether it be time, knowledge or financial resources are required from entrepreneurs in order to conduct a viability study, as currently described in literature, as proven in table 3.5.

In fact the current description of a viability study strongly resembles a business plan, as can be seen from the comparison of the aspects of viability studies and the layout of a business plan in table 3.6. All of the above noted aspects that should be included in a viability study represent a section in the business plan layout. Again it is argued by the author of this study that the difference between a viability study and a business plan has become a semantic difference. In essence these two documents, which should be conducted as two separate studies, at different periods in the new venture creation process, with different resource requirements and expected outputs, cover the same aspects and no true distinction is made between a business plan and a viability study.

Additionally, even the difference between a feasibility study and a viability study has diminished to such an extent that there is no real differentiation. In order to motivate this statement, table 3.6 compares not only the components of a business plan to that of a viability study, but also to a feasibility study (as noted in the previous section). This table facilitates the comparison between these three studies in order to clearly illustrate their overlapping nature.

Table 3.6: Comparison between the layout of a business plan, a feasibility study and a viability study.

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>
Executive summary.	Not included.	Not included.
Description of the business concept and the business.	<ul style="list-style-type: none"> ▪ Motivation and expectation, purpose and objectives. ▪ Business model. ▪ Strengths and weaknesses, opportunities and threats of the business. 	Not included.
Opportunity and strategy.	<ul style="list-style-type: none"> ▪ Translating idea into product. ▪ Examines issues and assesses probability of success. 	Not included.
Target market and projections.	Gives focus to project and outline alternatives.	Level of demand for the product or service.
Competitive advantages.	Key success factors for business.	Not included.
The team.	Skill level, professionalism and number of employees to be hired.	<ul style="list-style-type: none"> ▪ Venture team. ▪ Work experience and education of employees. ▪ Entrepreneurial characteristics.
The offering.	Not included.	Not included.
The industry and the company and its product(s) or service(s).	Not included.	Not included.
The industry.	Describe the Industry.	<ul style="list-style-type: none"> ▪ Industry analysis. ▪ Understanding the characteristics in which the venture will operate.

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>
The company and the concept.	Sound investment.	<ul style="list-style-type: none"> ▪ Review purchasing methodologies. ▪ Review inventory controls and materials handling. ▪ Review product quality assurance processes. ▪ Review multiple location rationale and cost-effectiveness. ▪ Complexity of procurement process.
The product(s) or service(s).	Not included.	<ul style="list-style-type: none"> ▪ Products and services that are offered. ▪ Review of product line, completeness, and product pricing methodologies.
Entry and growth strategy.	Not included.	Not included.
Market research and analysis.	Have you, and how have you, carried out market research?	<ul style="list-style-type: none"> ▪ Rudimentary market analysis. ▪ Maturity of the relevant industry.
Customers.	<ul style="list-style-type: none"> ▪ The need/ demand. ▪ What are their buying patterns. ▪ Target segments. ▪ The market profile of who will buy the product. 	Will the product or service sell?

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>
Market size and trends.	<ul style="list-style-type: none"> ▪ Is there a market? ▪ Market demographics and psychographics ▪ Where is the target market located? ▪ Who makes the buying decision. ▪ What are the buying patterns? ▪ Potential sale volumes. 	<ul style="list-style-type: none"> ▪ What is the size of the market? ▪ Why will the customers buy the product or service?
Competition and competitive edges.	<ul style="list-style-type: none"> ▪ Niches. ▪ Evaluation of competition. ▪ Who are the competitors, present and future? ▪ What is known about the competitors (products, pricing, strengths, weaknesses)? ▪ Benefits/ solutions to needs that customers will gain. ▪ What is the business' competitive edge? ▪ Sensitivity to competition. ▪ Align planned business with economic situation. 	Not included.
Estimated market share and sales.	Market potential/ Market share expectation.	What percentage of the market needs to be captured to achieve expected turnover levels?
Ongoing market evaluation.	Not included.	Not included.
The economics of the business.	Not included.	Not included.
Gross and operating margins.	How long can the business survive before it makes its first sale?	
Profit potential and durability.	Not included.	<ul style="list-style-type: none"> ▪ How much profit will be made? ▪ Understanding profit margins in the relevant industry.
Fixed, variable, and semi-variable costs.	Not included.	Not included.
Months to breakeven.	Not included.	Not included.

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>
Months to reach positive cash flow.	Sell in sufficient volume to generate profit. When is the business likely to be operational?	Not included.
Marketing plan.	Not included.	Not included.
Overall marketing strategy.	Not included.	Marketing strategy including the four P's (Product, Price, Place, Promotion).
Pricing.	Not included.	Not included.
Sales tactics.	How will the product/ service be sold?	How will the target market know about the product or service?
Service and warranty policies.	Not included.	Not included.
Advertising and warranty policies.	Not included.	Not included.
Advertising and promotion.	Packaging and promotion.	Assessment of sales and marketing strategies.
Distribution.	Not included.	Not included.
Design and development plans.	Not included.	Not included.
Development status and tasks.	<ul style="list-style-type: none"> ▪ Can it be built? ▪ Production process/ Method of production/ Production features and practices. 	Will the product work as planned?
Difficulties and risks.	Go/ no-go factors during production.	<ul style="list-style-type: none"> ▪ Was the product tested? ▪ Will the product last? ▪ Is the product toxic or does it cause irritation?
Product improvement and new products.	Development outline – key steps in development and timeline.	Not included.
Costs.	<ul style="list-style-type: none"> ▪ Resources needed – equipment, plant, raw materials, skill, technology. ▪ Supply and materials. ▪ Facilities. ▪ Nature of factory building, fencing etc. 	Not included.

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>
Proprietary issues.	<ul style="list-style-type: none"> ▪ Can the idea be protected? ▪ Regulatory standards/ requirements that have to be met. ▪ Regulation and environmental issues. 	<ul style="list-style-type: none"> ▪ Contracts and agreements such as leases, buy and sell agreements, franchise agreements and statutory conformation such as VAT, etc. ▪ Compliance to acts such as Insolvency Act.
Manufacturing and operations plans.	Not included.	Not included.
Operating cycle.	<ul style="list-style-type: none"> ▪ Is product or service ready for sale. ▪ Availability of supply for key components, market scope and delivery. 	Capacity of the business to supply.
Geographical location.	<ul style="list-style-type: none"> ▪ How far away from the marketplace is the product and what will it cost to get it there? ▪ Best location – traffic lights, nearness to schools, accessibility to customers, ease of transportation of raw materials, nearness to cheap labour. 	Geographic location.
Facilities and improvements.	Site development.	<ul style="list-style-type: none"> ▪ Manufacturing process. ▪ Study the plant required to operate successfully, factory layout, location of the factory, costs associated with the plant, waste factors and availability of infrastructure.

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>
Strategy and plans.	Help secure funding.	<ul style="list-style-type: none"> ▪ Sound business principles. ▪ Venture's strategy on sales, employment and market share growth.
Regulatory and legal issues.	Government fiscal policies, import and export rate, inflation rate, tax rate, currency exchange rate.	General economic factors.
Management team.	Not included.	Not included.
Organisation.	Organisational design.	<ul style="list-style-type: none"> ▪ Analysis of staff requirements. ▪ Organisational demography.
Key management personnel.	Skill level, professionalism and number of employees to be hired.	<ul style="list-style-type: none"> ▪ Human capital. ▪ Technical expertise.
Management and compensation and ownership.	Organisation management, ownership.	<ul style="list-style-type: none"> ▪ Entrepreneur and his/ her ability. ▪ Management skill set.
Other investors.	Commercial sense for funder.	Connections to outside resources.
Employment and other agreements and stock option and bonus plans.	Not included.	Not included.
Board of directors.	Not included.	Not included.
Other shareholder, rights, and restrictions.	Value chain linkages.	Not included.
Supporting professional advisors and services.	<ul style="list-style-type: none"> ▪ Collaboration. ▪ External sources of finance you intend to approach. ▪ Suppliers/ Procurement/ contracts. 	Not included.
Sustainability and impact.	Not included.	Not included.
Issues of sustainability of the venture.	Sold in sufficient volume at sustainable price. Investigates sustainability plan.	Not included.
Impact on the environment.	Not included.	Not included.
Impact on the community and nation.	Not included.	Not included.
Overall schedule.	Factors most likely to delay you.	Not included.

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>
Critical risks, problems and assumptions.	<ul style="list-style-type: none"> ▪ Impact and implications of social and economic factors (HIV, youth, gender bias). ▪ Weakness in product and strategies to overcome it. ▪ Liquidation rate of companies in the industry. ▪ Identify barriers and enhance probability of success by addressing barriers. ▪ Analyse risk to reward ratio. 	Does the business have surety and can access to funding be gained?
The financial plan.	Not included.	Not included.
Actual income statements and balance sheets.	Income statement.	Costing exercises, sensitivity analysis, cash flow forecasts and income statements.
Pro forma income statements.	<ul style="list-style-type: none"> ▪ Potential income. ▪ Forecast assumptions. ▪ Projected sales revenue. 	Not included.
Pro forma balance sheets.	<ul style="list-style-type: none"> ▪ Valuation of assets to be acquired. ▪ Depreciation of assets. 	Not included.
Pro forma cash flow analysis.	<ul style="list-style-type: none"> ▪ Cash flow statement. ▪ Overhead costs. ▪ Operational and maintenance costs (labour, insurance). 	Cash flow review.
Break-even chart and calculation.	<ul style="list-style-type: none"> ▪ How long till breakeven. ▪ Return on investment. 	Breakeven.

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>
Cost control.	<ul style="list-style-type: none"> ▪ How much money do you need to start up? ▪ How much money is needed as working capital to sustain operations? ▪ Financial projections, calculations and analysis. ▪ Cost of goods. ▪ Price sensitivity. 	<ul style="list-style-type: none"> ▪ Investment amount needed. ▪ Cost of the product. ▪ Margins and expense structure. ▪ What losses are expected? ▪ Analysis of product costs and gross margins.
Highlights.	<ul style="list-style-type: none"> ▪ How organisation will perform and succeed. ▪ Revenue potential. 	Not included.
Proposed company offering.	Not included.	Not included.
Desired financing.	Not included.	Not included.
Offering.	Not included.	Not included.
Capitalisation.	Not included.	Not included.
Use of funds.	Not included.	Not included.
Investor's return.	Not included.	Not included.
Appendixes.	Not included.	Not included.

Source: (Adapted from Spinelli & Adams, 2012).

Table 3.6 above clearly illustrates the vast amount of overlapping that occurs between a business plan, feasibility study and viability study. The difference noted between a viability study and that of business plans and feasibility studies are some financial aspects. Nevertheless, it should be noted that the core aspects, such as income statements and breakeven analysis are included in viability studies at present. However, at the heart of it, each of these studies (i.e. business plans, feasibility studies and viability studies) should have a unique focal point. There is no merit in conducting three separate studies which in essence are the exact same thing. The aspects included in each of these studies should not overlap to the large extent that they currently do, as the intended complementary nature of each of these studies in new venture establishment will be lost.

3.10.4 The link between business plans and viability studies

In the current theory, business plans and viability studies are not regarded as two separate entities, as it is argued that business plans are developed in order to ensure the viability of a venture (Brinckmann, et al., 2010).

Der Foa, Wonga and Ong (2005) argue that through a business plan, entrepreneurs can convince the outside parties, such as investors, of the viability of a new venture. Thus the viability concept is included in a business plan and is not regarded as a study to complete on its own.

In conclusion, the link between a business plan and a viability study (in the current literature) is merely that the commercial viability of a new venture is assessed through developing a business plan (Government of Western Australia, 2014). Viability studies are not regarded as separate studies that are complementary to business plans and necessary to assess the potential of a new venture, but rather as a logical outflow once a business plan is developed.

When considering the description of viability studies from Coimbra and Coimbra (2013) in that a viability study should include market viability, technical viability, business model viability, economic and financial viability and exit strategy viability, it is clear that the business plan of any venture, in essence, should address these issues. Therefore the argument currently found in the literature (that the viability of a venture is proven through the business plan) is accurate. Conversely it is vital to note that the author of this study is arguing that the current description of viability studies, and the aspects that should be included in these studies, are incorrect. In order to argue this, the next section is dedicated to aptly defining the concept 'viability'; where-after the elements that form part of a viability study can be identified and a true distinction between business plans and viability studies can be achieved.

3.10.5 Definition of Viability

Since it is the argument of the author of this study that the current definitions found in the literature do not represent the essence of viability, a grass root definition of the concept had be obtained. Thus, an internationally accepted dictionary was consulted in order to determine the true meaning of viability.

According to the Oxford English Dictionary (n.d.) as well as the Oxford Learners' Dictionary (n.d.), viability in the business sense, is defined as: "Capable of working; that it will be successful". The Free Dictionary (n.d.:1 of 1) extends on the notion of success, by including the concept "continuing effectiveness". In other words, a viable business is capable of working, initially, but more than that, it is a business that can continue in effectiveness throughout. According to the SME Toolkit: SA (2014), viability in a commercial context is

defined as: “The ability of a business to exist, be profitable and grow”. This definition of viability adds an important aspect to the term viability, i.e. growth.

Vitez (2014) supports this definition by the SME Toolkit: SA (2014), with their definition on viability, namely: “A business often conducts a viability study to determine the potential profit that may exist in a new business idea”.

For the purpose of this study, viability will be defined as:

“The quality of having a reasonable chance of success in terms of continued effectiveness throughout establishing and growing a profitable venture”.

3.10.6 What should a viability study entail?

According to the Oxford English Dictionary (n.d.) as well as the Oxford Learners’ Dictionary (n.d.), viability in the business sense, is defined as: “Capable of working; that it will be successful”.

By implication, the definition of viability is concerned with the potential of business success. It is therefore crucial to discuss and define the concept ‘new venture success’ and to identify the elements on which new venture success depends in order to effectively evaluate the viability of a proposed new venture.

The definition of founding success (i.e. establishing a new venture), as posed by Kessler, Korunka, Frank and Lueger (2012) is as follows: “founding success is measured as the realisation of the planned venture using the individual variable of ‘first sales’ (based on a point in time) in order to have an equally valid point of reference for all start-ups.”

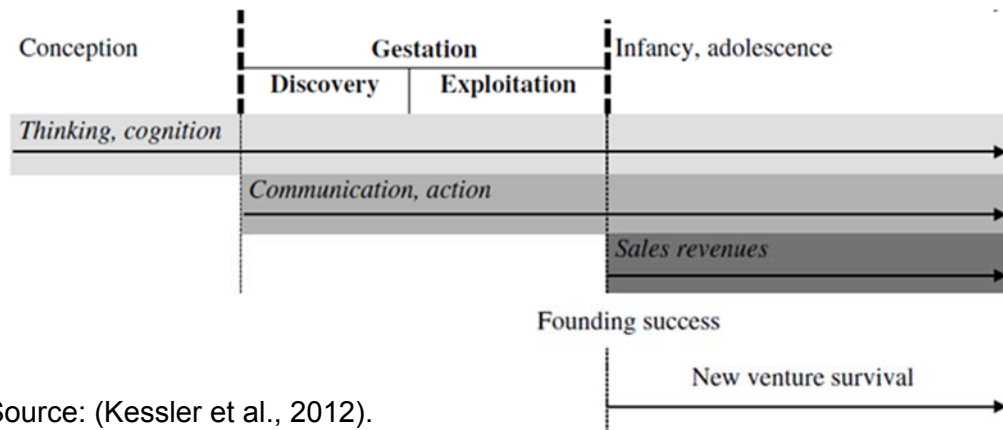
Kessler et al., (2012) argues that the inclusion of concepts such as personal financial support, positive cash flow, appearance in business listings, etc. in the definition of new venture success was either too difficult to accurately measure or flawed. This is due to the fact that the industry size and effects are unique for each new venture. Thus the realisation of the planned venture remains pivotal in the definition of new venture success.

Although success in terms of founding/ establishing an entrepreneurial venture and success in terms of venture survival are two separate concepts, they are influenced by the same aspects. Founding success can be defined as the point where the new venture generates its

first sales revenues and which symbolises the actual commencement of business activities. The survival of new ventures on the other hand, is defined as the period of time which the new venture exists after the actual commencement of the venture (Kessler et al., 2012).

For additional clarity, the difference between venture founding and venture survival is visually explained by the figure (figure 3.2) below.

Figure 3.2: The difference between venture founding and venture survival.



Source: (Kessler et al., 2012).

After consulting the literature regarding the concept “venture success”, as posed by various authors (Cusumano, 2013; Johnston, 2014; Kessler, Korunka & Lueger, 2012; Spinelli, & Adams, 2012; Mundy & Bullen, 2006; Porter, 2007; Zimmerman & Chu, 2013), the following figure (Figure 3.3) serves as a summary of the elements that must be evaluated, discussed and incorporated into a viability study in order to improve the possibility of venture success.

Determining the viability of a new venture commences with the evidence of a compelling new product or service, as was proven by feasibility. Hereafter the concept of viability argues that an opportunity exists due to the fact that the proposed venture will face an attractive market. However, the market attractiveness is influenced by three core aspects namely:

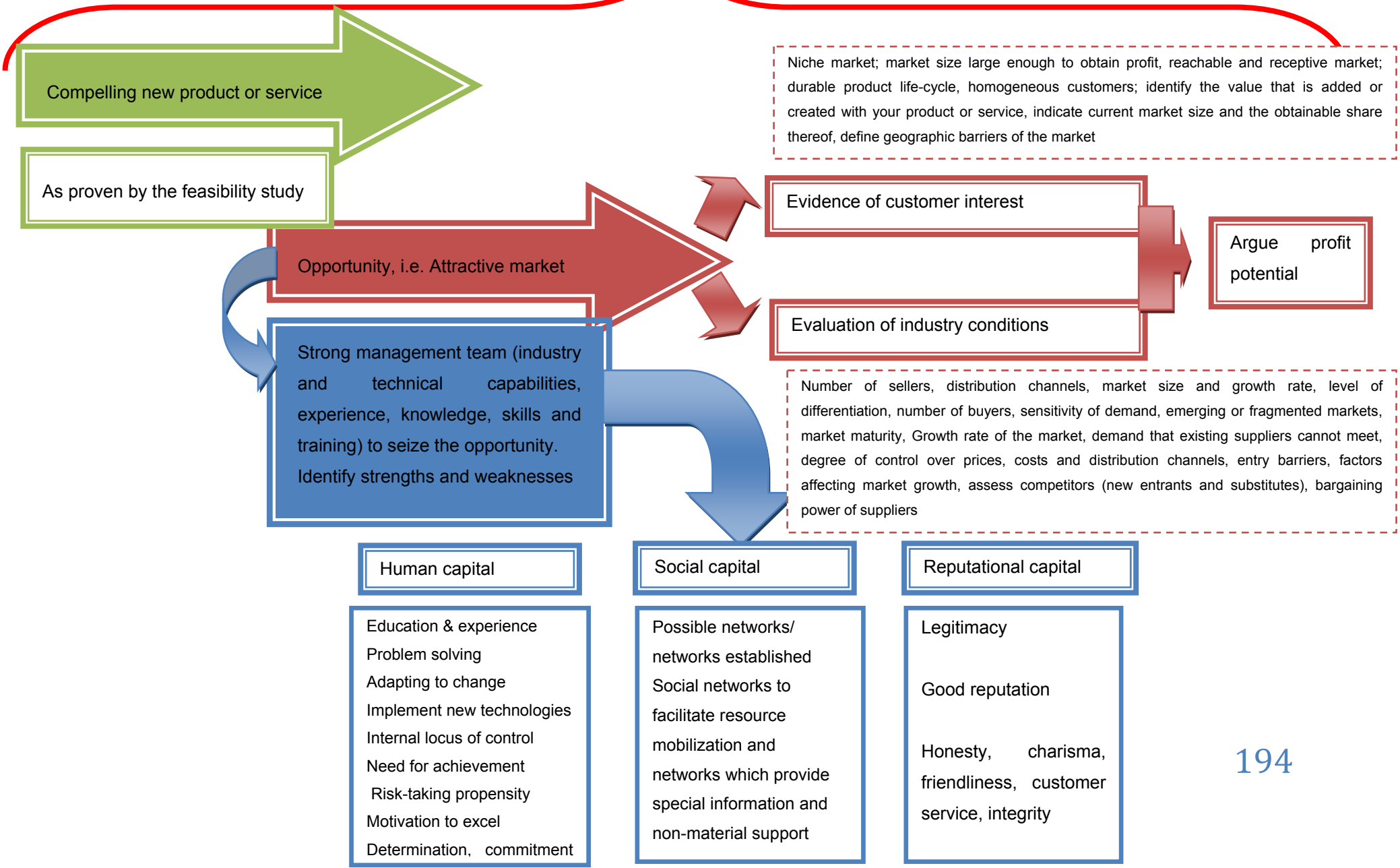
- A strong management team,
- Evidence of customer interest and
- An evaluation of industry conditions.

In other words, in order to argue an attractive market, entrepreneurs must ensure that they have a strong management team which includes aspects such as human, social and reputational capital. Hereafter the customer interest and industry conditions must be determined as this will enable entrepreneurs to argue the profit potential of the proposed venture. Underpinning this process of determining viability is the argument that certain

chronological expectations must be met and constant control should be implemented in order to determine, and ensure adherence to the planned schedule.

Figure 3.3: Aspects that should be included in a viability study.

Founding process - attaining certain chronological expectations
(Determine adherence to the planned schedule)



Source: Author's construction adapted from the works of:

(Cusumano, 2013; Johnston, 2014; Kessler, Korunka & Lueger, 2012; Spinelli & Adams, 2012; Mundy & Bullen, 2006; Porter, 2007; Zimmerman & Chu, 2013).

The viability study should focus explicitly on the possibility of success for a new venture. In other words, the function of a viability study is to determine whether there is an attractive market for the proposed venture, if this market can generate profit for the entrepreneur and that the entrepreneurial team possesses the needed skills to take advantage of the opportunity in the market, given the current environment in which the business has to operate.

In order to offer a summary of the concepts discussed thus far, the feasibility study is conducted to prove that a new proposed venture is technically feasible, the viability study must determine whether this plausible product or service will generate a large enough market share to attract profits and once both of these elements have positive outcomes, the entrepreneur must move on to the sustainability study.

3.11 Sustainability

3.11.1 Current literature on sustainability

New venture sustainability is concerned with managing the triple bottom line, which is the inclusion of financial, environmental and social concerns into all new venture decisions (SME sustainability challenges, 2013). In essence this implies that a sustainable venture addresses important issues at macro level by creating long-term financial value (economic efficiency), understanding the impact of their actions on the environment, actively managing these influences while caring about their employees, customers and communities (social equity). Additionally, sustainable ventures understand that these three aspects are strongly connected to each other (SME sustainability challenges, 2013). The importance of this connectedness can be seen in that changes in the one aspect will influence the other aspects. Conversely, if one of these aspects is neglected, it will have an impact on the other aspects.

By implication, sustainability forces entrepreneurs to think about long-term goals for the new venture instead of focusing on short term profits. Entrepreneurs need to establish strong relationships with employees and the community in which they will operate (SME

sustainability challenges, 2013). This will enable new ventures to survive major events such as recessions etc. as they acquire resilience over time due to the healthy economic, social and environmental decisions and systems implemented (Financial Times, n.d.; SME sustainability challenges, 2013). Entrepreneurs need to anticipate that ensuring sustainability at the founding stage of a new venture will demand extra effort from them due to its long-term nature. Entrepreneurs will need to make decisions that do not just translate into financial wealth, but also into healthy social and environmental ties, thus dramatically improving the survival rate of new ventures. However, this does not imply that entrepreneurs must sacrifice the profit bottom line. In fact, in the long run sustainable ventures have proven to be more profitable as they manage to adapt to the constantly changing market, thus providing the venture with a competitive advantage (Willard, 2010).

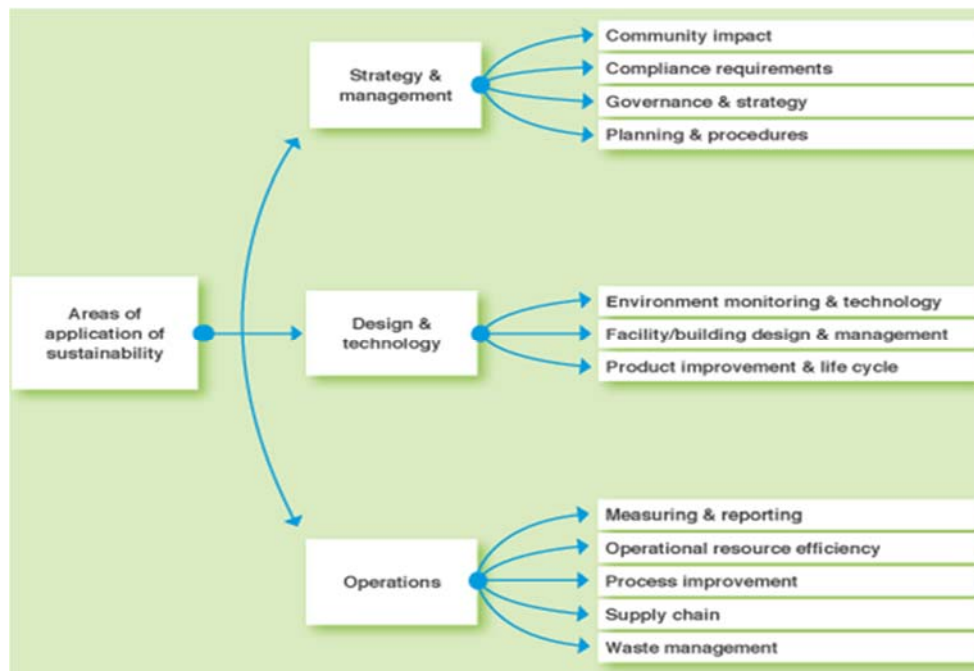
In order to summarise the discussion above, new venture sustainability depends on creating a culture where the very nature of the venture is based on pursuing long-term profitability with the inclusion of environmental and social issues. It is important to note that the investments that new ventures make into understating their impact on social and environmental aspects should translate into concrete financial results for the new venture as the accounting perspective remains the heart of sustainability (Do well. Do good, n.d.; Financial Times, n.d.; SME sustainability challenges, 2013).

The sustainability of a new venture should be targeted through the following elements, thereby ensuring that the financial, environmental and social issues are considered:

- Strategic management process
 - Sustainability must be embedded throughout the venture by the strategic decisions made as well as the management processes implemented.
- Design and technology
 - This aspect relates to producing products that will enable consumers to be more sustainable and ensuring that the process through which products are developed is sustainable
- Everyday operations
 - Sustainability in every day operations imply reduced waste in terms of time, material and unnecessary processes, but also includes the aspect of a sustainable supply chain (Manufacturing skills Australia, 2014).

The above-mentioned aspects of sustainability are summarised in figure 3.4 below. This illustrates the wide variety of areas where sustainability is often applied.

Figure 3.4: The aspects of sustainability.



Source: (Manufacturing skills Australia, 2014a:1 of 2).

When considering the fact that sustainability should be applied across all levels and functions it is argued by the author of this study that sustainability should be central to the business model a new venture adopts as a business model dictates the manner in which a venture operates. Hence the term business model will be defined, thus indicating the overlapping nature with sustainability.

The business model of a venture answers how funds flow from customers to the business and from the business to suppliers. A sustainable business model must offer products and services that result in profit for the business, but also take responsibility for the natural world and provide social benefits to employees and stakeholders. The underlying principle of a sustainable business model is that it enables the venture to obtain profits in the long-term while not contributing to environmental damage, which in turn will ensure a competitive advantage to the new venture (Feasibility studies: A Guide to Good Practice, 2009). Additionally, a business model must answer how the venture will manage the internal role players (i.e. employees and managers) as well as the external role players (all stakeholders) (Financial Times, n.d.; Investopaedia, n.d.). In essence this is the exact same concept as sustainability, focusing on financial, environmental and social issues.

The purpose of a business model is to create value. In other words, a business model provides the blueprint of all components and functions of a venture in order to determine how the venture will turn inputs into outputs and compete in the market and thus earn an income. The business model must ensure that the opportunity identified by the entrepreneur attempting to establish a new venture will be greater than the cost of start-up (Financial Times, n.d.; Investopedia, n.d.). Again the overlapping nature of the concepts 'sustainability' and 'business model' is clear as both of these concepts have to be applied across all levels and functions of any venture. Thus it is henceforth argued by the author of this study that venture sustainability can only be achieved through developing and implementing a unique and sustainable business model. Consequently a discussion on business models will ensue.

3.11.2 Aspects of a business model in order to ensure sustainability

The importance of a well thought out and planned business model for every business but especially new ventures, can be seen in the specific role that business models fulfill through several vital functions. These functions include:

- Articulating the value which the venture creates for users through the technology used, i.e. the value proposition.
- Identifying the niche market to which your product or service will be sold and specifying the mechanism by which revenue will be generated.
- Defining the structure of the required value chain through which the offering will be distributed as well as the complementary assets needed to support the venture in its position in the value chain.
- Detailing the revenue mechanism(s) by which the venture will be paid for the offering.
- Estimating the profit potential by determining the cost structure.
- Describing the position of the venture in the value network in terms of suppliers, customers, possible complementary elements and competitors.
- Formulating the competitive strategy through which the new venture will obtain a competitive advantage over rival firms (Chesbrough, 2009).

Although a business model is a comprehensive aspect of business planning and encompasses several vital aspects of successfully establishing a new venture, it is important that the business model framework is as simple, logical, measurable and operationally meaningful as possible (Morris, Schindehutte, & Allen, 2005).

As a starting point, a business model framework must entail three levels of decision-making, namely, “Foundation”, “Proprietary” and “Rules”. Each of these levels encompass a unique set of decisions that need to be made, which also reflects the different purposes of a business model (Morris et al., 2005).

i) Foundation level

At this level generic decisions are made in order to answer what the new venture is so as to ensure that all future decisions will be internally consistent. During this stage of developing a business model entrepreneurs make basic decisions regarding their proposed venture and thus general comparisons and universal models are permitted for the time being.

This level must define the basic components of the new venture which implies that six key decision areas must be answered at this level. These six areas are:

1. How will the venture create value?

In essence, this question focuses on the value offering of a new venture. When answering this question entrepreneurs need to decide on the nature of the product or service mix to be offered, to what extent the venture will be involved in the production and delivery of the product or service and how this value offering will be made available to the users.

Aspects entrepreneurs need to consider include decisions regarding whether the venture will:

- Sell products primarily, or services or a mix of products and services.
- Offer standardised products or services, moderate customised products or services or fully customised products or services.
- Have a broad line, medium breadth or narrow line in terms of the product(s) or service(s) offered as well as the depth of product(s) or service(s) lines.
- Grant access to only the product or service or whether the product or service is linked with other products.
- Manufacture the product internally, outsource, license, resell or offer value added reselling.
- Make use of direct or indirect distribution (Morris et al., 2005).

2. For whom will the venture create value?

This aspect focuses on the intended market in which the proposed venture will operate in terms of the nature and scope of the market. This aspect will have a significant impact on the

composition of the venture as well as the resource requirements as the types of customers, their geographic dispersion and their demands of interaction will be identified. This is a vital aspect to new venture formation as an inadequate summary of the market will have a severe negative impact on venture establishment and/ or success.

Key questions during this stage include:

- what type of venture will the entrepreneur establish (business-to-business, business-to-customer, or both)
- whether the venture will operate locally, regionally, nationally or internationally
- where the customer is in the value chain, i.e. will the venture sell to an upstream supplier, a downstream supplier, government, institution, wholesaler, retailer, service provider or final customer?
- will the venture focus on the broad or general market, multiple segments or a niche market? (Morris et al., 2005).

3. What is the venture's internal source of advantage?

The fundamental issue that is addressed here relates to the core competency of the venture. In other words, entrepreneurs need to be able to identify an internal capability or skill set that the entrepreneurial team and the venture possess which sets them apart from their competitors. This core competency is the primary element of the business model as it will establish the venture's role in the external value chain and provide the focus of the internal value chain.

Factors included in this section relate to the internal capability of a venture as entrepreneurs need to be able to answer what the source(s) of competence is/are for the venture. Entrepreneurs must decide where the source of competence lies in terms of:

- Production or operating systems
- Selling or marketing
- Information management, mining or packaging
- Technology, research and development, creative or innovative ability or intellectual
- Financial transactions or arbitrage
- Supply chain management
- Networking or resource leveraging (Morris et al., 2005).

4. How will the venture position itself in the marketplace?

By identifying the core internal competencies of a venture, the basis for external positioning becomes clear. The business model must thus indicate how the entrepreneur intends to achieve a competitive advantage over the current and future competitors given the unique set of competencies which the venture possesses. Vital to this aspect is for the entrepreneur to identify a manner in which to sustainably differentiate the venture from those of competitors, thus creating a unique and defensible niche market for the proposed venture.

The factors that the entrepreneur must focus on include the image of operational excellence, consistency, dependability or speed; product or service quality, selection, features or availability; innovation leadership; low cost or efficiency and intimate customer relationship or experience (Morris et al., 2005).

5. How will the venture make money?

The economic component of the business model provides the consistent logic for earning profits, which is a crucial aspect to any new venture. The aspects that form part of this section of the business model include:

- Operating leverage: answering whether the cost structure of the venture is dominated by fixed or variable costs.
- Volumes: the venture's focus on higher or lower volumes in terms of both the market opportunity and internal capacity.
- Margins: the venture's ability to achieve relatively higher or lower margins.
- Revenue model: including the flexibility of revenue sources and prices (Morris et al., 2005).

6. What are the entrepreneur's time, scope and size ambitions?

Entrepreneurs can create many different types of new ventures which will have significant implications for the competitive strategy, composition and resource management of the venture. The four investment models that entrepreneurs can consider depending on their time, scope and size ambitions are: subsistence model (where the goal is merely to survive and meet basic financial obligations), income model (a venture that can generate a sustainable income stream), growth model (when significant initial investment is obtained and substantial reinvestment occurs in order to grow the venture into a very profitable venture) and a speculation model (the founding entrepreneur has a short term goal with the venture where the main aim is to demonstrate venture profit before selling the venture) (Morris et al., 2005).

The next level that must be addressed in the development of a business model is the proprietary level.

ii) Proprietary level

At this level entrepreneurs must be able to develop a unique model for their ventures in order to acquire a marketplace advantage. Therefore this level is characterised by a customisation aspect that forces the entrepreneurs to identify how value will be created in all the aspects of the business model.

By completing the foundation level the essence of a business model is addressed, however, in order to generate a sustainable advantage entrepreneurs need to include a unique combination of the factors identified in the foundation level within the proprietary level in their development of a business model. Once an entrepreneur has answered the six questions posed in the foundation level (how will the venture create value, for whom will the venture create value, what is the venture's internal source of advantage, how will the venture position itself in the marketplace, how will the venture make money and what are the entrepreneur's time, scope and size ambitions?), the entrepreneur can identify novel ways in which to implement the decisions made. In other words, once a holistic view of the venture is obtained from the foundation level, entrepreneurs can develop a unique approach to obtain a competitive advantage given that decisions are based on an enlightened, well thought-out set of facts.

The proprietary level has a strategy-specific focus for each venture. Entrepreneurs need to ensure that the proprietary level model is difficult for competitors to replicate due to the unique combinations and interactions between the components of the proprietary level aspects (Morris et al., 2005).

iii) Rules level

After the completion of both the foundation and proprietary levels of the business model, the next stage is the implementation. This is a crucial aspect of venture success, as the best plans on paper are nothing if not executed appropriately.

This level provides the necessary guidance and discipline to business operations that govern the execution of all business activities conducted at the foundation and proprietary levels. The rules level constitutes the basic set of operating rules of a new venture. It is the aim of this level to ensure that the decisions made in the foundation and proprietary levels of the

business model are reflected in the ongoing strategic actions of the venture. Consistency between the plans formulated in the foundation and proprietary levels, and the actual implementation of these plans through the business model is a major aspect of venture success (Morris et al., 2005).

In conclusion, the sustainability of any venture is argued through financial, environmental and social aspects, which are the same aspects included in a business model and these aspects are to be applied throughout all of the functions and levels of any organisation. It can therefore be argued that the sustainability of a venture is encapsulated in the business model of the venture.

The next section will focus on the elements that the current literature includes in a sustainability study as well as a business model.

3.11.3.4 Aspects of a business model

There is great consistency in the literature (Financial Times n.d.; SME sustainability challenges, 2013) that a sustainability study and a business model should include three aspects, namely, People, Planet and Profit and this consistency in literature made it plausible to link the theory of a sustainability study with that of a business model. Therefore a comparison will be drawn between the noted aspects of a sustainability study as well as a business model from the literature.

The business model of a venture must address the inputs, transformation and outputs of the venture while taking the People, Planet, Profit aspects of sustainability into consideration. These considerations must be applied throughout all three levels (foundation, proprietary and rules) of the business model. Table 3.7 below will thus be constructed based on these elements, the triple bottom line (people, planet, profit) and the inputs, transformation and outputs aspects of the venture.

Table 3.7: Aspects of a sustainable business model.

	People			Planet			Profit		
	Inputs	Transformation	Outputs	Inputs	Transformation	Outputs	Inputs	Transformation	Outputs
Foundation level (Basic decisions regarding the venture)	Customer information Stakeholders Key resources (raw materials) Suppliers	How will the venture make money? Legal and ethical considerations	Position in market Target market/market segments	Not addressed in foundation level.	Not addressed in foundation level.	Not addressed in foundation level.	Not addressed in foundation level.	Not addressed in foundation level.	Not addressed in foundation level.

	People			Planet			Profit		
	Inputs	Transformation	Outputs	Inputs	Transformation	Outputs	Inputs	Transformation	Outputs
Proprietary level (Strategy which is hard to imitate; unique)	Internal strengths Workforce (talent/ education; capabilities/ competencies) Key resources (skills) Networks Branding	Strategy Distribution	Customer relationship Value proposition (Offering) Sustainable consumption (generated by value proposition which led to loyalty)	Key resource (processes/ Technology) Suppliers	Processes/ key activities Strategy Sustainable development Operational risk management Resource productivity	Products and services which are safe and durable Value	Cost of key resource Price of product/ services	Cost of assets Revenue flow Cost structure	Profit

	People			Planet			Profit		
	Inputs	Transformation	Outputs	Inputs	Transformation	Outputs	Inputs	Transformation	Outputs
Rules level (Implementation Operating rules)	Quality products or services expected Value employees	Operating rules Training	Customer loyalty Sustainable consumption Commitment	Milestones Knowledge	Operating rules New technology	Sustainable development Waste reduction	Milestones Efficiency	Operating rules Reduce resource waste	Profit Increased profit

Source: Author's own construction from the following sources: (Chesbrough, 2009; Chesbrough & Rosenbloom, 2002; Do well. Do good (n.d.); Hawken, 1993; Shafera, Smitha & Linder, 2004).

3.11.4 Discussion of the table

New ventures are considered sustainable when they can achieve a certain rate or level in terms of economic prosperity, environmental quality and social equity and ensure that this level can last or continue over time (Merriam Webster, 2014; Sustainable measures, 2010). Moreover, the current theories available on sustainability (Financial Times n.d.; SME sustainability challenges, 2013; Willard, 2005; Do well. Do good, n.d.) are characterised by a strong consensus on what a sustainable venture is and what aspects must be considered in order to ensure new venture sustainability. The triple bottom line is often cited as the major guiding theory on estimating sustainability along with the guidelines posed by the foundation, proprietary and rules levels (Fisk, 2011), as mentioned above.

However, in order to continue the argument that the overlapping nature of the terms business plan, feasibility study, viability study and sustainability study (as currently noted in the literature as per discussion above), table 3.8 is now offered as a comparison between these four concepts.

Table 3.8: Comparison between the layout of a business plan, a feasibility study, a viability study and a sustainability study.

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
Executive summary	Not included	Not included	Not included
Description of the business concept and the business	<ul style="list-style-type: none"> ▪ Motivation and expectation, purpose and objectives ▪ Business model ▪ Strengths and weaknesses, opportunities for and threats to the business 	Not included	<ul style="list-style-type: none"> ▪ How the venture will make money ▪ Strategy
Opportunity and strategy	<ul style="list-style-type: none"> ▪ Translating idea into product ▪ Examines issues and assesses probability of success 	Not included	Value proposition

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
Target market and projections	Gives focus to project and outline alternatives	Level of demand for the product or service	<ul style="list-style-type: none"> ▪ Customer information ▪ Customer relationship
Competitive advantages	Key success factors for business	Not included	<ul style="list-style-type: none"> ▪ Internal strengths ▪ Products and services which are safe and durable
The team	Skill level, professionalism and number of employees to be hired	<ul style="list-style-type: none"> ▪ Venture team ▪ Work experience and education of employees ▪ Entrepreneur characteristics 	Workforce (talent, education, capabilities/competencies)
The offering	Not included	Not included	Not included
The industry and the company and its product(s) or service(s)	Not included	Not included	Not included
The industry	Describe the Industry	<ul style="list-style-type: none"> ▪ Industry analysis ▪ Understanding the characteristics in which the venture will operate 	<ul style="list-style-type: none"> ▪ Legal and ethical considerations ▪ Position in the market
The company and the concept	Sound investment	<ul style="list-style-type: none"> ▪ Review purchasing methodologies ▪ Review inventory controls and materials handling ▪ Review product quality assurance processes ▪ Review multiple location rationale and cost-effectiveness ▪ Complexity of procurement process 	Not included

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
The product(s) or service(s)	Not included	<ul style="list-style-type: none"> ▪ Products and services that are offered ▪ Review of product line, completeness, and product pricing methodologies 	Products and services that are safe and durable
Entry and growth strategy	Not included	Not included	Strategy
Market research and analysis	Have you, and how have you, carried out market research	<ul style="list-style-type: none"> ▪ Rudimentary market analysis ▪ Maturity of the relevant industry 	Not included
Customers	<ul style="list-style-type: none"> ▪ The need/ demand ▪ What are their buying patterns ▪ Target segments ▪ What the market profile of who will buy your product will look like. 	Will the product or service sell?	Customer information
Market size and trends	<ul style="list-style-type: none"> ▪ Is there a market ▪ Market demographics and psychographics ▪ where are your target market located ▪ Who makes the buying decision ▪ What are their buying patterns? ▪ Potential sale volumes 	<ul style="list-style-type: none"> ▪ What is the size of the market? ▪ Why will the customers buy the product or service? 	<ul style="list-style-type: none"> ▪ Target market/ market segments ▪ Sustainable consumption

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
Competition and competitive edges	<ul style="list-style-type: none"> ▪ Niches ▪ Evaluation of competition ▪ Who are the competitors, present and future? ▪ What is known about the competitors (products, pricing, strengths, weaknesses) ▪ Benefits/ solutions to needs that customers will gain ▪ What is the venture's competitive edge ▪ Sensitivity to competition ▪ Align planned business with economic situation 	Not included	<ul style="list-style-type: none"> ▪ Key resources (raw materials and skills) ▪ Networks ▪ Quality products and services ▪ Price of product/ service
Estimated market share and sales	Market potential/ Market share expectation	What percentage of the market needs to be captured to achieve expected turnover levels?	Position in market
Ongoing market evaluation	Not included	Not included	Customer loyalty which will lead to sustainable consumption
The economics of the business	Not included	Not included	Not included
Gross and operating margins	How long can the business survive before making its first sale?	Not included	<ul style="list-style-type: none"> ▪ Cost of key resources ▪ Costs of assets ▪ Cost structure
Profit potential and durability	Not included	<ul style="list-style-type: none"> ▪ How much profit will be made? ▪ Understanding profit margins in the relevant industry 	<ul style="list-style-type: none"> ▪ Revenue flow ▪ Profit
Fixed, variable, and semi-variable costs	Not included	Not included	<ul style="list-style-type: none"> ▪ Cost of key resources ▪ Costs of assets

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
Months to breakeven	Not included	Not included	Not included
Months to reach positive cash flow	<ul style="list-style-type: none"> ▪ Sell in sufficient volume to generate profit ▪ When are you likely to be in business 	Not included	Not included
Marketing plan	Not included	Not included	Not included
Overall marketing strategy	Not included	Marketing strategy including the Four P's (Product, Price, Place, Promotion)	<ul style="list-style-type: none"> ▪ Suppliers ▪ Distribution ▪ Branding
Pricing	Not included	Not included	Price of products or services
Sales tactics	How will the product/service be sold?	How will the target market know about the product or service?	Branding
Service and warranty policies	Not included	Not included	Value
Advertising and warranty policies	Not included	Not included	Not included
Advertising and promotion	Packaging and promotion	Assessment of sales and marketing strategies	Not included
Distribution	Not included	Not included	Distribution
Design and development plans	Not included	Not included	Not included
Development status and tasks	<ul style="list-style-type: none"> ▪ Can it be built? ▪ Production process/ Method of production/ Production features and practices 	<ul style="list-style-type: none"> ▪ Will the product work as planned? 	Not included
Difficulties and risks	Go/ no-go factors during production	<ul style="list-style-type: none"> ▪ Was the product tested? ▪ Will the product last? ▪ Is the product toxic or does it cause irritation? 	<ul style="list-style-type: none"> ▪ Operational risk management ▪ Sustainable development
Product improvement and new products	Development outline – key steps in development and timeline	Not included	<ul style="list-style-type: none"> ▪ Efficiency ▪ Waste reduction

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
Costs	<ul style="list-style-type: none"> ▪ Resources needed – equipment, plant, raw materials, skill, technology ▪ Supply and materials ▪ Facilities ▪ Nature of factory building, fencing etc. 	Not included	<ul style="list-style-type: none"> ▪ Key resources (processes/ technology) ▪ Cost of key resources
Proprietary issues	<ul style="list-style-type: none"> ▪ Can the idea be protected ▪ Regulatory standards/ requirements that have to be met ▪ Regulation and environmental issues 	<ul style="list-style-type: none"> ▪ Contracts and agreements such as leases, buy and sell agreements, franchise agreements and statutory conformation such as VAT, etc. ▪ Compliance to acts such as Insolvency Act 	Legal and ethical considerations
Manufacturing and operations plans	Not included	Not included	Not included
Operating cycle	<ul style="list-style-type: none"> ▪ Is product or service ready for sale ▪ Availability of supply for key components, market scope and delivery 	Capacity of the business to supply	Not included
Geographical location	<ul style="list-style-type: none"> ▪ How far away from the marketplace is the product and what will it cost to get it there? ▪ Best location – traffic lights, nearness to schools, accessibility to customers, ease of transportation of raw materials, nearness to cheap labour. 	Geographic location	Not included

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
Facilities and improvements	Site development	<ul style="list-style-type: none"> ▪ Manufacturing process ▪ Study the plant required to operate successfully, factory layout, location of the factory, costs associated with the plant, waste factors and availability of infrastructure. 	Processes/ key activities
Strategy and plans	Help secure funding	<ul style="list-style-type: none"> ▪ Sound business principles ▪ Venture's strategy on sales, employment and market share growth 	Strategy
Regulatory and legal issues	Government fiscal policies, import and export rate, inflation rate, tax rate, currency exchange rate	General economic factors	Legal considerations
Management team	Not included	Not included	Not included
Organisation	Organisational design	<p>Analysis of staff requirements</p> <p>Organisational demography</p>	<ul style="list-style-type: none"> ▪ Workforce ▪ Value employees
Key management personnel	Skill level, professionalism and number of employees to be hired	<ul style="list-style-type: none"> ▪ Human capital ▪ Technical expertise 	Key resources (skills)
Management and compensation and ownership	Organisation management, ownership	<ul style="list-style-type: none"> ▪ Entrepreneur and his/ her ability ▪ Management skill set 	Not included
Other investors	Commercial sense for funder	Connections to outside resources	<ul style="list-style-type: none"> ▪ Networks ▪ Stakeholders
Employment and other agreements and stock option and bonus plans	Not included	Not included	Not included
Board of directors	Not included	Not included	Not included

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
Other shareholder, rights, and restrictions	Value chain linkages	Not included	Not included
Supporting professional advisors and services	<ul style="list-style-type: none"> ▪ Collaboration ▪ External sources of finance intended for approach ▪ Suppliers /Procurement/ contracts 	Not included	Networks
Sustainability and impact	Not included	Not included	Not included
Issues of sustainability of the venture	Sold in sufficient volume at sustainable price Investigates sustainability plan	Not included	<ul style="list-style-type: none"> ▪ Sustainable development ▪ Sustainable consumption
Impact on the environment	Not included	Not included	<ul style="list-style-type: none"> ▪ Waste reduction ▪ Reduce resource waste
Impact on the community and nation	Not included	Not included	Not included
Overall schedule	Factors most likely to delay you	Not included	Not included
Critical risks, problems and assumptions	<ul style="list-style-type: none"> ▪ Impact and implications of social and economic factors (HIV, youth, gender bias) ▪ Weakness in product and strategies to overcome it ▪ Liquidation rate of companies in the industry ▪ Identify barriers and enhance probability of success by addressing barriers ▪ Analyse risk to reward ratio 	Does the business have surety and can access to funding be gained?	Operational risk management
The financial plan	Not included	Not included	Not included

<u>Business plan</u>	<u>Feasibility study</u>	<u>Viability study</u>	<u>Sustainability study</u>
Actual income statements and balance sheets	Income statement	Costing exercises, sensitivity analysis, cash flow forecasts and income statements	Revenue flow
Pro forma income statements	<ul style="list-style-type: none"> ▪ Potential income ▪ Forecast assumptions ▪ Projected sales revenue 	Not included	Price of product or service
Pro forma balance sheets	<ul style="list-style-type: none"> ▪ Valuation of assets to be acquired ▪ Depreciation of assets 	Not included	Cost of assets
Pro forma cash flow analysis	<ul style="list-style-type: none"> ▪ Cash flow statement ▪ Overhead costs ▪ Operational and maintenance costs (labour, insurance) 	Cash flow review	Revenue flow
Break-even chart and calculation	<ul style="list-style-type: none"> ▪ How long till breakeven ▪ Return on investment 	Break even	Not included
Cost control	<ul style="list-style-type: none"> ▪ How much money is needed to start up? ▪ How much money is needed as working capital to sustain operations? ▪ Financial projections, calculations and analysis ▪ Cost of goods ▪ Price sensitivity 	<ul style="list-style-type: none"> ▪ Investment amount needed ▪ Cost of the product ▪ Margins and expense structure ▪ What losses are expected? ▪ Analysis of product costs and gross margins 	Not included
Highlights	<ul style="list-style-type: none"> ▪ How organisation will perform and succeed ▪ Revenue potential 	Not included	Not included
Proposed company offering	Not included	Not included	Not included
Desired financing	Not included	Not included	Not included
Offering	Not included	Not included	Not included
Capitalisation	Not included	Not included	Not included
Use of funds	Not included	Not included	Not included
Investor's return	Not included	Not included	Not included
Appendixes	Not included	Not included	Not included

Source: (Adapted from Spinelli & Adams, 2012).

Once again it is evident that the current literature available is plagued with several overlapping aspects, although each of these concepts are unique and should therefore measure and/ or determine a unique aspect of venture founding.

Although some in-depth aspects regarding the marketing side of the business plan, namely advertising and warranty policies as well as advertising and promotion, are not mentioned in the sustainability study, the basic concepts surrounding marketing, in the form of determining the target market(s) and developing a value proposition fit for these customers, the branding of the product or service along with the distribution, is noted. The management and venture team along with the key skills that are needed in a venture is noted in the business plan and the sustainability study as well as the financial aspects in terms of revenue flow and potential profit.

The next section is dedicated to accurately defining sustainability as well as arguing the aspects which should be included in a sustainability study.

3.11.5 Definition of sustainability

Although the theories available on sustainability studies are consistent in defining the term based on the three aspects: people, planet and profits; a grass root definition of the term is offered. This is done in order to argue for the unique contribution sustainability studies should offer to venture establishment versus that of feasibility, viability and sustainability studies. According to the Oxford English dictionary (n.d.), sustainability is defined as: “able to be maintained at a certain rate or level”. Merriam Webster (2014) adds to this definition by indicating that sustainability is not merely the ability to be maintained at a certain level, but that this level must be able to last or continue for a long time.

The Sustainable Measures (2010) supports the notion of continuation when defining the term sustainability, however, they add that this continuation should be able to “keep up, especially without interruption, diminution, flagging, etc.” (SocialFunds.com, 2010) adds a new dimension to this definition of sustainability by defining it as: “the simultaneous pursuit of economic prosperity, environmental quality and social equity. Companies aiming for sustainability need to perform not against a single, financial bottom line, but against the triple bottom line” (Sustainable measures, 2010).

For the purpose of this thesis a sustainability study will be defined as:

“A sustainability study determines whether a new venture is able to be maintained at a certain rate or level without interruption or diminution, while pursuing economic prosperity, environmental quality and social equity”.

The next section is dedicated to discussing a sustainability study beyond the scope of the definition.

3.11.6 Aspects that should be included in a sustainability study

The current theories available on sustainability (as cited in the discussion on sustainability), are characterised by much agreement on what a sustainable venture is and what aspects must be considered in order to ensure new venture sustainability. However, when considering the argument of the author of this study on what a feasibility study is, followed by what a viability study must entail, the aspects included in a sustainability study must be revised.

During the feasibility study, the technical merit of a proposed venture is determined and ensured. This is the first aspect that must be in place when entrepreneurs embark on the journey of establishing a new venture. When comparing the aspects of a feasibility study to the aspects included in a sustainability study, it is clear that there is very little to no overlapping between these two studies and the aspects they investigate.

Once the feasibility study is successfully conducted, entrepreneurs must turn their focus to a viability study. The main purpose of the viability study is to prove that there exists an opportunity in the market for the new venture (i.e. the targeted market segment(s) for the product or service is/are large enough as well as adequately receptive and that the entrepreneurial team has the relevant skills and/ or networks to successfully seize the opportunity if the industry conditions are enabling.)

In table 3.9 a comparison is drawn between the aspects needed in a feasibility and viability study and the aspects that should be included in the foundation level of a sustainability study.

Table 3.9: Comparison between the aspects of a feasibility- and viability study and the aspects of the foundation level of the sustainability study.

Customer information	Viability study
Stakeholders of the venture	Viability study
Key resources	Feasibility study
Suppliers	Viability study
How the venture will make money	Not included
Legal and ethical considerations	Viability study
The position of the new venture in the market	Viability study
The targeted market/ market segments	Viability study

From Table 3.9 it is clear that the foundation level of a sustainability study, is a repetition of the aspects that are investigated in a feasibility and viability study. Once the foundation level of a sustainability study is completed, entrepreneurs have to turn their attention to the proprietary level of a sustainability study. Table 3.10 summarises the aspects that should be included in the proprietary level of the sustainability study in order to compare these aspects to the aspects included in a feasibility and viability study.

Table 3.10: Comparison between the aspects of a feasibility and viability study and the aspects of the proprietary level of the sustainability study.

Internal strengths	Viability study
Workforce (talent/ education; capabilities/ competencies)	Viability study
Key resources (skills)	Feasibility study
Networks	Viability study
Branding	Viability study
Strategy	Viability study
Distribution	Viability study
Customer relationship	Viability study
Value proposition (Offering)	Viability study
Sustainable consumption (generated by value proposition which led to loyalty)	Viability study
Key resource (processes/ Technology)	Feasibility study
Suppliers	Viability study
Processes/ key activities	Feasibility study
Strategy	Not included
Sustainable development	Not included
Operational risk management	Feasibility study

Resource productivity	Feasibility study
Products and services which are safe and durable	Feasibility study
Value	Viability study
Cost of key resource	Feasibility study
Price of product/ services	Feasibility study
Cost of assets	Feasibility study
Revenue flow	Not included
Cost structure	Not included
Profit	Not included

From table 3.10 some distinction between a feasibility and viability study as well as a sustainability study emerges. In the sustainability study the entrepreneur must now determine the strategy of the new venture, in other words the manner in which the new venture will operate, capture market share, generate profit and prove sustainability. In addition, since the relevant market information (i.e. expected market share etc.) is available from the viability study and the information pertaining to the cost of production is presented, the entrepreneurs can turn their attention to determining the cost structure and profit potential of the new venture. These elements are the dividing factors between a feasibility study, a viability study and a sustainability study.

At the rules level of a sustainability study, the emphasis falls on establishing operating rules to guide the implementation of all the decisions made during the planning phases of the new venture. Continuous strategy development and enhancement is a vital aspect at this stage of new venture planning as customer loyalty and venture efficiency are paramount.

The aspects that are included in the rules level of a sustainability study are listed in table 3.11 in order to enable a comparison between these aspects and the aspects of a feasibility and viability study.

Table 3.11: Comparison between the aspects of a feasibility and viability study and the aspects of the rules level of the sustainability study.

Quality products or services expected	Viability study
Value employees (training, obtaining new knowledge)	Viability study
Operating rules	Not included
Customer loyalty which will generate sustainable consumption	Not included
Commitment	Not included
Clearly stated milestones	Not included
The position of the new venture in the market	Viability study
The targeted market/ market segments	Viability study
Sustainable development	Not included
Waste reduction (Resources etc.)	Not included
Efficiency	Not included
Profit/ increased profit	Not included

During the rules level of a sustainability study the focus is long-term. Entrepreneurs must ensure that they have a long-term strategy to generate customer loyalty in order to acquire sustainable consumption. They have to ensure waste reduction (whether these are environmental or organisational resources) in order to improve efficiency, which in turn will lead to reduced costs and increased profits, thereby increasing the chance of long-term survival of a new venture (Morris et al., 2005).

From the feasibility study all the issues pertaining to the technical side of new venture creation is addressed, while the viability study determines the market opportunity in terms of the possible target market(s) as well as industry conditions. Since the relevant information (as noted in the feasibility and viability study) is now known, it is recommended that the sustainability study adopts a strong financial focus to ensure that it is a complementary, rather than overlapping study which entrepreneurs should conduct.

In order to ensure that no overlapping exists between feasibility, viability and sustainability studies, it is argued that only the aspects as indicated in table 3.9 to table 3.11 above, which are not included in either a feasibility or viability study, must be included in a sustainability study. Based on this, the aspects that should be included in a sustainability study are:

- How the venture will make money
- The costs structure of the new venture
 - This addresses:

- Cost of production
- Cost of sales
- Revenue flow
- Operating rules
- Sustainable consumption which will be achieved through customer loyalty
- Commitment from employees
- Clearly stated milestones
- Sustainable development
- Waste reduction (resources and environmental)
- Efficiency
- Profit/ increased profit

Once entrepreneurs have progressed to determining the sustainability of their ventures, they have answered three fundamental questions, 1) Can this product be made? (Feasibility); 2) will this product have a favourable market and is the management team capable of taking advantage of the opportunity? (Viability) and 3) Can this be sustained in the long run by generating sufficient profit? (Sustainability). Consequently, entrepreneurs will have progressed in a well-structured, systematic manner towards ensuring that they have an encompassing, overall evaluation of their intended venture.

3.12 *Summary*

Business plans have been a long standing and well accepted method in which to determine whether a new venture has commercial merit or not. As such, business plans are regarded as the manner through which Government support institutions for new ventures will evaluate whether the founding entrepreneurs of proposed new ventures will obtain the funding for which they applied or not.

The benefits of business plans are ample, with the main advantage being that they guide entrepreneurs through an encompassing process through which they have to evaluate all the aspects of their ventures in order to prove the commercial potential to possible investors. However, the main advantage of business plans also represents their main drawback – it is a complex and complicated process, based on future facts, which often times overwhelms entrepreneurs on their journey to new venture creation.

Furthermore, the majority of support institutions demand a business plan upfront from entrepreneurs. In other words, before entrepreneurs can access any form of support, guidance or funding, they have to go through the time and resource consuming process of validating their business through developing a business plan.

It is the argument of the author of this study that the entire process of business plan development be broken down into smaller studies/ phases - each study measuring a specific facet of the proposed venture, which will be followed by another, complementary study/ phase. These different, yet complementary studies/ phases will serve as hurdles which entrepreneurs must overcome on their way to establishing a new venture. Starting with a study/ phase that demands only technical ability from the entrepreneur and escalating to a study that will require financial statements.

The argued three studies/ phases are the feasibility study/ phase, viability study/ phase and sustainability study/ phase. In essence, a feasibility study should just prove that a product can be produced (i.e. that it is technically feasible); while the viability study must prove that this producible product will have a market. In other words, the opportunity must be assessed in terms of the specific target market(s) that the new venture will focus on and whether or not the industry conditions are enabling. Hereafter a sustainability study is needed. Entrepreneurs have now answered that: this is a product that can be made and that there is a market for this product and must now turn their attention to proving that this product in the given market(s) can lead to profits for the entrepreneur and possible investors and to identify the continuous strategies that will be implemented. Only once an entrepreneur arrives at this point will a completed business plan be required.

It is important to note that the author is not arguing that business plans are not a useful tool in business management. Once the sustainability of a new venture is proven, the best strategy towards ensuring continuous success must be identified and actively implemented. As noted at the start of this chapter, the internal users of business plans typically develop business plans in order to improve the implementation of the plan within the venture. This could be in an attempt to improve performance and obtain consistency, while improving co-ordination and regularity among the various functional units of the venture, empowering the workforce, etc. This business plan must provide an all-inclusive framework and overall direction for the ongoing operations of the venture. This is exactly in line with what is necessary at this stage. Business plans are a truly valid and useful management tool and

after the feasibility, viability and sustainability of a new venture has been proven, this must become a vital part of the operations of a new venture.

Chapter 4 will now be dedicated to discussing the proposed phase-oriented process to such an extent that the arguments of the author of this study are clear. Additionally, the factors that lead to successful commercialisation (as noted by various authors who will be noted in the discussion in chapter 4) are offered as additional justification for the proposed new process of venture evaluation.

Chapter 4 Factors of successful commercialisation and the phase-oriented process

4.1 Introduction

The phase-oriented process argued for in this thesis is divided into three distinct, yet complimentary, phases namely 1) Feasibility, 2) Viability and 3) Sustainability. A short summary follows of the factors that were proposed for inclusion in each of these phases and argued for throughout chapter three:

- The feasibility phase should focus solely on the practicality of the proposed venture, ensuring that elements such as the availability of raw materials, a sufficient cost to benefit ratio and a clear description of the argued benefits are addressed.
- The viability phase must determine the possibility of success for the proposed venture. This is measured in terms of the entrepreneurial team, evidence of customer interest and positive industry conditions. It is proposed that during the viability phase a mentor with in-depth, industry-related knowledge be assigned to the entrepreneur in order to increase the accuracy of the market-related research conducted during this phase.
- The last phase of the contended phase-oriented process is sustainability, during which entrepreneurs must be able to state all financial projections and prove sustainable consumption as well as the profit potential of the venture. The mentor who was assigned to the entrepreneur during the viability phase remains with the entrepreneur through this third phase and will consequently have a thorough understanding of the venture in terms of its internal functions as well as the market related aspects. This will equip mentors to appropriately assist entrepreneurs with the last phase of the proposed process during which the strategies to ensure continuous growth and success must be delineated and the financial projections, based on valid and accurate information, must be made.

In order to substantiate the argument that the aspects included in the phase-oriented process (feasibility, viability and sustainability) are logical and sufficient, the elements included in each of these phases were identified through a thorough literature review and the initial argument for the factors that must be included in each of these phases are based on a theoretical argument. However, to add to the argument for the phase-oriented process, the elements included in each of the phases are compared to the elements which are included in the typical layout of a business plan in figure 4.1. From this comparison it is clear that all of

the elements that are included in a business plan are also included in the phase-oriented process. Since business plans are currently deployed as the only manner with which the support institutions included in this study evaluate the potential of a proposed venture, it is valid to argue that the completely overlapping nature of the phase-oriented process and the business plan serves as proof of the merit of the suggested phase-oriented process.

Table 4.1: A comparison between the layout of a business plan and the phase-oriented process.

<u>Business plan</u>	<u>Phase-oriented process</u>
<i>Executive summary</i>	<i>Executive summary</i>
Description of the business concept and the business	Feasibility phase
Opportunity and strategy	Viability and sustainability
Target market and projections	Viability and sustainability
Competitive advantages	Viability
The team	Viability
The offering	Feasibility
<i>The industry and the company and its product(s) or service(s)</i>	<i>The industry and the company and its product(s) or service(s)</i>
The industry	Viability
The company and the concept	Viability
The product(s) or service(s)	Feasibility
Entry and growth strategy	Viability and sustainability
<i>Market research and analysis</i>	<i>Market research and analysis</i>
Customers	Viability
Market size and trends	Viability
Competition and competitive edges	Viability
Estimated market share and sales	Viability
Ongoing market evaluation	Viability
<i>The economics of the business</i>	<i>The economics of the business</i>
Gross and operating margins	Sustainability
Profit potential and durability	Viability
Fixed, variable, and semi-variable costs	Feasibility
Months to breakeven	Sustainability
Months to reach positive cash flow	Sustainability
<i>Marketing plan</i>	<i>Marketing plan</i>
Overall marketing strategy	Viability

<u>Business plan</u>	<u>Phase-oriented process</u>
Pricing	Viability
Sales tactics	Viability
Service and warranty policies	Feasibility
Advertising and warranty policies	Viability
Advertising and promotion	Viability
Distribution	Feasibility
<i>Design and development plans</i>	<i>Design and development plans</i>
Development status and tasks	Feasibility
Difficulties and risks	Feasibility
Product improvement and new products	Feasibility
Costs	Feasibility
Proprietary issues	Feasibility
<i>Manufacturing and operations plans</i>	<i>Manufacturing and operations plans</i>
Operating cycle	Feasibility
Geographical location	Viability
Facilities and improvements	Feasibility
Strategy and plans	Sustainability
Regulatory and legal issues	Feasibility
<i>Management team</i>	<i>Management team</i>
Organisation	Viability
Key management personnel	Viability
Management and compensation and ownership	Viability
Other investors	Viability
Employment and other agreements and stock option and bonus plans	Viability
Board of directors	Viability
Other shareholder, rights, and restrictions	Viability
Supporting professional advisors and services	Viability
<i>Sustainability and impact</i>	<i>Sustainability and impact</i>
Issues of sustainability of the venture	Sustainability
Impact on the environment	Sustainability
Impact on the community and nation	Sustainability
Overall schedule	Entire phase-oriented process
Critical risks, problems and assumptions	Entire phase-oriented process
<i>The financial plan</i>	<i>The financial plan</i>

<u>Business plan</u>	<u>Phase-oriented process</u>
Actual income statements and balance sheets	Sustainability
Pro forma income statements	Sustainability
Pro forma balance sheets	Sustainability
Pro forma cash flow analysis	Sustainability
Break-even chart and calculation	Sustainability
Cost control	Sustainability
Highlights	Sustainability
<i>Proposed company offering</i>	<i>Proposed company offering</i>
Desired financing	Feasibility
Offering	Feasibility
Capitalisation	Sustainability
Use of funds	Sustainability
Investor's return	Sustainability
<i>Appendixes</i>	<i>Appendixes</i>

The phase-oriented process is based on the argument that the current process of venture evaluation, i.e. through business plans, should be broken down into phases and structured in a manner that the completion of each phase increases the likelihood of successful commercialisation for the venture.

In table 4.2 all of the elements that should be included in a business plan are divided into the phases of the argued phase-oriented process in order to illustrate that all of the aspects included in a business plan are included in the phase-oriented process as suggested in this study.

Thus it is evident that business plans, which are the current evaluation tool that all support institutions employ to judge the potential of a proposed venture and base their funding decision on, and that the phase-oriented process tests and evaluates the same aspects. The phase-oriented process is merely a better structured process ensuring that there is no repetition in the work done and that entrepreneurs build a solid base during each of the phases before committing a great deal of resources to completing the document in full.

Table 4.2: The components of a business plan divided into the phases of the phase-oriented process.

<u>Feasibility</u>	<u>Viability</u>	<u>Sustainability</u>
Description of the business concept and the business	Opportunity	Strategy
The offering	Target market	Projections
The product(s) or service(s)	Competitive advantages	Growth strategy
Fixed, variable, and semi-variable costs	The team	Gross and operating margins
Service and warranty policies	The industry	Months to breakeven
Distribution	The company and the concept	Months to reach positive cash flow
Development status and tasks	Entry strategy	Strategy and plans
Difficulties and risks	Customers	Issues of sustainability of the venture
Product improvement and new products	Market size and trends	Impact on the environment
Costs	Competition and competitive edges	Impact on the community and nation
Proprietary issues	Estimated market share and sales	Actual income statements and balance sheets
Operating cycle	Ongoing market evaluation	Pro forma income statements
Facilities and improvements	Profit potential and durability	Pro forma balance sheets
Regulatory and legal issues	Overall marketing strategy	Pro forma cash flow analysis
Desired financing	Pricing	Break-even chart and calculation
Offering	Sales tactics	Cost control
	Advertising and warranty policies	Highlights
	Advertising and prom	Use of funds
	Geographical location	Investor's return
	Organisation	
	Key management personnel	
	Management and compensation and ownership	
	Other investors	

<u>Feasibility</u>	<u>Viability</u>	<u>Sustainability</u>
	Employment and other agreements and stock option and bonus plans	
	Board of directors	
	Other shareholder, rights, and restrictions	
	Supporting professional advisors and services	

In order to further strengthen the argument for the phase-oriented process, research was conducted on those elements identified in literature as contributing to the successful commercialisation of ventures. It is argued that the presence of these success factors increase the likelihood of profitable commercialisation of any venture. The aspects influencing successful commercialisation, as identified in the literature, are listed in table 4.3 – 4.9 and the authors cited at the end of the tables. Moreover this table allows for a comparison to be drawn between the aspects needed for successful commercialisation and the aspects listed in the phase-oriented process.

Following this, it is clear that the phase-oriented process (feasibility, viability and sustainability) includes all of the elements currently included into a typical business plan. But more so, the phase-oriented process includes all the cited elements for successful commercialisation. It can thus be argued that the proposed process is academically sound, as it is based on the factors needed for business planning, as well as successful commercialisation.

The phase-oriented process will be discussed in detail throughout the remainder of the chapter.

4.2 The factors that contribute to successful commercialisation

Commercialisation is the process whereby new research discoveries are developed into new products, services or technologies and brought successfully to the marketplace (Chapter 4 - Moving forward on the Priorities of Canadians – The Importance of Knowledge and Commercialisation 2004; Courtois, 2004). Thus, an invention must be taken from idea

phase, to proof of product, and ultimately to successful application in the market. While the importance of successful commercialisation for SMMEs is not contested, it is a key challenge for owners/managers of all organisations and individuals to take new products through the process of value creation and to produce economic returns (Can You Make Money With Your Idea or Invention 2007; Courtois, 2004). Furthermore, the commercialisation challenge is a complex one as it is a process that is haphazard with risks and uncertainty (Can You Make Money With Your Idea or Invention 2007; Courtois, 2004).

The importance of commercialisation is also underscored through this as ideas or inventions cannot generate economic returns for the innovator. Only when the invention is successfully absorbed into the marketplace can profit be achieved. Due to the fact that new product success remains an elusive goal for many innovators and businesses, a wide variety of research and literature focuses on the product development process. However, the problems surrounding commercialisation and the process of commercialisation represent a rather uncharted research field and no formula exists that ensures successful commercialisation (Cooper 1999; March-Chorda, Gunasekaran & Lloria-Aramburi 2001; Pellikka & Virtanen 2004). Moreover there is still a lack of empirical studies that identify the critical success and failure factors - especially in SMMEs, as innovators still seem to fall into the same traps as their predecessors (Cooper 1999; March-Chorda, Gunasekaran & Lloria-Aramburi 2001; Technology commercialisation framework, 2004).

This is illustrated in the fact that the failure rate of new products over the past 20 years has been recorded at an average rate of 40-50% (Chiesa & Frattini, 2011). According to Chiesa and Frattini (2011) many market consultants and analysts attempted to explain the high failure rate with the argument that these unsuccessful products were simply destined to fail. However this argument was dismissed by Chiesa and Frattini as being too simple to account for all of the noted market failures. Instead Chiesa and Frattini (2011) contend that it is rather the approaches used to commercialise the product that will influence the success or failure of the product.

Several researchers investigated this commercialisation-phenomenon and identified several aspects that influence the commercialisation of innovation. These factors are indicated in table 4.3 – 4.9. Should an innovator incorporate these factors into the commercialisation process, the chances of successful commercialisation of innovations will significantly increase. However, it must be noted that this cannot be regarded as a sure fire way to

successfully commercialise, as it only serves to enhance the commercialisation process for all innovators.

The phase-oriented process as suggested in this thesis addresses two major issues that emerge from the discussion above. Firstly, the approach that is argued to commercialise the product (which will ultimately influence the success or failure of the product) is structured and developed in a complementary and encompassing process in the form of the three phases, namely feasibility, viability and sustainability. Secondly, all of the aspects that contribute to successful commercialisation (as noted in tables 4.3 – 4.9) are included in the suggested phase-oriented process.

In order to illustrate the encompassing nature of the phase-oriented process, a comparison is drawn between the aspects encountered in this process and the elements that contribute to successful commercialisation. This comparison is summarised in tables 4.3 – 4.9 (Critical assessment factors for new products 2007; Technology commercialisation framework 2004; Carayannis et al. 2006; Cooper 1999; March-Chorda, Gunasekaran & Lloria-Aramburi 2001; Cumming, 1998; Pretorius, Millard & Kruger 2006; Waarts, van Everdingen & van Hillegersberg 2002).

Table 4.3 commences with the success factors that must be present in terms of the invention that the innovator aims to commercialise which constitutes the characteristics an invention must have in order to ensure the successful commercialisation of the invention along with the comparison to the phase-oriented process.

Table 4.3: The success factors concerning the invention compared to the phase-oriented process.

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>Function</p> <p>An invention must function as the innovator has designed or intended it to and work better than the alternatives.</p>	<p>Feasibility phase</p>	<p>Clearly describing the benefits of the proposed product or service when compared to current alternatives.</p>
<p>Production</p> <p>The invention must be produced at a reasonable and beneficial cost.</p>	<p>Feasibility phase</p>	<p>Compare the cost to benefit ratio of the proposed invention.</p>
<p>Product development and planning process.</p> <p>The innovator must know what resources will be needed at which phase of the development process and how much is needed.</p>	<p>Feasibility phase</p>	<p>Develop project development plans in terms of:</p> <ul style="list-style-type: none"> ○ List of materials that are needed. ○ Determine whether these materials are available. ○ Determine that the materials are affordable. ○ Identify nonrecurring costs such as engineering and prototype <p>Ensure that the planned project schedule is reasonable</p> <p>Identify the suppliers of the raw materials needed</p> <p>Identify the type of technology that is needed.</p> <p>Demonstrate that the proposed technology is practical.</p>
<p>Proof of concept/ Prototype</p> <p>The innovator must be able to prove that the invention works.</p>	<p>Feasibility phase</p>	<p>Generate proof of concept by means of a prototype.</p>

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>Doing the right projects</p> <p>The innovator must determine the characteristics of the new product's market, technologies, and competitive situation, along with the ability to leverage internal competencies.</p>	Feasibility phase	<p>When all the aspects of the feasibility phase have been adhered to, doing the right projects is inevitable.</p> <p>Additionally, the entire phase-oriented process constantly evaluates the merit of a project to ensure that it remains the "right" project; this is one of the key advantages that the process offers.</p>
<p>Description of the product concept and the benefits to be delivered</p> <p>Customers must know exactly why they should buy a product – what are they buying and how will they benefit from it?</p>	Feasibility phase	Provide a clear description of the product or service under development (to the extent that all users will understand).
<p>Definition of the product's requirements, features, attributes and specifications.</p> <p>The innovator must not fail to identify the optimal functionality of the new technology-based product.</p>	Feasibility phase	<p>Clearly describing the benefits of the proposed product or service when compared to current alternatives.</p> <p>Prove that the invention works better than the competing solutions.</p> <p>Determine whether the current technology can support the new invention.</p>
<p>Product superiority</p> <p>Inventions must offer unique features; provide good value-for-money, meet customer needs better, have higher relative product quality, boast superior price/performance characteristics, have benefits perceived as useful highly visible.</p>	Feasibility phase	Prove that the invention works better than the competing solutions.
<p>Safety</p> <p>The innovator must ensure that the invention is not dangerous, even when it is used incorrectly.</p>	Feasibility phase	Ensure that the products are safe and durable.

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Appearance How does the customer judge the appearance of your product versus the alternative?	* Not included	Not included
Durability The innovator must ensure that the invention will last longer than others.	Feasibility phase	Ensure that the products are safe and durable
Service The innovator must ensure that the invention will require less routine service than that of the competitors.	* Not included	Not included
Development Potential The innovator can benefit if the invention can result in a family of products from which the innovator can profit.	Sustainability phase	Sustainable development

From table 4.3 it can be seen that there are merely two aspects of successful commercialisation in terms of the invention that is not addressed in the phase-oriented process, namely the appearance of the product and the fact that the invention should require less routine service than that of competitors. However upon the completion of the feasibility phase of the suggested process, these elements will be addressed as the entrepreneurs have to provide a clear description of the product and prove that this product works better than the competing solutions. Therefore, although not explicitly stated, these two elements are addressed in the feasibility phase.

Table 4.4 identifies the critical success factors in terms of the innovator that will have an impact on the commercialisation of any venture.

Table 4.4: The success factors concerning the innovator.

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>Technical knowledge Innovators must determine their know-how and skills capacity and, when needed, acquire technical knowledge from outside sources to supplement a narrow base. It is vital that they access the right expert at the right time.</p>	<p>Viability phase</p>	<p>Strong management team (industry and technical capabilities, experience, knowledge, skills and training) to seize the opportunity. Identify strengths and weaknesses</p>
<p>Errors Ability to rapidly learn and to reduce mistakes and misunderstandings.</p>	<p>Viability phase</p>	<p>Human capital – problem solving</p>
<p>Ignorance Some innovators simply do not understand what is required to make new products successful. That is, the innovators lack a complete and balanced perspective on what the important tasks and events are.</p>	<p>Viability phase</p>	<p>Achieved through entire phase-oriented process.</p>
<p>Lack of skills Today's complex projects require a multitude of technical and people skills to be effective. One recurring problem is the lack of experience and/or education of innovators.</p>	<p>Viability phase</p>	<p>Human capital – education and experience.</p>
<p>Too confident The most frequently omitted activities are the early market assessment and market research tasks along with other activities in the homework phases of the project. But consistently, a lack of good market information and inadequate homework are cited as the number one reasons for new product failure.</p>	<p>Viability phase</p>	<p>Evidence of customer interest (with a variety of aspects to test/ ensure this).</p>

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>Control</p> <p>No matter which commercialisation path innovators follow, they will need to collaborate and communicate with others who may have different perspectives.</p>	<p>*</p> <p>Not included</p>	<p>The viability phase of the phase-oriented process emphasises the importance of human capital and interaction throughout networks.</p>
<p>A lack of discipline</p> <p>One of the problems in product innovation is that many of the prescribed actions in a well-run project are discretionary or optional. And because these actions are optional, they can be deleted or omitted too easily.</p>	<p>Viability phase</p>	<p>Founding process – fulfilling certain chronological expectations.</p>
<p>In just too big a hurry</p> <p>The fact that the product must be to market as quickly as possible is a compelling reason to take some chances, cut corners or collapse activities. Innovators who emphasise doing the up-front homework, doing the necessary market studies, building in the voice of the customer, getting sharp, early product definition based on facts, and practicing quality of execution not only achieve a higher success rate, their time performance is the best.</p>	<p>Viability phase</p>	<p>Founding process – fulfilling certain chronological expectations.</p> <p>Evidence of customer interest.</p> <p>Evaluation of industry conditions.</p>
<p>Evaluation of inventions</p> <p>Often innovators identify too many inventions, but they do not have sufficient resources. Innovators must be able to evaluate all the inventions to focus on those with the most potential.</p>	<p>Feasibility phase</p>	<p>Address through the elements contained in the feasibility phase.</p>

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Decisions The innovator must be able to make the critical decisions, from the best idea selection to the management of the sustaining and extrication activities of the product.	Feasibility phase and viability phase	Although this is not specifically stated in the phase-oriented process, the entire process is based on the decision
Risk The innovator must have the ability to evaluate and react to risk well.	Viability phase	Human capital – risk-taking propensity
Set standards Innovators must set the measures of commercialisation	* Not included	There are constant milestones and evaluation points during the entire phase-oriented process that entrepreneurs must adhere to in order to progress from one phase to the next.
Resources Innovators must not fail to acquire and manage multi-functional resources.	Viability phase Feasibility phase	Human, social and reputational capital Resource identification
Partnerships Innovators must not fail to form collaboration and partnerships when it is in their best interest.	Viability phase	Social capital
New market opportunities Innovators must not fail to exploit the new market opportunities rapidly	Feasibility, Viability and sustainability phase	Achieved through an efficient phase-oriented process.

The two elements included in the factors of successful ventures which are not identified in the process are: 1) the control entrepreneurs can exert when collaborating and communicating with others who may have different perspectives and 2) setting standards for measures of commercialisation. However, due to the logical flow of the phase-oriented process, the interaction between the different phases and the support and assistance of a mentor, both of these aspects will be addressed through the nature of the suggested process.

Table 4.5: The success factors concerning the marketing.

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>Marketing</p> <p>The innovator should guard against poor market research, inadequate market analysis, weak market studies, test markets and market launch, and inadequate resources devoted to marketing activities. Errors and omissions in these vital activities can and often do spell disaster later in the project.</p>	<p>Viability phase</p>	<p>Encapsulated in all the elements included in evidence of customer interest and Evaluation of industry conditions</p>
<p>Seek differentiated, superior products</p> <p>Starting in the research phase, the innovator must ensure that a differentiated product with unique customer benefits and superior value for the user will be delivered.</p>	<p>Viability phase</p> <p>Feasibility phase</p>	<p>Encapsulated in all the elements included in Evidence of customer interest and Evaluation of industry conditions</p> <p>Clearly describing the benefits of the proposed product or service when compared to current alternatives</p> <p>Prove that the invention works better than the competing solutions</p>
<p>Demand sharp, stable and early product definition</p> <p>A failure to define the product – its target market, the concept, benefits and positioning, and its requirements, features and specs – before development begins is a major cause of both new product failure and serious delays in time-to-market.</p>	<p>Feasibility phase</p>	<p>Purpose of the feasibility phase</p>
<p>Continuing validation</p> <p>The innovator must continuously validate the invention through the acquisition of new, smart and meaningful investment.</p>	<p>Feasibility, Viability and Sustainability phase</p>	<p>Basis of the phase-oriented process – at every phase the entrepreneur must prove the merit of the proposed venture based on the evaluation of several aspects.</p>

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>Up-front homework Too many projects move from the idea stage right into development with little or no assessment or up-front homework.</p>	<p>Viability phase</p>	<p>Evidence of customer interest Evaluation of industry conditions</p>
<p>Focus Much sharper evaluation and decision points are required in the process. This ensures that innovators will avoid the trap of too many projects, and simply not enough time, money or people to do each one well.</p>	<p>Feasibility, Viability and Sustainability phase</p>	<p>Basis of the phase-oriented process – at every phase the entrepreneur must prove the merit of the proposed venture based on the evaluation of several aspects. Hereafter kill/go decisions can be made</p>
<p>Build in the voice of the consumer New product projects that feature high quality marketing actions – preliminary and detailed market studies, customer tests, field trials and test markets, as well as market launch – are blessed with more than double the success rates and 70% higher market shares than those projects with poor marketing actions</p>	<p>Viability phase</p>	<p>Market size, reachable and receptive customer, identify value that is added or created – all elements of the evidence of customer interest aspect</p>
<p>Specification of the target market The innovator must know exactly who the intended users are and ensure that the invention will meet their needs. A detailed analysis of the needs of a potential user is vital in adjusting the process of creativity and development of the new product to the real used needs that are insufficiently covered by existing products.</p>	<p>Viability phase</p>	<p>Niche market, market size and share you can obtain, geographic barriers of the market, growth rate of market</p>

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Legality The innovator must determine whether the invention is subject to any laws that limit, restrict, control, regulate or ban such things as production, ownership, distribution, or operation of the product.	Feasibility phase	Ensure that the proposed invention complies to the governing regulations, laws and ordinances
Analyse market requirements It is necessary to implement a profound analysis to determine the real needs of the market. A rigorous and realistic analysis of the time needed to distribute the product to the market should be analysed. And, finally, this group of factors requires a reliable estimate of the size of the potential market for the new product.	Viability phase	Evidence of customer interest and the evaluation of industry conditions
Not every invention warrants the creation of a new company. Some markets, quite simply, will be too small to warrant company creation or markets may be controlled by large and mature companies that would make it difficult to compete.	Viability phase	Indicate the current market size and share you can obtain, growth rate of the market, demand existing suppliers cannot meet
Customer information The innovator must not fail to access, gather and exploit the market and the customer information in order to build and market a superior product.	Viability phase	Evidence of customer interest
Price Innovators can improve their chances of success when they have a price advantage over existing competition or substitutes.	Viability phase	Degree of control over prices

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Existing Competition Innovators must determine whether there is a serious competitive threat in the market already. Innovators must also use access to market information more precisely to evaluate competitive offers.	Viability phase	Assess competition (new entrants and substitutes)
New Competition The innovators must answer whether they can you anticipate significant, new competitive elements in the near future.	Viability phase	Assess competition (new entrants and substitutes)
Protection The innovator must ensure that there is the potential to protect the invention through patents, trade secrets or other means in a way that is commercially worthwhile.	Feasibility phase	Confirm that there is not a patent of your idea that already exists
Learning It is important that customers can easily understand the correct use of the product.	Feasibility phase	Provide a clear description of the product or service you are developing (to the extent that all users will understand
Need The invention cannot be a success if it does not solve a pressing problem or fill an urgent need for the customer.	Viability phase	Seen in the combination of the evidence of customer interest aspect (with all the elements it encompasses and the evaluation of the industry conditions

All of the crucial factors pertaining to the marketing aspect which influence the successful commercialisation of inventions are encapsulated in the phase-oriented process as it is suggested in this study, thereby ensuring that the right invention is offered to the right market at the right time and price.

Hereafter the factors that must be present to ensure effective research are discussed in table 4.6.

Table 4.6: The success factors concerning the research.

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Build international orientation into product process It is the norm to introduce an invention to the local market in the first place and later the invention can expand into international markets. However, the international orientation must be built into the invention from concept phase.	* Not included	Not included
Marketing and technological synergies The innovator must identify inventions that build on in-house development technology, utilise inside engineering skills, and use existing manufacturing resources and skills, and products with a strong project/company fit in terms of sales force, distribution channels, customer service resources, advertising and promotion and market intelligence skills and resources	Feasibility phase and viability phase	Not included
Potential The innovator must ensure that the share of the total market is adequate for viable business activity.	Viability phase	Market size and growth rate
Price If an innovator can reasonable anticipate price stability for the invention it is a competitive advantage.	Viability phase	Degree of control over prices
Penetration The innovator must determine whether there is adequate revenue potential in a reasonable time frame to justify the effort required to commercialise the invention.	Viability phase	Determine whether the market size is large enough to obtain profit

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Predictability It is important to establish whether changes in market demands will be evident in time for adequate management decisions.	Viability phase	Emerging or fragmented markets, market maturity, sensitivity of demand
Dependence Innovators must answer whether their invention depends on the sale of other products to be a success. Or, if demand for their invention will fade if that other product was removed from the market.	Viability phase	Sensitivity of demand
Demand Curve It is important that the demand for the invention lasts long enough to enable innovators to make a reasonable profit.	Viability phase	Market maturity
Compatibility Several activities should be performed by the innovator at this point. Firstly, the innovator must determine whether the invention harmonises with current behavior patterns and ways of doing things; secondly, customers must be involved in the development of the invention in order to build in the voice of the customer and lastly, market-sourced information must be evaluated to design the innovations according to market needs.	Viability phase	Identify the value that is added or created with your product or service
Visibility The advantages and benefits of the invention must be self-evident when the customer hears about the product.	Feasibility phase	Clearly describing the benefits of the proposed product or service when compared to current alternatives

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Promotion Cost The cost of promoting the invention must be reasonable in relation to production cost.	Sustainability phase	Cost of sales
Distribution The invention must be able to fit easily into established distribution networks. Innovators must have efficient access to external networks and efficient mechanisms with which to share information.	Viability phase	Costs and distribution channels
Stimulation of existing market Innovators must look for an invention that stimulates a market that already exists, rather than creating a new market for the invention and taking on additional risk in the process.	Viability phase	Emerging or fragmented markets, market maturity
Plan and resource market launch The innovator must know when, where and how the invention will be launched. It is of vital importance that the market launch of the invention is a success in order to create awareness and a favourable reaction to the invention. Innovators must guard against failing to recognise the right timing of marketing efforts.	Viability phase	Once the entire viability phase has been completed the entrepreneurs will have an in-depth understanding of their market and the industry in which it operates, thus they will be able to plan and resource a market launch that will obtain a favourable reaction from their target market

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>Rapidly changing environments and radically shifting marketplaces</p> <p>In the environment where there is constant and rapid change, it is very important that the innovator is aware of these changes, the impact that these changes will have on the innovator and the invention and that the innovator implemented thorough succession planning.</p>	<p>Viability phase</p>	<p>Durable product life-cycle</p>
<p>Severe competition</p> <p>Regardless of the invention an innovator sells, there will always be fierce competition. Even if an innovator introduces a completely new invention to a completely new market, it will be a matter of time before competitors copy the invention and also enter the market. Innovators need to be aware of who their competitors are as well as what they are offering at what price in order for them to stay competitively relevant.</p>	<p>Viability phase</p>	<p>Assess competitors (new entrants and substitutes)</p>
<p>Market attractiveness</p> <p>Specifically the market size, market growth, degree of market need, and purchase importance are important elements that the innovator must consider. Furthermore, the absence of intense competition, lack of price competition and weak competitive products ensures an attractive market.</p>	<p>Viability phase</p>	<p>Encapsulated in all the elements included in evidence of customer interest and evaluation of industry conditions</p>

Building an international orientation into the product process is the only aspect listed in the factors that influence successful commercialisation that is not included in the phase-oriented process. However, this will be achieved indirectly during the viability phase of the suggested

process. During the viability phase the target market must be identified and understood along with an evaluation of the industry conditions with the help of an experienced mentor. Thus, should an international orientation be considered, it will definitely be identified during this phase.

In table 4.7 the success factors concerning the finance side of a new venture are listed.

Table 4.7: The success factors concerning the finance.

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Adequate financial resources The innovator must guard against failing to mobilise the adequate financial resources that are needed to commercialise the invention and thus have limited finance during commercialisation process.	Sustainability study	Cost structure of the venture Revenue flow
Manage financial resources efficiently Once the financial resources have been secured, the innovator must manage the financial resources efficiently to ensure that there will be sufficient resources at the various stages of commercialisation.	Sustainability study	Operating rules Commitment form employees
Venture capitalists Should innovators need venture capitalists to commercialise the invention they must ensure that the venture capitalists have managerial and industrial experience.	* Not included	Shared argument of the phase-oriented process as the suggested process also argues for more than a financier, but an experienced mentor as well.
Payback Period Innovators must ensure that the time required to recover their investment is shorter than the peak demand threshold.	Sustainability study	Profit/ Increased profit

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Profitability Innovators must be sure that there is real potential to generate adequate profits to make the venture viable.	Sustainability study	Profit/ Increased profit

Once again it is clear that the factors of successful commercialisation pertaining to the finance aspect are included in the phase-oriented process either directly or indirectly.

The process an innovator follows in the commercialisation of an invention is crucial to the success of the invention. In too many instances the innovator has an invention with significant market potential, but implements a process that is riddled with errors and omissions and therefore the invention fails. In table 4.8 the critical elements that must be considered when designing or choosing the commercialisation process are discussed.

Table 4.8: The success factors concerning the process.

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Quality of execution Through consistency of purpose	Feasibility, Viability and Sustainability	Entire phase-oriented process
Build tough kill/go decision into the process In too many instances, inventions progress far into development without serious scrutiny: once a project begins, there is very little chance that it will ever be terminated. The result is many marginal projects approved, and a misallocation of scarce resources.	Feasibility, Viability and Sustainability	Entire phase-oriented process

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>Process</p> <p>The product innovation process is plagued with errors of omission, with pivotal activities, such as market studies and business analysis, simply omitted altogether. It is also a process plagued by errors of commission: poor quality of execution for too many crucial activities that make the difference between winning and losing – activities such as detailed market studies, business and financial analyses, test market or trial sell and initial screening.</p>	<p>Feasibility, Viability and Sustainability</p>	<p>Entire phase-oriented process</p>
<p>Best practices</p> <p>Innovators should constantly redesign the innovation process around best practices in order to continuously improve the process.</p>	<p>Feasibility, Viability and Sustainability</p>	<p>Entire phase-oriented process</p>
<p>Commercialisation strategy</p> <p>These are roadmaps, blueprints or game plans for driving new products to market. They lay out the key steps and activities, stage by stage; they define decision points or gates, complete go/kill and prioritisation criteria, and they build in best practices.</p>	<p>Feasibility, Viability and Sustainability</p>	<p>Entire phase-oriented process</p>
<p>Accelerating the development process.</p> <p>Earlier product introduction may improve profitability by extending the product's sales life, creating an opportunity to charge a premium price and allowing cost advantages in development and manufacturing</p>	<p>Feasibility, Viability and Sustainability</p>	<p>Entire phase-oriented process</p>

All of the noted factors that influence the success of the commercialisation process will be addressed by implementing the phase-oriented process. The rationale behind the phase-oriented process is to ensure that the entrepreneur has a well-thought-out and planned venture with a significant chance of success in terms of the market and industry, all the while improving not only the time to market but also the likelihood of success once the entrepreneur enters the market.

Table 4.9 identifies the factors that must be present or scrutinised during the actual commercialisation of the invention. Regardless of how far the invention has come, if the implementation is not done efficiently, the invention cannot be a commercial success.

Table 4.9: The success factors concerning the commercialisation.

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
The decision to license Innovators must determine whether their inventions have more potential and greater returns in the form of royalties or assignment fees than from selling them themselves.	* Not included	Not included
Networks Innovators must have sufficient access to external networks of resource providers to ensure successful commercialisation	Viability study	Social capital
Existing Business If an innovator already has an established business it must be determined whether the invention can be suitably commercialised from within the existing business.	Feasibility study	Compare the cost to benefit ratio of the proposed invention

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
<p>New Business Regardless of whether innovators have established businesses or not, they must decide how commercial advantages can be secured if the inventions were used to establish a new business.</p>	<p>Feasibility study</p>	<p>Compare the cost to benefit ratio of the proposed invention</p>
<p>Part-Time Innovators must ensure that they can effectively manufacture and sell their invention on a part-time basis in order to be able to focus attention on the marketing activities as well or to still earn an income from another job.</p>	<p>* Not included</p>	<p>When included</p>
<p>Information Innovators must have an efficient mechanism to share information with all the potential resource providers.</p>	<p>Viability phase</p>	<p>Social capital</p>
<p>Local institutions. Innovators must scrutinise the availability and content of the support and development services provided by the local institutions.</p>	<p>* Not included</p>	<p>The phase-oriented process is suggested as the manner in which support institutions should guide entrepreneurs through the process of venture formation, therefore the entrepreneurs had to apply for funding and/or support from an institution in order to be exposed to the phase oriented process</p>
<p>Infrastructure Infrastructure of the local technology business environment must be examined.</p>	<p>Feasibility study</p>	<p>Determine whether the current technology can support the new invention</p>

SUCCESSFUL COMMERCIALISATION Factor & Description		PHASE-ORIENTED PROCESS Noted factor
Sufficient resources Innovators must acquire sufficient resources for commercialisation. This entails not only financial resources, but any resources that are needed to successfully commercialise an invention.	Feasibility, Viability and Sustainability study	Ensured throughout the phase-oriented process. During feasibility the raw materials needed, etc. are identified. During viability the human, social and reputational capital are identified. During sustainability the financial requirements are determined
Employees If needed, the innovator must secure skilled employees during the commercialisation of the invention.	Viability study	Strong management team (industry and technical capabilities, experience, knowledge, skills and training) to seize the opportunity. Identify strengths and weaknesses
Environment The innovator must ensure that there is an attractive environment for SMMEs. In other words, the political-legal, economic and technological environments, to name a few, must be positive to commercialise the specific invention.	Feasibility study	Ensure that the proposed invention complies to the governing regulations, laws and ordinances

With regards to the actual commercialisation of the venture the entrepreneur must evaluate whether the proposed venture will have more potential and greater returns in the form of royalties or assignment fees, than from selling it themselves. However, when considering the fact that the phase-oriented process argues for strong networks through human as well as social capital it reduces the need for a specific evaluation of the impact of royalties at the start of the process as it could be a natural consequence of a network oriented commercialisation process. A very important aspect that entrepreneurs must consider is the fact that they might have to commence with their venture activities while still employed elsewhere. However, the venture team that is argued for in the viability phase of the phase-oriented process can greatly reduce the impact of time constraints on the entrepreneur as several individuals can help drive the new venture forward.

From the discussion above it is evident that the argued phase-oriented process includes all of the aspects that influence successful commercialisation, either directly or indirectly. The implication hereof is that the phase-oriented process is not only sound in terms of covering all the aspects that are currently included in business plans, but it also focuses on all of the factors that influence successful commercialisation, thus illustrating the merit of the proposed phase-oriented process.

4.3 *Phase-oriented process*

It is the argument of the author that the entire process of business plan development must be broken down into smaller phases - each phase measuring a specific facet of the proposed new venture, which will be followed by another, complementary phase. These different, yet complementary phases will serve as hurdles which entrepreneurs should overcome on their way to establishing any venture. Starting with a phase that demands only technical ability from the entrepreneur and escalating to a phase that will require financial projections. However, with every hurdle at which entrepreneurs can prove the merit of their proposed venture, the support from the Government institution, in terms of the mentorship offered should increase.

These three phases are the feasibility phase, viability phase and sustainability phase. In essence, a feasibility phase should simply prove that a product can be produced (i.e. that it is technically feasible) while the viability phase must prove that this product which can be produced will have a reasonable chance of success. In other words, the opportunity must be assessed in terms of the specific target market(s) the new venture will focus on and whether or not the industry conditions are enabling. Hereafter a sustainability phase is needed. Entrepreneurs have now answered that a) this is a product that can be made, b) there is a market for this product and must now turn their attention to c) proving that this product in the given market(s) can lead to profits for the entrepreneur and possible investors and to identify the continuous strategies that will be implemented. Once an entrepreneur arrives at this point, the previous work done (feasibility-, viability- and sustainability phases) is combined into a single document, namely a completed business plan.

The merit of this argument is that all the advantages of business planning, i.e. the external market opportunity and possibility of success is proven, the business opportunity was validated for the entrepreneur and the investors and the approach to exploit the market opportunity is clearly outlined (pg. 200 of chapter 3). All of these benefits of a formal,

encompassing and resource consuming business plan is addressed through the feasibility, viability and sustainability phases. Moreover, the disadvantages of business plans which are summarised as an assumption of knowledge, missing or inaccurate information and a constantly changing and dynamic environment are avoided through this process.

These concerns with regard to business plans are also addressed in the proposed phase oriented process of new venture evaluation as it is argued that once the entrepreneurs have proven the technical merit of a proposed new venture, the support institutions must provide an industry expert to provide mentorship in order to accurately define the market opportunity and the sustainability of the venture. This evaluation will then be based on the facts available to the support institutions and not the assumptions which the entrepreneurs make themselves as the mentor has relevant industry knowledge and experience. Moreover the current evaluation process as implemented by the support institutions is associated with high costs as it demands that a due diligence team (that consists of many professionals) investigates the entrepreneur in order to validate all of the information included in the business plan and through the phase-oriented process, this can be reduced.

During the phase-oriented process a mentor will be assigned to the entrepreneur only once the viability phase commences and thus all the relevant information on the market size, current and potential competitors and general industry conditions can be validated by the mentor. It must be stressed that the entrepreneur and entrepreneurial team must be actively involved in the process and that the mentor will merely serve as an advisor to the entrepreneur and as a means through which the support institutions can ensure factual information. With the commencement of the sustainability phase the mentor will also have a major role to fulfill in terms of again validating and when needed, adjusting, the financial projections of the entrepreneurs.

An additional argument for the proposed layout of new venture evaluation (in terms of feasibility, viability and sustainability phases) centres on the fact that currently the entrepreneur has to go through the entire process of developing a business plan without support and with no guarantee of success. Only when the entire business plan is completed (and the entrepreneurs have invested time and money into this lengthy and difficult process) will the venture idea be evaluated. This implies that minor mistakes cannot be identified early on in the process, saving the entrepreneur time and money and ensuring that the end product is of better quality. Should business plans be evaluated in terms of feasibility and only once this phase is successful, move on to an evaluation of viability and upon the

successful completion of this phase, move to the sustainability study, the entire process would be constantly monitored. By implication, any negative variances can be identified and corrected as soon as they appear. Thus the level of accuracy increases with the completion of every phase as entrepreneurs (and the support institutions) can be sure of the facts included in the specific study and this in turn strengthens the argument for the following phase.

The following figure (figure 4.1) is offered as a summary to illustrate the proposed phases through which the entrepreneurs must pass in order to accurately evaluate the potential of a new venture. Through this illustration it becomes clear that an entrepreneur does not have to go back to the start of the process should a problem arise, but can merely move back to the previous phase in order to make corrections. Additionally, the complementary nature of these three (feasibility, viability and sustainability) studies is illustrated.

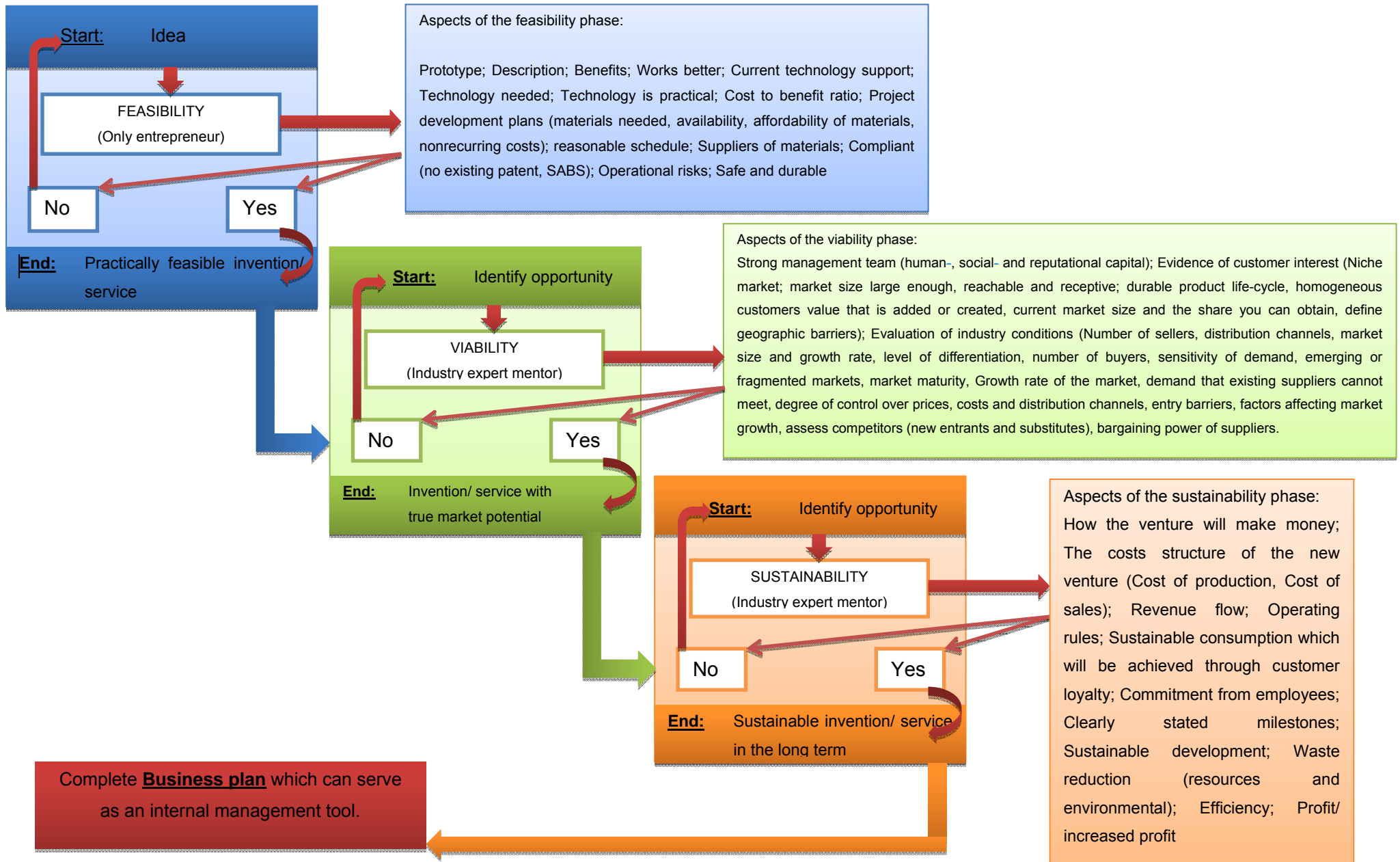
It is important to note that the author is not arguing that business plans are not a useful tool in business management. Once the sustainability of a new venture is proven, the strategy for ensuring continuous success must be identified and actively implemented. As noted at the start of this chapter, the internal users of business plans typically develop business plans in order to improve the implementation of the plan within the venture. This could be in an attempt to improve performance and obtaining consistency, improving coordination and consistency among the various functional units of the venture, empowering the workforce, etc. This business plan must provide an all-inclusive framework and overall direction for the ongoing operations of the venture. This is exactly in line with what is necessary at this stage. Business plans are a truly valid and useful management tool and after the feasibility, viability and sustainability of a new venture has been proven, this must become a vital part of the operations of a new venture.

Figure 4.1 depicts the phase-oriented process. Once entrepreneurs contact a support institution with an idea of a product or service they want to commercialise the feasibility phase commences. Hereafter the institution provides the entrepreneur with a checklist of factors that must be addressed (as pointed out in chapter 3, page 155) in order to prove the feasibility of the venture. Once the entrepreneur submits the results obtained from the feasibility checklist, the institution employees evaluate the feedback. If there is a concern about the quality of the work submitted, information that is lacking or the idea proves to be unfeasible, the entrepreneur is referred back to the start of the feasibility phase in order to refine the idea. Should entrepreneurs successfully adhere to the criteria of the feasibility

phase, they know that they have a practically feasible product or service and progress to the viability phase where they will have to identify the market potential.

At the viability phase it is argued that an industry expert should be appointed by the support institution in order to assist the entrepreneur to gather accurate information in order to enable accurate projections to be made at a later stage. The argument is that if a mentor is truly an expert in the specific industry, they will be able to validate the information the entrepreneur submits and guide the entrepreneur through the process.

Figure 4.1: Interaction between feasibility-, viability- and sustainability study.



4.4 Conclusion

Chapter 4 has three fundamental purposes, 1) To prove that the argued phase-oriented process includes and addresses all the elements of a Business plan; 2) To illustrate that the phase-oriented process encapsulates all of the factors that is needed for successful commercialisation and 3) To expand on the discussion of the phase-oriented process.

Since business plans are the current evaluation tool of all applications received at the support institutions, it is imperative to illustrate that the phase-oriented process is merely a more structured approach to the same end result. Thus the phase-oriented process is not revolutionising the current process; it is improving the current process. It is not only the entrepreneurs who are afforded the opportunity to constantly monitor their progress against set guidelines and correcting issues as they arise, thus saving time and money, but the support institutions that can constantly evaluate both the progress and the merit of the proposed venture, ultimately basing the decision to fund a new venture or not on experience with the suggested product or service and interaction with the entrepreneur and team.

Moreover several literature studies (Critical assessment factors for new products 2007; Technology commercialisation framework 2004; Carayannis et al. 2006; Cooper 1999; March-Chorda, Gunasekaran & Lloria-Aramburi 2001; Cumming, 1998; Pretorius, Millard & Kruger 2006; Waarts, van Everdingen & van Hillegersberg 2002) have identified several factors that are regarded as critical in ensuring successful commercialisation. This implies that entrepreneurs who comply with these factors significantly increase their chances of successfully introducing their product or service to the market, based on the argument that a thorough investigation was conducted into the potential of the product or service and the current market. As illustrated in table 4.2 – 4.7 the phase-oriented process adheres to all the factors that are identified as critical success factors to commercialisation. This is an additional argument for the merits of this method. Not only does this process address all the concerns of a typical business plan, but it also addresses the factors that are associated with successful commercialisation.

Hereafter a discussion on the phase-oriented process ensued in order to clearly illustrate the interaction between the various phases of the suggested process as well as the outcome of each of these phases. Upon the completion of this chapter the merit of the phase-oriented process has been argued from several perspectives and the actual working of the process

was discussed and illustrated in order to further support the logical flow and important milestones of this process.

The following chapter, chapter five is dedicated to an in-depth discussion of the methodology implemented in this study in order to attain the empirical objectives of this study.

Chapter 5 Methodology

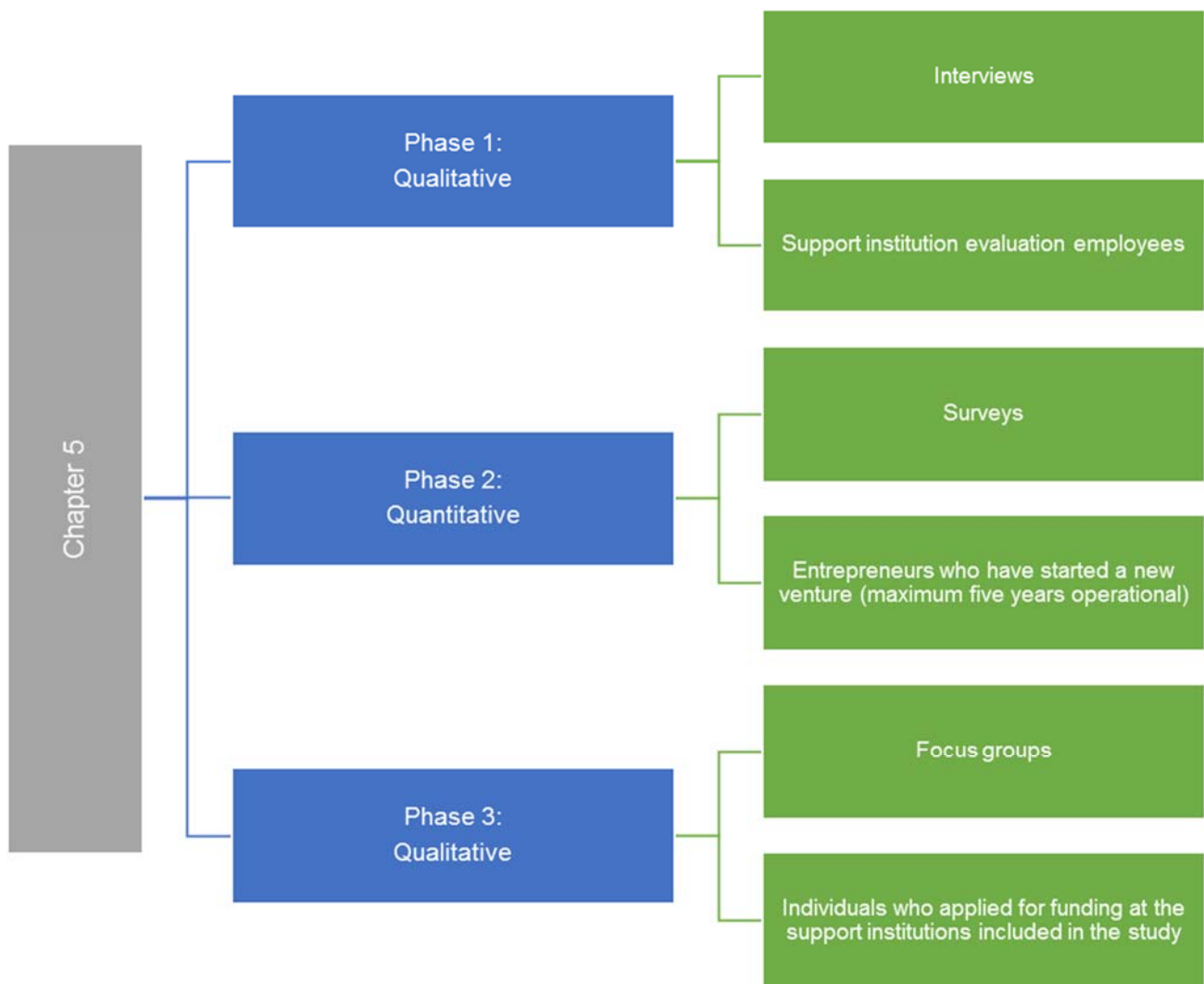
5.1 Introduction

The aim of this chapter is to examine the research methodology employed during the empirical part of this study in order to answer the study's objectives. The research methodology of a study is a vital aspect, as the proper methodology will enable the researcher to achieve reliable and valid results to draw conclusions from and base recommendations on.

This study is based on the pragmatic school of thought as the research problem investigated is the main focus as along with posing practical solutions to the problem researched (Giacobbi & Poczwardowski, 2005). It is argued that the aim of pragmatism is to "provide practical solutions to contemporary problems experienced by people and society" (Giacobbi & Poczwardowski, 2005). Nurani (2009) states "how to collect data is a crucial issue in pragmatic research because the data collection instrument will determine whether the data gathered are reliable and fairly accurate." More specifically, in order to provide the most encompassing understanding of the research problem, the researcher employs mixed methods of research which enables the researcher to draw liberally from both quantitative and qualitative assumptions (Giacobbi & Poczwardowski, 2005). In order to best address the contemporary research problem of the current study and provide reliable and reasonably accurate data, an exploratory, sequential method will be implemented. This research design enables the researcher to commence with a qualitative method in order to explore the research problem where-after a quantitative method is implemented to explain relationships found in the qualitative data. Following, an additional qualitative phase was implemented in order to further enrich the data obtained.

Figure 5.1 offers a short summary on the phases implemented in this study. Hereafter, whenever applicable, this chapter will be discussed at the hand of these three phases.

Figure 5.1: Phases of this exploratory sequential research study.



This chapter is structured according to the various phases of the business research process as illustrated in figure 5.2. The phases of the business research process include stating the problem statement, noting the research objectives, discussing the research design, selecting the primary data collection method, determining the sample design, gathering the data, analysing the data and reporting the findings of the study. Consequently this chapter will be divided into various sections, guided by the business research process.

Figure 5.2: Outline of the methodology chapter of this study.

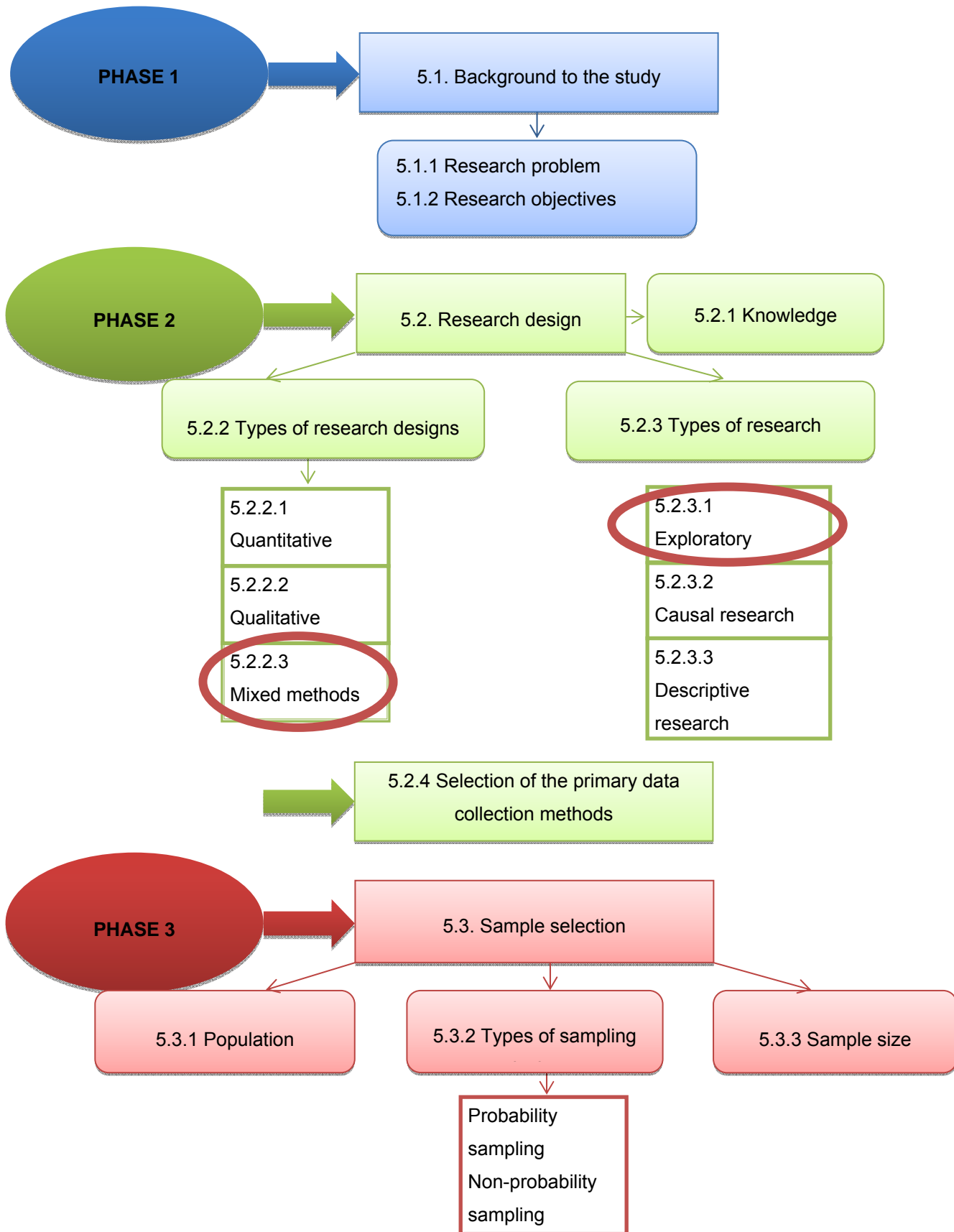
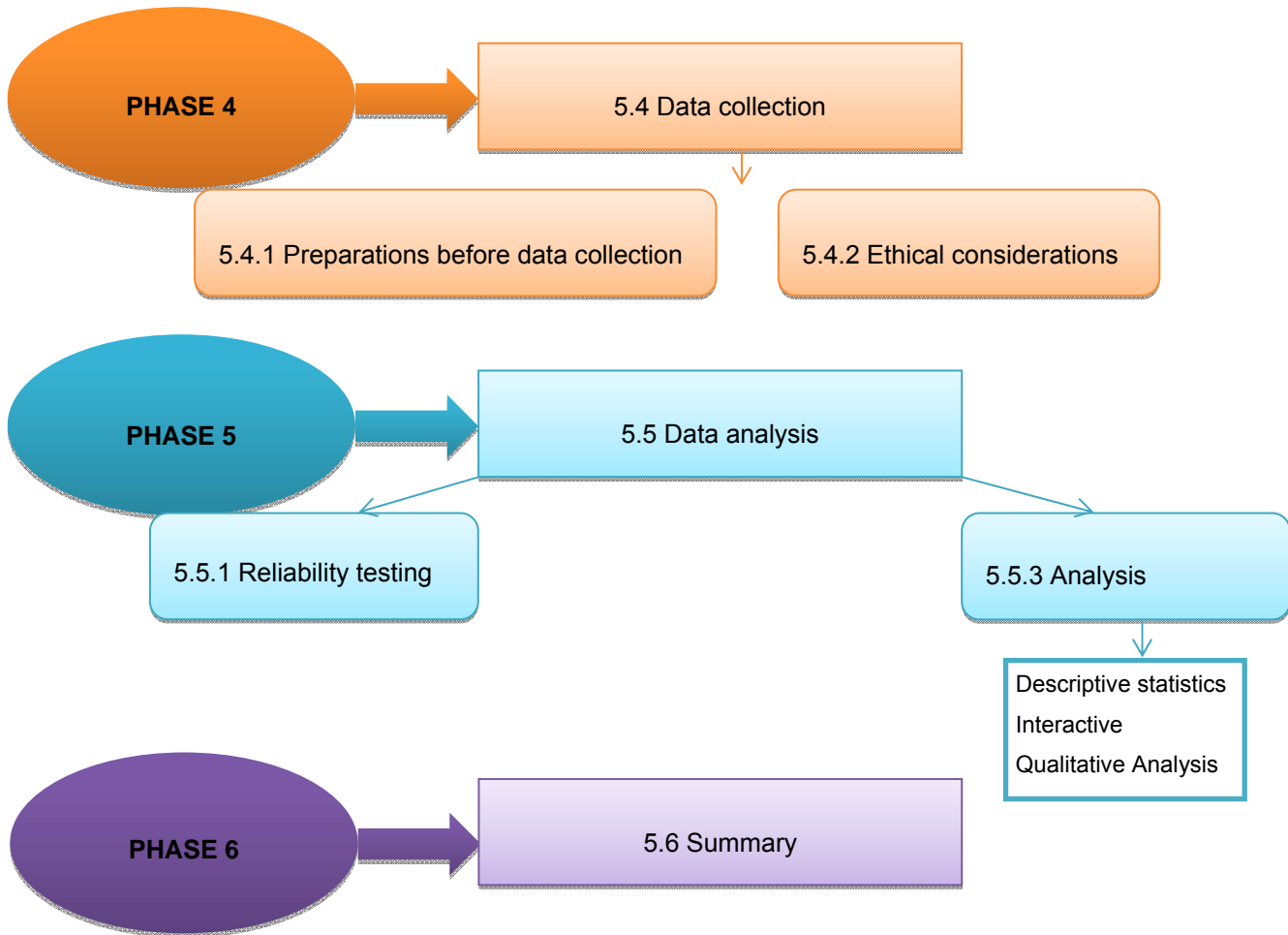


Figure 5.2 (continued): Outline of the methodology chapter of this study.



5.2 Background to the study

It is a worldwide phenomenon that entrepreneurship is vital to the economic growth and the success of a country (Mandel, 2004) as SMMEs play a crucial role in terms of job creation (Duncan, 2012). Notwithstanding the importance and benefits of innovation, the success rate of commercialisation, regardless of whether it is a big organisation or an individual, remains exceptionally low (Speed and success of innovation, n.d.). The key challenge is to take innovations through value creation and more often than not, the problem is not with generating ideas (innovations), but with the commercialisation of this innovation.

The purpose of this study is thus to determine the effectiveness of the interventions implemented by the different government support institutions to take innovations through the commercialisation process in order to establish and grow entrepreneurial businesses among

South Africans. Additionally the main inhibitors which the innovators encounter through this commercialisation process will be described in order to ultimately develop a framework through which the process of support institutions can be improved. Consequently the rate, and speed, of successful commercialisation of each of the institutions can be improved. In doing so, new product development can be enhanced and a culture of entrepreneurship will be fostered in SA. Hereafter recommendations can be made to the various institutions on how to improve the commercialisation process they implement in order to increase their rate of successful commercialisation.

From the background, as described here (and thoroughly in chapter 1, section 1.1), a clear research problem emerged. This research problem will be discussed in the next section (section 5.2.1).

5.2.1 Research problem

The importance of taking new innovations through the commercialisation process and introducing them to the market in a timely manner in order to create economic benefits for the innovator and society as whole, is not contested. However, regardless of the accumulated knowledge, the failure rates of new products are still very high and successful commercialisation remains a daunting task for most innovators.

Since innovation is vital to the economic growth and development of a country it is crucial to investigate why the different government support institutions have such a low commercialisation rate and whether the presence of a properly implemented, comprehensive, commercialisation process can significantly increase the success rate of innovations as well as the time to market.

The primary and secondary research objectives were extracted from the formulated problem statement and in section (section 5.2.2) the research objectives of this study will be discussed.

5.2.2 Research objectives

The primary objective was derived in order to best answer the formulated problem statement, whereas the secondary objectives were derived in order to support the primary objective of this study.

5.2.2.1 Primary objective

The primary research objective this study aims to achieve is stated as:

A critical analysis into why innovators find it difficult to successfully move through the commercialisation process, regardless of the best efforts of support institutions.

5.2.2.2 Secondary objectives

The secondary objectives of this study, which support the primary objective, are:

1. To evaluate the factors limiting entrepreneurship.
2. To investigate the effectiveness of the government entrepreneurial support institutions in addressing these limiting factors.
3. To investigate the current application to approval process implemented by the support institutions.
4. To determine the role of the business plan in the application process of support institutions.
5. To compose a list of the most significant factors that influences the successful evaluation, funding and commercialisation of the applications received by support institutions.
6. To identify the aspects that influence the commercialisation process as experienced by the entrepreneurs.
7. To develop a new feasibility, viability and sustainability phase-oriented process for the various support institutions in order to improve the success rate of the commercialisation of innovations through implementing an encompassing commercialisation process.

5.3 *Research design*

Cooper and Schindler (2008) argue that an appropriate research design must be decided on before any research study can commence, as the research design provides the guidelines within which the data collection, measurement and analysis will be conducted in order to best answer the research questions. Bryman (2008) supports this definition of the research design, but adds the dimension that the research design: “gives an indication about the priority being given to a range of dimensions of the research process”. Mouton (2001) simply refers to the research design as: “A plan or blue print of how you intend conducting the research”. Thus research design is vital as it guides the investigator to focus on the research

question(s) and plan an orderly approach to the collection, analysis, and interpretation of data that address the question(s) (McGaghie et al., 2001).

According to Creswell (2003) it is imperative that the knowledge claim, which will influence/ guide the research design, must be stated before the most appropriate research design can be selected. Hence the next section (section 5.3.1) is dedicated to a discussion on the alternative knowledge claims which will influence the research design of this study.

5.3.1 Alternative knowledge claims

The principle of stating a knowledge claim is the fact that researchers acknowledge certain expectations about how they will learn and what they will learn during their inquiry from the commencement of their study. The four schools of thought pertaining to knowledge claims are: postpositivism, constructivism, advocacy/ participatory and pragmatism. These four schools of thought are summarised in table 5.1.

Table 5.1: The four schools of thought regarding knowledge claims.

	Postpositivism	Constructivism	Advocacy/ Participatory	Pragmatism
Definition	<p>Challenging the traditional notion of absolute truth of knowledge.</p> <p>Reflects a deterministic philosophy in which causes probably determine effects or outcomes.</p> <p>In this scientific method of research, an individual starts with a theory, collects data that either supports or refutes the theory and then makes the necessary revisions before additional tests are conducted.</p>	<p>Individuals seek to understand the world in which they work and live.</p> <p>They develop subjective meanings from their experiences – meanings directed toward certain objects or things. These meanings are varied and multiple, leading the researcher to look for the complexity of views rather than narrowing meanings into a few categories or ideas.</p>	<p>The rise of this position came from individuals who felt that postpositivist assumptions imposed structural laws and theories that did not fit marginalised individuals or groups or did not accurately address issues of social justice.</p> <p>Inquiry needs to be intertwined with politics and a political agenda. Thus the researcher should contain an action agenda for reform that may change the lives of the participants, the institutions in which individuals work or live, and the researcher's life.</p>	<p>Knowledge claims arise out of actions, situations and consequences rather than antecedent conditions, as in postpositivism.</p> <p>Concerned with applications – “what works” – and solutions to problems.</p> <p>Instead of methods being important, the problem is most important and researchers use all approaches to understand the problem.</p>

Table 5.1 (Continued):

The four schools of thought regarding knowledge claims.

	<u>Postpositivism</u>	<u>Constructivism</u>	<u>Advocacy/ Participatory</u>	<u>Pragmatism</u>
Key aspects	<p>The problems studied reflect a need to examine causes that influence outcomes.</p> <p>Reductionist, as ideas are reduced into a small, discreet set of ideas to test., such as hypothesis and research questions.</p> <p>The knowledge that develops is based on careful observation and measurement of the objective reality that exists in the world.</p> <p>What is paramount is the development of numeric measures of observations and</p>	<p>The goal is to rely as much as possible on the participants' views of the situation being studied.</p> <p>Questions are broad and general to enable participants to construct the meaning of a situation.</p> <p>Researchers must recognise that their own background shapes their interpretation and 'position' in the research and to therefore acknowledge that their interpretation flows from their own personal, cultural and historical experiences.</p>	<p>Specific social issues must be addressed, such as empowerments, inequality, oppression, domination, etc.</p> <p>Participants may help design questions, collect data, analyse information, or receive rewards for participating in the research.</p> <p>The "voice" of the participants becomes a united voice for reform and change.</p> <p>The theoretical perspectives for this school of thought include feminist perspectives, racialised discourses, critical</p>	<p>Applies mixed methods in that inquirers draw liberally from both quantitative and qualitative assumptions in order to provide the best understanding of a research problem.</p> <p>Researchers are free to choose methods, techniques, and procedures of research that best meet their needs and purposes.</p> <p>The world is not seen as an absolute unity.</p>

Table 5.1 (Continued):

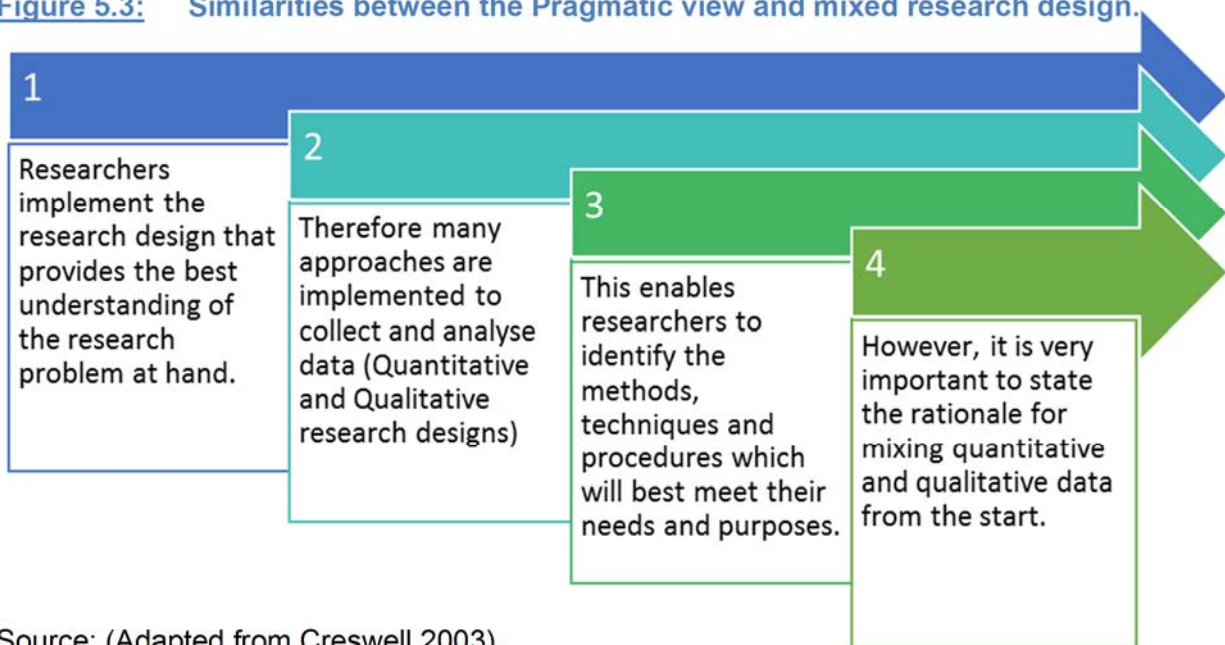
The four schools of thought regarding knowledge claims.

	<p>studying the behaviour of individuals.</p> <p>Accepts that there are laws and theories that govern the world and that these need to be tested or refined in order for us to understand the world.</p> <p>Data, evidence, and rational considerations shape knowledge.</p> <p>Research seeks to develop relevant, true statements; ones that can serve to explain the situation that is of concern or that describes the causal relationship of interest.</p> <p>Being objective is an essential aspect of competent inquiry.</p>	<p>It is the researcher's intention to make sense of the meanings others attach to the world.</p> <p>A theory or pattern of meaning is generated, or inductively developed rather than starting with a theory.</p>	<p>theory, queer theory and disability inquiry.</p>	
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Source: (Adapted from Creswell, 2003).

As previously stated, the school of thought regarding the knowledge claim that will influence the manner in which this study will be conducted is Pragmatism. This is due to the fact that pragmatism enables researchers to implement mixed method research designs where different world views, assumptions, data collection strategies and forms of analysis can be implemented (Creswell, 2003). Several similarities between pragmatism and mixed method research designs are noted to further strengthen the argument for implementing the latter. These similarities are summarised in figure 5.3.

Figure 5.3: Similarities between the Pragmatic view and mixed research design.



Source: (Adapted from Creswell 2003).

Moreover, Johnson and Onwuegbuzie (2004) identified several general characteristics of pragmatic research, hereafter summarised in table 5.2. The constant underlying theme of pragmatic research is the notion that “knowledge is viewed as being both constructed and based on the reality of the world we experience and live in” (Johnson & Onwuegbuzie, 2004:18).

Table 5.2: General characteristics of pragmatism.

Pragmatism has found a middle ground between philosophical dogmatism and skepticism and find a workable solution to the many longstanding philosophical dualisms about which agreement has not been	Replaces the historical popular epistemic distinction between subject and external object with the naturalistic and process-orientated organism-environment transaction.	Instrumental truths are a matter of degree and are not stagnant, therefore one should be prepared to acknowledge them as future falsehoods.
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historically forthcoming.		
Rejects traditional dualisms and generally prefers more moderate and common sense versions of philosophical dualisms based on how well they work in solving problems.	Reasoning should not form a chain that is no stronger than its weakest link, but rather a cable; and while its fibres may be ever so slender, provided they are sufficiently numerous and intimately connected.	Recognises the existence and importance of the natural or physical world as well as the emergent social and psychological world that includes language, culture, human institutions and subjective thoughts.
Has a high regard for the reality and influence of the inner world of human experience in action.	Theories are viewed instrumentally (they become true and they are true to different degrees based on how well they currently work; workability is judged especially on the criteria of predictability and applicability).	Takes an explicitly value-orientated approach to research that is derived from cultural values and specifically endorses shared values.
Prefers action to philosophising	Endorses eclecticism and pluralism	Endorses practical theory
Knowledge is viewed as being both constructed and based on the reality of the world we experience and live in.	Human inquiry is viewed as being analogous to experimental and scientific inquiry. We try out new things to see what works, what solves problems and what helps us to survive. We obtain warranted evidence that provides us with answers that we can currently muster.	Organisms are constantly adapting to new situations and environments. Our thinking allows a dynamic homeostatic process of belief, doubt, inquiry, modified belief, new doubt, new inquiry, etc.
Justification comes in the form of warranted assertability.	Endorses strong and practical empiricism as the path to determine what works.	Generally rejects reductionism.
Endorses fallibilism (current beliefs and research conclusions are rarely, if ever, viewed as perfect, certain or absolute).	Views current truth, meaning and knowledge as tentative and as changing over time.	Offers the pragmatic method for solving traditional philosophical dualisms as well as for making methodological choices.

Source: (Adapted from Johnson & Onwuegbuzie 2004).

Once the knowledge claim has been stated, the researcher can progress to identifying the most suitable research design for a specific study.

5.3.2 Types of research designs

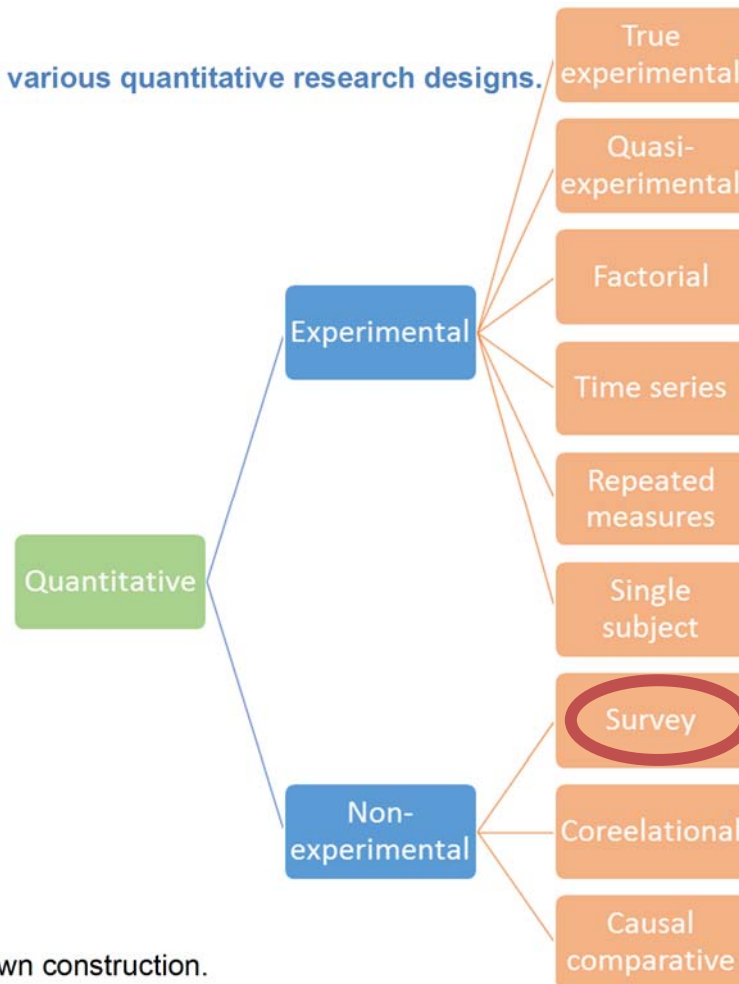
McMillan and Schumacger (2006) classify research designs into three major categories: quantitative, qualitative and mixed methods. These various research designs offer different strategies for solving the research problem and each of these designs will be discussed hereafter. Due to the fact that this study is a mixed method study, the main focus and discussion will fall on this section (section 5.3.4 Mixed methods research design) however, both quantitative and qualitative techniques are shortly discussed and contrasted. The researcher indicates the manner in which both the quantitative and qualitative sections of this study have been conducted; however a thorough discussion will ensue in the mixed methods section.

5.3.2.1 Quantitative research design

Wiid and Diggines (2013) define quantitative research as follows: “Quantitative research relies on numbers, measurement and calculations. The scientific approach to research is the guiding framework for quantitative research. This approach tends to be more highly structured than qualitative research, which make is easier to measure and analyse the responses”. The most common research objectives of quantitative studies are to describe, explain and predict and the information is obtained from a larger, randomly selected and representative sample of the entire population. The data collection technique is structured and statistical analysis is possible from the information obtained and therefore the outcome of quantitative research is to recommend a final course of action as the findings from the representative sample group can be applied to other populations (Wiid & Diggines, 2013). Quantitative purists maintain that the inquiry into social science must be objective. Thus quantitative research must be generalisable over time and context and the real causes of social scientific outcomes are reliable and valid. In order to achieve objectivity the researcher must eliminate their biases and remain emotionally detached and uninvolved (Johnson & Onwuegbuzie 2004).

The various designs that form part of quantitative research are indicated in figure 5.4. For the purposes of this study, surveys were conducted during the quantitative research phase. This design will be discussed in detail in section 5.3.6.1 Surveys.

Figure 5.4: The various quantitative research designs.



Source: Author’s own construction.

Johnson and Onwuegbuzie (2004) indicated several strengths and weaknesses of quantitative research which are summarised in table 5.3.

Table 5.3: Strength and weaknesses of Quantitative research.

Strengths	Weaknesses
Test and validate already constructed theories about how phenomena occur.	The researcher’s <i>categories</i> that are used may not reflect local constituencies’ understandings.
Test hypotheses that are constructed before the data is collected.	The researcher’s <i>theories</i> that are used may not reflect local constituencies’ understandings.
Can generalise a research finding when it has been replicated on many populations and subpopulations and when the data is based on random samples of sufficient size.	The researcher may miss out on occurring phenomena because of the focus on theory or hypothesis testing rather than on theory or hypothesis generation.

Strengths	Weaknesses
<p>Useful for obtaining data that allows quantitative predictions to be made</p> <p>The researcher may construct a situation that eliminates the confounding influence of many variables, allowing a more credible assessment of cause-and-effect relationships.</p>	<p>Knowledge produced may be too abstract and general for direct application to specific local situations, contexts and individuals.</p>
<p>Data collection using certain quantitative methods is relatively quick.</p>	
<p>Provides precise, quantitative, numerical data.</p>	
<p>Data analysis is relatively less time consuming.</p>	
<p>The research results are relatively independent of the researcher.</p>	
<p>It may have higher credibility with many people in power.</p>	
<p>It is useful for studying large numbers of people.</p>	

Source: (Adapted from Johnson & Onwuegbuzie, 2004).

The main reason for the researcher including a quantitative phase to this study is that information from quantitative research findings can be generalised to the general population when random samples of sufficient size are included in the study.

The weaknesses of quantitative research design as noted above in table 5.3 are all addressed by the inclusion of the qualitative phases of the study as the categories used in the questionnaires are based on the responses obtained from the interviews and thus reflect the local constituencies' understandings. Moreover, the qualitative data obtained from the focus groups ensure that the researcher limit the possibility of missing out on phenomena that occur.

5.3.3 Qualitative research designs

According to Wiid and Diggins (2013) "Qualitative research is the collection, analysis and interpretation of data that cannot be meaningfully quantified". Thus this type of research design is less structured and allows the researcher to explore the respondents more deeply.

The purpose of qualitative research is to understand and interpret the research area. The most common research objectives are to explore, discover and construct. Although a smaller sample is needed for qualitative research, in-depth information is collected through unstructured focus groups, interviews or projective techniques. Qualitative research is non-statistical, but enables the researcher to identify patterns and features. Since qualitative researchers always attempt to study human action from the insiders' perspective, the outcome associated with qualitative research is to develop an understanding rather than the explanation and prediction of human behaviour. The findings generated from qualitative research are not generalisable (Wiid & Diggins, 2013, Babbie & Mouton, 2010).

Qualitative research is quite contradictory to quantitative research. Qualitative research argues that multiple-constructed realities abound and that time- and context-free generalisations are not possible. Qualitative researchers argue that it is impossible to accurately distinguish between cause and effect through quantitative research and that an one ultimate truth cannot exist (Johnson & Onwuegbuzie, 2004).

The various designs that form part of qualitative research are indicated in figure 5.5.

Figure 5.5: The various qualitative research designs.



Source: Author's own construction.

During the qualitative stages of this study, the grounded theory research design was implemented.

i) Grounded theory

Researchers typically aim to collect data in order to test a probable explanation or assumption, however, when grounded theory is implemented, researchers generate theory from the data obtained. In other words, through grounded theory, an inductive approach is

followed rather than a deductive one (What researchers mean by grounded theory, 2012). Mills, Bonner and Francis (2006) define grounded theory as: “a widely used qualitative research methodology that seeks to inductively distil issues of importance for specific groups of people, creating meaning about those issues through analysis and the modelling of theory”.

As a starting point, researchers need to conduct theoretical sampling which refers to selecting the individuals from whom the richest possible information can be obtained to conduct interviews with. Hereafter the information obtained must be constantly compared with the theory that is already known, which will refine the explanation or theories offered as the researcher progresses. This aspect is referred to as the constant comparative method (What researchers mean by grounded theory, 2012). In essence grounded theory is an interactive process where the principle aim is to constantly test and refine the ideas that emerge.

Although quantitative data can measure attitudes across a large sample, grounded theory offers researchers the ability to learn about individual’s perceptions or feelings pertaining to a specified issue (Gorra, 2007). Charmaz (2008) argues that “grounded theory fosters openness to what is happening in the empirical world. That means studying data and developing an analysis from conceptualising these data rather than imposing a theoretical framework on them”. For these reasons, grounded theory is implemented in the study at hand. It is the aim of the researcher to investigate the perceptions of the individuals at the support institutions who are responsible for the evaluation of business plans regarding the barriers in the evaluation process as currently implemented at the various support institutions included in this study. Moreover grounded theory methodology focuses on creating new theory and seeks to explain a phenomena based on empirical findings as opposed to testing existing theories with the aim of achieving statistical generalisability (Gorra, 2007).

This aspect of grounded theory additionally strengthens the motivation to implement grounded theory in the current study. The researcher aims to identify the true barriers in the application, evaluation and funding process, as is implemented by the government support institutions, and therefore needs to construct a theory based on the data obtained from the interviews conducted. An encompassing literature review was conducted on the current theory available, with in-depth personal interviews and distribution of questionnaires via trained fieldworkers. As the data collection technique typically associated with grounded

theory is in-depth interviews, but may also include other sources of data such as current literature and quantitative data, the research methodology implemented in the current study is wholly compatible with this.

Gorra (2007) additionally argues that grounded theory and qualitative methods share certain characteristics in that both focus on everyday life experiences, highlight the value of participants' perspectives follow an interactive process between researcher and respondents and are primarily descriptive, relying on the words of interviewees. According to Gorra (2007) the specific criteria that grounded theory studies should adhere to are: credibility, originality, resonance and usefulness. These criteria are summarised in table 5.4.

Table 5.4: Criteria for grounded theory studies.

Credibility	Originality	Resonance	Usefulness
<ul style="list-style-type: none"> - Are there strong links between gathered data and the argument? - Are data sufficient to merit claims? - Do categories offer a wide range of empirical observations? - Has the research provided enough evidence for the researcher's claims to allow the reader to form an independent assessment? 	<ul style="list-style-type: none"> - Do the categories offer new insights? - What is the social and theoretical significance of this work? - How does grounded theory challenge, extend and refine current ideas, concepts and practices? 	<ul style="list-style-type: none"> - Do categories portray fullness of the studied experience? - Does the grounded theory make sense to the participants? - Does analysis offer them deeper insights about their lives and worlds? 	<ul style="list-style-type: none"> - Can the analysis spark further research in other substantive areas? - How does the work contribute to knowledge? - Does the analysis offer interpretations that people can use in their everyday lives/ worlds?

Source: (Adapted from Gorra 2007).

Chapter 7 (Conclusions and Recommendations) will revisit the four criteria specified above and address how each criterion has been met by this study.

Johnson and Onwuegbuzie (2004) indicated several strengths and weaknesses of qualitative research which will be summarised in table 5.5.

Table 5.5: Strength and weaknesses of Qualitative research.

Strenghts	Weaknesses
The data is basd on the participant's own categories of meaning.	Knowledge produced may not be generalisable to other people or other settings.
It is useful for studying a limited number of cases in-depth.	It is difficult to make quantitative predictions.
Useful for describing complex phenomena.	It is more difficult to test hypotheses and theories.
Provides individual case information.	It may have lower credibility with some administrators and commisioners of programs.
Can conduct cross-case comparison and analysis.	It generally takes more time to collect the data when compared to quantitative research.
Provides understanding and a description of people's personal experiences of phenomena.	Data analysis is often time consuming.
Can describe, in rich detail, phenomena as they are situated and embedded in local contexts.	The results are more easily influenced by the researcher's personal biases and idiosyncrasies.
The researcher identifies contextual and setting factors as they relate to the phenomenon of interest.	
The researcher can study dynamic processes.	
The researcher can use the primary qualitative method of grounded theory to generate inductively a tentative but explanatory theory about a phenomenon.	
Can determine how participants interpret constructs.	
Data is usually collected in naturalistic settings in qualitative research.	
Qualitative approaches are responsive to local situations, conditions and stakeholders' needs.	

Strengths	Weaknesses
Qualitative researchers are responsive to changes that occur during the conduct of a study.	
Qualitative data in the words and categories of participants lend themselves to exploring how and why phenomena occur.	
One can use an important case to vividly demonstrate a phenomenon to the readers of a report.	
Determine idiographic causation.	

Source: (Adapted from Johnson & Onwuegbuzie, 2004).

The advantages of qualitative research designs that prompted the researcher to include such phases into the current study are that data is based on participant's own categories of meaning, complex phenomena can be described, cross case comparisons and analysis are possible and grounded theory can inductively generate a tentative but explanatory theory about a phenomenon.

The disadvantages of qualitative studies that were most prominent for the current study is the fact that knowledge produced may not be generalisable to other people or other settings, however, in an attempt to address this weakness, a quantitative phase was included in this study. Furthermore the researcher acknowledges that the research may be influenced by the researcher's personal bias and idiosyncrasies. In order to limit the impact of researcher bias, a pre-determined interview schedule was developed and adhered to throughout the interviews conducted.

In order to aptly summarise the differences between quantitative and qualitative research, table 5.6 highlights the main differences.

Table 5.6: Comparison between Quantitative and Qualitative research designs.

	Qualitative	Quantitative
Purpose	To understand and interpret.	To test hypotheses, look for cause and effect and make predictions.
Research objectives	To explore, discover and construct.	To describe, explain and predict.
Sample	Smaller, not randomly selected and non-representative.	Larger, randomly selected and representative.
Variables	Study of the whole, not variables.	Study specific variables.
Data collection	Unstructured (words, images or objects) focus groups, in-depth interviews, projective techniques.	Structured (numbers and statistics).
Form of data collected	Qualitative, such as open-ended responses, interviews, participant observations, field notes and reflections.	Quantitative, based on precise measurements using structured and validated data-collection instruments.
Data analysis	Non-statistical (identifying patterns, features, themes).	Statistical (identifying statistical relationships).
Outcome	Develop an understanding.	Recommend a final course of action.
Final report	Narrative report with contextual description and direct quotations from research participants.	Statistical report with correlations, comparisons of means and statistical significance of findings.

Source: (Adapted from Wiid & Diggines, 2013).

In a study conducted by Johnson and Onwuegbuzie (2004) it is argued that although quantitative and qualitative research is vastly different in the manner in which it is conducted, it does share similarities too. These commonalities include the fact that both quantitative and qualitative researchers use empirical observations to address research questions and that

both sets of researchers aim to minimise confirmation bias and other sources of invalidity by incorporating safeguards in their inquiries. It is based on these similarities that the combination of quantitative and qualitative techniques is further justified in the mixed method research design.

An additional argument for implementing mixed methods research is seen in the fact that the majority of the research in social sciences aim to provide justified claims regarding individuals and the environment in which they function and that research is becoming increasingly interdisciplinary and dynamic. Thus researchers need to understand multiple methods in order to identify the approach to research that will pose the best possibility of answering the stated research questions (Johnson & Onwuegbuzie, 2004). The research question this study aims to answer is to determine the difficulties that entrepreneurs experience in the funding process which the support institutions implement in order to be able to determine what these institutions must adapt in their criteria to successfully move through the funding process. It is based on this that the researcher argues that this study mandates a mixed methods approach.

5.3.4 Mixed methods research design

Leech and Onwuegbuzie (2009) argue that mixed methods are still moderately unknown and confusing to many researchers and, thus “still in its adolescence” due to the fact that researchers typically become purists in either the quantitative or qualitative research design (Johnson & Onwuegbuzie, 2004). However, Creswell (2003) simply states that mixed methods research has come of age. He continues by saying: “To include only quantitative and qualitative methods falls short of the major approaches being used today in the social and human sciences. The situation today is less quantitative versus qualitative and more on how research practices lie somewhere on a continuum between the two.”

However, typically researchers become quantitative or qualitative purists; where the quantitative researchers argue for hard, generalisable data and the qualitative researchers profess the superiority of deep, rich observational data (Johnson & Onwuegbuzie, 2004). It is with this in mind that it must be emphasised that mixed methods research does not intend to replace either quantitative or qualitative research designs, but to move past the quantitative versus qualitative debate and acknowledge the important contribution that both of these research designs can make. This will enable researchers to draw from the different advantages posed by both the quantitative and qualitative research designs, while offsetting

the weaknesses of each research design through the strength of implementing the combination of designs (Johnson & Onwuegbuzie, 2004). Consequently the overall strength of the study can be enhanced and the current growth in the mixed methods and pragmatist movement could minimise the difficulties experienced when singular methods are implemented (Johnson & Onwuegbuzie, 2004).

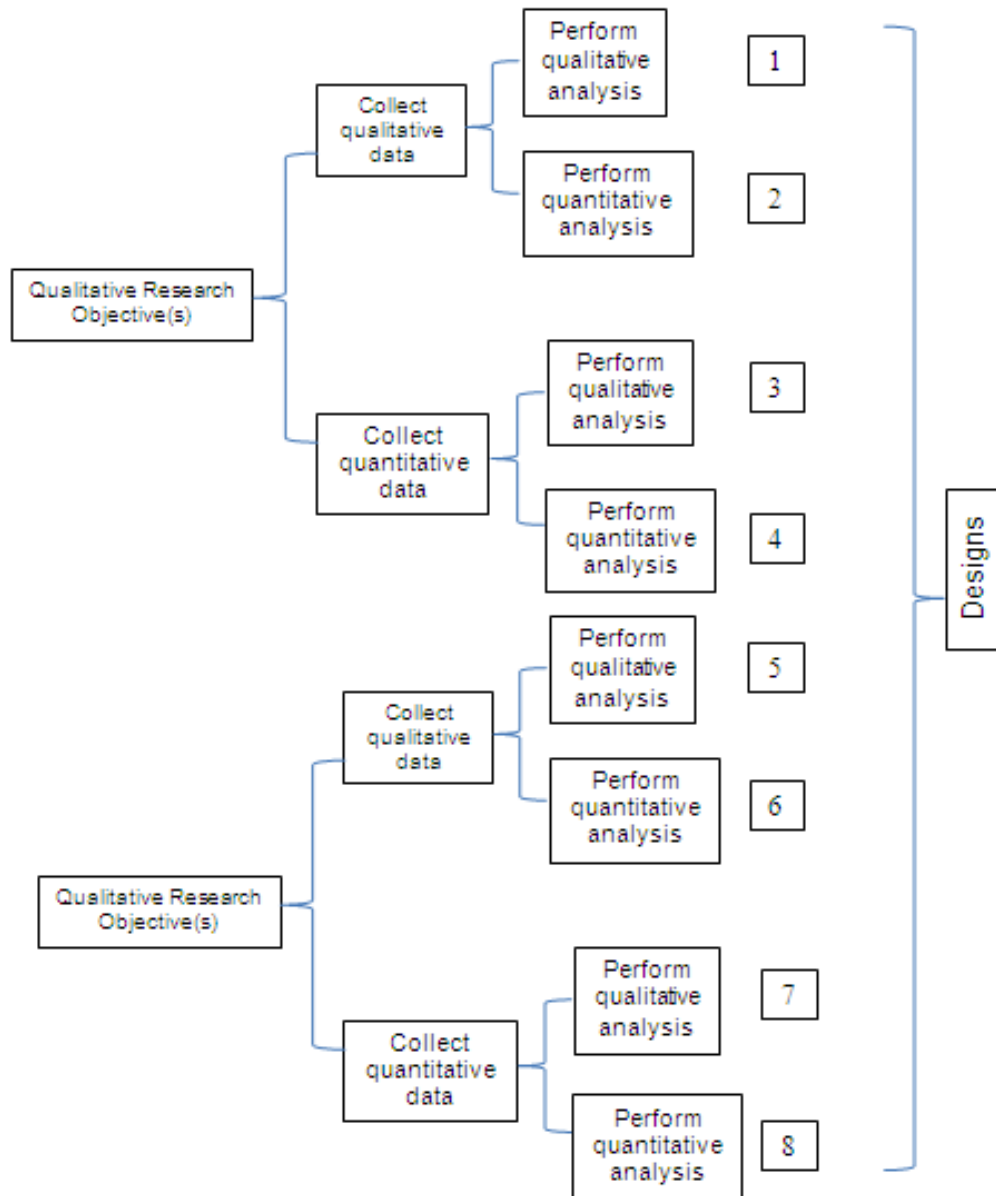
This positive aspect of mixed methods is aptly captured in Creswell's definition (2003): "mixed methods research design is a procedure for collecting, analysing and "mixing" both quantitative and qualitative research and methods in a single study to understand a research problem" (Doyle, Brady & Byrne, 2009). As pointed out by Johnson and Onwuegbuzie (2004) the contingency theory is appropriate in mixed methods research as this theory states that "quantitative, qualitative and mixed methods research are all superior under different circumstances and it is the researcher's task to examine the specific contingencies and make the decision about which research approach, or which combination of approaches, should be used in a specific study."

There are two major types of mixed methods research that exist, namely mixed-model and mixed-method research. Each of these types of design will be elaborated on hereafter.

i) Mixed-model research

The mixed-model research is a type of research where the quantitative and qualitative approaches are mixed within, or across, the stages of the research process. The various types of mixed-model research are illustrated in figure 5.6.

Figure 5.6: Various mixed-model research designs.



Source: (Adapted from Johnson & Onwuegbuzie, 2004).

Figure 5.6 illustrates the various methods in which mixed-model research designs can be implemented in order to illustrate the various options available to researchers who implement this type of design. As can be seen from figure 5.6, designs one and eight, which are on the outer edges, are actually mono method designs as a purely qualitative data collection and analysis, as well as a purely quantitative data collection and analysis are recorded. However, the remaining six designs (design 2 – 7) are across-stage, mixed-model designs as the mixing of quantitative and qualitative data occurs across the stages of the research process (Johnson & Onwuegbuzie, 2004).

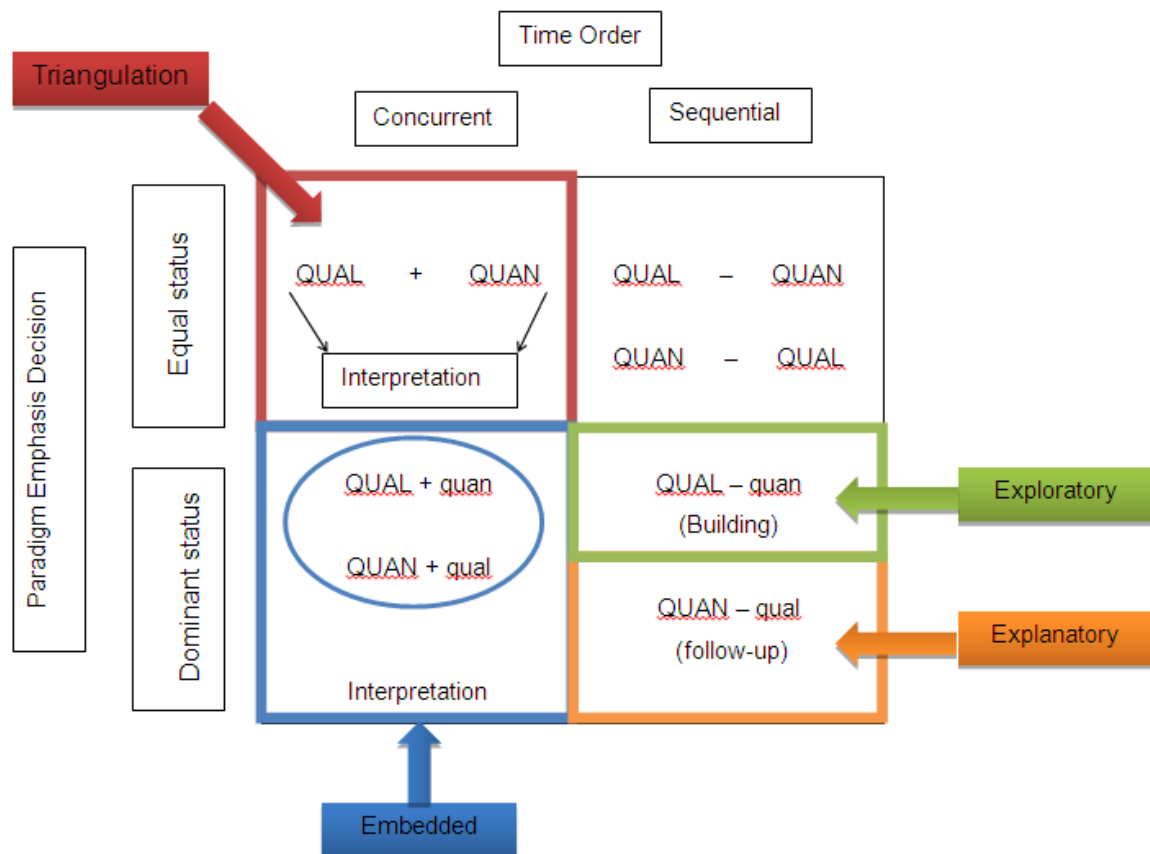
ii) Mixed methods

The mixed-method design is based on the inclusion of a quantitative phase and a qualitative phase in an overall research study. In order to identify the mixed-method design that will be best suited for a specific study, the researchers need to determine:

- whether they plan to operate mostly in the quantitative or qualitative research design
- whether the phases of quantitative and qualitative research should be conducted concurrent or sequentially
- whether or not the researchers combine the data into one analysis and;
- whether the data will be linked during data collection, between data collection and analysis or in the interpretation of the study (Johnson & Onwuegbuzie, 2004; Creswell, 2003).

Creswell (2003) elaborated on the classification of mixed methods research design by further delineating the designs more specifically by identifying four types of mixed methods research designs, namely Triangulation Mixed Methods Designs, Embedded Mixed Methods Designs, Explanatory Mixed Methods Designs and Exploratory Mixed Methods Designs. Figure 5.7 illustrates the different mixed-methods research designs noted by Johnson and Onwuegbuzie as well as Creswell, as a combination.

Figure 5.7: Various mixed-method research designs.



Source: (Adapted from Johnson & Onwuegbuzie, 2004 and Creswell, 2003).

When researchers opt for the mixed-method research design they need to consider two vital aspects; the time order and the paradigm emphasis. In other words, researchers need to decide whether the phases of the research study should be conducted concurrently or sequentially as well as whether they want to focus largely on the quantitative or qualitative phase (Johnson & Onwuegbuzie 2004). Johnson and Onwuegbuzie (2004) warn that although conducting a multi-method study is similar to conducting a mini qualitative study as well as a mini quantitative study, it is vital that the findings must be integrated at some point. Creswell (2003) further strengthens this argument of integrating, linking or embedding the findings obtained.

For the purpose of this study, a multi-method research design was implemented. More specifically, a sequential, exploratory, dominantly qualitative, yet still incorporating the quantitative, research design was best suited for answering the research problem stated in this study. Exploratory mixed methods design is defined as: “the procedure of first gathering qualitative data to explore a phenomenon, and then collecting quantitative data to explain relationships found in the qualitative data. A popular application of this design is to explore a phenomenon, identify themes, design an instrument, and subsequently use it” (Creswell, 2003). Creswell (2014) highlights three steps that researchers should follow when conducting a mixed method exploratory design. Firstly, the researcher should commence with the collection and analysis of qualitative data. Secondly, the findings from the qualitative analysis should be used to build on the subsequent quantitative analysis. This is achieved by using the qualitative analysis to generate research questions and hypotheses. Lastly, data is collected for quantitative analysis to test and explain the relationships hypothesised from the prior qualitative phase.

In this research study the process commenced with a qualitative phase (interviews) where certain themes were identified by the interviewees and the information obtained during this phase, led to the development of an instrument (i.e. questionnaires). In other words the data gathered in the qualitative phase of this study informed the quantitative research phase. The main disadvantage of exploratory research designs is the fact that it is time consuming as it requires extensive data collection, however this disadvantage is acceptable when considering the main advantage of conducting exploratory research. The main advantage of an exploratory research design is the fact that the researcher is able to identify measures which are grounded in the data obtained from the study participants, thus the quality of the

data, although time consuming to acquire, is much higher (Creswell, 2003). Johnson and Onwuegbuzie (2004) also noted that researchers should not be limited by the research design as noted in figure 5.6, but urged researchers to be creative and create designs that effectively answer their research question(s). It is with this in mind that the researcher included an additional phase of qualitative research in the form of focus groups.

Two main reasons identified by Creswell (2003) as justification for implementing a mixed methods research study, serve as the motivation for specifically conducting mixed research in this study, namely:

- Mixed methods enable researchers to build on the strengths of both quantitative and qualitative data.
 - A particular strength of qualitative research is the ability to gain different perspectives on a topic and provide a complex picture of the situation, which was a vital aspect to achieve in this study. On the other hand, the ability to assess the frequency and magnitude of trends across a large number of people was the main advantage achieved by implementing the quantitative aspect in this study.
- Often applying only one type of research (quantitative or qualitative) cannot address the research problem sufficiently.
 - In the study at hand the data collected qualitatively identified specific variables which were then tested in a quantitative study. Additionally, the quantitative data obtained were expanded on through the implementation of another qualitative study in order to obtain more detailed and specific information regarding the research problem.

Additional advantages of combining quantitative and qualitative research designs are cited by Bryman (2006) who notes five justifications for the combination of quantitative and qualitative research, these are:

- *Triangulation*: convergence, corroboration, correspondence or results from different methods. In coding triangulation, the emphasis was placed on seeking corroboration between quantitative and qualitative data.
- *Complementary*: seeks elaboration, enhancement, illustration, clarification of the results from one method with the results from another
- *Development*: seeks to use the results from one method to help develop or inform the other method, where development is broadly construed to include sampling and implementation, as well as measurement decisions

- *Initiation*: seeks the discovery of paradox and contradiction, new perspectives of frameworks, the recasting of questions or results from one method with questions or results from the other method
- *Expansion*: seeks to extend the breadth and range of enquiry by using different methods for different inquiry components.

In order to summarise the above-mentioned discussion of mixed methods research, Creswell (2003) stated that the following six aspects need to be considered, and answered, when planning a mixed methods research study. These aspects are:

- 1) Rationale for implementing the mixed methods design
- 2) Indication that you are collecting both quantitative and qualitative forms of data
- 3) Assigning priority to the collection of quantitative and qualitative data
- 4) Determining the sequence of the data collection
- 5) Matching the data analysis to the mixed method design
- 6) Providing a visualisation or diagram of the mixed methods design thus depicting the procedures.

Through the course of this discussion on mixed methods, aspects 1 – 4, as identified above, have been addressed, however for the sake of clarity, the relevant information is repeated: “More specifically, a sequential- exploratory, dominant QUALITATIVE - quantitative research design was best suited for answering the research problem stated in the study. The purpose of an exploratory mixed methods design is “the procedure of first gathering qualitative data to explore a phenomenon, and then collecting quantitative data to explain relationships found in the qualitative data. A popular application of this design is to explore a phenomenon, identify themes, design an instrument, and subsequently use it” (Creswell, 2003).

The researcher will now discuss aspects 5 and 6 in order to illustrate the comprehensive planning process dedicated to identifying mixed methods research as the suitable design for this study. With regards to matching the data analysis to the mixed methods design, Creswell (2003) offers clear guidelines and these guidelines and the manner in which it was applied in this study are summarised in table 5.7 below.

Table 5.7: Data analysis and interpretation procedures for exploratory research design.

Type of mixed method	Examples of analytic and interpretive procedures	Application to the current study
Exploratory (QUAL followed by quan)	<i>Locating an instrument:</i> Collect qualitative data and specific statements from individuals that support the themes. In the next phase, use these themes as a basis for locating instruments that use concepts parallel to the qualitative themes.	One of the most popular uses of exploratory research designs is to collect substantial qualitative data from the participants in a study in order to base the development of quantitative instruments in the qualitative data. In this study interviews were conducted with the individual responsible for decision making regarding the applications received at the three institutions that form part of this study in order to determine the broad themes which influence their evaluation of the business plans received as well as the process implemented in the specific institution.
	<i>Developing an instrument:</i> Obtain themes and specific statements from individuals that support the themes. In the next phase, use these themes as statements to create scales and items as a questionnaire.	This was not applicable to the current study, as the qualitative phase of this study was aimed at locating the instrument, as discussed above.

Source: (Adapted from Creswell, 2003).

In order to address the sixth noted aspect (diagram of the procedures) table 5.8 – 5.10 are offered as a summary of the phases implemented in this research study in order to give a quick overview of the process followed. An in-depth discussion of the various phases, as noted in table 5.8 – 5.10, will commence after each table.

Table 5.8: Phase 1 implemented in this research study.

Phase:	Description	Target population	Design	Method
Phase 1	This phase marked the interviews held with the individuals responsible for the evaluation of the business plans received at each of the identified support institutions. These institutions are Industrial Development Corporation (IDC), Business Partners Limited and the National Empowerment Fund (NEF).	The evaluation individual/ team of the three support institutions identified in this study.	Qualitative	Expert reviewed interview questions Face to face structured interviews During these interviews each interviewee was asked the same questions in the same sequence; however, when the researcher wanted to elaborate on certain aspects in order to gain a better understanding, some follow-up questions were asked which were not necessarily posed to all the interviewees. These interviews were recorded with the consent of the individuals participating in the interview and each interview took approximately two hours to complete.

i) Motivation for phase 1

The interviews with the evaluating individuals at the support institutions were conducted in order to gain a thorough understanding of the process which each of these institutions implement from the initial application of entrepreneurs to the ultimate approval or disapproval of the application, the amount of funding received and the success rate of each of these institutions in terms of loan approval. Moreover the evaluation process itself was scrutinised in terms of the evaluating criteria, the training level of the individuals responsible for the evaluation as well as the conformity of the evaluations. An in-depth understanding of all of the important aspects considering the business plans submitted was also gained through the

interviews. Hereafter, several questions were stated to determine the availability of mentorship for applicants at each of these institutions and the possible effect mentorship could have.

Lastly the researcher tested the principle of the phase-oriented process as argued in this thesis. The definition of each of the phases in the phase-oriented process, i.e. feasibility, viability and sustainability, were stated initially and the interviewees had to indicate whether they determine the feasibility, viability and sustainability of every application received, according to the definition as stated by the interviewer. The various steps/ aspects that form part of every phase in the phase-oriented process were also presented to the interviewees upon which the interviewees had to indicate whether they expect their applicants to complete this aspect/ step; to identify the importance of every aspect/ step in the evaluation of the application and to specify whether they found that the typical applicant struggles with completing each specific aspect/ step or not. Hereafter, the interviewees were presented with the diagrammatic illustration of the argued phased-oriented process in order to determine to what extent these interviewees agreed with the flow, and reasoning behind this process.

ii) Outcome of phase 1

From these interviews the major issues from the evaluators at the specified support institutions point of view were identified. These identified issues gave rise to the 2nd phases of this study as these issues had to be tested with the entrepreneurs as well. A further outcome was that the logical flow of the three phased process was confirmed. Additionally all of the evaluators agreed that the suggested phase-orientated process would shorten the application process and give rise to much better success rates.

The qualitative section of this study was therefore conducted in order to collect, analyse and interpret the data that cannot be meaningfully quantified, however, the researcher can explore the opinions of the participants on the specific research topic more deeply, thus enabling the researcher to understand and interpret the results. The objectives associated with qualitative research are to explore, discover and construct. They were implemented in order to gain an understanding of the process each of these institutions implement and to explore, discover and construct the main criteria that each of these institutions implements and on which they base their evaluations of the business plans received. This enabled the researcher to gain an understanding of the internal dynamics of these institutions, as opposed to explaining or predicting human behaviour; therefore these findings are not

generalisable. Since each of these institutions implements their own unique funding and evaluation processes, these findings are not intended to be generalised. Once the key aspects that these institutions consider in their evaluation were identified, the inputs from the entrepreneurs who are current business owners could be gathered on the impact/ importance of these aspects.

Table 5.9: Phase 2 implemented in this research study.

Phase:	Description	Target population	Design	Method
Phase 2	During this phase, questionnaires were distributed to entrepreneurs who had successfully established a new venture.	SMMEs in Bloemfontein that had been in operation for a maximum of five years.	Quantitative	Questionnaires distributed and completed by trained fieldworkers

i) Motivation for phase 2

The core aspects as identified by the evaluators as the main barriers to the successful application for funding and ultimately venture establishment had to be validated (or opposed) by entrepreneurs who had successfully established a new venture. Therefore upon completion of the qualitative phase, the quantitative design was implemented to identify the opinions of entrepreneurs currently operating in the business environment regarding the main aspects identified by government support institutions during the interviews and deemed as critical in their evaluations.

The information obtained from this larger, randomly selected and representative sample will enable the researcher of this study to make recommendations on a final course of action which can be applied to a larger population and thus it can be argued that typical entrepreneurs should focus on the same aspects as were identified from the survey conducted. Trained fieldworkers (please see the attached training manual for the fieldworkers in Appendix E) identified entrepreneurial ventures which are operational for a maximum of five years in and around the Bloemfontein area to complete the questionnaires.

The identification of these entrepreneurs was based on an encompassing list of all the businesses in Bloemfontein as was published in a previous report (Van Zyl, Hegazy and Christensen, 2014). The fieldworkers had to make telephonic appointments with the entrepreneurs in order to arrange a meeting during which the questionnaire could be completed. It took approximately one hour and thirty minutes to complete each questionnaire (an example of the questionnaire is attached in appendix F).

ii) Outcome of phase 2

Four of the five themes identified during the first qualitative phase of this study, namely mentorship, business plan, process as well as the entrepreneur and the entrepreneurial team, were investigated through the questionnaires. The fifth theme, namely the validity of the phase-oriented process was not tested in the quantitative phase.

Since the results of the quantitative phase of this study are involved and lengthy, a thorough discussion of the outcomes from this phase will commence in chapter 6, i.e. the data analysis chapter.

Table 5.10: Phase 3 implemented in this research study.

Phase:	Description	Target population	Design	Method
Phase 3	This phase is devoted to focus groups.	The individuals who were invited to participate in the focus groups had to have applied for funding at the IDC, Business Partners or NEF. The researcher obtained client lists from the beginning of 2014 from each of these institutions and simple random sampling was implemented (a thorough discussion on the various types of sampling will ensue in section 5.3).	Qualitative	Focus groups. Two focus groups consisting of eight participants were conducted. The study leader and the researcher conducted the focus groups together in order to minimise potential personal bias and ensure accurate recording of events. The focus groups took approximately four hours to complete.

i) Motivation for phase 3

The focus groups were conducted in order to obtain the perceptions of the individuals who have applied for funding at the various support institutions included in this study regarding the funding process as implemented by each of the institutions. The main motivation of this phase was to compare the perceptions of the individuals who are responsible for the evaluation process at the support institutions to those of the individuals who have applied for funding at each of these institutions regarding the barriers in the process implemented. This will enable the researcher to draw a comparison between the perception of the employees of the institutions and the applicants at the institutions on the fundamental issues in the funding process currently implemented.

ii) Outcome of phase 3

From the focus groups nine core themes were identified as the major barriers to successful funding from the perspective of the individuals who had applied for funding at the various institutions. Three of the nine themes identified in this phase overlap with three of the core themes that were identified through the interviews and six other themes emerged from the focus groups as major barriers in the funding process. These themes are discussed thoroughly in chapter 6, the data analysis chapter.

5.3.5 Types of research

There are three types of research that can be used with quantitative or qualitative research designs or both. What determines the choice or type of research is the information required by the research problem. The three types of research are exploratory, casual and descriptive, these are summarised in table 5.11.

Table 5.11: Types of research.

Types of research	Description
5.2.3.1 Exploratory	Exploratory research is the first stage of a project and guides the study in terms of the early stages of theory development. This type of research is commonly used when new knowledge is sought or certain behaviour and the causes for the presentation of symptoms, actions, or events need discovering. It asks both “what” and “why” questions and sets out using a variety of methods, to discover whether

research	what is in question is true or not. Cooper and Schindler (2008) also point out that exploratory research is appropriate for the total study in topic areas where the developed data is limited. The aim of exploration is the development of hypothesis, not testing (Wisker 2001).
5.2.3.2 Causal research	Causal research attempts to establish cause and effect relationships (Glatthorn & Joyner, 2005). Cooper and Schindler (2008) add that causal studies seek to discover the effect that a variable(s) has on another variable(s). Causal research also seeks to explain why certain outcomes are obtained. The concept of causality is grounded in the logic of hypothesis testing, which in turn produces inductive conclusions. Such conclusions are probabilistic and thus can never be demonstrated with certainty.
5.2.3.3 Descriptive research	Wisker (2001) describes descriptive research as research aimed at finding out more about a phenomenon, capturing it with detail and portraying an accurate profile of that phenomenon. Cooper and Schindler (2008) concur and add that descriptive research studies provide descriptions of characteristics associated with the who, what, when, where and how of a topic. Descriptive studies make primary use of surveys, interviews, observations and report data using frequencies, averages and percentages.

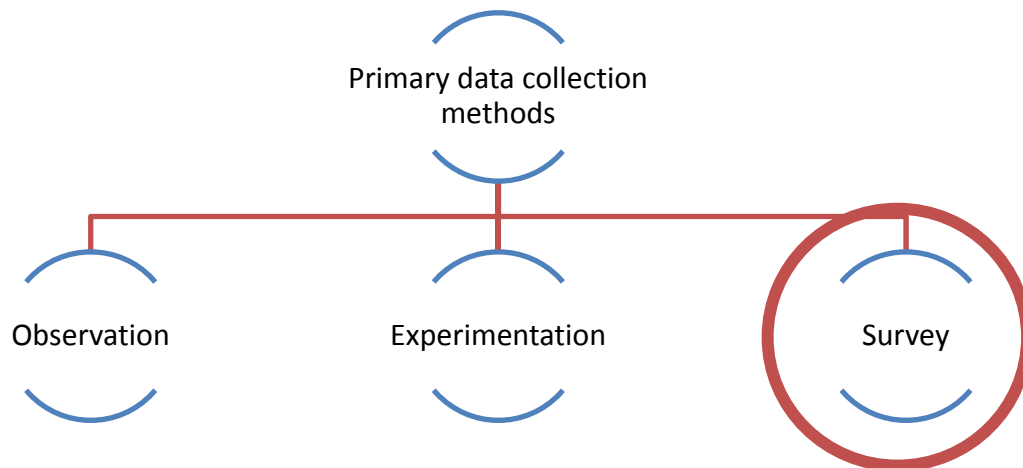
For the purposes of this study exploratory as well as descriptive research was conducted. During phase 1 of this study, exploratory research was conducted as new knowledge was sought and behaviour and the causes for the presentation of symptoms, actions, or events had to be discovered. Moreover, since research on the specific evaluation and funding process, as implemented by the various institutions included in this study is limited, exploratory research was best suited for phase 1 of this study. Hereafter descriptive research was conducted with the purpose of investigating the phenomena identified in phase 1 of the study during phase 2 and 3.

5.3.6 Selection of the primary data collection methods

This section focuses on the data collection method selected for this study, the reasons for the specific method and the design of a questionnaire as a data collecting instrument.

The three approaches that can be followed to gather data for statistical analysis, according to Glatthorn and Joyner (2005) are summarised in figure 5.8. This research study relied on surveys as the primary data collection method.

Figure 5.8: Primary data collection methods.



Source: Author's own construction.

5.3.6.1 Survey

Wegner (2007) states that survey methods obtain primary data via the use of questionnaires. Data such as attitudes, opinions, awareness, knowledge, preferences, perceptions, intentions and motivations can be determined with the use of surveys. The goal of surveys is to develop data that can be compared across subsets of the specified sample, thus enabling the researcher to identify similarities and differences. When the participants of surveys are selected through statistical probability sampling, the findings are transferable to large and diverse populations (Cooper & Schindler, 2008).

Several advantages of implementing surveys were identified by Babbie and Mouton (2010) and it is these advantages that also pose as the rationale for their use in the current study. These advantages are:

- Surveys are not very expensive, especially when self-administrated. In the current study, trained fieldworkers were paid to contact the respondents and complete the questionnaire while sitting with the respondents.
- Large samples are feasible, although in the study at hand only 106 questionnaires were obtained. Since there were three data collecting techniques, i.e. interviews,

questionnaires and focus groups, and the specified amount of questionnaires allowed for advanced statistical analysis, it was decided to limit costs in terms of the fieldworkers.

- The analysis is flexible due to the fact that a variety of questions can be asked regarding the specified topic. In this study a combination of closed and open-ended questions were asked, although the vast majority of questions were closed ended questions. This aspect also addresses the advantage achieved through surveys in terms of standardised questions, which will enable the researcher to obtain more precise measurements.
- Furthermore, the sample of this study was determined by simple random sampling, which enables the researcher to generalise the findings and conclusions to the whole population of entrepreneurs who have applied for funding at either the IDC, Business Partners or the NEF.

There are various methods in which to conduct survey research, these include personal interviews, postal surveys, telephone surveys, e-surveys and self-administered surveys (Wegner, 2007; Cooper & Schindler, 2008). The personal interview approach was implemented in this study and the discussion of the advantages and disadvantages of this method (summarised in table 5.12) serves as the rationale for its implementation?

Table 5.12: Advantages and disadvantages of personal interviews.

Personal interviews	Advantages	Disadvantages
Personal interviews have face-to-face contact with a respondent during which a questionnaire is completed.	Higher response rates are generally achieved.	The method is time consuming.
	Questioning allows further probing into reasons and thus more information can be obtained.	Requires trained interviewers and is therefore more expensive.
	Greater data accuracy is generally ensured.	Gathered data may be biased due to the interviewer's influence on the interviewee.
	Non-verbal responses can be	Generally fewer interviews are conducted

	observed and noted.	because of cost and time constraints.
Personal interviews	Advantages	Disadvantages
	Responses are spontaneous and therefore more likely to be valid.	
	The use of aided-recall questions and other visual prompts is possible.	
	Data collection is immediate and the data is current.	

Source: (Adapted from Wegner, 2007 and Cooper & Schindler, 2008).

The four fieldworkers who participated in the data collection of this study were well trained in order to ensure that they were confident with the questionnaire and understood what information was needed. Additionally having only four fieldworkers increased the consistency in the completion of the questionnaires. Due to the cost and time constraints 116 questionnaires were completed.

5.3.6.2 Questionnaire design and content

This section focuses on the design of the questionnaire, the type of questions asked, the items included in the questionnaire and a discussion on the reliability and validity of the data gathering.

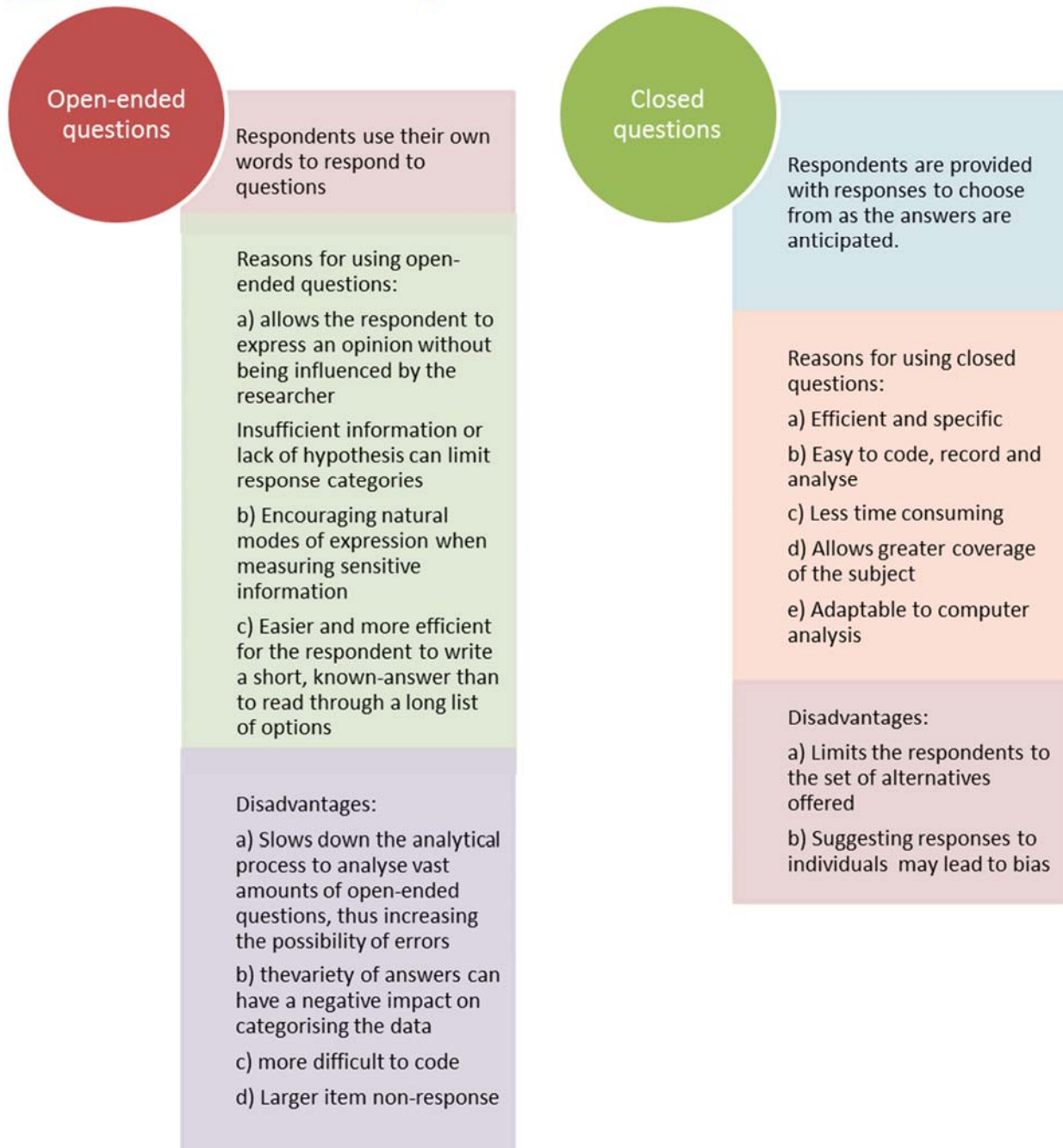
a) Questionnaire

All survey based studies implement a questionnaire as the data collecting instrument (Wegner 2007). The questionnaire implemented in this study is attached at Appendix F. Questionnaires are data collection instruments implemented when large amounts of data must be gathered and thus questionnaire design is critical as accurate, unbiased and appropriate data must be collected for statistical analysis (Wisker 2001).

b) Survey questions

When implementing questionnaires in order to obtain data, researchers can use open-ended or closed questions, the choice of which will be influenced by the study's objective and participant factors (Wisker 2001; Cooper & Schindler 2008). The differences between open-ended and closed questions are indicated in figure 5.9.

Figure 5.9: Difference between open-ended and closed questions.



Source: (Adapted from Cooper & Schindler, 2008; Wegner, 2007; Remenyi, Williams, Money & Swartz, 1995).

The questionnaires in this study, completed in face-to-face surveys, consisted of both open-ended and closed questions. This was done in order to incorporate the advantages offered by both open-ended and close-ended questions into the study. The researcher could thus acquire a richness of the findings through the open-ended questions, while obtaining greater coverage, likely returns of questionnaires and easier statistical analysis. The disadvantages of open-ended questions in terms of the difficulty associated with coding is contained through the use of a limited amount of open-ended questions, thus adding to the richness of the data, while not inundating the researcher with a great amount of coding. Furthermore, the disadvantages of closed-ended questions in terms of the limited alternatives and possible bias, served as additional motivation to included open-ended questions as well (Reja, Manfreda, Hlebec & Vehovar, 2003).

c) Themes included in the questionnaire

The themes identified through the interviews conducted with the individuals who are responsible for the evaluation of the applications received in the qualitative section of this study were also investigated in the surveys .These themes are indicated in table 5.13.

Table 5.13: Themes included in the questionnaire.

Theme	Variables investigated	Type of questions asked
Section A: Demographics of the entrepreneur	The basic demographics of the entrepreneurs were determined by asking the respondents to state their age, gender, race and highest level of education.	Mostly closed-ended questions with specified options were presented to the respondents with the exception of two open-ended questions in terms of the current age of the venture as well as the diploma/ degree which the respondent obtained.
Section B: Nature of the business	The nature of the business was investigated by asking respondents to indicate the current age of their venture, the sector in which the venture falls as well as the amount of current employees.	Only closed-ended questions with specified options.

Theme	Variables investigated	Type of questions asked
Section C: Mentorship	Questions such as whether or not the respondents obtained the help of a mentor or not, as well as the main reasons for this, were investigated along with the type of mentorship and the impact of mentorship on the entrepreneur and the successful commercialisation.	This section comprised mostly of Likert scale questions with the exception of some open-ended questions in order to obtain rich data in terms of the respondents perception or simply when too many options existed to list them all.
Section D: Process	Respondents were asked to indicate the amount of time it took them to commercialise their inventions as well as the aspects that influenced their time to market. Advantages of both early and late entry into the market were also determined.	This section comprised of Likert scale questions with the exception of one open-ended question on the amount of time it took the innovator to commercialise the venture.
Section E: Business plan	In this section the respondents had to indicate whether they developed a business plan or not, as well as their reasons for this. Other factors such as whether or not the entrepreneurs developed the plan themselves and viewed business plan development as a useful tool for venture establishment were also tested.	The majority of the questions in this section comprised of Likert scale questions with the exception of three open-ended questions where the respondents had to motivate their specific answers.
Section F: Entrepreneurial team	Respondents had to indicate whether they had an entrepreneurial team or not, the characteristics of the team, as well as the influence of a team on venture formation.	This section comprised mostly of Likert scale questions with the exception of some open-ended questions when too many options existed to list them all.

Theme	Variables investigated	Type of questions asked
Section G: Performance measurement	Basic performance indicators such as increase in profit, sales, equipment, number of customers, growth in market share etc. were identified.	This section comprised mostly of Likert scale questions with the exception of some open-ended questions when too many options existed to list them all.
Section H: Factors for successful commercialisation	A list of the predominant factors that influence successful commercialisation were offered to the respondents to indicate their level of agreement.	Only Likert scale questions were asked in this section of the questionnaire.

Summated rating scales refer to instruments that consist of statements that indicate either a positive or negative perception towards the topic of interest. The Likert scale is the most frequently used type of summative rating scales due to specific advantages associated with this scale. These advantages of Likert scale questions are:

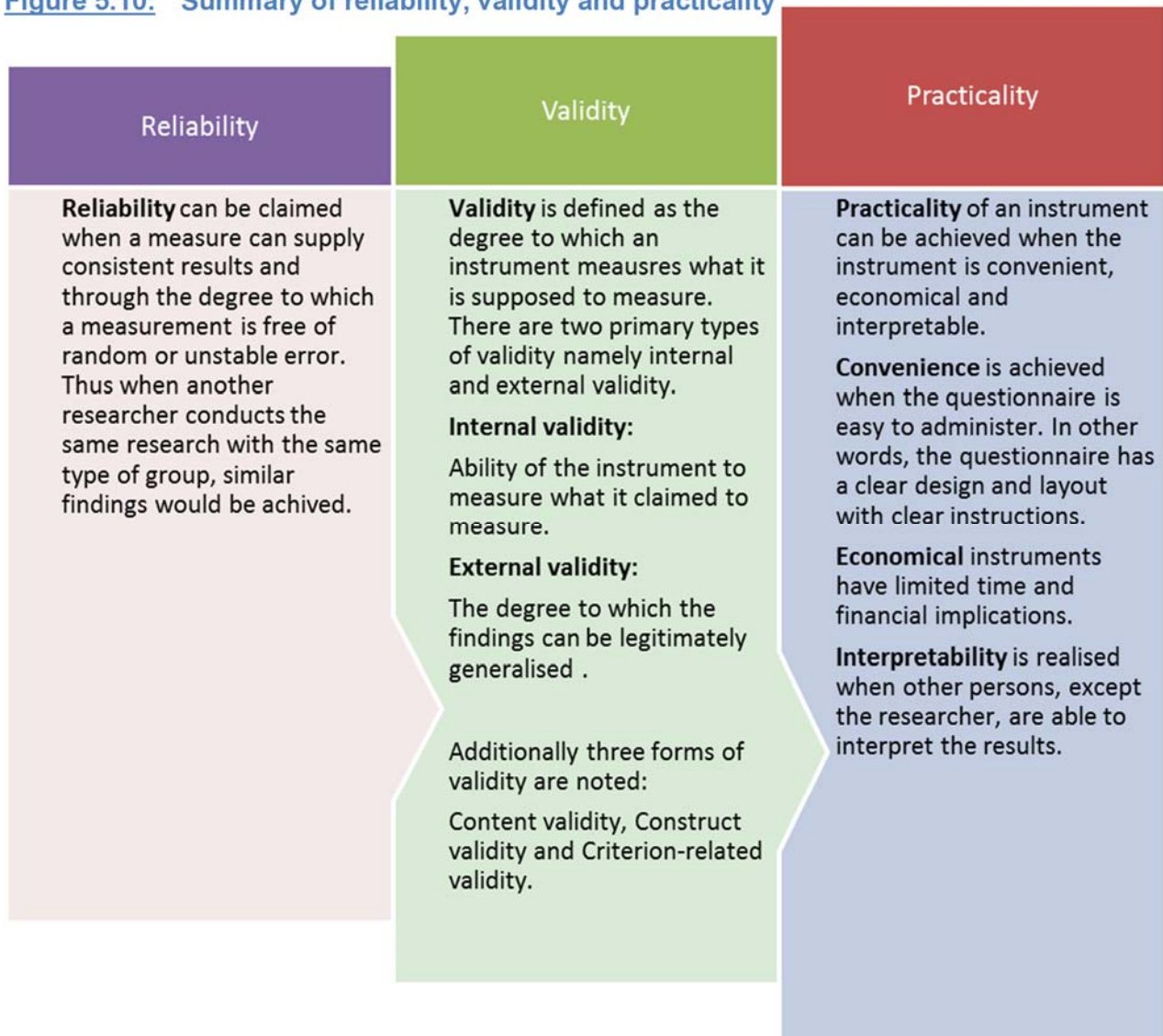
- It is easier to construct than other types of questions.
- The responses are easy to code and analyse due to the numerical values.
- Data can be easily captured.
- Completion of the questionnaires are not time consuming
- Researchers can compare results obtained from respondents as a result of standard statements
- Easier to construct than other types of questions
- More reliable and provide a greater volume of data than many other types of questions
- Interviewer bias is reduced (Cooper & Schindler 2008).

5.3.6.3 Criteria of a good questionnaire

In order for a data gathering instrument to be considered a good data gathering instrument, three main criteria must be present; namely, reliability, validity and practicality (Cooper & Schindler 2008).

Figure 5.10 provides a quick summary of the concepts reliability, validity and practicality. Hereafter a discussion on the application of these terms to the study at hand will follow.

Figure 5.10: Summary of reliability, validity and practicality



Source: (Adapted from Makore-Rukuni, 2001; Cooper & Schindler, 2008; Wisker, 2001; Glatthorn & Joyner, 2005; Wisker, 2001).

a) Application to the study

i) Reliability

Babbie and Mouton (2010) state that there are several ways in which to address the basic problem of reliability. These are a) the test-retest method where the same measurement is implemented more than once and the same responses are obtained, the instrument can be considered reliable. Additionally researchers can implement b) split-half method through

which researchers can randomly divide the items measuring the same concept into two or more categories. For this method to succeed in proving reliability, the same results should be obtained from the different categories, measuring the same concept. Finally researchers can address the issue of c) reliability of research workers. Clarity, specificity, training and practice will enable research to avoid unreliability to a large extent. For the purpose of this research study, the reliability of the fieldworkers were the main manner of ensuring reliability as all of the fieldworkers who participated in this study received thorough training on the questionnaire before the questionnaires were distributed (a copy of the training manual for the fieldworkers is attached as Appendix E).

ii) Validity

According to Cooper and Schindler (2008) validity can be classified in three major forms namely content validity, construct validity and criterion-based validity.

Content validity:

Degree to which the investigative questions of the instrument provides adequate coverage of the study. Content validity can be ensured through a panel of persons who judge how well the instrument meets the standards. In order to achieve content validity a comprehensive literature review was conducted on the barriers to entrepreneurship in SA, the three support institutions included in this study in terms of the implementation process from the application to evaluation of the applications as well as the criteria applied to evaluate applications and the constructs which form the basis of the process argued in this study, namely feasibility, viability and sustainability.

All of the questions were developed by the researcher in cooperation with the experienced research supervisors who participated in the development of the questions in order to enhance content validity and reliability. Moreover, the questionnaire was sent out to a panel of experts for review. During the review the panel of experts was asked to indicate whether they considered the questions in the instrument valid and representative and whether they would add anything to make the questionnaire more comprehensive.

Criterion-related and Construct validity

Criterion-related validity focuses on the ability to predict an outcome or estimate given the existence of a current condition which was not the focus of the current study. Since this

study is an investigative study, aimed at identifying the reasons why innovators struggle to move through the commercialisation process, no predictions were made.

Construct validity measures the degree to which the instrument conforms to predicted correlations of other theoretical propositions (Makore-Rukuni, 2001). Again this was not the focus of the study as it was a ground-breaking investigation into the specified area. These two types of validity were, in other words, not included in this study.

iii) Practicality

As noted, an instrument must be convenient, economical and interpretable to adhere to the prerequisites of practicality (Cooper & Schindler, 2008). The study at hand conformed to all these prerequisites in that the paid fieldworkers were able to distribute, complete and deliver the completed questionnaires to the researcher within the specified timeframe (December 2014 – January 2015). Minimal mistakes were recorded on the questionnaires and when certain questions were omitted by the respondents the fieldworkers asked them to indicate reasons for this. Typically the reasons would be that the respondent felt that the information required was confidential (especially with the performance measurements) or that the respondents simply did not know the answer to the question. Furthermore the data was captured and analysed by the researcher where-after a statistician analysed and reported the data with no difficulties.

5.4 Sample selection

The sample design section will cover aspects on the population included in this study, the types of sampling design as well as the sample size of the current study.

Firstly, the concept “sampling” is defined as the process through which elements of an entire population are selected in order to represent it in its entirety and, thus conclusions can be made regarding the population as a whole (Cooper & Schindler, 2008). Sampling is necessary as time and cost constraints imply that it is not always possible to obtain data from the complete population (Wegner, 2007). It is critical that a sample represents the members of an entire population; otherwise it is not possible to produce valid and precise statistical inferences. In this study sampling had to be undertaken due to the large population available for all three categories (the support institutions, entrepreneurs who have successfully established their own businesses and individuals who have applied for funding at the specified support institutions).

5.4.1 Population

Wiid and Diggines (2013) state that a population “consists of a comprehensive number of individuals, units or items that can become objects for observation. The concept population (or universe) is defined as the total group of people from whom information is needed.

As previously stated, this study consisted of three populations; the first, being all of the support institutions in the Bloemfontein area who provide funding to successful applicants; secondly, all of the individuals in and around Bloemfontein who have established an entrepreneurial venture which has been in operation for a maximum of five years and thirdly, the individuals who had applied for funding at the three support institutions included in this study between January 2014 and December 2014, regardless of whether they had been successful in their application or not.

5.4.2 Types of sampling design

Sampling design can be divided into two major categories, namely probability and non-probability sampling. When implementing probability sampling, each unit of the entire population has a known positive (non-zero) probability of being selected as a unit of the sample. Non-probability sampling on the other hand, the probability that a specific unit of the population will be selected is unknown and cannot be determined as it is based on the judgement of the researcher (Wiid & Diggines, 2013). Table 5.14 is offered as a summary of the various types of probability and non-probability sampling along with a short description of each of these types.

Table 5.14: The various types of probability and non-probability sampling.

Probability sampling	<p>Researcher has 'some notion' that persons or events are chosen in a way that the chosen persons/ events will be representative for the population.</p> <p>Random selection</p> <p>Controlled procedure each element has an equal chance to be selected</p>		
Types of non-probability sampling			
Convenience	Judgement	Quota	Snowball
Sampling units selected based on the convenience of the researcher.	Personal judgement of the researcher only used to select respondents.	The entire population is divided into segments and a quota of units is selected from each segment. This type of sampling is a combination of the convenience and judgement sampling.	Each identified member is asked to identify other members who belong to the same target population.
<p><i>Advantage:</i></p> <p>People who are in the same place at the same time as the researcher have the possibility of being selected, thus it is convenient.</p>	<p><i>Advantage:</i></p> <p>Useful when large samples are not necessary, i.e. in exploratory studies.</p>	<p><i>Advantage:</i></p> <p>Faster and less costly as the interviewer can interview any person that fits the criteria and who is available.</p>	<p><i>Advantage:</i></p> <p>Used to reach populations where the sampling units are difficult to identify.</p>
<p><i>Disadvantage:</i></p> <p>This sample is not representative of the population and no reliable generalisations can be made.</p>	<p><i>Disadvantage:</i></p> <p>Various researchers will have different opinions about which population elements should be selected.</p>	<p><i>Disadvantage:</i></p> <p>The quality of the data obtained is largely influenced by the interviewer's own judgement or discretion when selecting respondents.</p>	<p><i>Disadvantage:</i></p> <p>Bias due to the exclusion of significant sections of the population.</p>

Non-probability sampling	<p>Researcher knows that the chosen persons/ events are not representative of the population</p> <p>Non-random</p> <p>Subjective</p> <p>Each element does not have an equal chance of being selected</p>		
Types of probability sampling			
Simple random sampling	Stratified sampling	Systematic	Cluster
Whole population is available	Random selection within target groups, specific sub-groups	Every n th person. When a stream of people is available	All in limited groups, when population groups are separated and access is difficult.
<p><i>Advantage:</i></p> <p>Easy to implement. Each element in the population has an equal chance of being selected in the sampling and even different sub-groups would likely still provide similar answers.</p>	<p><i>Advantage:</i></p> <p>More precise estimate of the population parameter is obtained from sample as adequate representation of different response profiles is ensured.</p>	<p><i>Advantage:</i></p> <p>Simple to design and easier to implement than simple random sampling, therefore less expensive. Additionally, it is easy to determine the sampling distribution of means.</p>	<p><i>Advantage:</i></p> <p>If properly done it provides an unbiased estimate of the population parameters. More cost effective than simple random sampling, especially with geographic clusters. Can be done without a population list.</p>
<p><i>Disadvantage:</i></p> <p>Requires a listing of all population elements. Takes more time to implement. It is expensive as it uses larger sample sizes.</p>	<p><i>Disadvantage:</i></p> <p>Requires larger samples than simple random sampling which increases the costs of data collection. Additionally, increased error will occur if the subgroups are selected at different rates.</p>	<p><i>Disadvantage:</i></p> <p>A biased estimate can result if the list has a monotonic trend.</p>	<p><i>Disadvantage:</i></p> <p>Results are difficult to compare and interpret, thus leading to lower statistical efficiency.</p>

Source: (Adapted from Wiid & Diggins, 2013; Wegner, 2007 and Cooper & Schindler, 2008).

In order to identify the support institutions that should be included in the study, the probability sampling technique, namely judgement sampling, was implemented. This is due to the fact that there are numerous support institutions in Bloemfontein and conducting two hour, face-to-face interviews with all of these institutions would be very time-consuming and costly. Furthermore, this is an exploratory study and therefore large samples are not necessary. The researcher acknowledges the fact that another researcher might have selected different support institutions, but states the following reasons as motivation for implementing judgement sampling:

Firstly, the three support institutions included in this study, IDC, Business Partners and the NEF, share aspects of their evaluation process that are very similar, although significant differences in specific areas were also highlighted in chapter 2. For example, the main preliminary evaluation criteria differ significantly between these three institutions. The IDC is a purely Government subsidised institution, with a strong focus on industrial development. Business Partners is a privately owned institution and has therefore developed primary evaluation criteria on their own terms, which regularly focuses on the ability of the entrepreneur to repay loans. The NEF on the other hand, is a Government institution with very strong BB-BEE focus in terms of the initial evaluation criteria as only black individuals between a specified age bracket are allowed to apply for funding.

The focus of these three institutions in their initial evaluation differs significantly, although the rest of the evaluation process boasts great similarities. It was therefore the researcher's intention to investigate the extent to which the differences in the initial criteria of the institutions impact on the later stages of evaluation.

5.4.3 Sample size

A sample is defined as a group of cases, participants, or records that consist of a portion of the target population, which are carefully selected in order to represent that population (Cooper & Schindler, 2008). According to Wiid and Diggins (2013) "deciding which sample size to use is often a case of judgement rather than calculation. The researcher must choose a sample that is big enough to yield a relatively precise estimate of the population values, but at the same time be executed economically and practically".

In this study the three target populations were the support institutions in Bloemfontein, the entrepreneurs who had successfully started an entrepreneurial venture in Bloemfontein

which had been operational for a maximum of five years and the individuals who had applied for funding at the specified support institutions since January 2014 – December 2014.

The sample for the first part of this study, conducting interviews with the individuals who are responsible for the evaluation of applications at the support institutions, was drawn from the information presented in table 5.15.

Table 5.15: The Departments and sub-departments of Government’s main agencies.

	Sub-department	Services	Target Market
Department of Trade and Industry (the dti)	<p>Small Enterprise Development Agency (SEDA) was formed in 2004 when the following three organisations merged:</p> <ol style="list-style-type: none"> 1) Ntsika 2) National Manufacturing Advisory Centre (NAMAC) 3) Community Public Private Partnership Program (CPPP) <p>Provides business development and support services for small enterprises through its national network in partnership with other role players in the small enterprise support. Also implements programmes targeted at business development in areas prioritised by the Government.</p>		
	Ntsika Enterprise Promotion Agency	<ol style="list-style-type: none"> 1) Non-financial support such as mentoring programmes, business advice, help with government tenders and technology support to small enterprise, through: 2) Local business centres (LBSC) 3) Tender advice centres (TACs) 	<p>Survivalist, micro and very small enterprises Start-up businesses, targeting unemployed, women and youth</p>
	NAMAC	<p>Two key programmes:</p> <ol style="list-style-type: none"> 1) Manufacturing advisory centers (MAC), providing support for small scale manufacturing businesses 2) Business Referral and Information Network (BRAIN) – information and a help line 	<p>The MACs are mainly for small and medium, more formal businesses BRAIN for the entire spectrum of SMMEs</p>

	<p>Community Public Private Partnership Program (CPPP)</p>	<p>This program combines the Sector Development and Cooperative Program with the CPPP Program in order to provide leadership in the establishment and growth of viable, sustainable cooperatives and collectively owned enterprises in various sectors, thus facilitating successful participation in the economy.</p>	<p>This program supports non-traditional enterprise organisational forms with a special focus on rural areas and the use of local resources.</p>
	<p style="text-align: center;">Technology Program (Stp)</p> <p style="text-align: center;">In 2006 Technology Program (Stp) was formed when the GODISA Trust and the Technology Programs integrated into</p>		
	<p>National Small Business Advisory Council (NSBAC)</p>	<p>NSBAC acts as an advisory body to the Minister of Trade and Industry on strategies to address matter pertaining to the promotion of small business in the country.</p>	<p>All relevant role players who can inform the council are consulted; however the council exists to serve the Minister of Trade and Industry.</p>
	<p>National Empowerment Fund (NEF)</p>	<p>Funded by government, provides funding for black empowerment ventures</p>	<p>Black-owned and empowered businesses Large, but also small and medium enterprises</p>
	<p>Centre for Small Business Promotion</p>	<p>1) Responsible for policy and coordination of support programmes for SMMEs. 2) Mobilises funds and supervisors the establishment of new institutions</p>	<p>The Centre for Small Business Promotion was established to focus on policies as well as to aid entrepreneurs</p>

Department of Economic Development (DED)	<p>The Small Enterprise Finance Agency (SOC) Ltd, commonly known as SEFA SEFA was established in 2012 as a result of the merger of SA Micro Apex Fund, Khula Enterprise Finance Ltd and the small business activities of the IDC.</p>		
	<p>SA Micro-finance Apex Fund (Samaf)</p>	<ol style="list-style-type: none"> 1) Micro loans and support to the social capital mobilisation 2) Affordable access to funding 3) Grow the income and asset base of micro, small and survivalist businesses 4) Reduce poverty and unemployment 5) Extend financial services to reach deeper and broader into the rural and peri-urban areas 6) Provides micro-finance to financial intermediaries and MFIs 7) Loans can be used for paying school fees, medical fees and improvements to the household 	<p>Micro, small and survivalist businesses</p>
	<p>Khula</p>	<ol style="list-style-type: none"> 1) Funding for retail financial institutions (RFI) 2) Credit guarantee scheme 3) Equity capital 4) Gearing capital for public and private sector funds targeting small enterprises in specific sectors 5) Micro credit in rural areas 	<p>Mainly targets very small, small and medium enterprises</p> <p>Two small programmes for the survivalist and micro sector</p>
<p>Industrial Development Corporation (IDC)</p>	<p>Supports and funds various industrial development programmes</p>	<p>Predominantly large scale projects, but some small to medium enterprises.</p> <p>Specific BEE mandate</p>	

Department of Science and Technology	Technology Innovation Agency (TIA)	Supports the development and commercialisation of competitive technology-based services and products	TIA invests in the following sectors: Advanced manufacturing, Agriculture, Industrial Biotechnology, Health, Mining, Energy and ICT. Their services are available to Science councils, public entities, higher education, private research institutions and entrepreneurs
Department of Agriculture	Micro-Agricultural Financial Institute of South Africa (Mafisa)	Run existing agricultural businesses, start new ones and to be able to develop these into fully commercial operations	The working poor Very small and micro level farmers, farm workers, farm tenants, small holders, landless emerging farmers and processes
The Presidency	National Youth Development Agency (NYDA)	1) Assist the youth with career skills and to help start their own businesses 2) Funds training and provides loans	Youth

The first agency listed in table 5.15 is, which constitutes three sub-categories as several organisations merged. The institution is not a financing institution, as and their affiliates (Ntsika, NAMAC and Community Public Private Partnership Program) only provide support services in terms of business development for small enterprises through a national network of partners (NSBAC, 2014). For this reason was not included in this study, as the aim of the current research is to determine the evaluation process when individuals apply for funding at government support institutions and not solely for support.

The next institution seen in table 5.15 is the National Small Business Advisory Council (NSBAC). However, this institution exists exclusively as an advisory body to the Minister of Trade and Industry with the primary focus of promoting small business in the country. Regardless of their interaction with small businesses in order to make recommendations to the Minister of Trade and Industry, this institution does not exist to directly support the entrepreneurs, and therefore it was not included in the study.

The first Government support institution that was included in this study is the National Empowerment Fund (NEF). The reason for this is that this venture has a very specific target market, namely young, black entrepreneurs and this is the major initial criteria to adhere to. This criterion in other words does not relate to the quality of the idea, the income earning potential or the amount of jobs that can be created. Due to this very prominent qualifying criterion, which is based exclusively on the enablement of young, black individuals, this institution was included in the study. The NEF funds a wide variety of sectors (please see page 96, chapter 2) and can therefore give a broad overview.

Although the Centre for Small Business Promotion does provide affordable funding to individuals, this funding may also be applied to pay school fees, medical fees and/ or improvements to the household. For this reason the Centre for Small Business Promotion was not included in the study.

Khula is a Government institution that provides funding to micro, small and medium enterprises, however, they specifically focus on retail financial institutions. Thus this institution automatically excludes the agri-cultural and manufacturing industries, to name a few. Because of the narrow focus of Khula, this institution was not included in the study.

The Industrial Development Corporation (IDC) supports and funds various sectors, as can be seen in the fact that they have thirteen strategic business units, focusing on thirteen different sectors. Due to the fact that it has been in existence for a vast number of years and funds an exceptionally wide variety of sectors, with no initial criteria in terms of race or age that applicants must adhere to in order to qualify for the evaluation process, the IDC was therefore included in this study.

The Technology Innovation Agency (TIA) is an institution formed with a specific focus on funding and supporting competitive technology-based services and products. Again, this institution delineates their target market to such an extent that a large amount of potential

entrepreneurs with products or services that are not grounded in advanced technology do not qualify to apply for funding at this institution. This is cited as the reason for not including this institution in the current research.

The Micro-Agricultural Financial Institute of SA (Mafisa), starts and runs agricultural businesses in order to develop these into fully commercial operations. This demarcation of including only agricultural businesses in its funding portfolio is again the factors that lead to the omission of this institution in the current study.

Lastly the National Youth Development Agency (NYDA) assists all youth with developing their career skills in order to start their own businesses and additionally funds the training of these youths and provides loans. When comparing NYDA to the NEF it is seen that both of these institutions have a strong focus on the youth of SA as an initial constraint to application, however the NEF has an additional constraint, namely that only a specified race can apply for funding. Due to the fact that the NEF base their primary evaluation on criteria that are not related to an entrepreneurial venture, but rather to the demographics of the entrepreneur (in terms of age and race) this institution was included in the study rather than NYDA.

As can be seen from the discussion, the researcher implemented a non-probability sampling method, namely judgement sampling, as personal judgement alone was used to choose respondents. In an attempt to minimise bias due to the unrepresentative nature of the sample with regards to the population from which it was drawn, the researcher established specific criteria which each unit that was included into the study had to adhere to.

Firstly, one of the government institutions included in the study must have a broad variety of sectors which they fund, with no preliminary evaluation criteria in terms of race and/or age. The IDC was identified to meet this requirement. Secondly, a government institution who does implement preliminary evaluation criteria in terms of race and age had to be included in this study and therefore the NEF was approached. The motivation for this specification is due to the fact that the researcher wanted to determine if inferences could be made between these institutions, where initial criteria is prominent versus not. Lastly, the researcher included a non-governmental institution, namely Business Partners as this institution does not have to comply with the funding brackets determined by the Government and they can set their own parameters. Furthermore, this institution is not limited or guided at all by Government opinion on which individuals may apply for funding or not, as they focus solely on the idea presented and not the demographics of the entrepreneurs. Lastly, the process

implemented in Business Partners is based solely on their beliefs, research and experience and is not guided by Government strategies or procedures at all.

The second research phase of this study was marked with the distribution of questionnaires to the entrepreneurs who have successfully started their own entrepreneurial ventures (with or without funding received from the support institutions), providing that these ventures have not existed for more than five years. A list of all of the entrepreneurial ventures in the Mangaung area (Van Zyl, Hegazy and Christensen, 2014) was used to determine the entire population and 8969 businesses were listed on this report. In order to get to a sample for this study, the researcher implemented probability sampling as systematic sampling was applied. A random start was identified at the beginning and from there subsequent sampling units were selected at uniform intervals relative to the first sampling unit. In this instance, every 50th element in the population was contacted. This list used to determine the entire population of the study included franchises, large organisations and entrepreneurial ventures. The large organisations and franchises were omitted from this study from the start. Consequently the first step was for the fieldworkers of this study to telephone the entrepreneurs identified and then determine whether the specific venture qualified to be included in the study by asking a qualifying question. For the ventures to be included in the study, they had to be operational for a maximum of five years. All of the ventures that had been operational for more than five years were excluded from the study and the next business listed was contacted. The aim of the telephone conversation was to set up an appointment to complete a structured questionnaire in a face to face setting with the trained fieldworkers. Due to the cost implications of paying the fieldworkers, the sample size was limited to 116 completed questionnaires and it took approximately two hours to complete a questionnaire.

The third phase of this study consisted of focus groups with individuals who had applied for funding at either the IDC, Business Partners or NEF. The researcher obtained a client list from each of these institutions from January 2014 to June 2014. All of the individuals who had had any form of interaction with the institutions, regardless of whether the funding was approved or not, were identified on these lists. Again systematic sampling was implemented in order to derive the sample included in this study. From each of these lists every fifth person was phoned in order to invite them to a focus group discussion on the process implemented by the support institution they approached.

Two focus groups with eight individuals in each were conducted in order to further investigate the research problem. For each focus group the exact same procedure was implemented and the same problem statement was noted.

At the start of each of the focus groups the individuals present were given a broad problem statement which was noted as: *“Support institutions have access to a lot of money. However, very few entrepreneurs are able to meet all of the requirements which these institutions have during the application process in order to obtain funding for their ventures. Additionally, many of the entrepreneurs who do receive funding cannot keep their businesses successfully in the market due to a lack of support and a challenging environment. It is thus vital to investigate what factors have a negative impact on venture establishment and sustainability and to make recommendations to these institutions on these aspects.”*

Hereafter the participants were asked to write as many thoughts, ideas, recommendations, complaints and positive aspects in terms of the problem statement down as they could on a piece of paper. This was done on an individual basis as the group discussion would ensue hereafter. Once the respondents indicated that they had written down as many ideas as they could think of, the researcher asked some additional questions to further encourage their inputs. These questions were:

- What are the positive aspects surrounding the commercialisation of innovation?
- What are the negative aspects surrounding the commercialisation of innovation?
- What are the reasons why innovators experience difficulty with certain aspects of the commercialisation process?
- What are the reasons why innovators experience successes with certain aspects of the commercialisation process?
- What are your perceptions of/ experience with the various support institutions?

Again the respondents were given the opportunity to write down as many ideas as possible on an individual basis. Once this was completed the respondents went to put up all of their ideas on a wall in the venue. This was done without any discussion. Once all of the thoughts, ideas, recommendations, complaints and positive aspects were on the wall, the respondents were asked to group similar concepts together, i.e. if one respondent wrote access to funding and another lack of funding on separate pages, these two similar concepts were put together. After all of the pages on the walls had been grouped, the respondents were asked to give each group a heading. The example of access to funding and another lack of funding were labelled “Funding”. Hereafter the respondents were asked to put each of these groups

in order of the most limiting factor to entrepreneurship to the least limiting fact on entrepreneurship.

The headings that emerged from the focus groups, in order from most significant to least significant impacting factor, are:

- 1) Funding
- 2) Access to markets
- 3) Process
- 4) Lack of information
- 5) Mentorship
- 6) Corruption (ethical behaviour)
- 7) Entrepreneur and entrepreneurial team
- 8) Support institution employees
- 9) Regulatory aspects

In other words, the Interactive Qualitative Approach (IQA) was implemented as it is a structured, systems approach to qualitative research. By collecting information from both individuals and groups with experience that relates to the specific phenomena being studied, the researcher is enabled to find meaning in multiple perspectives, as created by the different participants. Researchers who implement the Interactive Qualitative Approach to research focus primarily on the lived experiences of the respondents. This underscores the importance of selecting the right respondents to participate in the study. For the purposes of this study, all of the individuals who participated in the focus groups have applied for funding at the various support institutions that are included in this study and thus they have direct and applicable knowledge of the aspects that were investigated. This approach provides tools and processes to analyse the information collected in focus groups and individual interviews and the process and methods are clearly defined and allow for a measure of rigor and replicability. The issue of rigor is addressed through IQA by means of a distinct approach to data collection and analysis. This approach is “public and not idiosyncratic, replicable in reasonable bounds and does not depend (especially for analysis) on the nature of the elements themselves” (Norvell, 2004). Thus this approach enables the researcher to make sense of the identified phenomena through a process that is guided by rigorous and replicable rules. Accordingly, meaning can be constructed through the participants own interpretation of the phenomena.

In the IQA approach the data generated is analysed through coding in three recursive steps; clarification, clustering and refining and both induction and deduction are used in the process of coding. A key aspect of this process is to identify themes, where-after the identified affinities can be thematically organised groupings. Through a process of inductive coding affinities are identified, the researcher then uses axial coding processes to refine and reorganise describing the range of meaning for each affinity.

‘The purpose of IQA is to draw a picture of the system (System Influence diagram or SID) that represents the perceptual terrain or mind map of a group with respect to a phenomenon represented by the issue statement’ (Northcutt & McCoy 2004). The SID is constructed using a system of theoretical codes which captures the cause and effect relationships amongst the affinities – the information is captured in an Interrelationship Diagram (IRD). This diagram is generated with inputs from the focal group through a process of building hypotheses linking possible pairs of affinities. The IQA approach provides the focus group with a formal methodology to measure whether there is direct possible influence between all pairs of affinities identified in the group sessions. Focus group members are asked to provide examples of the relationships between affinities to ‘ground’ the data in their experiences. This record of reasoning or audit trail is captured in an Affinity Relationship Table (ART). The process of feedback is based on an “if” (as the cause, independent variable) and “then” (which is the effect, dependent variable) which is a hypothetical construction. Individuals are interviewed in a process that runs parallel to this and makes the picture richer and more robust. This individual interview process relies on the information from the focus group that will guide the development of the interview protocol.

In order to improve or ensure reliability, focus will fall on synchronic reliability. This refers to the extent to which observations from different sources (the different support institutions in which the study will run concurrently) are similar within a specified time period (Berg 2007).

5.5 Data collection

This section will discuss the preparations before data collection as well as the ethical considerations.

5.5.1 Preparations before data collection

The preparations that were in place before any data was collected are indicated in table 5.16 below.

Table 5.16: Preparations made before the collection of the data.

Qualitative: Interviews	Quantitative: Questionnaires	Qualitative: Focus groups
<p>The content of the interview schedule was sent for peer reviewing, thus validating the aspects inquired about.</p>	<p>Respondents were contacted telephonically in order to ensure that the venture fitted the requirements i.e. which is that the venture must have been in existence for a maximum of five years and is not a franchise.</p>	<p>The individuals who formed part of the focus groups were contacted telephonically in order to confirm the time, date and venue of the focus groups. Hereafter each respondent received an email in which the telephonic discussion was summarised, again specifying all the relevant information regarding the focus groups.</p>
<p>Contact was made with the individuals who are responsible for the evaluation of the business plans in order to set up an initial meeting to discuss the goal and implication of the study, thus obtaining permission to conduct the study within the parameters of the specific institution. Consequently the interviewees were thoroughly briefed on what to expect in the interview. This appointment concluded by scheduling a follow-up appointment with the individual in order to arrange the interview.</p>	<p>Appointments were scheduled by the trained fieldworkers in order to complete the questionnaires face-to-face with the entrepreneurs.</p>	<p>Each focus group took approximately four hours to conduct in order to allow enough time to solicit all the opinions of the group and to discuss any issues that might arise.</p>

Qualitative: Interviews	Quantitative: Questionnaires	Qualitative: Focus groups
A face-to-face, structured interview was conducted and the individuals present were the representative from the specific institution, the researcher as well as the study leader of the researcher.	Each of the fieldworkers had a cover letter stating that the information obtained is considered confidential and would only be used for the purpose of this study.	For each of the two focus groups the eight respondents as well as the researcher and the study leader were present. This ensured that all the data obtained was accurately captured.
All of the interviews, which took approximately two hours to complete, were recorded with the permission of the interviewees in order to ensure that none of the information would be lost.	Each questionnaire took about 1 hour and 30 minutes to complete and the fieldworkers were expected to stay with the respondent in order to answer any questions that might arise.	The respondents in the focus groups were not guided, helped or influenced by the researcher at all. A very broad research question was stated and from there on out, the respondents had to do all of the work by themselves, although they were allowed to continuously ask questions.

5.5.2 Ethical considerations

Research should be guided by ethics, as ultimately the main goal of research is to promote human welfare, as well as the enhancement of the worth, dignity, potential and uniqueness of each individual in order to serve society (Makore-Rukuni, 2001). Cooper and Schindler (2008) adds to this definition by stating that each study should be designed in such a way that no participant will suffer physical harm, discomfort, pain, embarrassment, or loss of privacy.

The researcher aims to address any ethical issues by ensuring that:

- The participants will give their informed consent to partake in this research study.
- This study, although in no way advancing the respondents, will also not harm them
- The respondents will be assured of anonymity and confidentiality at all times.

5.6 *Data analysis*

After the raw data has been captured it is essential to turn it data into information. This can only be achieved by analysis. Data analysis refers to the process of scrutinising, cleaning, transfiguring, and modeling data, with the aim of ascertaining useful information, suggesting possible conclusions and recommendations using statistical techniques. Data analysis also includes the interpretation of research findings in accordance with the research questions, to determine if the results are in line with the research hypotheses and prior theories and concepts. Additionally Cooper and Schindler (2008) state that data analysis is the process of reducing all the accumulated data into a manageable size where-after summaries can be developed and patterns can be identified and once this is achieved, statistical techniques can be applied. The findings obtained must then be interpreted with the research questions and establish whether the findings are in line with the stated theory. Following this, the researcher can make recommendations based on the interpretation of the data. The appropriate statistical method to implement in a study will be influenced by the type of data available and the purpose of the problem that the researcher aims to address (Wegner, 2007). Certain types of data allow for specific types of statistical methods and the incorrect choice of statistical method will have an impact on the validity of research findings.

Generally, statistical software such as Statistical Package for the Social Science (SPSS), SAS, PSPP, and Stata are usually used to analyse the data collected. The results are then interpreted using descriptive statistics. Examples of descriptive statistics tools include percentages, frequency distribution tables, histograms, and charts.

5.6.1 Descriptive statistics

In order to present the data obtained in Phase 2 of this research study (the quantitative phase where the themes that were identified in the qualitative phase of this study was tested amongst entrepreneurs who currently own a new venture) descriptive statistics were used. Descriptive statistics allow the researcher to describe each variable in the data gathered through frequencies, ranges, means, modes, medians and standard deviations (Quinlan, 2011).

However, the procedures implemented in a study are dependent on whether a study contains categorical or continuous variables. In order to provide descriptive statistics for categorical variables, researchers should implement frequencies as this will enable a

researcher to identify how many people gave each response. For continuous variables, descriptives such as means and ranges provide researchers with the basic summary statistics of a study (Pallant, 2013). For the purposes of this study, the frequencies, means and ranges of the data obtained will be identified. Frequencies indicate the way in which the variable is distributed by condensing information into a simple format. The mean refers to the arithmetic average where all the values are added up and divided by the total number of values. The range indicates the minimum and maximum values in a range of data (Quinlan 2011). Hereafter an accurate summary of the quantitative data gathered can be presented in an attempt to support the qualitative data obtained in phase 1 of this study.

5.7 Summary

The purpose of this chapter is to clearly illustrate the methodology implemented in this study. Since three research phases were implemented it is vital to note that various research designs were used. This study is a sequential- exploratory, dominant QUALITATIVE - quantitative research design. The purpose of an exploratory mixed methods design is to “first gather qualitative data to explore a phenomenon, and then collecting quantitative data to explain relationships found in the qualitative data. A popular application of this design is to explore a phenomenon, identify themes, design an instrument, and subsequently use it”.

The type of research conducted was exploratory research as it was the first stage of a project and guides the study in terms of the early stages of theory development. This type of research is commonly used when new knowledge is sought or certain behaviour and the causes for the presentation of symptoms, actions, or events need discovering. It asks both “what” and “why” questions and sets out using a variety of methods, to discover whether what is in a question is true or not. Cooper and Schindler (2008) also point out that exploratory research is appropriate for the total study in topic areas where the developed data is limited. The objective of exploration is the development of hypothesis, not testing.

A short overview of the research design, primary data collection method, sampling design as well as data analysis of each phase will be given in table 5.17.

Table 5.17: Overview of the three methodological phases of the study.

	Phase 1: Qualitative: interviews (institutions)	Phase 2: Quantitative: surveys (entrepreneurs)	Phase 3: Qualitative: focus groups (applicants)
Research design	Qualitative	Quantitative	Qualitative
Primary data collection method	Personal interviews	Surveys: Personal interviews have face-to-face contact with a respondent during which a questionnaire is completed.	Focus groups
Sampling design	Judgement sampling	Systematic sampling	Systematic sampling
Data analysis	Interactive Qualitative Analysis	Descriptive	Interactive Qualitative Analysis

Chapter 6 Data analysis

6.1 Introduction

Chapter 5 gave a detailed overview of the methodology implemented in this research study. In this overview the purpose of the research as well as the business research process was discussed. The purpose of chapter 6 is to present and interpret the empirical findings of this study in order to address the research objectives of this study as stated in chapter 1.

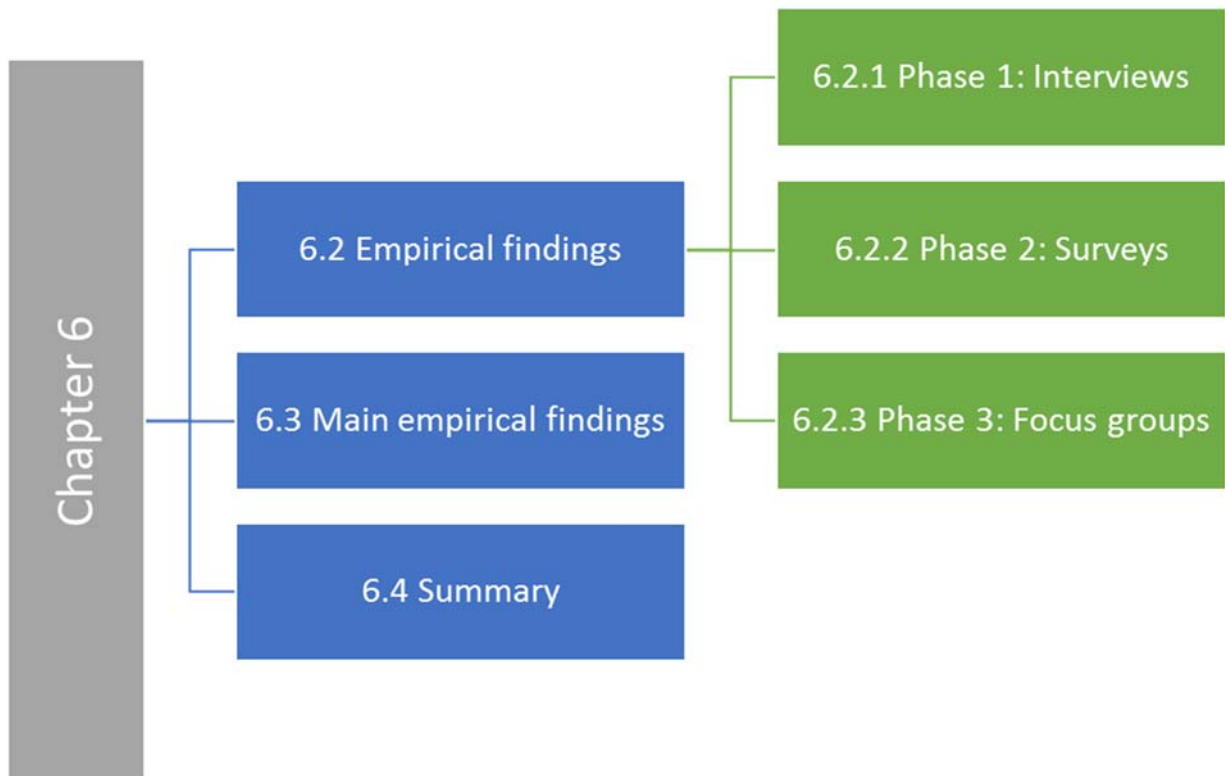
The chapter commences with the empirical findings derived from phase 1, namely the interviews conducted with the individuals responsible for the evaluation of the business plans received at each of the identified support institutions. The qualitative data obtained from the interviews were analysed in 7 steps namely transcription, coding, themes, labelling and describing themes, results and the discussion.

The next phase, phase 2, marks the analysis of the data obtained from the surveys conducted under entrepreneurs who are currently (with a maximum of 5 years in operation) successful business owners. In this section data is presented using percentages and descriptive statistics tables.

During the last phase, phase 3, the data obtained from the focus groups were analysed and transcribed into nine core categories. During each of the stated phases the research objectives that were answered will be highlighted, where after this chapter is concluded with an integration of the data obtained through the various phases of the study.

Figure 6.1 offers a summary of the layout of all of the aspects that will be covered in chapter 6.

Figure 6.1: Summary of the chapter layout.



6.2 Empirical findings

This section presents the empirical results of this study and is divided into three sections in order to represent each phase of this research study, namely Interviews, Surveys and Focus groups as referred to in the introduction (6.1) of this chapter.

6.2.1 Phase 1: Interviews

The first step of the data gathering consisted of conducting face to face, structured interviews with the individuals responsible for the evaluation of the business plans received at each of the identified support institutions. These institutions are Industrial Development Corporation (IDC), Business Partners Limited and the National Empowerment Fund (NEF). In order to ensure anonymity of these institutions, they will henceforth be referred to as institution A, B and C, in no particular order. During these interviews each interviewee were asked the same questions in the same sequence, however when the researcher needed to gain a better understanding of certain answers or statements, some follow-up questions were asked which were not necessarily posed to all the interviewees. These interviews were

recorded with the consent of the individuals participating in the interview and each interview took approximately 2 hours to complete.

These interviews were conducted in order to gain a thorough understanding of the process which each of these institutions implement from the initial application of entrepreneurs to the ultimate approval or disapproval of the application as well as the amount of applications that each institution receives and the success rate of each of these institutions in terms of loan approval. Moreover the evaluation process itself was scrutinised in terms of the evaluating criteria, the training level of the individuals responsible for the evaluation as well as the conformity of the evaluations. An in-depth understanding of all of the important aspects considering the business plans submitted was also gained through the interviews. Hereafter, several questions were stated to determine the availability of mentorship for applicants at each of these institutions and the possible effect mentorship could have on the success rate of the institutions.

Lastly the researcher tested the principle of the phase-oriented process as argued in this thesis. The definition of each of the phases in the phase-oriented process, i.e. Feasibility, Viability and Sustainability, were stated initially and the interviewees had to indicate whether they determined the feasibility, viability and sustainability of every application received, according to the definition as stated by the interviewer. Hereafter the various steps/ aspects that form part of every phase in the phase-oriented process were presented to the interviewees upon which the interviewees had to indicate whether they expected their applicants to complete this aspect/ step; to identify the importance of every aspect/ step in the evaluation of the application and to specify whether they found that the typical applicant struggles with the completion of each specific aspect/ step or not. Lastly, the interviewees were presented with the diagrammatic illustration of the argued phase-oriented process in order to determine to what extent these interviewees agreed with the flow, and reasoning behind this process. In appendix H the questions posed to the individuals during the interviews are noted.

Once all the interviews were conducted and all of the data had been collected, the researcher implemented the following steps in order to analyse the qualitative data obtained from the interviews: 1) Transcription, 2) Coding, 3) Themes, 4) Label and Describe themes, 6) Results and 7) Discussion. Each of these steps will now be discussed.

a) Transcription

Transcribing the data refers to the process of writing a summary of the recorded interview. In other words, all of the information obtained in the various interviews is recorded on paper. The transcription process is and can take up to four times as long as it took to conduct the actual interview (Lacey & Luff 2009). Transcribing the data of this study took approximately 6 hours per interview. The fact that the researcher made notes as the interview progressed ensured that the key points were already noted and the recording was consulted to ensure that all the necessary and relevant words or replies have been captured. This significantly diminished the amount of time needed to transcribe the interviews. Additionally, the researcher ensured that the transcription of each interview was conducted immediately after the interview was held. This ensured that the researcher was still immersed in the information obtained and contributed to the accuracy of the transcription. As the researcher listened to the recording of the interviews, additional notes were made and relevant sections, words, or statements were labelled. This process of labelling concepts or differences in the interview data is referred to as “coding” (Löfgren, 2013). The researcher was now thoroughly familiarised with the data obtained.

b) Coding

Researchers may code any sentence, words or reactions which are repeated in the various interviews, which surprise the interviewer, are explicitly stated by the interviewee or have been identified in academic literature review. The main aim of the coding process is to conceptualise the underlying patterns which emerge in the data. Hereafter the codes that are most important are identified and categories or themes are created. Categories or themes are similar statements or concepts that are grouped together to form a uniform entity, however researchers do not have to use all the codes that were identified in the transcribing process (Löfgren, 2013). Several codes emerged from the transcription process of this study and due to the fact that the data obtained was largely consistent between the three interviews conducted, the main questions of the interviews served as the codes of this study (the interview schedule is available at appendix H). Once the codes that are similar or connected have been identified, they were grouped into themes. From here the researcher progressed to labelling the codes identified.

c) Label and describe

During this step the various themes identified from the interviews conducted in this study were labelled. Once these themes are labelled the researcher must decide which theme is the most relevant and how the identified themes connect to each other. This connection between the themes identified will become the main results of the study as new knowledge of the world has emerged from the perspective of the participants of the study. The results obtained from the interviews were summarised and analysed where-after four key themes related to the specific institutions emerged. These four themes are:

1) The process implemented by the support institutions in order to evaluate applications. Core aspects such as the length of the process, the amount of individuals involved in the process, and the cost implication hereof were identified in this theme.

2) The second theme that emerged was on the issue of mentorship where it was determined that mentorship is only available prior to business start-up in rare cases. The majority of mentorship is provided only once restructuring or turn-around is needed for an established venture.

3) Thirdly the key issue of business plans emerged. The paramount issue that arose in this theme is the fact that although all institutions require a business plan from applicants, this is not the primary evaluation tool as the entrepreneur and the entrepreneurial team is the core focus. Additionally, it became evident that all of the institutions completely re-write the business plans received in order to conduct their own analysis and projections so as to ensure accuracy.

4) The fourth themes centre on the entrepreneur and the entrepreneurial team. All of the interviewees indicated that the entrepreneur and the entrepreneurial team are the key focus of their evaluation. The charisma, honesty, openness, knowledge and experience of the entrepreneurs and their teams are some of the characteristics that were highlighted. Moreover the interviewees pointed out that entrepreneurs typically have sufficient technical knowledge of their ventures, yet lack business related knowledge. Additionally, the suggested phase-oriented process was also presented to the interviewees and the feedback solicited on this formed the fifth theme; namely,

5) The phase-oriented process.

There was complete agreement between the institutions that the phase-oriented process is a comprehensive, well-structured, encompassing method in which all the relevant evaluation milestones are organised systematically which will certainly enhance the evaluation process. Furthermore, the continuous involvement of the entrepreneur enables constant interaction with the institution and early detection of errors is achieved. Lastly the interviewees indicated

that they believe mentorship will definitely enhance the quality of applications and their success rate. The themes as well as the codes that constitute each of these themes are noted in table 6.1.

d) Results and discussion

Hereafter, the themes must be described and key aspects to be addressed include identifying which of these themes is the most important and how do these themes connect to each other. The description of the connection between the themes identified offers the main results of the study. Additionally any possible hierarchies amongst these themes should be identified in order to illustrate whether one theme is more important than another. These results are often summarised with a figure. For the purpose of this study several intricate relationships were found in these five themes which are illustrated in figure 6.1 below. A discussion of table 6.1 will ensue after the table.

Table 6.1: Themes identified from the interviews

PROCESS	MENTORSHIP	BUSINESS PLAN	ENTREPRENEUR AND TEAM	PHASED PROCESS
Long process (approx. 6 months) although the institutions claim it takes 3 months	None of the institutions provide mentorship during the process (high potential ventures only)	All applicants must submit a business plan	Central to evaluation “We’d rather fund a mediocre plan with a great entrepreneur, as we are actually funding the entrepreneur”	Sequence of the phased process is correct
Involves various individuals, all with different opinions	Entrepreneurs can gain access to private consultants through the institutions to help develop the business plan, although the entrepreneur must pay the consultant.	Key components in every section of the business plan guide the evaluation, not the entire document.	Interaction with entrepreneur helps to determine commitment (limited interaction though)	All the important elements are captured in the process and all the elements noted in the phase orientated process is also included in the current process
Due diligence is a long and costly process (no guarantees of acceptance after) but implemented to validate the business proposal	Post-investment mentorship for 3 months	Key aspects include market size and growth potential as this will ultimately determine the achievable profit. Furthermore entrepreneurs must illustrate that they have knowledge of the industry and this business can work	Most entrepreneurs have the technical knowledge, but struggle to write business plans and especially with the financial aspects	Involvement of the entrepreneur throughout this phased process is vital

PROCESS	MENTORSHIP	BUSINESS PLAN	ENTREPRENEUR AND TEAM	PHASED PROCESS
Guidelines/ basic template established to guide evaluation	Restructuring mentorship for struggling ventures	Consistency and transparency throughout the business plan is of paramount importance	Entrepreneurs must illustrate knowledge, charisma, experience, honesty and openness.	Time saving
Short training offered for evaluators, although experience is vital	All agree that mentorship during the process will increase the rate of successful applications	Business plans take long to evaluate when an institution serves many industries and doesn't have expertise in each industry.	In the interaction with the due diligence team the entrepreneurs must be able to answer questions regarding the business plan.	Early detection of errors that can either lead to early elimination (and time and cost savings) or early and small corrections
Most applicants fall out when more info is required (they do not have access to the info), when they cannot provide surety or when the due diligence team investigates the venture	Industry specific and relevant knowledge of the mentors is key.	It is not difficult, when the guidelines of the institution are followed, for someone with a trained eye to evaluate a business plan and. Additionally these institutions have internal networks which give them access to industry experts who can help with the evaluation.		Shorten the process and will reduce the costs

PROCESS	MENTORSHIP	BUSINESS PLAN	ENTREPRENEUR AND TEAM	PHASED PROCESS
<p>Low success rates (plans to improve include better marketing, capacity building and collaboration between institutions)</p>		<p>The business plan is not the most important evaluation tool – the entrepreneur is key (soft issues are included in the evaluation)</p>		<p>Will increase productivity</p>
<p>Action plans to increase the success rate include: Better marketing to attract better applications; Excluding micro- and start-up ventures from the portfolio; Conducting capacity building; Collaboration with other institutions; Providing support to the entrepreneurs.</p>		<p>Institutions re-writes the business plan completely to fit into their framework</p>		<p>Structured and preventative</p>

PROCESS	MENTORSHIP	BUSINESS PLAN	ENTREPRENEUR AND TEAM	PHASED PROCESS
<p>Currently these institutions receive approximately 90 – 150 applications per year of which merely 9 – 24 are approved on a yearly basis.</p>		<p>Institutions do their own projections – validates all aspects of the information provided by the entrepreneur</p>		<p>When the phase-oriented process was mentioned, one interviewee commented: “You cannot separate everything; the phases will take longer to conduct as we do not have the capacity to go back and forth through the process. We lack the manpower to dissect every business on this phase-oriented approach and face time constraints.”</p>
		<p>Entrepreneurs must demonstrate an understanding of their business and the environment in which it will operate, therefore they have to write a business plan</p>		<p>Once the phase-oriented process was explained in detail, the same interviewee responded with the following: ““You completely changed my mind. We need that model! We are already doing everything that is mentioned in the phase orientated process, this is just</p>

				organised and we can constantly monitor and go back and make small changes”
PROCESS	MENTORSHIP	BUSINESS PLAN	ENTREPRENEUR AND TEAM	PHASED PROCESS
		Due diligence team investigates all the information received		
		The typical entrepreneur struggle the most with the financial projections since they mostly have technical knowledge		

As can be seen from table 6.1, a large amount of vital information on the current evaluation processes which these support institutions implement is needed. Although a business plan is expected of all of the applicants, this is not the central evaluation tool and the institutions admit to the fact that most entrepreneurs are not skilled in developing a business plan and thus the institution re-writes all the business plans in their own format. This has severe capacity and time implications for any institution. Even more so, although an entire business plan is expected of the entrepreneurs, only certain key aspects are considered in the evaluation thereof.

Business planning demands a large amount of the entrepreneur's resources, regardless of whether it is time, money or information and while it is a very useful planning tool, it is widely criticised for being based on future facts (Brinckmann, Grichnik & Kapsa, 2010). When considering that there is no consensus in the literature regarding the value of business plans as well as the persistently high failure rates of new ventures and the fact that business plans do not have a direct link to venture success, it might suggest that the typical activities which support institutions require from entrepreneurs may be displaced from the true requirements for the successful establishment of new ventures (Gruber, 2007, Brinckmann, Grichnik & Kapsa, 2010, Davidsson & Honig, 2003).

Regardless of the debate on the link between business plans and new venture success, business plans in essence pose three essential benefits, namely that they serve as a tool to evaluate a market opportunity and the possibility of ultimate success, they validate the business opportunity and outline the approach the entrepreneur will implement to best exploit the opportunity (Chwolka & Raith, 2012, Delmara & Shaneb, 2004, Petty, Palich, Hoy & Longenecker, 2012).

Furthermore, the entrepreneur and entrepreneurial team are the core focus of the evaluation, yet the current evaluation process allows an absolute minimum interaction with the entrepreneurs and their teams as only applications that progress to the due diligence phase have the opportunity to interact in a meaningful manner with the institution. Due to the involved nature of establishing businesses there is ample literature available that argues the multifaceted, intricate process (Rasmussen, Mosey & Wright, 2011). In order to move from nascent entrepreneurship to creating value by means of a new venture, a multitude of competencies are required from the entrepreneur.

However, previous researchers experienced difficulties in aptly identifying the necessary skills and abilities for new venture creation as the entrepreneurial opportunities identified by various entrepreneurs are heterogeneous in nature. According to this perspective, every unique entrepreneurial case needed its own set of abilities (Rasmussen, Mosey & Wright, 2011). Contrastingly, recent research has argued that establishing a venture is not a process dependent on a specific set of resources, but rather on the ability of the entrepreneurs and their teams to use combinations of various resources – whether they are tangible or intangible resources (Rasmussen, Mosey & Wright, 2011).

Additionally, the ability to develop and maintain a competitive advantage in the constantly changing environment is seen as one of the key resources in venture establishment (Rasmussen, Mosey & Wright, 2011). In order for entrepreneurs to take proper advantage of the window of opportunity, and thus create a competitive advantage, they should enter the market with the right characteristics, as well as having a management team or the personal skills and resources that make it feasible to do so. Since one individual entrepreneur rarely possesses all the competencies necessary to successfully establish a venture, ventures are often established in teams. These teams are often regarded as individuals with different skills and competencies who interact dynamically throughout the start-up process (Rasmussen, Mosey & Wright, 2011).

The literature suggests that entrepreneurial teams have a significant impact on the performance, the effectiveness of entrepreneurial ventures, ultimately venture success and survival due to their diverse knowledge (Leary & De Vaughn, 2009). However, the issue of needing a diverse team with access to a multitude of skills and experience can also be addressed by establishing mentorship relationships. Mentors guide individuals in their decision making and actions with their accumulated knowledge and experience in the relevant industry.

The industry related knowledge is already available, whether it is encapsulated in the due diligence team or gained from internal networks, the institutions have access to industry experts who can guide prospective entrepreneurs through the industry they want to enter into. However, with regards to mentorship, interviews with the institutions uncovered that none of the institutions provide mentorship during the process of giving funding. Mentorship has been found to help entrepreneurs develop important business skills, support them in making important decisions, and also help them in creating useful business contacts. Studies by (Bhide, 2000; Kurtzman & Rifkin, 2005) reveal that business coaching and

mentoring offer entrepreneurs an introduction to other networks and professional services and thus provide opportunities for entrepreneurs that they might not have had without such help. Also, Crompton (2012) established in her study that firms and entrepreneurs who engage in business coaching reported that they derived practical benefits that culminated in real business financial performance.

Furthermore, this study found a linkage between the entrepreneurs' level of confidence, and business coaching and observed that business coaching is an antecedent to the entrepreneur's level of confidence (self-efficacy), which in turn is a non-direct influencer of a firm's performance and growth. Moreover, other studies by (Leedham, 2005; Leonard & Swap, 2005; Gibb, 2009) found that business coaching helps entrepreneurs to assess the performance of their businesses by ensuring entrepreneurs have a clear vision and strategy, with the setting of appropriate goals, objectives, and tasks to achieve outcomes, provide them with objective feedback, and also act as network facilitators. All these benefits from mentoring provide entrepreneurs with the necessary guidance for successful commercialisation of their products/services as this successful commercialisation is what translates to financial profitability and the growth and success of the business. As such, it can be argued that entrepreneurs who have access to mentoring are more likely to have a high success rate in the commercialisation of their products and services.

Lastly, the process currently implemented in the support institutions is a long and costly process that involves a variety of individuals. Nevertheless, the success rate of this current process remains very low, which has severe implications for the advancement of entrepreneurship and ultimately job creation. Individuals who manage to successfully apply for funding at these institutions can wait up to six months from the initial application to the final approval, which again has serious implications for the time to market which the entrepreneur can achieve. This becomes a critical issue because timeliness has been identified as a key role in commercialisation. Successful commercialisation needs critical timing as it will enable new businesses to take advantage of the windows of opportunity to gain a better position and have competitive advantages with regard to follower companies (García-Villaverde, & Ruiz-Ortega, 2011; Zahra & Bogner, 1999).

The timing of commercialisation also helps to determine the costs and the commercial profitability of the business (Lacetera, 2009). The main theme to consider is that which is based on the phase-oriented process, as this is what represents the focus of this study. Initially all of the interviewees were asked whether they agree with the definitions of

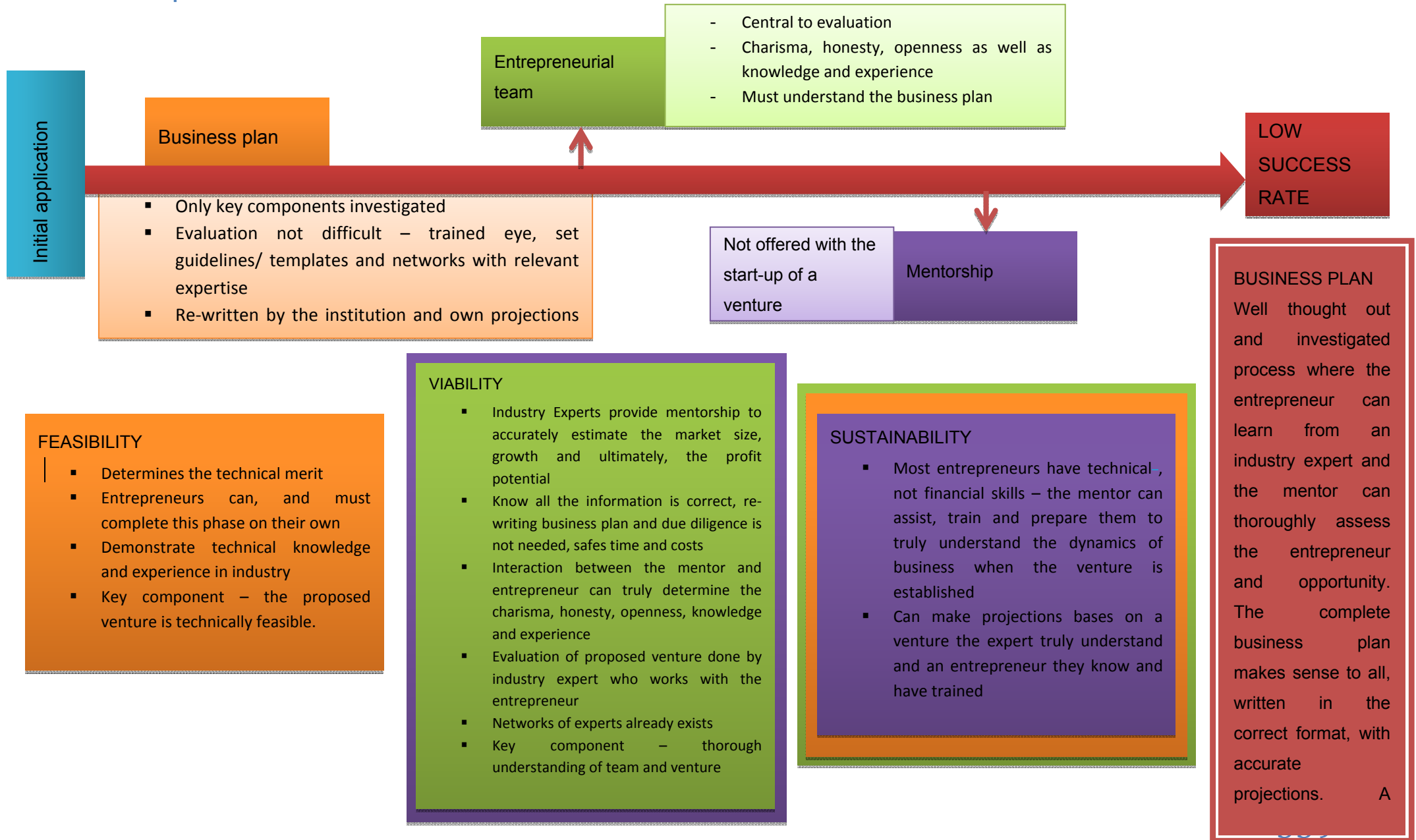
feasibility, viability and sustainability, as indicated in this thesis. Hereafter all of the elements argued to form part of each of these phases were presented to the interviewees. Again all of the interviewees agreed that these elements are indeed an accurate evaluation of feasibility, viability and sustainability. Moreover, each of the interviewees indicated that they focus on each of these elements, to a certain extent, in their current evaluation process. However, since these elements are evaluated in terms of the entire business plan that the entrepreneur has to submit, they are not well defined, organised or addressed at different stages. Chapter 4 offered a thorough discussion on the merit of, and the rationale behind the phase-oriented process. From a theoretical perspective, a literature review on the factors of successful commercialisation was undertaken and served as an initial basis on which to validate the phase-oriented process (chapter 4, page 209 - 226). Moreover, the phase-oriented process, as developed from a literature review, was confirmed by expert reviews.

In summary, the merit of the proposed phase-orientated process was argued and motivated from a literature perspective based on the fact that it mirrors all of the elements that are currently encapsulated in a business plan as well as the fact that it addresses all the aspects that were highlighted as critical elements to successful commercialisation. Upon the completion of the first phase of this study, the interviews conducted with the individuals who are responsible for evaluating the business plans received, the proposed phase-orientated process now also finds justification from a practical perspective. All of the themes identified from the qualitative research as the current barriers in the funding process, namely a business plan which is an involved and difficult document to construct; the importance of an entrepreneurial team, the lack of institutional mentorship and a long and frustrating process is addressed through the phase-oriented process.

Figure 6.1 illustrates how the argued phase-oriented process addresses the four main themes that emerged from the interviews with the individuals who are responsible for evaluating the business plans received at the institution. Each key theme is illustrated in a specific colour, i.e.: Business plans – orange; Entrepreneurial team – green; Mentorship – purple and the long and complicated Process is illustrated with the red arrow. Hereafter the phases of the phase-oriented process (feasibility, viability and sustainability) follow and indicate which aspects of the current process are addressed through each of the phases. In other words, the implementation of the feasibility phase will address the issue of a business plan, as a systematic approach is followed as opposed to the completion of an entire business plan up front. A key component of the viability phase is to secure the needed human capital, in terms of an entrepreneurial team, as well as the support of an

institutionally appointed mentor, thus ensuring interaction between the entrepreneurial team and the mentor and moreover, guiding the entrepreneur on the commercialisation route. The last phase, sustainability ensures that the long term strategies implemented in the new venture, with the assistance of the mentor, keeps the feasible and viable business sustainable in the long run. Once these three phases are completed, the end result still amounts to a business plan which will serve as an internal planning and management tool.

Figure 6.2: An illustration of the interaction between the four themes identified in the interviews as well as the phased orientated process.



6.2.2 Phase 2: Surveys

In order to be able to recommend a final course of action, a quantitative phase had to follow the qualitative research phase. The themes identified through the interviews with the support institution employees served as the basis from which the questionnaires for the quantitative phase were developed. The main purpose hereof was to test whether the themes highlighted during the interviews are supported by the entrepreneurs who have started their own ventures.

Firstly, a general overview of the sample in terms of the response rate, demographics of the entrepreneurs who participated, profile of the business and the relevant start-up experience is offered. Hereafter the main aspects of the questionnaire are analysed. Four of the five themes identified in table 6.1 (process, mentorship, entrepreneur and team and business plan) served as the guidelines with which the questionnaire was developed in order to test the perception of the entrepreneurs who are currently running an SMME.

In order to illustrate the outcomes of the questionnaires in terms of themes identified during the interviews, tables 6.2-6.20 are offered as summaries of the data obtained. The theme of the phase-oriented process, which consists of an evaluation of the suggested phase-oriented process through the support institution employees, was not included in the questionnaire.

I. Response rate

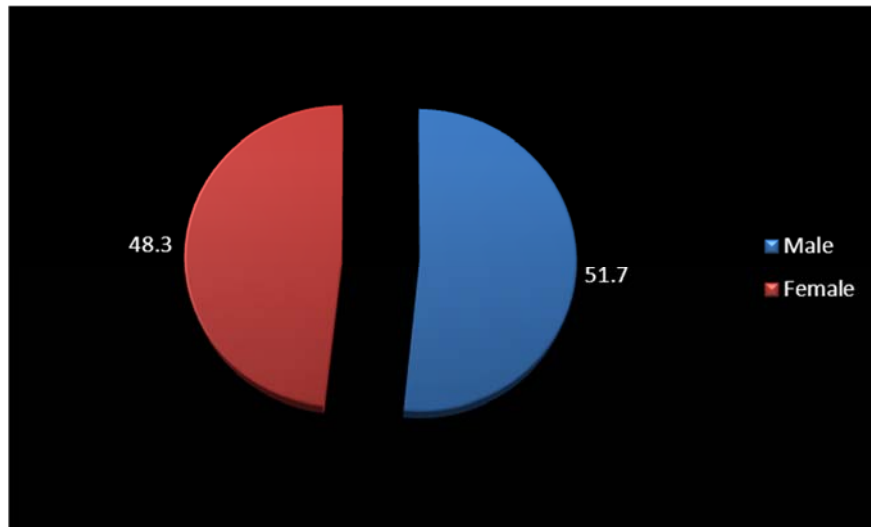
Trained fieldworkers were recruited in order to assist the respondents to complete the questionnaires. Thus from the 116 questionnaires that were distributed, all 116 were completed and valid.

II. Demographics

The demographics of the respondents are summarised in terms of their gender, age, and race. Hereafter a summary of their business profile is offered. Figure 6.2 indicates the gender of the respondents who participated in the quantitative phase of this study.

a) Gender

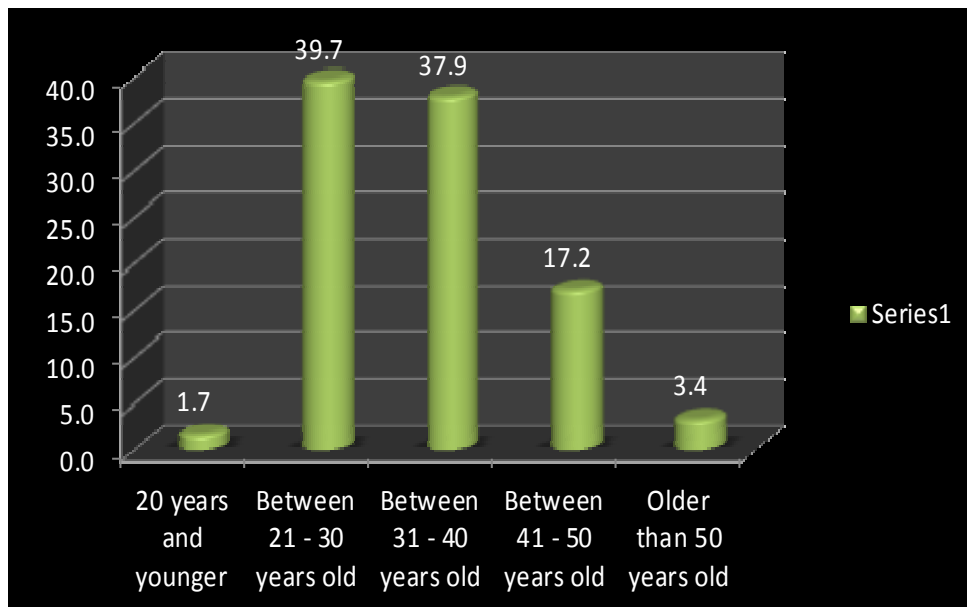
Figure 6.2: Gender of the respondents (indicated in percentage).



From figure 6.2 it can be seen that 51.7% of the respondents were male and 48.3% of the respondents were female. Thus there was an equal distribution between the different genders.

b) Age

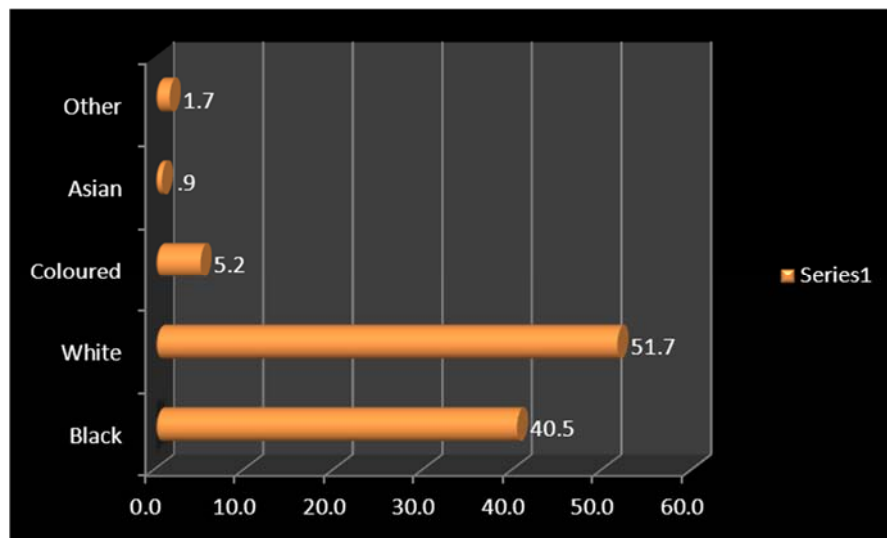
Figure 6.3: The age of the respondents (indicated in percentage).



The majority of the respondents (77.6%) were between the ages of 21 – 40. According to Petty, Palich, Hoy and Longenecker (2012) the average age of entrepreneurs typically fall in the 25 – 35 year age group. When compared to the results obtained in this study, the vast degree of similarity is clear.

c) Race

Figure 6.4: The race of the respondents (indicated in percentage).

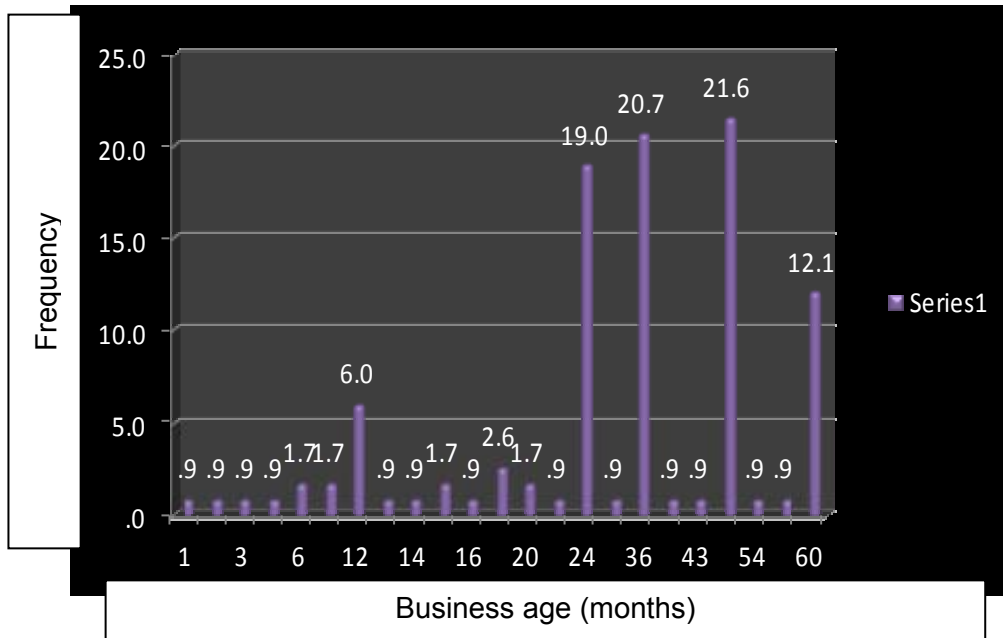


Although demographic factors such as household income, gender, age and race or ethnicity has been cited as factors that influence the innovative inclination of individuals (Olanrewaju, 2013), it can be seen from figure 6.4 that the amount of white and black entrepreneurs included in this study is representative of both these ethnic groups.

III. Profile of the business

d) Length of operation

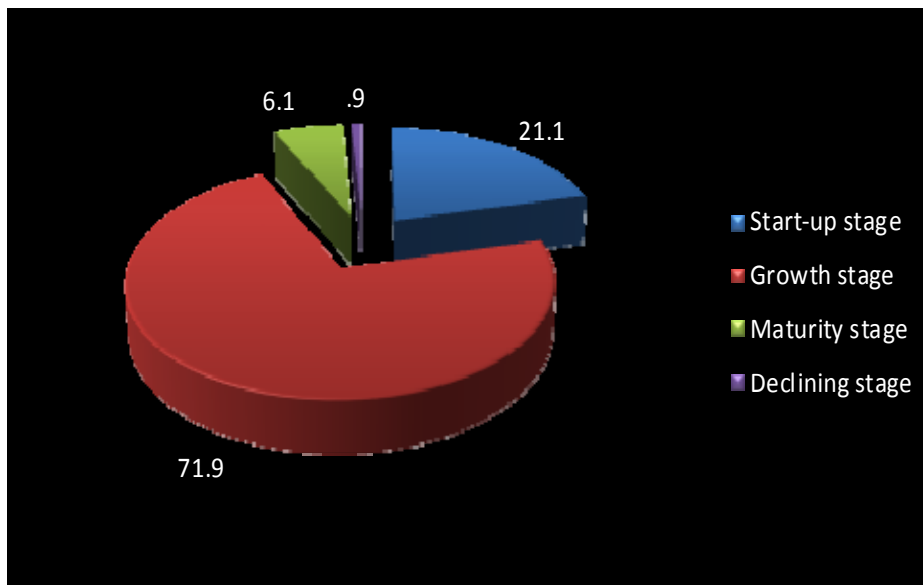
Figure 6.5: The length of business operation (indicated in months).



Since the major criterion entrepreneurs had to adhere to in order to be included in this phase of the study was that their ventures could not be older than five years, it is not surprising to find that the vast majority of the ventures were very young start-up operations. The mean score in terms of the length of operation is 34.5 months. Moreover, when considering figure 6.6 (below) and the life cycle of ventures, the vast majority (93%) of the respondents indicated that their projects were either in the start-up or growth phase, which is typical of newly found ventures.

e) Life cycle phase of the business

Figure 6.6: The life cycle phase of the ventures (indicated in percentage).



The majority of the respondents (71.9%) indicated that their ventures are still in the growth stage and merely 6.1% of the respondents managed to progress to the maturity stage of venture establishment. The statistics obtained from the Global Entrepreneurship monitor (Singer, 2014) proves that this is a significant problem in SA as very few entrepreneurs manage to progress from nascent entrepreneurship to new businesses (only 3.2% of start-ups) and that even fewer entrepreneurs (merely 2.7%) reaches established business status (Singer et al., 2014).

6.2.2.1 Descriptive statistics

As stated above, the quantitative phase of this study was conducted in order to validate the findings of the qualitative phase of the study, thus making the accumulated information generalisable to the larger population. The four themes (mentorship, business plan, entrepreneur and entrepreneurial team as well as the process) that were identified from the qualitative phase of this study will now be described in terms of the statistical analysis.

The concept of mentorship was highlighted as a key theme which these individuals believe will enhance the commercialisation of innovation. Paramount to the argument for mentorship is the fact that the mentors obtained must have relevant and accurate industry knowledge. In

order to identify the perception regarding mentorship in the quantitative phase of this study, the respondents were asked the following questions with regard to mentorship:

- Have you obtained the help of a business coach and/or mentor?
- Please indicate the main reason(s) you engaged a coach/ mentor in your venture
- Please indicate which of the following statements are applicable to you as a result of the coaching/ mentorship you have received
- What contribution, in your opinion, does mentorship make to venture establishment?
- If you did not obtain the help of a coach/ mentor, please indicate the reason(s) for your choice.

The results of these questions are summarised in tables 6.2 – 6.6.

Table 6.2: The amount of respondents who either obtained the help of a coach/ mentor or not.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	24	20.7	20.9	20.9
	No	91	78.4	79.1	100.0
	Total	115	99.1	100.0	
Missing	0	1	.9		
Total		116	100.0		

From table 6.2 it is clear that the vast majority of the respondents (79.1%) did not obtain the help of a coach or mentor during the start-up process of their new ventures. Merely 20.9% of the respondents indicated that they did acquire the help of a coach or mentor at early stage venture development.

In order to identify the main reason(s) the respondents cited for acquiring the assistance of a coach/ mentor or not, follow up questions in the questionnaire (question 22 and 24, as cited in table 6.3 and 6.4) were posed to the respondents.

Table 6.3: The main reason(s) cited by the respondents as motivation to engage the help of a coach/ mentor.

Statement	Valid	Missing	Agree	Strongly agree	Total
To increase my skills and knowledge	100	0	33.3	54.2	87.5
To grow business	100	0	29.2	58.3	87.5
To better manage business processes	100	0	41.7	50.0	91.7
To better manage staff relationships	100	0	29.2	41.7	70.8
To change my behaviour	100	0	20.8	41.7	62.5
To increase my performance	100	0	29.2	50.0	79.2
To develop my potential	100	0	29.2	54.2	83.3
To expand my thinking	100	0	33.3	54.2	87.5
To get access to information I would not have been able to get on my own	100	0	37.5	54.2	91.7
To get access to networks I would not have been able to develop on my own	100	0	33.3	58.3	91.7

From the table above (table 6.3) it can be seen that the three reasons most cited by the respondents (with 91.7% of the respondents indicating this) as the main motivators for obtaining the assistance of a coach/ mentor are:

- To better manage business processes
- To get access to information I would not have been able to get on my own
- To get access to networks I would not have been able to develop on my own

The argument on mentorship that emerged during the qualitative phase of this study is that it is crucial for entrepreneurs to obtain the help of a mentor who has relevant knowledge of the industry in which entrepreneurs aim to commercialise their inventions. Only then can the benefits of mentorship as formulated above be obtained.

Studies by (Bhide, 2000; Kurtzman & Rifkin, 2005) revealed that business coaching and mentoring offer entrepreneurs an introduction to other networks and professional services and thus provide opportunities for entrepreneurs that they might not have had without such help. Also, Crompton (2012) established in her study that firms and entrepreneurs who engage in business coaching reported that they derived practical benefits that culminate in real business financial performance. Furthermore, this study found a linkage between the entrepreneurs' level of confidence and business coaching and observed that business

coaching is an antecedent to the entrepreneur's level of confidence (self-efficacy), which in turn is a non-direct influencer of a firm's performance and growth. Moreover, other studies by (Leedham, 2005; Leonard & Swap, 2005; Gibb, 2009) found that business coaching helps entrepreneurs to assess the performance of their businesses by ensuring entrepreneurs have a clear vision and strategy, with the setting of appropriate goals, objectives, and tasks to achieve outcomes, provide them with objective feedback, and also act as network facilitators.

The follow-up question posed to the respondents in the quantitative phase was posed in order to determine the positive outcomes associated with acquiring the help of a coach or mentor. Table 6.4 summarises the outcomes obtained from this question.

Table 6.4: The outcomes obtained as a result of mentorship and/ or coaching.

Statement	Valid	Missing	Agree	Strongly agree	Total
I am able to make better decisions	100	0	37.5	58.3	95.8
I have more ideas/ options to deal with issues	100	0	41.7	50.0	91.7
I can achieve my goals/ objectives	100	0	37.5	50.0	87.5
I have greater self-awareness	100	0	45.8	37.5	83.3
I understand my strengths/ weakness	100	0	20.8	45.8	66.7
I identified my development needs	100	0	16.7	66.7	83.3
I have a more positive attitude towards life	100	0	20.8	54.2	75.0
I have a greater degree of confidence that my business will succeed	100	0	25.0	66.7	91.7
I have a better understanding of the industry in which I operate	100	0	33.3	62.5	95.8
I am more aware of the environment in which I operate (Competitors, suppliers, distributors, etc.)	100	0	29.2	66.7	95.8
I have a clearer perception of my target market	100	0	25.0	62.5	87.5

From the responses obtained in table 6.4 above, three outcomes were indicated by 95.8% of the respondents as the paramount advantages of obtaining mentorship.

These are:

- The ability of entrepreneurs to make better decisions,
- The fact that the entrepreneurs can understand the industry in which they operate better and
- The notion that entrepreneurs are more aware of the environment in which they operate

Hereafter 91.7% of the respondents who obtained the help of a mentor indicated that mentorship enables entrepreneurs to have more ideas/ options to deal with issues and that they have a greater degree of confidence that their businesses will succeed. This notion is supported by the theory that states that through mentorship, entrepreneurs have the ability to acquire a variety of important business skills, enable them to make important decisions, and also help them in creating useful business contacts, but more so, it also directly influenced the entrepreneur's level of confidence (Bhide, 2000; Kurtzman & Rifkin, 2005; Crompton, 2012).

The aspect that the minority of the respondents (66.7%) cited as an advantage of coaching/ mentoring was to understand their strengths and weaknesses. This could possibly be an extension of the advantage of being better equipped to make decisions along with the indication that the entrepreneurs included in this study indicated a higher confidence in the probability that their businesses would succeed. In other words, due to the fact that mentorship enables entrepreneurs to make better decisions and act with confidence, they tend to lose focus of other strengths and weaknesses they might possess.

The respondents were also asked to indicate the contribution, both directly and indirectly, that mentorship made to their business (Question 24). This was an open-ended question in order to allow the respondents to provide any reason they felt was appropriate and the main replies are summarised in table 6.5 below. Only the significant or repetitive statements are included in this table.

Table 6.5: Contribution of mentorship in terms of venture establishment.

<p>Mentorship</p> <p>“Mentoring is a very imperative aspect in business success. I learned so much from my mentor that I could not have gotten in a book” ~Direct quote of one of the respondents~</p>	<ul style="list-style-type: none"> - Motivates me to be better in what I do - Helped me avoid unnecessary mistakes as I can avoid my mentors mistakes - It gave us significant insights that would otherwise not have been available to a start-up company - Enabled us to gain a competitive advantage - It prepares one to the pros and cons of owning a business - Build a strong foundation - Growth and retaining of my clientele - Speedy success rate - Less financial issues - Business growth, knowledge and skills development - It provides me with better insight into the development of my company - More skills and networking
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Moreover the reasons why the entrepreneurs, who were included in the quantitative phase of this study, (those entrepreneurs who have started an entrepreneurial venture a maximum of five years ago) did not obtain the help of a coach/mentor were investigated.

Table 6.6: Reasons cited for not obtaining the help of a coach/ mentor.

Statement	Valid	Missing	Agree	Strongly agree	Total
I am confident in my own abilities	100	0	54.6	34.0	88.7
I have a great management team and do not need the help of a mentor	100	0	62.9	15.5	78.4
It is my perception that mentors do not contribute positively to venture success	100	0	34.0	10.3	44.3
I am afraid that a mentor will always impose his/her opinion and not listen to my opinion/ respect my decisions	100	0	44.8	5.2	50.0
I do not know how to get access to a mentor	100	0	39.2	11.3	50.5
I think it is costly to have a mentor	100	0	44.8	16.7	61.5

Statement	Valid	Missing	Agree	Strongly agree	Total
I do not want to become dependent on someone and struggle upon their departure	100	0	49.5	13.4	62.9
I did not find a suitable mentor	100	0	43.3	10.3	53.6

Considering the characteristics of entrepreneurs which are noted by Petty, Palich, Hoy and Longenecker (2012) as: commitment and dedication, leadership, opportunity obsession, creativity, self-reliance and adaptability as well as motivation to excel) it is not surprising to find that the most respondents (88.7%) indicated that they did not obtain the help of a coach or mentor due to the fact that they are confident in their own abilities. However, Petty et al. (2012) warn that there are certain behaviours often exhibited by entrepreneurs that should be avoided as it will invariably cause failure in the entrepreneurial venture. These include an overestimation of one's abilities, a lack of understanding of the market, employing mediocre individuals, the inability to be a team player, being a domineering leader and not sharing ownership in an equitable manner. Entrepreneurs must therefore be aware of the constant balancing act that they need to achieve between having the confidence to run their own venture and being over-confident and consequently harming their own ventures.

Secondly, the respondents (78.4%) indicated that they did not need the help of a mentor due to the fact that they have a great management team. Human capital (which includes the education, training and experience of entrepreneurs and their teams) is strongly correlated to the start-up, survival, growth and success of a venture in the market (Hashi & Krasniqi, 2011). In the absence of human capital in terms of basic business management skills, entrepreneurs reported slow business growth in their entrepreneurial ventures (Okpara, 2011). However, in the absence of an entrepreneurial team, mentorship can provide a great source of business related advice on all spheres of starting and operating a new endeavour. Through mentorship, entrepreneurs have the ability to acquire a variety of important business skills, are empowered to make important decisions, and assisted in creating useful business contacts, but more so, their levels of confidence has are directly influenced (Bhide, 2000; Kurtzman & Rifkin, 2005; Crompton, 2012).

A large amount of the respondents, 62.9%, also indicated that they do not want to become dependent on the mentor to such an extent that they will struggle to continue with their business operations upon the departure of the mentor. According to Laukhuf and Malone (2015) mentoring can be defined as follows: "mentoring supports and encourages people to

manage their learning resulting in maximising their potential, by developing skills, improving their performance, and becoming the person they want to be. Mentoring is an interactive process occurring between individuals of differing levels of expertise and experience that incorporate interpersonal or psychosocial development, career and/or educational development, and socialisation functions into their relationship.” The core role of mentorship is to develop entrepreneurs both on a personal and professional level. Therefore entrepreneurs who have moved through the process of establishing a new venture with the assistance of a mentor should continuously feel more empowered and capable of maintaining their venture on their own.

Additionally Laukhuf and Malone (2015) argue that effective mentoring programs will ensure that mentees will be provided with the opportunity to set and achieve the mentee’s own learning objectives; understand and appreciate the knowledge and experience which the mentor has acquired; acknowledge that even when objectives set are not met, it was still a learning experience; understanding that motivation from the entrepreneur as well as hard work and effort, coupled with the support of the mentor is essential to achieve success. From this it is clear that the entrepreneur has a central role to fulfil in the mentoring process. Effective mentorship relationships involve active participation and learning from both the mentor and mentee. When mentees commit to the mentoring relationship in order to obtain all the benefits mentorship has to offer, they will be better equipped individuals who are able to make decisions regarding their ventures on their own.

6.2.2.2 Integration with phase 1: Mentor

Mentors, who possess relevant industry knowledge, were cited as a key theme during the qualitative phase of this study. The interviewees indicated that they are of the opinion that the success rate of applications would be greatly increased if skilled mentors were available in order to aid the entrepreneurs. Table 6.7 offers an integration of the data obtained in phase 1 and those obtained in phase 2

Table 6.7: Integration of phase 1 and 2: Mentor.

MENTOR		
Motivation for getting the help of an assistant	Advantages secured through mentorship	Reasons why mentorship was not obtained
To better manage business processes	Ability to make better decisions	Confident in their own abilities
To get access to information I would not have been able to get on my own	Understand the industry in which they operate better	Do not need the help of a mentor due to the fact that they have a great management team
To get access to networks I would not have been able to develop on my own	Entrepreneurs are more aware of the environment in which they operate	Do not want to become dependent on the mentor

The responses obtained from the entrepreneurs who have successfully established their ventures in the market clearly illustrate the importance of mentorship for new venture establishment on the one hand, while on the other they caution that certain misconceptions regarding mentorship must be addressed within the support institutions in order that the true benefits of mentorship are realised. The advantages cited of obtaining a mentor clearly motivate the importance of mentorship for the successful establishment of new ventures and therefore emphasise the need for offering mentorship support for applicants at the support institutions. However, this mentorship can only be effective if the support institutions ensure that the applicants can see and understand the benefit of mentorship for their ventures and understand that their own abilities will be enhanced and built on. Moreover the entrepreneurs and their management teams must perceive the mentor as an aid in the process of new venture establishment and not as individuals who will overrule and manage the process in the manner they see fit. The main goal of mentorship is to enable the entrepreneurs. Therefore it is a structured relationship where all the responsibilities of venture establishment still fall on the entrepreneurs and their teams rather than the mentor who is only in an advisory and support position.

Hereafter the following section of the questionnaire focused on another key theme as identified from the qualitative phase, namely the current evaluation process. Questions 25 – 29 in the questionnaire were aimed at identifying the issues that the respondents of the quantitative phase had with the process of commercialising their innovations. The aspects

investigated included the approximate amount of time it took the respondents to commercialise their inventions, the main barriers they experienced in the commercialisation process and both the advantages and disadvantages of speed to market from the perspective of the respondents.

Table 6.8: Average time to commercialise a business idea (months).

	N	Minimum	Maximum	Mean
V25 How long to commercialise business idea (months)	109	1	60	10.71
Valid N (listwise)	109			

The average time it took the respondents of the quantitative phase of this study to commercialise their inventions are 10.71 months. Chen, Reilly and Lynn (2012) state that “new product development (NPD) speed has become increasingly important for managing innovation in fast-changing business environments due to continuous reduction in the product life cycle time and increase in competition from technological advancements and globalisation”. With this in mind it is crucial to investigate the barriers that entrepreneurs experience in taking their innovations through the commercialisation process.

Hereafter the respondents were asked to indicate the degree to which each of the statements provided to them had a negative impact on the time and difficulty of venture establishment, Table 6.9 represents the results obtained from this question.

Table 6.9: Aspects that have a negative impact on the time and difficulty of venture establishment.

Statement	Valid	Missing	Agree	Strongly agree	Total
Many regulatory burdens	100	0	53.4	19.0	72.4
The costs associated with non-business related expenses (e.g. certification, zoning, legal requirements)	100	0	58.6	12.9	71.6
No clear guidelines as to how to establish a business	100	0	50.9	7.8	69.8
Lack of access to market related information	100	0	52.6	6.9	59.5
Lack of access to networks to facilitate venture establishment	100	0	58.6	6.9	65.5
The general business climate	100	0	54.3	12.9	67.2
Access to funding	100	0	54.3	17.2	71.6
Identifying the opportunity	100	0	50.9	12.1	62.9
Clarity surrounding the technical aspects of the proposed product / service	100	0	52.2	10.4	62.6
Market research	100	0	55.2	14.7	69.8
Management team	100	0	50.9	15.5	66.4
Industry (competitors, suppliers, distributors)	100	0	57.8	14.7	72.4
Financial planning	100	0	60.3	17.2	77.6
Strategy formulation	100	0	57.8	14.7	72.4
Developing a business plan	100	0	51.7	15.5	67.2

The vast majority of the respondents, 77.6% indicated that financial planning is a major concern to them, impacting negatively on the time and difficulty of venture establishment. According to Hung, Yoong and Brown (2012) financial literacy is defined as “A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” Following this definition it is clear that financial literacy is a crucial aspect of establishing a new venture and a skill which is of the utmost importance for all entrepreneurs. Financial knowledge/ literacy is strongly linked to a variety of financial practices such as budgeting and tracking expenses, paying bills on time, saving on a monthly basis, diversifying investments and setting financial goals, to name a few (Hastings, William & Skimmyhorn, 2012).

Moreover, certain individual traits have an impact on financial literacy as the cognitive ability, personality type and preferences of an entrepreneur affect the financial knowledge, skills acquisition, motivation of the entrepreneur and the confidence to make consequential financial decisions (Hung, Yoong & Brown, 2012). This again highlights the importance of a good entrepreneurial team as entrepreneurs who lack the necessary financial literacy could surround themselves with individuals who do not possess the necessary skills. However, entrepreneurs who do not have access to relevant financial knowledge/ literacy in their ventures can improve their financial knowledge, as well as their financial outcomes, through financial education (Hung, Yoong & Brown, 2012). In this regard the importance of enlisting the help and support of a mentor is emphasised once more as mentors with financial knowledge can aid entrepreneurs through the process of financial planning.

Additionally, a central argument in this theme was the fact that the majority of the entrepreneurs who apply for support at these institutions struggle with the financial projections required from them in a business plan, as these individuals mostly possess technical knowledge. It is with this in mind that the support institutions re-write the received business plans entirely to fit into their frameworks, but also conduct a complete financial projection on their own in order to validate the projections of the entrepreneurs. This correlates with the frustrations that the entrepreneurs experience with the process of venture establishment, as a lack of financial planning was cited as the main barrier to venture start-up.

Furthermore, the following three statements were highlighted as the next major issues for the respondents with regards to the negative impact on venture establishment, with 72.4% of the respondents indicating that these three aspects negatively impacted on venture formation. These are: many regulatory burdens, the industry and strategy formulation.

- Many regulatory burdens

Okpara (2011) warned that the inhibitive policy framework would discourage entrepreneurs from seeking funds for either venture start-up or expansion. Therefore, Baloyi (2012) argued that creating an enabling policy as well as legal and regulatory environment for the development of businesses is a major role that Government must fulfil. Although various government departments and institutions have been established in order to develop and implement SMME related policies in order to ensure that the SMME sector receives the needed support to achieve long term prosperity, the fact that this is rated as a paramount

barrier to venture establishment, indicates that improvements/ advances are needed. In addition, compliance costs weigh heavily on entrepreneurs and smaller firms which also negatively affects the start-up rate of new ventures (Hashi & Krasniqi, 2011).

- Industry (competitors, suppliers, distributors)

Market openness is one of the limiting factors with the biggest negative impact on entrepreneurship. Even though market openness is internationally acknowledged as a driver of economic growth, most countries are still struggling with regulatory barriers and this has a negative impact on true market openness (OECD Reviews of Regulatory Reform, 2002). As mentioned, the South African Government has taken action to stimulate the growth of new businesses and to aid in their survival. However, if the barriers to entry are not identified, and strategies to reduce their impact are not developed, it would remain a large challenge to increase the rate of entrepreneurship in SA (Robertson, Collins, Medeira, and Slater, 2003). Barriers to entry are defined as those factors that discourage new firms to enter into a specific industry, even though the current firms in the industry are earning vast amounts of profits. Generally these barriers to entry are either behavioural or economic. However, the characteristics of the specific industry can also serve as similar barriers. These industry characteristics include demand, technology, costs and licenses. For an economic or behavioural barrier, including industry characteristics to be considered a barrier to entry, it must imply costs for new entrants whom the established businesses do not bear (De Bruyn & Gibson, n.d.).

Moreover, the market dynamics of SA are cited as one of the limiting factors in terms of entrepreneurship. The market shifts of SA do not change dramatically enough and thus opportunities are limited as competition and innovation are restricted in this environment. This in turn can explain why SA's rate of perceived opportunities is below average (Turton & Herrington, 2012). The market is too stable and provides few opportunities for nascent entrepreneurs. Nevertheless, a dynamic market is vital for entrepreneurship in SA. When there are continuing shifts in demand and supply, business opportunities invariably arise (Turton & Herrington, 2012). Demand is defined as the amount of a good or service that a potential buyer is willing and able to buy (Department: Basic Education, n.d.). Supply on the other hand is the quantity of a good or service that suppliers plan to sell at each possible price during a specific period (Department: Basic Education, n.d.). This implies that the demand for products remains fairly stable and the supply for these stable demands is met. In other words, this imposes yet another form of entry barrier for new entrants.

- Strategy formulation

Strategic management is defined by Lazenby (2014) as “a process whereby the internal and external environments are analysed to identify strategic goals and develop strategies in line with the organisation’s vision and mission, that must be implemented through a coordinated and integrated effort of different functional areas in order to achieve these strategic goals of the organisation with the ultimate purpose of gaining a competitive advantage”. Thus strategic management involves the decisions that entrepreneurs must make regarding the future direction of their venture and once these strategies are implemented, the venture’s competitiveness will be vastly improved. The strategies that are developed are “an effort or deliberate action or course of action that an organisation must implement to outperform rivals” and this will invariably lead to a competitive advantage for the venture (Lazenby, 2014).

Furthermore the importance of strategy can be seen in the following:

- The strategy involves the entire venture; consequently all functional areas and employees should contribute, and be involved in the strategic management process.
- It enables the venture to more than merely survive, but to add value to all stakeholders.
- It develops a relationship between the venture and the environment in which it will operate which will enable those involved in the venture to be aware of and adapt to changes in the environment.
- It is the only means through which to develop a sustainable, competitive advantage
- It will lead to good corporate governance (Lazenby, 2014).

From the above-mentioned it is clear that strategic management has a crucial role to play in any venture. For any newly established venture, developing and maintaining a competitive advantage in environments that will constantly embody competition, is a crucial aspect to ensure.

With the main barriers to the start-up of entrepreneurial ventures identified, the next questions in the questionnaire focused on determining the advantages the respondents associated with both early and late market entry. According to the current literature, there is no consistent relationship between speed and success for new product development (NPD) projects. Nonetheless, the current theories tend to argue that increasing product development speed is ‘virtually always important for NPD success’ (Chen, Reilly & Lynn,

2012). Recently however researchers have been arguing for a more balanced trade-off approach to NDP and new product success. Aspects identified that negatively relate to NPD speed include:

- Pressure to make fast decisions
- Hidden costs associated with accelerating NPD
- Mistakes occur from skipping necessary steps in the process
- Technological risk
- Marketing uncertainties
- Risk of only innovating incrementally and not radically
- Constrained ability to rapidly acquire and act on information (Chen, Reilly & Lynn, 2012).

Recent literature has pointed out the curved linear nature of the relationship between NPD speed and new product success. At the basis of this argument is the notion that people cannot overly compress time to complete a specific task as all individuals have limited information-processing capabilities, absolute judgment and immediate memory. Hence individuals are only able to effectively handle a limited amount of complexity in a specified amount of time (Chen, Reilly & Lynn, 2012). At the heart of this argument is the fact that NPD is a complex, time consuming and risky task and that the ability to make effective decisions takes time as the entrepreneur needs to explore, adopt, absorb and learn to use new tools and methods (Chen, Reilly & Lynn, 2012).

On the other hand, more speed oriented entrepreneurs have been linked to “intense communication and more coordination, subsequently resulting in higher levels of self-consciousness, commitment and efficiency of resource utilisation and success as well as learning loops and improved learning rates, and effectiveness, amongst employees” (Chen, Reilly & Lynn, 2012). In order to conclude this debate, it is argued that the impact of NPD speed and success is based on various contingencies, of which the level of uncertainty is paramount. Entrepreneurs need to take their current situation into consideration and balance the need for quickly taking products to the market while understanding the curved linear relationship of time to market and success.

Reviewing the aspects that negatively influence venture formulation (as identified in table 6.9 above) the aim of the following question was to identify the major advantages of quickly taking a product to market as perceived by the entrepreneurs who were the respondents of

the quantitative phase of this study. Table 6.10 below indicates the aspects that the respondents considered as outcomes for quickly taking their products to market.

Table 6.10: Advantages of quickly taking a product to market.

Statement	Valid	Missing	Agree	Strongly agree	Total
Through early market entry, I developed a cost advantage	100	0	53.0	15.7	68.7
Through early market entry, I face less competitive rivalry	100	0	50.4	13.9	64.3
Through early market entry, I secured important channels	100	0	61.7	15.7	77.4
Through early market entry, I am better positioned to satisfy customers	100	0	66.1	16.5	82.6
Through early market entry, I can monitor changes in the market that might be difficult to detect to firms not in the market	100	0	60.9	14.8	75.7
Through early market entry, I have built up my own networks	100	0	64.0	17.5	81.6
Through early market entry, I have created customer loyalty	100	0	62.6	24.3	87.0
Through early market entry, I am able to protect product uniqueness	100	0	62.6	16.5	79.1

The majority of the respondents (87%) indicated that the main advantage they obtained as a result of early market entry is the establishment of customer loyalty. Customer loyalty is defined as “the strength of a customer’s dispositional attachment to a brand (or service provider) and his/her intent to rebuy the brand (or repatronise the service provider) consistently in the future” (Sheng & Xie, 2012). Gurâu (2012) further expands on this definition by adding the outcome of positive long-term financial results achievable through repeated purchasing and referrals. In such, literature proposes that customer loyalty is central to venture success due to the following benefits that can be achieved once customer loyalty is achieved:

- A long-term, mutually beneficial relationship with the customers
- Loyal customers cost less and are less sensitive to price than opportunistic clients

- Providing a stable source of income and consequently a manner in which to predict profit levels
- Determinant in predicting market share
- Increases business profitability (Gurâu 2012).

Due to intense competition in all industries, the advantages that ventures can achieve through customer loyalty will have a significant influence on the success of any venture, and therefore customer loyalty is a crucial aspect to ensure.

The second most important advantage obtained from early market entry, as cited by 82.6% of the respondents who entered the market early, is that they are better positioned to satisfy their customers. Chen (2012) argues that “the effort required to acquire new customers is much greater than that required to retain existing customers” and that the ability of any venture to satisfy the needs of their customers forms the foundation of building customer loyalty. Since satisfied customers are more likely to remain loyal to a specific venture, need satisfaction is a vital precedent to customer loyalty.

Hereafter 81.6% of the respondents indicated that early market entry allowed them to build up their own networks. Newbert and Tornikoski (2012) define a network as a “conduit providing access to people with specific resources. The reason personal networks are so critical to the success of new ventures is the fact that the resources entrepreneurs may obtain from their social ties well exceed the scope of resources they could acquire on their own”. However, Newbert and Tornikoski (2012) warns that not all social ties are equally beneficial to new ventures and emphasises the importance of networks that connect entrepreneurs with a large number of diverse avenues to resources. Moreover, a study conducted by Newbert and Tornikoski (2012) found that the types and number of people an entrepreneur has ties with are secondary to how embedded those relationship are and what entrepreneurs are able to access from them. Thus entrepreneurs who experience difficulty in accessing resources should expand their networks and ensure that these systems truly have the ability and motivation to assist them.

Regardless of the above-mentioned benefits of early market entry it must be noted that only 64.3% of the respondents felt that they faced less competitive rivalry as a result of early market entry. In other words, regardless of the vast benefits of satisfying customer needs and therefore generating customer loyalty, the pressure from competitors does not subside or diminish. Entrepreneurs must be aware of their rivals at all times. Once again it is argued

that the guidance of a mentor can greatly benefit entrepreneurs with an accurate and thorough competitor analysis. Moreover, an entrepreneurial team who has access to specific, complementary skills will be a main catalyst of competitive advantage over rivals.

It is acknowledged that many entrepreneurs prefer to delay market entry in order to secure specific benefits. Thus the respondents were asked to identify the main reasons they considered for late market entry. Table 6.11 below summarises the results obtained.

Table 6.11: The benefits obtained from delayed market entry.

Statement	Valid	Missing	Agree	Strongly agree	Total
The longer period gave me more time to gain more information about customer and protection from imitation	100	0	53.1	19.5	72.6
The longer period guided my thinking process and decision making process	100	0	52.2	15.9	68.1
The longer period helped me to assess whether opportunity “really” exists and whether I can make it work or not	100	0	57.5	15.9	73.5
The longer period enabled me to identify key success factors before I committed resources based on my best guess of what these key factors might be	100	0	55.8	15.9	71.7
The longer period enabled me to gain more information on potential size of the market and how fast it will grow	100	0	63.7	13.3	77.0
Entrepreneurs who delay entry have the opportunity to learn from first movers without incurring the same costs	100	0	61.1	15.9	77.0
Delayed entry can reduce technological uncertainty by learning the first mover’s R&D program	100	0	55.8	11.5	67.3
By entering a market later, customer’s uncertainties have already been reduced by the first movers	100	0	60.2	9.7	69.9

From the information noted in table 6.11 the majority of the respondents (77%) indicated that the two major benefits achieved through late market entry are:

- The opportunity to gain more information on the potential size of the market and how fast it will grow, as well as;
- The opportunity to learn from the first movers without incurring the same costs.

Hereafter 72.6% of the respondents indicated that the longer period gave them time to gain more information about their customers and protection from imitation.

When considering the argument of Chen, Reilly and Lynn (2012) in the literature stated above, the reasons cited by the respondents as motivation for late market entry are in line with the theory that NPD is a complex process that necessitates entrepreneurs to absorb vast amounts of information. Finding a balance between quickly taking a new product to market and doing so efficiently and effectively is a major challenge for entrepreneurs. Again, the benefits of an entrepreneurial team, individuals who can help process the vast amounts of information and an industry expert mentor who can de-risk and simplify the process are highlighted as a key aspect to NPD success.

The least rated advantage of late market entry (67.3%) is the reduction of technological uncertainty by learning the first mover's R&D program. Sosa (2013) argues that the systematic underperformance of incumbents in terms of R&D accounts for the market failure experienced. According to Sosa (2013) many studies have argued that R&D intensity has a positive effect on SME growth as R&D expenditure will lead to increased diversification of activities which can make SMEs more competitive and account for strategic and organisation flexibility. This, in turn could lead to co-operation networks with other firms. Moreover R&D will enable more export capacity and this could decrease the level of risk typically associated with SME activities. Regardless of this, Mac, Nunes, Serrasqueiroa and Leitão (2012) argue that without management expertise to ensure the efficient use of R&D, R&D intensity could also limit growth in SMEs as R&D investment leads to intangible assets and it is associated with a high level of risk. Additionally, Mac, et.al. (2012) are of the conviction that ventures in non-high-tech industries gain less from R&D investment than ventures that compete in the high-tech industries. It is this statement that can explain the findings of the current study as the vast minority of the respondents operated in high-tech industries.

6.2.2.3 Integration with phase 1: Process

All of the individuals from the support institutions interviewed indicated that they found the current application process to be long, costly and difficult. Typically, the institutions receive approximately 90 – 150 applications per year of which only 9 to 24 are annually approved, which is a very poor success rate. The aspects that have a negative impact on the difficulty and/or time of establishing a new venture were investigated in phase 2 (questionnaires) and the integration of these aspects with phase 1 will follow in table 6.12.

Table 6.12: Integration of phase 1 and 2: Process.

PROCESS		
Aspects that have a negative influence on the difficulty and/or time of venture establishment	The advantages obtained from early market entry	The advantages of late market entry
Financial planning	Through early market entry, I am better positioned to satisfy customers	The longer period enabled me to gain more information on the potential size of the market and how fast it will grow
Strategy formulation	Through early market entry, I have built up my own networks	Entrepreneurs who delay entry have the opportunity to learn from first movers without incurring the same costs
Access to funding	Through early market entry, I have created customer loyalty	The longer period helped me to assess whether opportunity “really” exists and whether I can make it work or not
Industry (competitors, suppliers, distributors)		The longer period gave me more time to gain more information about customer and protection from imitation
Access to funding		
Many regulatory burdens		
The costs associated with non-business related expenses (e.g. certification, zoning, legal requirements)		

The aspects that have a negative impact on the time and difficulty of establishing a new venture can be divided into three groups namely:

- Institution
 - Access to funding
- Entrepreneur
 - Financial planning
 - Strategy formulation
- Environment
 - Industry (competitors, suppliers, distributors)
 - Many regulatory burdens
 - The costs associated with non-business related expenses (e.g. certification, zoning, legal requirements)

These three groups will always have an influence on one another and can therefore not be viewed in isolation. Should the government support institutions streamline their process to maximum effectiveness, but the government does not create an enabling environment through the policies of venture establishment or the costs associated with venture establishment, the outcome of the process will not be altered. Equally, if entrepreneurs do not possess a certain level of skills, they will always struggle to get access to funding, regardless of what other aspects might be in place.

The advantages of early market entry as cited by the entrepreneurs, all lead to establishing a competitive advantage in the market (as indicated in the theory above), therefore it is crucial to compare the advantages of late market entry to this single aspect of competitive advantage. Again the need for an evaluation process that can lead to quicker market entry and a higher success rate of the institutions are highlighted.

The following section of the questionnaire focused on the theme 'Business plan' that was identified in the qualitative phase of this study as a principal theme to new venture development that demands more attention in order to address the serious issues associated with it. In the current literature there was no consensus on the importance of a business plan for new venture success, and from the information obtained from the interviews, the same scenario emerged. Although all of the institutions interviewed expect a business plan from the individuals who apply for funding, they always re-write the entire business plan in order to populate it with accurate information and in the format required by the institution. Moreover the institutions indicated that typically entrepreneurs have excellent technical

capabilities, however they lack the needed skills to conduct thorough market research and provide accurate projections. Central to the debate around the contribution business plans make to the success of a new venture is the fact that all of the support institutions indicated that the entrepreneur and the entrepreneurial team are the key evaluation aspects on which they focus. Through the very limited interaction the current evaluation process allows between the entrepreneur and the support institution, the entrepreneurs and entrepreneurial teams with high potential are identified and this carries the most weight in the final decision to fund (or not) a proposed new venture.

The first question posed in this section was to determine how many of the entrepreneurs included in this study had a business plan at the time of venture start-up. In order to understand the motivation of the respondents either for developing a business plan or not, question 34 and 35 of the questionnaire investigated the main reasons of the respondents for either not writing or writing a business plan.

Table 6.13: Main reasons for not writing a business plan.

Statement	Valid	Missing	Agree	Strongly agree	Total
I did not apply for debt financing and thus didn't need a business plan	100	0	59.0	24.6	83.6
I am so experienced in the line of business I am going into that there was no need for business plan	100	0	58.1	16.1	74.2
The business is too small and simple to warrant business plan	100	0	62.3	13.1	75.4
To enable myself to take quick action to seize opportunities, or avoid threats that might arise from a constantly changing environment	100	0	58.1	8.1	66.1
Developing business plan is too time consuming	100	0	58.1	12.9	71.0
I do not have the adequate knowledge about business plans or how to prepare them	100	0	54.8	11.3	66.1
Did not know where to obtain help to develop a business plan	100	0	54.8	6.5	61.3
I do not think a business plan serves an important function in venture establishment	100	0	48.4	11.3	59.7
Statement			Agree	Strongly	Total

	Valid	Missing		agree	
I do not have access to accurate information	100	0	48.4	6.5	54.8
It is costly to develop a business plan	100	0	54.8	8.1	62.9

The vast majority of the respondents (83.6%) indicated that they did not write a business plan as they did not apply for debt financing and therefore did not need a business plan. In this regard the misconception of the advantages that business plans offer to entrepreneurs is evident. Business plans are vital tools for setting objectives as well as internal monitoring. A thorough discussion on the benefits of business plans will ensue after table 6.14, which summarises the main reasons why the respondents did write a business plan.

Following this, 75.4% of the respondents argued that their business was too small and simple to warrant a business plan. When considering the varying degree of usefulness of business planning for new ventures and established small businesses, it should be emphasised that the planning process itself as well as the effects on performance, differs significantly between the different stages of business formation (Gruber, 2006). Where business plans for new ventures rely heavily on assumptions and missing and/or inaccurate information, established small businesses can consult actual financial performance and historic events to reduce the uncertainty involved in business planning (Brinckmann et al., 2010; Delmara & Shaneb, 2004). Entrepreneurs who establish new ventures are necessitated to develop business plans in order to obtain external financing and support. However, when considering the fact that new ventures are subject to inaccurate and missing information the debate on the validity of standard format business plans, especially when establishing new ventures, remains relevant.

This debate on the usefulness of business plans has been ongoing for many years, and one which still has no agreed-upon answer among researchers and practitioners alike. At the heart of this discussion is the fact that planning should not just be conducted for the sake of planning. When establishing a new venture, entrepreneurs need to be efficient planners and dedicate their resources to activities that will enable them to achieve superior results. The value that business planning will yield will be influenced by the type of planning activities which are implemented, coupled with the effort and time spent on completing these activities (Gruber, 2006).

Additionally, the value of planning must be evaluated for a new venture's unique situation. If the relevant information that is readily available for the new venture is low in reliability or quality due to a highly dynamic environment, basic business planning might suffice. As the amount and dependability of information increases, the benefit of in-depth business planning will increase as well (Brinckmann et al., 2010). It is therefore recommended that new ventures, which will be plagued with a high degree of uncertainty and low amounts of accurate information, focus on basic business planning while ensuring that contingency plans are readily available. Contingency plans will enable resource control and flexibility throughout the establishment of new ventures (Brinckmann et al., 2010).

Moreover 74.2% of the respondents felt that their extensive experience in the line of business they were pursuing mitigated the need for a business plan. Considering the advantages of developing a business plan, no amount of experience can override the positive outcomes associated with developing a business plan as an internal monitoring tool. (The advantages of developing a business plan are cited after table 6.14.)

The least cited reason by the respondents (merely 54.8%) of why they did not write a business plan at venture start-up was the fact that they did not have access to accurate information. Thus the respondents indicated that they delayed market entry in order to gain information on the potential market and this could be detrimental to writing a business plan. This is contradictory to the perception of the support institution evaluating individuals who argue that the typical entrepreneurs that they see do not have access to accurate market information and thus necessitates the institutions rewriting the business plans with accurate information included. Moreover, a study conducted by Okpara (2011) identified a huge information gap between local business service providers and entrepreneurs with a lack of government support agencies to fill this gap.

Following this, the reasons why the respondents who did write a business plan before venture start-up were investigated.

Table 6.14: Main reason(s) for writing a business plan at venture start-up.

Statement	Valid	Missing	Agree	Strongly agree	Total
To obtain funding	100	0	41.7	35.0	76.7
To evaluate a market opportunity and the possibility of ultimate success	100	0	48.3	41.7	90.0
To guide the thinking process and decision making process of the entrepreneur	100	0	46.7	51.7	98.3
To provide an all-inclusive framework and overall direction, to enhance the consistency and coordination across the venture	100	0	43.3	48.3	91.7
As an internal planning tool	100	0	41.7	38.3	80.0
In order to attract partners	100	0	28.3	25.0	53.3
To determine the cost and benefit of restructuring	100	0	43.3	26.7	70.0
To determine cost and benefit of expansion	100	0	31.7	36.7	68.3
To determine the market size and possible market share I can obtain	100	0	38.3	36.7	75.0
To make certain projections	100	0	53.3	36.7	90.0

From table 6.14 it can be seen that the reason indicated by practically all of the respondents (98.3%) who did write a business plan as their main motivation for doing so was to guide the thinking and decision making process of the entrepreneur. When compared to the main reason respondents indicated as why they did not write a business plan (did not apply for debt funding), it is clear that there is a major misconception of the importance and/or primary use of business plans.

Moreover, further accentuating the vital role of a business plan as an internal planning tool, 91.7% of the respondents indicated that they wrote a business plan in order to obtain an all-inclusive and overall direction to enhance consistency and coordination across the venture.

The results obtained are aligned with the current theory that argues that the development of a sound business plan is a widely accepted manner in which to found a new venture. This is because developing a business plan helps the entrepreneur to develop vision for the venture and thus improve decision making related to start-up. Also, potential stakeholders can be convinced of the potential for success and sustainability of the new venture as thorough business planning will lead to the elimination of poor venture opportunities before the entrepreneur invests scarce resources (Chwolka & Raith, 2011).

Hereafter 90% of the respondents argued that developing a business plan enabled them to evaluate the market opportunity and the possibility of ultimate success as well as the fact that they developed a business plan to make certain projections. Gleeson (2011) argues that business plans can afford entrepreneurs a holistic analysis of the proposed venture. Through business planning the resources available to the entrepreneur along with the environment in which the new venture will operate is analysed and the best route to success is determined given the constraints of the entrepreneur's resources and environment. Thus, the real value of a business plan is the planning process of the business itself as it forces entrepreneurs to consider aspects they might have overlooked and truly gives a holistic view of their proposed ventures (Gleeson, 2011).

There are a number of theoretical advantages for entrepreneurs who invest in planning activities prior to establishing a new venture. Most importantly they provide the entrepreneur with the tools with which to evaluate a market opportunity and the possibility of ultimate success, validation of the business opportunity for the entrepreneur and future investors even when there is little observable evidence to prove the merit of a new venture and an outline of the approach the entrepreneur will implement to exploit the opportunity (Chwolka & Raith, 2011; Delmara & Shaneb, 2004; Petty, Palich, Hoy & Longenecker, 2012). It is clear that the entrepreneurs who did develop a business plan understood that it was far more than a simply a tool to obtain funding and instead serves as an internal management tool.

Although neither in the top or bottom range of the responses obtained, it is highlighted that only 76.7% of the respondents indicated that they developed a business plan in order to obtain funding. A possible explanation from this scenario may be encapsulated in the fact that approximately 95% of all SMMEs rely either on capital invested by the founders or relatives and friends to finance these enterprises (Cook & Nixon, 2000) and only when capital is needed beyond the abilities of the entrepreneur and relatives entrepreneurs will turn to the diverse funding mechanisms, including debt and equity funding (Sayed, 2010).

However, Beck (2007) argues that commercial banks are wary to invest in start-up ventures, as the costs associated with lending to SMMEs are high due to the risk involved in establishing a new business venture. For financial institutions, such as commercial banks, a proven track record, security and collateral are needed to deem an entrepreneur as credit worthy. This significantly reduces the ability of venture start-ups to obtain funding from these institutions (Russel & Edwardh, 2001). To minimise the risk involved in funding a start-up venture, commercial banks charge fees and transaction costs, which entrepreneurs consider to be too high (Okeahalam, 2001). This further highlights the problematic aspects of obtaining funding from commercial banks, as the repayment of loans is very expensive. As such Mahembe (2011) asserts that the policy response from government should not necessarily be to increase the amount of credit that is available to the SMME sector, but rather to adjust the product offering of the credit that is already available. If the terms on which credit is available can be adjusted to better meet the needs of the SMME sector it is intended to serve, it will reduce the constraining effect of this barrier (Mahembe, 2011).

Additionally, the lack of awareness regarding the financing options that are available is a reason for concern. Instead of investing in continuous new initiatives, government should supply the funds via the existing funding institutions (Mahembe, 2011). The fact that the typical entrepreneur is not aware of the different types of funding available significantly impacts upon the ability to pursue the right funding option given the amount of security or own contribution they have available.

The reason least cited by the respondents (53.3%) as motivation for writing a business plan is to attract partners. Palich et al. (2012) indicate that the typical outside users of a business plan include potential customers, lenders, suppliers and investors. However, a business plan should not be underestimated in its potential to attract partners. Once the merit of the venture is proven, entrepreneurs could gain access to partners in order to increase the level of skills in the ventures or the networks available to the venture.

Once again the reasons most often cited by the respondents with regards to the contribution of developing a business plan for venture establishment are summarised in table 6.15. Only the significant or repetitive statements are included in this table.

Table 6.15: Contribution of developing a business plan for venture establishment.

<p>Business plan</p> <p>No, it is just a document - what matters most is the people with the relevant skills and abilities to implement a plan</p> <p>Most definitely, it clearly states the intentions of the entrepreneur about the venture establishment. It is like a business bible to a new business</p>	<ul style="list-style-type: none"> - Serves as manual - Gives clear direction of where you want to go & how to get there as well as all the resources you will need - It is a guidance structure - Provided a road map that was instrumental to the success of the business as it served as a reminder to what the core initiatives of the business are - Detailed plan that serves as a guideline helps open doors to acquire funding and to establish successful venture - Highlights what you want to achieve for your business - Guides your steps to be able to establish a successful venture - Keeps you focused on your vision - Helps you to make informed decision especially with regards to risk management (balancing risk and reward) - Reach goals and success - Provide strategic direction - Gives you a view of what you want into your business and the future of your business - Minimise cost and maximise profits - To improve your business and expand
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6.2.2.4 Integration with phase 1: Business Plan

From the data obtained from the interviews the business plans were highlighted as a core function in the evaluation process of the support institutions, however the interviewees indicated that the entrepreneurs and their teams are the main influencers on the decision to either award them financing or not. This is due to the fact that the support institution employees acknowledge the fact that the majority of the entrepreneurs do not have the ability to do accurate market analyses or projections and the institution employees typically re-write the business plans received into their own formats, with their own facts.

Table 6.16: Integration of phase 1 and 2: Business plan.

BUSINESS PLAN	
Motivation for writing a business plan	Reasons for not writing a business plan
To guide the thinking process and decision making process of the entrepreneur	I did not apply for debt financing and thus didn't need a business plan
To provide an all-inclusive framework and overall direction, to enhance the consistency and coordination across the venture	The business is too small and simple to warrant business plan
To evaluate a market opportunity and the possibility of ultimate success	I am so experienced in the line of business I am going into that there was no need for business plan
To make certain projections	

Whether or not entrepreneurs should write business plans prior to venture establishment has been a contentious issue in the literature for many years. Although the importance of planning before venture establishment is not disputed, it is the level and depth of planning that is the issue. In typical situations, the entrepreneurs struggle to draw up business plans as they lack certain information and their projections are based on future facts. On the other hand, the institutions re-write the entire business plan as they acknowledge the fact that the majority of the entrepreneurs lack the skills and information to develop a sound business plan. That being said, the advantages of developing a business plan, as cited by the respondents, all highlight the paramount importance of a business plan as an internal monitoring and planning tool. However, whether this vital internal tool should be used as a measure to evaluate the funding potential of a new venture is the question to which the phase-oriented process, as argued in this thesis, could potentially be the answer.

Hereafter the next theme as identified in the interviews was investigated, namely the entrepreneurial team. The respondents were asked to indicate whether they had an entrepreneurial team or partner(s), how having an entrepreneurial team influenced venture formation, the characteristics of their teams, motivation of why they believe that partner(s) contribute to venture success or not and to identify the attributes of their business partner(s). From all of the respondents included in this study, 91.4% indicated that they had an entrepreneurial team at venture formation whereas 51.3% stated that they had a partner.

Figure 6.7: Amount of respondents who had an entrepreneurial team (indicated in percentage).

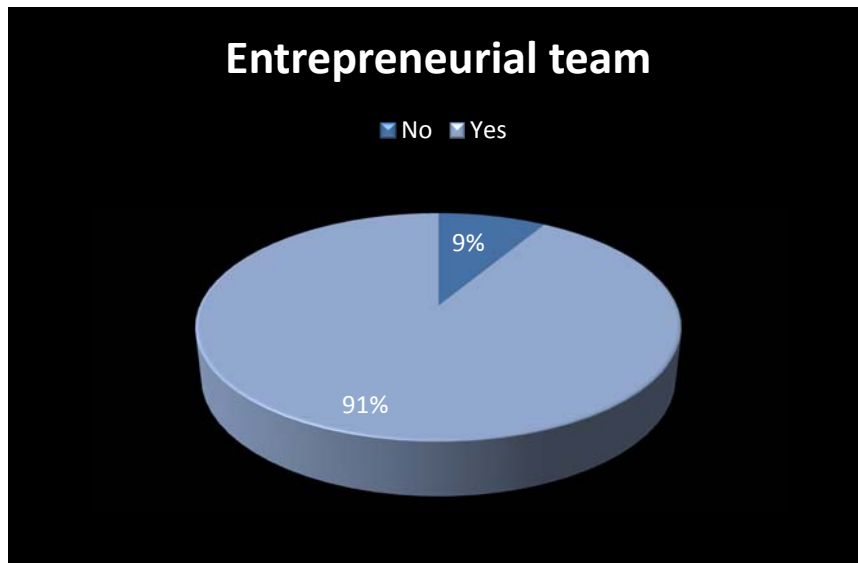


Figure 6.8: Amount of respondents who had a partner (indicated in percentage).



Table 6.17 offers a summary of the main influences an entrepreneurial team has on venture formation that the respondents of the quantitative phase of this study indicated.

Table 6.17: The effect of an entrepreneurial team on venture formation.

Statement	Valid	Missing	Agree	Strongly agree	Total
Better planning	100	0	35.2	53.7	88.9
Faster establishment	100	0	32.4	41.7	74.1
Better networks	100	0	27.8	39.8	67.6
More skills	100	0	34.3	48.1	82.4

The majority of the respondents (88.9%) indicated that the main influence an entrepreneurial team has on venture formation is the fact that they have access to better planning. This correlates with the two main reasons why the respondents of this study draw up a business plan, namely to guide the thinking and decision making process of the entrepreneur and to serve as an internal planning tool.

Due to the involved nature of establishing businesses there is ample literature available that argues the multifaceted, intricate process (Rasmussen, Mosey & Wright, 2011). In order to move from nascent entrepreneurship to creating value by means of a new venture, a multitude of competencies is required from the entrepreneur. However, previous researchers experienced difficulties in aptly identifying the necessary skills and abilities for new venture creation as the entrepreneurial opportunities identified by various entrepreneurs are heterogeneous in nature. According to this perspective, every unique entrepreneurial case needed a unique set of abilities (Rasmussen et al., 2011). Recent research however, has argued that establishing a venture is not a process dependent on a specific set or resources, but rather on the ability of the entrepreneurs and their teams to use combinations of various resources – whether it is tangible or intangible (Rasmussen et al. 2011).

Hereafter, the respondents (82.4%) indicated that through their entrepreneurial teams they had access to more skills. The notion that the support institutions base the majority of their evaluation of the potential of a proposed venture on the entrepreneurs and their teams highlights the importance of acquiring an entrepreneurial team with relevant skills and characteristics in order to aid the evaluation process. Additionally, accessing team members

with the right skills and characteristics are vital to the growth and future success of a venture, even more than assisting with venture evaluation.

Additionally, the ability to develop and maintain a competitive advantage in the constantly changing environment is seen as one of the key resources in venture establishment (Rasmussen, Mosey & Wright, 2011). Since one individual entrepreneur rarely possesses all the competencies necessary to successfully establish a venture, ventures are frequently established in teams. These teams are often regarded individuals with different skills and competencies who interact dynamically throughout the start-up process (Rasmussen, Mosey & Wright, 2011). The literature suggests that entrepreneurial teams have a significant impact on the performance and effectiveness of entrepreneurial ventures and ultimately venture success and survival due to their diverse knowledge (Tihula & Huoyinen, 2010; Leary & De Vaughn, 2009).

From the respondents, 74.1% stated that they achieved faster establishment as a result of the entrepreneurial team and only 67.6% felt that their entrepreneurial teams gave them access to better networks. The importance of human capital in establishing and growing an entrepreneurial venture should not be underestimated. The networks approach to entrepreneurship states that even though entrepreneurs must possess some ideas and skills, they will need to acquire most resources throughout the entrepreneurial process from the external environment in which they will operate, and that this must be done through establishing networks. As such networks are described as an “opportunity set” that will enable entrepreneurs to access both tangible and intangible resources (Abou-Moghli & Muala, 2013). However, if the entrepreneurs and their teams lack access to relevant networks, this function can be fulfilled by mentors who are industry experts and have access to already established networks.

Hereafter the respondents were asked to answer several questions in order to determine the most fundamental entrepreneurial characteristics. The characteristics identified are summarised in table 6.18 below.

Table 6.18: The characteristics of the entrepreneurs.

	N	Mean
Risk taking propensity	116	3.27
Innovativeness	116	4.19
Competitive Aggressiveness	116	2.01
Need for Achievement	115	4.06
Commitment and Determination	115	4.22
Locus of Control	115	3.92
Opportunity Obsession	115	4.12
Valid N (listwise)	115	

According to Spinelli and Adams (2012) all of the individuals who have been successful in business share the characteristics of “raw energy and intelligence” and that three attributes account for the success in new ventures, namely positive response to challenges and mistakes, personal initiative and perseverance. Moreover, seven core attributes of entrepreneurs evolved from additional research and Spinelli and Adams (2012) note these as: commitment and determination; courage; leadership; opportunity obsession; tolerance of risk, ambiguity and uncertainty, creativity, self-reliance and adaptability as well as a motivation to excel.

Table 6.19: Comparison between the data obtained from the respondents and the literature.

Ranking received from respondents	Spinelli and Adams (2012:38)
Commitment and determination	Commitment and determination
Innovativeness	Creativity
Opportunity obsession	Opportunity obsession
Need for achievement	Motivation to excel
Locus of control	Self-reliance and adaptability
Risk taking propensity	Tolerance of risk
Competitive aggressiveness	

As can be seen from table 6.19, there is a great degree of consistency between what the literatures suggests are vital entrepreneurial characteristics and the characteristics that the established entrepreneurs have identified.

6.2.2.4 Integration with phase 1: Entrepreneurial team

From the interviews conducted in the qualitative phase of this study the central role of the entrepreneur in the evaluation of venture potential was repeatedly highlighted. All of the interviewees agreed that the entrepreneur and entrepreneurial team were crucial to the decision to fund, or not, any venture. The evaluating individuals used the limited interaction that the current evaluation process offers with the entrepreneur to determine the commitment and dedication of the entrepreneur to the venture.

A continuous theme in the interviews was the notion that the typical entrepreneur has vast technical knowledge on the venture and/ or expansion they are proposing, but they lack the skills to write business plans and especially find the financial aspects challenging.

Table 6.20: Integration of phase 1 and 2: Entrepreneurial team.

ENTREPRENEURIAL TEAM	
The effect of an entrepreneurial team on venture formation	Characteristics of the team
Better planning	Commitment and determination
More skills	Innovativeness
Faster establishment	Opportunity obsession
Better networks	Need for achievement
	Locus of control
	Risk taking propensity
	Competitive aggressiveness

Entrepreneurial teams offer entrepreneurs access to a wider set of skills, better planning, as well as additional networks which can lead to faster new venture establishment. However it is of paramount importance that entrepreneurs identify team members that can truly add value in the process of establishing a new venture. Should this be in place, the time to market can be reduced as an effective team will lead to faster establishment. It is highlighted that a mentor with specific industry related knowledge and networks that are assigned to entrepreneurs during the application, funding and founding process can also offer all of the above mentioned benefits of an entrepreneurial team.

Upon the completion of this phase, focus groups were conducted with individuals who have applied for/ are in the process of applying for funding at the support institutions included in this study. The results obtained are discussed in the next section.

6.2.3 Phase 3: Focus groups

The interviews with the individuals who evaluate the business plans received by the various support institutions were conducted in order to determine the process of applying for funding from the point of view of the institutions. Hereafter four major themes emerged and were tested in the surveys sent out to entrepreneurs in the Bloemfontein area with ventures that had been in existence for no longer than five years. Opinions were collected from individuals at the institutions responsible for evaluating business plan applications, along with those who had managed to successfully start and run an entrepreneurial venture was obtained. The perspective that was still lacking was from those individuals who had applied for funding at the various support institutions included in this study. The core problem which was why the rate of entrepreneurship remains low despite the government's best efforts to support institutions has been investigated from three different perspectives – 1) that of the institutions responsible for evaluating business plans. The core themes identified here were validated through surveys. 2) The inputs from entrepreneurs who had successfully established an entrepreneurial business that had been operational for a maximum of five years had been solicited in terms of the four themes identified from the qualitative inquiry and 3). The individuals who applied for funding at the specific institutions included in this study. The aim of the focus groups was not to validate the four themes identified by the support institutions, but to identify the problems in the funding process of support institutions from the point of view of the applicants.

The focus group participants were given a very broad problem statement, namely:

“Support institutions, such as IDC, Business Partners and NEF, have access to a lot of money. However, very few entrepreneurs are able to meet all the requirements which these institutions have during the application process in order to obtain funding for their ventures. Additionally, many of the entrepreneurs who do receive funding cannot keep their business sustainably in the market due to a lack of support and a challenging environment. It is thus vital to investigate what factors have a negative impact on venture establishment and sustainability and to make recommendations to these institutions on these aspects to enhance entrepreneurial development.”

The individual feedback obtained was then categorised into themes by the respondents. All of the aspects listed by the individuals in the focus groups were summarised into themes where-after each of these themes was given a heading by the participants of the focus groups.

The results of this interaction are summarised in table 6.21.

Table 6.21: Themes identified from the focus groups.

1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
Loans are approved, but the funding is not delivered	Complicated and involved funding policies	It is not what you know, but who you know that helps you get access to markets	Institutions do not motivate why business plans/ applications are not funded	A lot of documents demanded to comply	Need mentors who can help with the business aspects of a specific venture	Lack of business skills	Personality of employee must be matched to job. Individuals at the institutions are not qualified for jobs (they do not know which businesses must adhere to what criteria, i.e. BB-BEE certificates, etc. and then	Not enabling woman through the admin process

							let entrepreneurs do unnecessary work	
1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
Negative experience with the support institution	Enough capital available little dispersed. Lot of money available, few people helped	Not enough marketing support for entrepreneurs from institutions	Places where support institutions are situated. Most of the people who are not living around Bfn can't access the institution	Sometimes applications are not answered	For every industry/ size of business a skilled business advisor is needed	Need more than just money or management skills. You need technical knowledge and how to grow your business too. All skills must be considered in the evaluation	Not sufficient/ good training for the evaluators	Not used friendly policies

1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
Stealing of my ideas	Need to reduce the cost of funding and the red tape associated with it	Difficult to get information on the market and competitors	Lack of briefing sessions and workshops with the entrepreneurs	Lot of administrative red tape	Constantly need access to help, if we learn the right lessons on the way, we will be successful in the market	Many institutions like the CUT and UV exists, but there is no cooperation. Can help develop skills	Continuous training for the employees in crucial	Many small expenses that add up just to make contact with the institution (phone, travel; etc.)
Corruption and uneven playing field	The funding process takes too long for a response	Entrepreneurs often have inaccurate information – no way to validate	General lack of information frustrating	The time the process takes – it is a long process	No help available	Entrepreneurs need healthy capital muscle and knowledge	There is no rush to answer enquiries from the institution side	Certificates expire too quickly – constant hassle and costs

1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
Tender irregularities	Poor admin from the funders side	Need training on how to retain current customers	No information on how the funding process work	The problem is that institutions don't do what they have said when they call the people to apply for funds	Help available has copy and paste mentality – nothing unique	Huge need for mentoring programmes	Need a dedicated individual to guide applicants through the admin process	Expensive to comply to regulatory aspects (certificates, etc.)
Bribery to get funding	High financial expectations of the entrepreneur		Lack of information from stakeholders on services they offer	Lack of information on continuous business administration, i.e. feedback during the process, as well as reasons for specific decisions	Some consultants who write business plans are not trained in the specific field or industry. Need someone who understands the industry	Entrepreneurs create wealth and jobs, they are important	Don't think the business advisors have the necessary skills	Lack of information on how to obtain certificates, etc.

1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
Information leaks	Very difficult to access funding		When you look for guidance and support from the institutions you do not know where to start or what to do	One standard checklist for all businesses – no way to get “personalised/ unique” advise	The right mentor must be matched to the right entrepreneur	Time constraints of working individuals	Business advisors are not qualified enough to help every unique application	Complicated legislation procedures
Corruption at every level means regardless of complaints, nothing is done	Entrepreneurs are risk takers and the institutions do not fund “risks”			Want to run the business my way and not be bound by institution “rules”	The restructuring mentors are never assessed, they do not do a good job	We are a resourceful country	Not trained or helpful advisors	Ensure compliance on too many things – BEE, CIDB, HBRC

1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
Free State = Government, There are not a lot of corporates to get business from	Training workshops are not effective			Admin burden, many certificates and documents at each stage of the venture	Knowledgeable mentor with relevant experience is very important	Skills needed: management skills, leadership skills, finance skills and marketing skills		Laws and regulations too much
	“Empty promises” – you come and apply and nothing happens			Registration process lacks information	Mentors are only available after the business is established, however crucial decisions are made in the process of establishing a business – mentors are needed from	Lack of proper training as there is no training support for small business people		SARS procedures big problem

					the start			
1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
	Costs associated with applying for funding – bank statements, certificates			Different consultant every time you make contact with the institution, no consistency or relationship		Entrepreneurs are passionate about their idea/innovation		Hard to get skilled employees for SMMEs – minimum wages keep on increasing
	Strings attached to funding, it never is what it seems.			We sometimes don't know who to trust when we want to register a business. Especially people who do not live in Bfn – there is a general lack of		Necessity based entrepreneurs have little passion, skills or literacy. But if you need money to start a business, you need a business plan		Entrepreneurs who want to start a business is negative towards Government and all the policies

				communication to "outsiders"				
1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
	The entire business, with all the relevant aspects in unique/ specific industries are not taken into account, etc. the transport business is high risk, but insurance is registered on the vehicles			No other alternative than to write a business plan in order to convince funders of merit of business		Sometimes the entrepreneur does not understand the business plan, only the people who wrote it, that makes applying for funding difficult		Regulatory burden is too much and it doesn't facilitate entrepreneurship

1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
	Promises not kept			Business account and personal account is not separated and should be		Language barrier, if you speak Zulu, but have to write the plan and convince funders of the business in English		
	Cannot access funding for expansion when current business is marginal			Just focus on my business, leave the consultants and business plans		Culture issues		
						Lack of soft skills such as phone etiquette etc.		

1. Corruption (Unethical behaviour)	2. Funding process	3. Access to markets	4. Lack of information	5. Process	6. Mentor	7. Entrepreneur and team	8. Support institution employees	9. Regulatory aspects
						Training courses must be right for the entrepreneur – the needs of the entrepreneur must be identified, not just any training		
						A business person must have a business plan to know how to run your business (not to apply for funding)		

As all the information noted in table 6.21 may seem overwhelming, a short discussion on the important aspects of each of these themes identified in the focus groups will be offered as a summary of the table.

a) Corruption/ Unethical behaviour:

In general the respondents of the focus groups had negative experiences with the support institutions they had interaction with. Respondents noted that they do not trust the individuals involved at the institution as they fear their ideas will be stolen, or information will be leaked. Furthermore they highlighted tender irregularities and bribery as major concerns associated with the unethical behaviour of support institutions. The main issue being the fact that the corruption is at all levels of the institution, and even when it is reported, it goes unaddressed. The issue of corruption is a central theme that influences all of the other themes identified in the focus groups as corruption will affect the evaluation of a business plan, the contracts obtained, the requirements set, etc. Moreover, it is the perception of the respondents that individuals who are willing to concede a bribe can obtain preferential treatment above a worthy applicant. Corruption was ranked as the most influential factor limiting successful application for funding at support institutions.

In a study by Okpara (2011) it is argued that “the major challenges that face African businesses include bribery, dishonesty and other illegal business conducts”. This statement is supported by the study of Hashi and Besnik (2011) which concluded that corruption was the most important barrier to entrepreneurial activity. Furthermore Okpara (2011) argued that several support programs are established in order to aid entrepreneurs, however, the support often does not reach the entrepreneur as it is diverted away from the intended recipient to those in positions of power thus benefiting them personally. It is not only the profitability of SMMEs, and consequently their ability to repay start-up loans that are negatively influenced by corruption, but also the growth potential of any business (Wieneke & Gries, 2011). Moreover, corruption will add to an anti-competitive environment, as resources will not be allocated efficiently as certain market players operate outside the law, while the individuals who conform to the legal system face an increased cost of conducting business legally (Hashi & Krasniqi, 2011). Okpara (2011) aptly summarised the significant impact of corruption by stating that “the majority of the respondents in our survey indicated that the process of obtaining support from the government is not only difficult and discouraging, but is also based on bribery and political connections.”

b) Funding process:

The respondents indicated a long and complicated funding process as a major concern. It is costly to access funding (due to the certificates and bank statements demanded as well as phone calls and travelling expenses) and entrepreneurs are inundated with red tape in the process of starting a new venture. Additionally, poor administration on the institution's side leads to slow response times, which has further implications for the length of the funding process. Another specific and highlighted concern of the respondents was the fact that the unique business and specific environment/ industry of the proposed ventures are not considered. A standardised checklist/ guidelines are used in the evaluation and the uniqueness of the proposal not considered. This links strongly to the abilities, skills and experience of the institution employees. The lengthy, complicated and costly funding process was cited as the second biggest barrier to funding. The funding process has a huge impact on a variety of aspects as a lengthy funding process will influence the time to market of an entrepreneur, giving competitors the opportunity to enter the market before them. A qualified/ experienced entrepreneur/ entrepreneurial team can have an impact on the funding process up to a point, as they can develop a good business plan, which could have a positive impact on the initial phases of the evaluation process. However, once the business plan is submitted to the institutions, limited interaction between the evaluating panel and individual implies that the impact of the entrepreneur/ entrepreneurial team is restricted. Should the entrepreneur have access to a mentor, this person could not only give effective inputs during the development of the business plan, but also serve as the champion for the proposed venture when the evaluation process commences at the institution.

The constant lack of access to finance is often cited as the overriding reason for the failure of SMMEs (Hashi & Krasniqi, 2011; Fatoki and Asah, 2011; Okpara, 2011; Xavier et al., 2012). However, Jones (2013) argued that it is not the availability of funds that is the major limiting factor to entrepreneurship, but accessing the funds available at great costs to the entrepreneur that is the major constraint. In other words, the application process of most support institutions is often bureaucratic and that the majority of SMMEs do not possess the collateral and financial records required in order to obtain a loan (Jones, 2013). Mahembe (2011) supports this argument as it is pointed out that the terms and conditions under which the credit must be accessed are unfavourable to SMMEs and this has a severely limiting effect on the rate of SMME establishment. According to Hashi and Krasniqi (2011) "the common view among economists is that the market for loans is imperfect and restricted in scope, even in developed countries, and that it fails to address the financing needs of small

businesses". This vital issue of access to funding was highlighted in the literature review of chapter 2 as well.

c) Access to markets:

The third biggest barrier in the application process of the support institutions, as noted by the respondents, is access to markets. The respondents indicated that it is difficult to get reliable information on the market size and competitors, and even when information is acquired, there is no way in which they can validate the information. Furthermore, the respondents also stated that retention of current customers is an aspect that they need advice, support or training on. In this instance mentorship has a significant role to play. Entrepreneurs who have access to knowledgeable individuals with experience in a specific industry, immediately obtain access to accurate information (without investing a lot of time and money in obtaining the information) pertaining to the market, but also obtain the mentors' specific experience-based understanding of the market. Thus a product/ service that can truly serve the market can be identified with the help of a skilled mentor. Once the applicants have an adequate understanding of the market, they will also be able to offer better financial projections based on accurate market information.

This lack of information is a crucial barrier as information is a pivotal resource in a knowledge-based economy and global markets for both large firms and SMMEs (Julien & Ramangalahy, 2003). Carbonell and Escudero (2010) argue that there is a strong, positive relationship between the market orientation and new product performance of any venture as the ability of a venture to process market information will impact significantly on innovation speed. This led to the development of the term "intelligence generation" which refers to the degree to which a venture collects information from all the relevant stakeholders and market forces. Ventures that have the ability to acquire information have the opportunity to learn and thus they are able to act on the information they have in a timely manner. Consequently intelligence generation can have a significant impact on new product development cycle times (Carbonell & Escudero, 2010). Additionally a venture's ability to acquire information from competitors and customers will not only give the venture the advantage of speed to market, but also ensure effective responses to opportunities and threats in their environment (Carbonell & Escudero, 2010).

It has been indicated in chapter 2 that the market dynamics of SA is cited as one of the limiting factors in terms of entrepreneurship in that the market shifts of SA do not change dramatically enough and thus opportunities are limited as competition and innovation are

restricted in this environment. This in turn can explain why SA's rate of perceived opportunities is below average (Turton & Herrington, 2012). The market is too stable and provides few opportunities for nascent entrepreneurs. However, a key characteristic of innovative entrepreneurs is their ability to identify new markets, even in industries that are dominated by large firms as small ventures can avoid direct competition with large firms through identifying niche markets (Hashi & Krasniqi, 2011).

d) Lack of information:

The general shortage of information was a frustration experienced by the majority of the respondents. A lack of briefing sessions and/or workshops on how the funding process of the institution works, or the services offered was the first major concern. Likewise, the inadequate motivation for why a business plan was not approved was also cited as a big concern as the entrepreneurs could not learn lessons in order to improve future applications. Trained employees can have a significant impact on this aspect as they will be able and empowered to give applicants feedback and guidelines. Moreover, entrepreneurial teams with mentors who are associated with the institutions could also have access to information through the mentors as they are immersed in the evaluation process and discussions pertaining to the proposed ventures. A clear, well-communicated funding process with specific milestones and points of feedback can be a very effective manner in which to address these concerns of the applicants as well. A study conducted by Okpara (2011) identified a huge information gap between local business service providers and entrepreneurs with a need for government support agencies to fill this gap.

e) Process:

This theme refers to the general processes at the institutions and not just the funding process (i.e. from receiving the business plan to approving or disapproving the loan). Again the respondents pointed out that there is a huge administrative burden on them and that the general administrative red tape extends and complicates the process. Again the element of a standard checklist that all the applicants need to adhere to is cited as a major concern, as, for example, certain businesses do not need to apply for BB-BEE certificates, however, the standard checklist forces applicants to adhere to this. To a large extent, a well-trained workforce on the institution's side could address this concern should the employees understand the rules and implications and are consequently enabled to make decisions up to a certain level. The respondents of the study also explained the frustration experienced when a different consultant assists them each time they contact the institution as this leads to a general lack of consistency and often a repetition of tasks. The prominent role that an

assigned mentor can fulfil in this regard is evident. The mentor and entrepreneur can get to know each other well, truly understand the business and market of the venture and ensure that they follow a step-by-step approach to getting the venture to market in a timely and successful manner.

One manner in which to define the pace of progress of a venture from innovation (i.e. the conception of an idea) to the commercialisation of new products is by the term innovation speed as this describes a venture's ability to fast-track the activities and tasks that must be completed through the new product development process (Carbonell & Excudero, 2010). Due to the fact that there is an increasing rate of competition, which leads to continuous technological advancements and consequently shorter product life cycles, innovation speed must be an essential aspect of any venture's innovation strategy (Carbonell & Excudero, 2010; Chen, Damanpour & Reilly, 2010). By focusing on the innovation speed, a venture can set the industry standards and secure distribution channels, achieve superior new product performance, obtain a sustainable competitive advantage, increase product profitability and market share as well as shorten the reaction time to changes in market demands (Carbonell & Excudero, 2010; Chen, Damanpour & Reilly, 2010; McNally, Akdeniz & Calantone, 2011).

f) Mentor:

The respondents of this study indicated that they have a significant need for mentorship and this theme was also identified in the interviews conducted. A mentor who is skilled and experienced in the specific industry, can assist the entrepreneur with business specific aspects on a continuous basis and approaches each new case at an individual level, i.e. the mentors should not illustrate a "copy and paste" mentality. Moreover, the respondents indicated that the institutions currently provide mentors once the business has been established as a way to protect their investment, however, the key decisions are made at the beginning of a new venture and therefore a mentor should be involved from the start of the process. Currently the performance of the mentors/ consultants are not monitored and this is also a major concern for the respondents as they believe these individuals should be constantly evaluated in order to ensure that they maintain a high level of performance. Successful mentorship has a vitally important function to fulfil in the support institutions as the interaction between mentorship and the funding process, access to market and lack of information has been pointed out.

These mentors give entrepreneurs the opportunity to acquire a variety of important business skills, enable them to make important decisions and also help them in creating useful

business contacts, but more so, the mentorship directly influences the entrepreneurs' level of confidence (Bhide, 2000; Kurtzman & Rifkin, 2005; Crompton, 2012).

g) Entrepreneur and team:

All of the respondents of the focus group agreed that entrepreneurs are passionate people who can develop business ideas, however, they lack certain business related skills. Therefore proper need assessment and training courses for the entrepreneurs should be developed by the institution. According to the respondents, another avenue to explore is co-operation between the support institutions and the University of the Free State (UV) or the Central University of Technology (CUT), as the programs offered there can greatly assist the entrepreneurs in terms of skills development. Apart from the skill building aspect of the UV and the CUT, employees at these academic institutions can also act as mentors to the applicants at the support institutions. The respondents also pointed out that all the skills of the entrepreneurs should be evaluated when considering their potential as they are often excellent at the technical knowledge even if they lack business related skills. For this reason the respondents again expressed the need for a mentor to assist them with the development of these skills through their continuous interaction. Additionally, the respondents pointed out that they face severe time constraints when they are employed while in the process of starting their own ventures. This again points to the importance of streamlining the application process of the support institutions, with specific and attainable milestones that are well implemented and monitored. Another aspect that was identified is the general situation where entrepreneurs pay a consultant to write the business plan and consequently do not understand the implications of this business plan. It is vital that entrepreneurs take ownership of their business plans and understand all aspects and implications thereof.

The importance of a dedicated, charismatic entrepreneur and team was also highlighted in the interviews conducted in this study. Human capital (which includes the education, training and experience of entrepreneurs and their teams) is strongly correlated to the start-up, survival, growth and success of a venture in the market (Hashi & Krasniqi, 2011). In the absence of human capital in terms of basic business management skills, entrepreneurs reported slow business growth in their entrepreneurial ventures (Okpara, 2011).

h) Support institution employees:

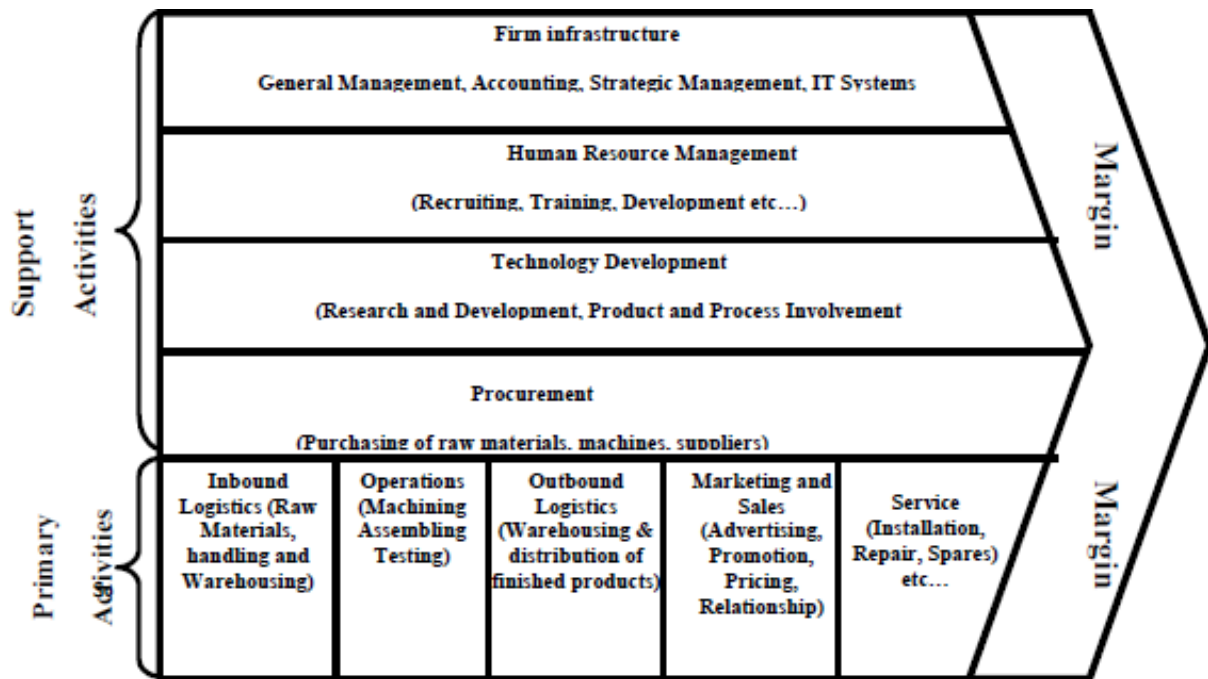
Although the support institution employees are ranked in the eighth place, they should not be considered any less important, as the impact that this aspect has on the entire process and outcome of the process must not be underestimated. From the focus groups the

following aspects concerning the employees of the support institutions became evident: respondents expressed a significant need for skilled employees who receive sufficient good, relevant and continuous training. Once thorough training is in place, the employees will be able to answer enquiries posed by the entrepreneurs thus significantly impacting on the length and frustrations associated with the current process. Additionally, the respondents indicated the need for a specific individual to guide them through the administrative process. Although it is not plausible for an institution to have only one individual guiding all of the applications through the administrative process, the need for this can be addressed to a great extent by the use of a dedicated mentor. Additionally, as pointed out by the respondents of the focus groups, co-operation between the academic institutions and the support institutions can also greatly relieve the pressure on institution specific mentors.

The value chain of any institution, be it a small entrepreneurial venture or an established organisation, summarises the value-generating activities of any institution. These activities are the manner through which an organisation creates value for their prospective clients, but these activities also represents costs for an institution. However, the key purpose of any value chain is to generate profit for the institution by providing the customers with a level of value that exceeds the costs associated with the activities. In this sense the value chain is one of the prominent building blocks of competitive advantage as the manner in which each activity is executed will influence whether the institution is of high or low cost, relative to its competitors but it will also contribute to differentiation (Wahito, 2011).

From figure 6.10 below it is clear that the value chain consists of two distinct sets of activities, namely support activities and primary activities. It is important to note that both the support and primary activities contribute significantly to the margin, i.e. overall performance of any institution. Human resource management is a key focus area among the support activities and therefore the better equipped employees are for their jobs in terms of recruitment and training, the bigger the impact that can be made on the ultimate margin of the institution. It is therefore a crucial aspect of any organisation to thoroughly train and equip the individuals they employ.

Figure 6.9: The value chain.



Source: (Wahito, 2011)

i) Regulatory aspects:

The regulatory aspects surrounding the establishment of an entrepreneurial venture was ranked in the last place in terms of the negative effect it has on venture establishment. When the researcher inquired as to why the respondents place this last, regardless of the wide-spreading influence of the regulatory aspects, the reply was simply that the respondents did not believe this to be an aspect that would change. Their perception is that the regulations surrounding venture establishment are impossible to alter and that they, the respondents have no voice or authority to achieve this.

The main issues pertaining to the regulatory aspects can be summarised by stating that the regulatory burden on entrepreneurs is extensive, costly and overwhelming due to a general lack of information and support to ensure compliance. According to the respondents, the certificates that are needed for venture establishment expire too quickly and need to be renewed at great cost. SARS procedures are complicated and not well facilitated, while the increasing minimum wage makes it hard to afford employees for a start-up venture. Having access to thoroughly trained support institution employees who can assist entrepreneurs with a step-by-step guide to the regulations they need to adhere to and avail relevant information on the compliance aspects would greatly benefit the entrepreneurs. Moreover,

should the support institutions be able to streamline their funding process by entering into agreements with government to reduce the regulatory burden for entrepreneurs who are establishing new ventures through their institution, they can also directly, and significantly influence the establishment of new ventures.

Okpara (2011) warned that the inhibitive policy framework will discourage entrepreneurs from seeking funds for either venture start-up or expansion. Therefore, Baloyi (2012) argued that creating an enabling policy as well as legal and regulatory environment for the development of businesses is a major role that government must fulfil. Although various government departments and institutions have been established in order to develop and implement SMME related policies in order to ensure that the SMME sector receives the needed support in order to achieve long term prosperity, the fact that all of the respondents in the focus groups mention the regulatory burden as a barrier to entrepreneurship, indicates that there is clearly still room for improvement. In addition, compliance costs bear heavy on entrepreneurs and smaller firms, which also negatively affects the start-up rate of new ventures (Hashi & Krasniqi, 2011).

6.2.4 Integration of the empirical data

The data obtained from phase 1 was used to guide the questionnaire development that was implemented in phase 2. Therefore the major advantages and issues related to the four key themes as identified during the interviews (business plan, mentorship, process and entrepreneur and team) were investigated through the perspective of the entrepreneurs who have managed to successfully start an entrepreneurial venture. Moreover, the individuals who applied for funding at the various support institutions included in this study, were asked to identify the major barriers in the current evaluation process as implemented by the institutions during the focus groups.

The key themes that were identified by the support institutions serve as the basis of the data analysis. Hereafter the perceptions of the applicants are used to explain/ motivate the frustrations experienced by the applicants in terms of the evaluation process currently implemented and the results obtained from the quantitative study are offered to further explain the advantages achievable by correctly implementing the initial four key themes. Table 6.22 summarises the results.

Table 6.22: Integrated representation of the data.

	<u>INSTITUTION</u>		<u>ENTREPRENEUR</u>	
	PROCESS	MENTORSHIP	BUSINESS PLAN	ENTREPRENEUR AND TEAM
Key findings of interviews:	Long and costly process guided by set guidelines that involves many people and still amounts to a low success rate.	No mentorship provided during the start-up process, only available for struggling ventures in order to restructure. Agreement that mentorship will increase the success rate.	Although a complete business plan is expected from all applicants although the entire business plan is rewritten into institutions format and only some aspects are reviewed. Key aspects include market size and growth potential as this will ultimately determine the achievable profit.	Knowledge, charisma, experience, honesty and openness of entrepreneur and team are central to evaluation. Most entrepreneurs have the technical knowledge, but struggle to write business plans and especially with the financial aspects
Key findings of focus groups:	1)Corruption (Unethical behaviour) 2)Funding process 5)General process 8)Support institution employees 9)Regulatory aspects	6)Mentor	3)Access to markets 4)Lack of information	7)Entrepreneur and team

	<u>INSTITUTION</u>		<u>ENTREPRENEUR</u>	
	PROCESS	MENTORSHIP	BUSINESS PLAN	ENTREPRENEUR AND TEAM
Key findings of surveys:	<p><u>Motivation for early entry:</u></p> <p>Establishment of customer loyalty</p> <p>Better positioned to satisfy their customers</p> <p>Early market entry allowed me to build up my own networks</p>	<p><u>Motivation for late entry:</u></p> <p>The opportunity to gain more information on the potential size of the market and how fast it will grow.</p> <p>The opportunity to learn from the first movers without incurring the same costs.</p> <p>Longer period gave me time to gain more information about customer demand and protection from imitation.</p>	<p><u>Outcomes of mentorship:</u></p> <p>The ability of entrepreneurs to make better decisions,</p> <p>Entrepreneurs are better able to understand the industry in which they operate and</p> <p>The notion that entrepreneurs are more aware of the environment in which they operate</p>	

6.3 *Main empirical findings*

Based on the empirical results of this study, the researcher argues that the main reasons that innovators find it difficult to move through the commercialisation process can be summarised in two core aspects. These two aspects are:

- i) The Institution
- ii) The Entrepreneur

i) The Institution

The support institution through which entrepreneurs find and establish their new ventures have a significant impact on the speed and success rate of establishing an entrepreneurial venture. It is the argument of the researcher that the following aspects, as identified in the focus groups, relate to the institution through which entrepreneurs must establish their ventures:

- **Corruption/ unethical behaviour**
 - Negative experiences with the support institutions they had interaction with:
 - Lack of trust in the individuals involved at the institution as they fear their ideas will be stolen or information will be leaked.
 - Tender irregularities and bribery as major concerns associated with the unethical behaviour of support institutions.
 - Corruption is at all levels of the institution, and even when it is reported, it goes unaddressed.
 - Corruption influences the evaluation of a business plan, the contracts obtained, the requirements set, etc.
 - Perception of the respondents that individuals who are willing to concede a bribe can obtain preferential treatment above a worthy applicant.
- **Funding process:**
 - The long and complicated funding process is a major concern. It is costly to access funding (due to the certificates and bank statements demanded as well as phone calls and travelling expenses) and entrepreneurs are inundated with red tape in the process of starting a new venture.
 - Poor administration on the institution's side leads to slow response times, which has further implications for the length of the funding process.

- Unique businesses and specific environments/ industries of the proposed venture are not considered. A standardised checklist/ guidelines are used in the evaluation and the uniqueness of the proposal not considered. This links strongly to the abilities, skills and experience of the institutional employees.
 - The funding process has a huge impact on a variety of aspects as a lengthy funding process will influence the time to market of an entrepreneur, giving competitors the opportunity to enter the market before them.
 - From the questionnaires it was discovered that the main benefits obtained from quick market entry are:
 - Establishment of customer loyalty
 - Better positioned to satisfy their customers
 - Establishing own networks
- **Lack of information:**
- A shortage of briefing sessions and/or workshops on how the funding process of the institution works, or the services offered was the first major concern.
 - Likewise, inadequate motivation for why a business plan was not approved was also cited as a big concern as the entrepreneurs cannot learn from this how to improve future applications.
 - Trained employees can have a significant impact on this aspect as they will be able and empowered to give applicants feedback and guidelines.
- **General process:**
- This theme refers to the general processes at the institutions and not just the funding (i.e. from receiving the business plan to approving or disapproving the loan).
 - A huge administrative burden on entrepreneurs and the general administrative red tape extends and complicates the process.
 - Again the element of a standard checklist that all the applicants need to adhere to is cited as a major concern. For example, certain businesses do not need to apply for BB-BEE certificates, however, the standard checklist forces applicants to adhere to this.
 - Frustration experienced when a different consultant helps them every time they contact the institution as this leads to a general lack of consistency and often a repetition of tasks.

- **Mentorship:**

- The respondents of this study indicated that they have a significant need for mentorship (A mentor who is skilled and experienced in the specific industry can assist the entrepreneur with business specific aspects on a continuous basis and approach each new case on an individual basis, i.e. the mentors should not illustrate a “copy and paste” mentality).
- Institutions only allocate mentors once the business has been established, as a way to try and protect their investment, however, the key decisions are made at the beginning of a new venture and therefore a mentor should be involved from the start of the process.
- Currently the performance of the mentors/ consultant are not monitored and this is also a major concern for the respondents as they believe these individuals should be constantly evaluated in order to ensure that they maintain a high level of performance.

By implementing effective mentorship, thus obtaining accurate market information, the advantages to late market entry the respondents cited in the questionnaires can be assured, even if early market entry is achieved. The advantages associated with late market entry are:

- Longer period allowed time to gain more information about customer demand and protection from imitation.
- The opportunity to gain more information on the potential size of the market and how fast it will grow.
- The opportunity to learn from the first movers without incurring the same costs.

Through mentorship, the advantages (as indicated by the respondents of the questionnaires) available to entrepreneurs are:

- To better manage business processes.
- To have access to information they would not have been able to get on their own.
- To have access to networks they would not have been able to develop on their own.

- **Support institution employees**

- The highlighted issues regarding the employees of the support institutions:
 - Significant need for skilled employees who receive sufficient good, relevant and continuous training.

- Through thorough training the employees will be able to answer enquiries and have a marked impact on the length of the current process and alleviating the associated frustrations.
 - Need for a specific individual to guide them through the administrative process. Although it is not plausible for an institution to have only one individual guiding all of the applications through the administrative process, the need for this can be addressed to a great extent by the use of a dedicated mentor.
 - Co-operation between the academic institutions and the support institutions can also greatly relieve the pressure on institution specific mentors.
- **Regulatory aspects.**
- The regulatory aspects surrounding the establishment of an entrepreneurial venture were ranked last in terms of the negative effect they have on venture establishment. When the researcher inquired as to why the respondents place this last, despite the wide-spread influence of the regulatory aspects, the reply was simply that the respondents did not believe this is an aspect that would change. Their perception is that the regulations surrounding venture establishment is impossible to alter, as they have no voice or authority to achieve this.
- The main issues pertaining to the regulatory aspects can be summarised by stating that the regulatory burden on entrepreneurs is extensive, costly and overwhelming due to a general lack of information and support to ensure compliance.
- The certificates that are needed for venture establishment expire too quickly and need to be renewed at great cost. SARS procedures are complicated and not well facilitated, while the increasing minimum wage makes it hard to afford employees for a start-up venture.

These aspects listed are all currently considered as threats to new venture establishment due to the negative perception of the support institution employees regarding the general frustrations with the funding process as implemented as well as the issues highlighted by the focus group respondents. These aspects are intractable and yet, if the support institutions take action based on the issues underscored by the focus group respondents, it can be a

significant opportunity to increase the general ease and success rate of the processes implemented.

ii) Entrepreneur

In contrast to the environmental aspects previously discussed, the issues highlighted here are completely within the entrepreneur's control and can thus be either strengths or weaknesses for the entrepreneurs. These issues are:

- Access to markets

- Difficult to obtain reliable information on the market size and competitors and even when information is acquired, there is no way in which the information can be validated.
- Retaining current customers is an aspect that requires advice, support or training. In this instance mentorship has a significant role to play.
- Entrepreneurs, who have access to knowledgeable individuals with experience in a specific industry, immediately gain access to accurate information pertaining to the market (without investing a lot of time and money in obtaining the information). They also gain insight from their mentors' insights and specific understanding of the market which is based on experience.

- The entrepreneur and the team

- Entrepreneurs are passionate people who can develop business ideas, however, they lack certain business related skills. Therefore proper need assessment and training courses for the entrepreneurs should be developed by the institution.
- Another avenue to explore is co-operation between the support institutions and the University of the Free State (UV) or the Central University of Technology (CUT), as the programs offered there can greatly assist the entrepreneurs in terms of skills development. Apart from the skills building aspect of the UV and the CUT, employees at these academic institutions can also act as mentors for the applicants of the support institutions.
- All the skills of the entrepreneurs should be evaluated when considering their potential of the entrepreneur as these individuals are often excellent at the technical knowledge even if they lack business related skills.

- Entrepreneurs face severe time constraints when they are employed while simultaneously in the process of starting their own ventures. This again points to the importance of streamlining the application process of the support institutions, with specific and attainable milestones that are well implemented and monitored.
- Another aspect that was identified is the general situation where entrepreneurs pay a consultant to write the business plan and consequently do not understand the implications of this plan. It is vital that entrepreneurs take ownership of their business plans and understand all aspects and implications thereof.

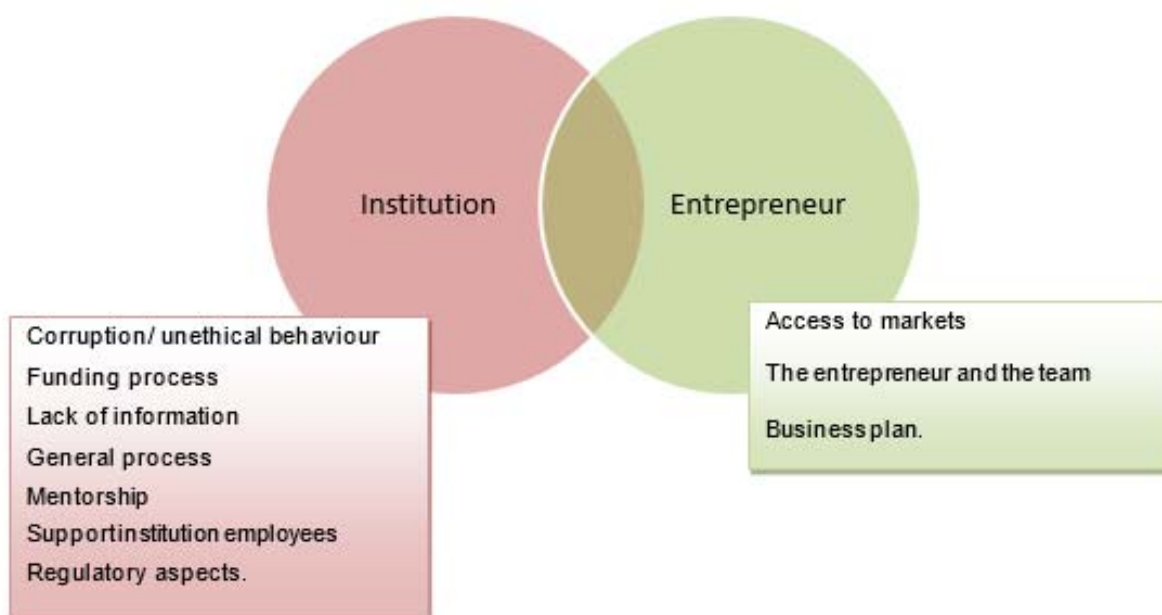
- **Business plan**

Entrepreneurs who understand the business plan developed for their business could achieve the following benefits (questionnaire):

- To guide the thinking process and decision making process of the entrepreneur
- To provide an all-inclusive framework and overall direction, to enhance the consistency and coordination across the venture
- To evaluate a market opportunity and the possibility of ultimate success
- To make certain projections

Figure 6.10 illustrates, and summarises the argument as formulated above.

Figure 6.10: Summary of empirical analysis.



6.4 Summary

This chapter analysed the data of the three phases of this research study and once all of the data obtained was analysed, the researcher was able to condense all of the stated information into two main factors, with specific aspects included in each, as the paramount reasons why entrepreneurs experience difficulty in progressing through the current application and funding process of the support institutions.

The main purpose of collecting and analysing data is to address the problem statement as well as answer the primary and secondary objectives of the study at hand. The primary objective of this study, which in essence addresses the problem statement of this study, is to investigate why entrepreneurs experience difficulties in the commercialisation process which the support institutions currently implement. The data obtained from the focus groups presents the main answer to the noted problem statement which is that entrepreneurs perceive the current process to be one that is flawed with corruption, difficult, demanding on the entrepreneur and costly, while they are faced with a lack of information and mentorship. Additionally the incompetence of the support institution employees and severe regulatory burdens were cited as the core difficulties that entrepreneurs experience throughout the process.

Table 6.23 offers a summary of the secondary objectives and how each of these was achieved.

Table 6.23: Achievement of the secondary objectives of the study.

Secondary objective	Achievement	Summary
To identify the aspects that influences the commercialisation process according to the innovators.	Achieved through the focus groups conducted with individuals who applied for funding at the support institutions included in this study.	Corruption/ unethical behaviour Funding process Lack of information General process Mentorship Support institution employees Regulatory aspects.

Secondary objective	Achievement	Summary
To investigate the current application to approval process implemented by the support institutions.	Achieved by the literature review (Chapter 2) as well as the interviews conducted with the evaluating individual at each of the institutions.	
To determine the role of the business plan in the application process of support institutions.	Achieved by the interviews conducted with the evaluating individual at each of the institutions.	Expected of all applicants, however only certain aspects are evaluated and the entrepreneur and the team are the main factor influencing the financing decision.
To determine why innovators experience difficulties in the application process of support institutions.	Achieved through the focus groups conducted with individuals who applied for funding at the support institutions included in this study.	Corruption/ unethical behaviour Funding process Lack of information General process Mentorship Support institution employees Regulatory aspects.
To compose a list of the most significant factors that influence the successful commercialisation of the applications received by support institutions.	Achieved by the interviews conducted with the evaluating individual at each of the institutions as well as through the focus groups conducted with individuals who applied for funding at the support institutions included in this study.	Mentorship Business plans Entrepreneur and the team The current process
To develop a framework for the various support institutions on how to improve the success rate of the commercialisation of innovations through implementing an encompassing commercialisation process.	Phase-orientated process as argued in Chapter 4.	Phase-oriented process.

The next chapter, chapter 7 will conclude this thesis with a discussion on the recommendations and conclusions of this research. Additionally, the limitations to the study will be highlighted and future research will be suggested.

Chapter 7 Recommendations and Conclusions

7.1 Introduction

This chapter presents conclusions of the theoretical and empirical findings of this study which was undertaken in order to critically investigate the evaluation and funding process as currently implemented by the specified SMME support institutions - Industrial Development Corporation (IDC); Business Partners and the National Empowerment Fund (NEF) - included in this study. According to the literature, the South African government is investing heavily in entrepreneurial support and development due to the fact that SMMEs serve as the catalyst to economic growth, however the reasons for ineffective government support must be addressed by identifying novel ways in which to support entrepreneurs in venture start-up in order to increase the start-up and survival rates of new ventures (Jones, 2013; Msimang 2005).

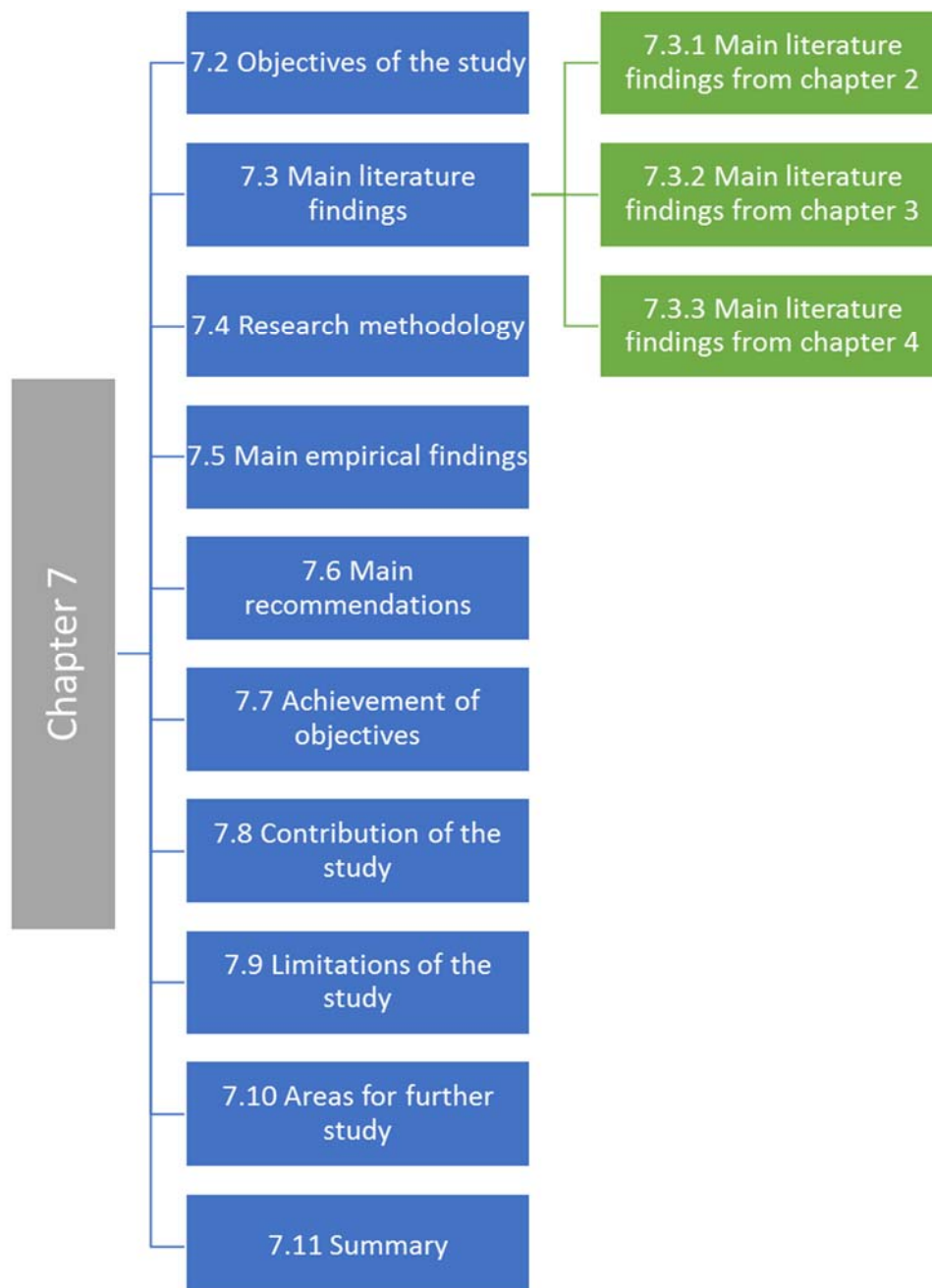
A thorough analysis had to be conducted of the difficulties that entrepreneurs encounter in the evaluation and funding process when applying for financial support where-after recommendations could be made to these institutions regarding possible changes that can be implemented in their evaluation and funding process. The argument of this study is that the typical process implemented by the support institutions is lengthy, demanding and expensive, explaining to a large extent why the rate of entrepreneurial development in SA is still exceptionally low, regardless of all the government efforts and investments. Consequently a phase-oriented process was argued in this thesis where the entire process of applying for financial support at government support institutions was broken down into three distinct phases with clear guidelines and milestones in order to improve the current success rate and time to market.

This chapter is divided into 6 sections where section 7.2 states the research objectives that guided this study; 7.3 concludes the main findings from the literature and 7.4 summarises the main conclusions of the empirical findings and integrates these with the recommendations of this study as well as the achievement of the objectives. Hereafter the contribution of this study is summarised in section 7.5, followed by the limitations of the study in section 7.6. Section 7.7 identifies areas for further research and 7.8 concludes this study.

From the onset of this chapter it should be noted that the main **recommendation** that follows from the literature review and the results obtained from the empirical analysis is that the feasibility, viability and sustainability phase-oriented process must be implemented in all government entrepreneurial support institutions. All of the recommendations that follow, whether from the literature study conducted or the empirical analysis, are offered as additional support for the argument of this phase-oriented process. However, several additional main recommendations are also offered in order to conclude section 7.6.

Figure 7.1 offers an overview of the layout of the sections that are included in this chapter.

Figure 7.1: Overview of the layout of chapter 7.



7.2 Objectives of the study

The primary objective of this study was to conduct a critical analysis into why, despite the best efforts of support institutions, innovators find it difficult to successfully move through the commercialisation process. Hereafter the following secondary objectives were formulated in order to support the primary objective and guide this study:

1. To evaluate the limiting factors to entrepreneurship.
2. To investigate the effectiveness of the government entrepreneurial support institutions in addressing these limiting factors.
3. To investigate the current application to approval process implemented by the support institutions.
4. To determine the role of the business plan in the application process of support institutions.
5. To compose a list of the most significant factors that influences the successful evaluation, funding and commercialisation of the applications received by support institutions.
6. To identify the aspects that influences the commercialisation process as experienced by the entrepreneurs.
7. To develop a new feasibility, viability and sustainability phase-oriented process for the various support institutions in order to improve the success rate of the commercialisation of innovations through implementing an encompassing commercialisation process.

These noted objectives were achieved in various stages of this research study as some were answered through the literature analysis and others through the empirical analysis. Since the discussion on both the main literature and empirical findings will ensue hereafter, the attainment of the objectives will be highlighted during the course of these sections.

7.3 Main literature findings

In order to answer certain objectives, three literature chapters (excluding the research proposal chapter, i.e. chapter 1) were conducted in this study. Chapter 2 focused on arguing the importance of entrepreneurship to any economy and to highlight the low start-up rate of entrepreneurial ventures in SA, following this the main barriers to entrepreneurship were highlighted. In addition, the role of the South African government in terms of supporting and

promoting entrepreneurship was investigated and an in-depth analysis into the three institutions included in this study was completed.

7.3.1 Main literature findings from Chapter 2 (Government Support Institutions)

Chapter two commenced by illustrating the importance of entrepreneurship to any economy for economic growth, job creation and general progress. However, the Total Entrepreneurial Activity rate (TEA) of SA remains alarmingly low on a consistent basis. Table 7.1 offers a summary of SA's TEA rate from 2002 – 2014 (please note that no statistics are recorded for 2007). Although there is an increase in the TEA rate from 2002 – 2014, it amounts to merely 0.7%.

Table 7.1: TEA rate of SA from 2002 – 2014.

Year	SA's TEA rate (%)	Year	SA's TEA rate (%)
2002	6.3	2009	5.9
2003	4.3	2010	8.9
2004	5.4	2011	9.1
2005	5.2	2012	7
2006	5.3	2013	10.6
2008	7.8	2014	7

(Herrington, Kew, Simrie & Turton, 2011; Turton & Herrington, 2012; Amoros & Bosma, 2013; Singer et al., 2014).

Since the importance of SMMEs as a catalyst for achieving economic growth and development are clear, the government of SA has invested in a wide range of initiatives aimed at supporting and growing the SMME sector for the past fifteen years (Mahembe, 2011; Department: Trade and Industry, n.d.). Included in these initiatives is SA's small business policy which was outlined by the White Paper by the Department of Trade and Industry on national strategy on the development and promotion of small business in SA (Timms, 2011; Simplybiz, 2011) which includes aspects such as creating an enabling legal framework, facilitating access to information and advice, promoting access to funding and information for SMMEs, boosting access to markets and procurement from small firms, to improve access to finance and affordable physical infrastructure, improving the low skill

levels and an answer to the shortage of effective support institutions (Mahembe, 2011; Simplybiz, 2011).

Moreover several government institutions were established in order to support and expand the SMME sector of SA. The Government's main agencies and funds are distributed across mainly five different departments namely 1) the Department of Trade and Industry (DTI), 2) the Department of Economic Development (DED), 3) the Department of Science and Technology (DST), 4) the Presidency and 5) the Department of Agriculture (Mahembe, 2011).

When considering the above-mentioned investment by government in entrepreneurship it is clear that the benefits reaped from this vast investment, based on the current TEA rate of SA, are not nearly sufficient. Consequently, in an attempt to improve the entrepreneurial rates of SA, the Global Entrepreneurship Monitor (GEM) 2012 identified twelve limiting factors to entrepreneurship. These factors are: 1. Access to finance, 2. A lack of R&D transfer, 3. Education in primary and secondary school, 4. Government programmes, 5. National policy regulation, 6. Cultural and social norms, 7. National policy in general, 8. Internal market openness, 9. Education post school, 10. Commercial infrastructure, 11. Physical infrastructure and 12. Internal market dynamics.

However, these constraints identified in 2012 are the very reason that the White Paper was formulated in 1995, in other words during the 17 years since the formulation of the White Paper, the very reasons this Paper exists, are still the main barriers as identified by entrepreneurs.

Based on the consistently low TEA rates of SA and the fact that it is in essence the purpose of the White Paper by the Department of Trade and Industry to address all of the factors that are still considered as limitations to entrepreneurship, it is the conclusion of the author that the policies and the initiatives implemented in order to aid entrepreneurial development in SA are largely ineffective.

Table 7.2 offers a summary of the limiting factors to entrepreneurship, as identified in the GEM 2012, the main theoretical conclusions (as were cited in chapter 2, table 2.14) as well as the recommendations of the author to the government support institutions on how to address these issues.

Table 7.2: Summary of the limiting factors to entrepreneurship, theoretical conclusions and recommendations.

Limiting factor	Industrial Development Corporation (IDC)	Business Partners (Business Partners)	National Empowerment Fund (NEF)
Access to funding	Minimum loan amount = R1million	Minimum loan amount = R500 000	Minimum loan amount = R250 000
Theory	<p>Jones (2013) stated that “funding is not easily accessible and comes at a high cost.” This aspect was also raised in the Finscope Study (Jones, 2013) which indicated that the application process of most support institutions is often bureaucratic and that the majority of SMMEs do not possess the collateral and financial records which are required of them in order to obtain a loan.</p> <p>Furthermore Mahembe (2011) argues that the terms and conditions under which the credit must be accessed are unfavorable to SMMEs and this is an additional problem. This implies that the amount of funding available is not the real barrier to funding, but rather that the product design/ services that are offered does not match the needs of the sector which it should serve (Mahembe, 2011).</p>		
Recommendation	<p>The implications of the above-mentioned has a vital impact on the product offerings which these support institutions develop. Finance should be made available to entrepreneurs where lower level funding brackets exist and less surety or personal contribution is expected from the entrepreneurs. As such Mahembe (2011) asserts that the policy response from government should not necessarily be to increase the amount of credit that is available to the SMME sector, but rather to adjust the product offering of the credit that is already available. If the terms on which credit is available can be adjusted to better meet the needs of the SMME sector it is intended to serve, it will reduce the constraining effect of this barrier (Mahembe, 2011).</p>		

<p>Lack of R&D transfer</p>	<p>No indication of R&D activities was made in the sources consulted.</p>
<p>Theory</p>	<p>According to Wild (2013), unless SA invests in scientific research, we will continue to lag behind other developing economies. The importance of R&D spending can be seen in the fact that it is seen as an important indication of a country's ability to compete internationally, offer new products and grow. If these three aspects (international competition, offering new products and growth) are achieved, SA would have an increased ability to reduce unemployment by creating jobs (Wild, 2013). In 2009 – 2010, however, the South African Government allocated merely 0.87% of its GDP of R2.395 trillion on R&D (Wild, 2013).</p> <p>According to David Kaplan, an economics professor at the University of Cape Town, the actual reason for the decline in R&D investment is an overall reluctance to invest in SA and the products produced here. The South African Government is still spending vast amounts of money on acquiring overseas technology, rather than investing in South African-made products.</p> <p>One of the key action plans by the Department: Science and Technology (DST) (2011) to increase investments in R&D is to develop and strengthen the National System of Innovation (NSI) by increasing the human skills base, research infrastructure capacity and knowledge generation through government funded science and research.</p>
<p>Recommendation</p>	<p>The support institutions included in this study could consider reducing the amount of sectors which they fund. This way they would be able to conduct research in each sector to truly become industry experts in order to identify gaps in the sector and thus give appropriate advice to entrepreneurs considering start-up in a specific area. This in turn can translate into more effective evaluation of business plans, better advice for entrepreneurs, effective mentorship and South African products which are worthy of Government investment (as opposed to overseas technology).</p> <p>Additionally, research that investigates whether, when and why start-ups that these institutions fund fail in a specific sector can also be invaluable information for these institutions to possess.</p>

	<p>Support institutions can apply for access to the government funds (0.87% of the R2.396 trillion which was earmarked for R&D), thus strengthening their own capital portfolio, while contributing to the available R&D of SA.</p>		
<p>Education in primary and secondary school Education post school</p>	<p>Through the establishment of sefa, the IDC has expanded their focus to also assist youths.</p>	<p>No mention is made of outreach to schools/ youth specifically.</p>	<p>The age range which the NEF focuses on is 18 – 35.</p>
<p>Theory</p>	<p>One of the biggest challenges that SA faces is the low level of overall education and training. The improvement of the level of overall education and training and promotion of entrepreneurship should be a critical performance area for the South African Government to focus on (Nicolaidis, 2011).</p> <p>In order to support this statement, Nieuwenhuizen and Groenewald (2008) argue that individuals who have completed entrepreneurship courses are much more inclined to start entrepreneurial ventures when compared to the individuals who attend other business related courses, the importance of training young people in the field of entrepreneurship in order for them to be accommodated in the economy is vital (Nieuwenhuizen & Groenewald, 2008).</p>		
<p>Recommendation</p>	<p>Should the support institutions actively engage in R&D, they would be able to identify various aspects that should be considered focus points in entrepreneurial training. Thus these institutions would be able to contribute to the design of entrepreneurial courses</p> <p>However, when considering the low level of overall education as well as the fact that individuals who have completed entrepreneurship courses are much more inclined to start entrepreneurial ventures, providing mentorship programs before individuals embark on the process of establishing a venture will ensure that these individuals are better equipped to deal with the challenges associated with entrepreneurship.</p>		

<p>Government programmes; National policy regulation; National policy general</p>	<p>Each of these institutions has a variety of pre-funding requisites including many legal and compliance aspects and they offer no support during this phase to entrepreneurs.</p>
<p>Theory</p>	<p>In order to achieve economic growth and development, the South African Government has prioritised entrepreneurship and the advancement of SMMEs.</p> <p>In order to achieve economic growth and development, the South African Government has prioritised entrepreneurship and the advancement of SMMEs. One of the major roles that Government must fulfil in terms of supporting SMMEs is to provide an enabling policy, legal and regulatory environment for the development of businesses and to assist in the provision of basic infrastructure, education and information services (Baloyi, 2010). Thus the South African Government has invested in a wide range of initiatives aimed at supporting and growing the SMME sector for the past fifteen years (Mahembe, 2011; Department: Trade and Industry, n.d.).</p> <p>However, regardless of the vast amount of dedicated government agencies, funding, training initiatives and private-sector involvement, entrepreneurship in SA is in a dire state as entrepreneurs struggle to access useful advice and finance (Jones, 2013).</p>
<p>Recommendation</p>	<p>As mentioned, the low rate of entrepreneurship is not due to a lack of agencies, funding, training activities or private-sector involvement, but rather as a result of insufficient access to useful advice and finance. Regardless of the investments of government, entrepreneurial rates remain low in SA and therefore it has become vital for National policy regulation to consider the special needs of entrepreneurs who aim to start a new venture.</p> <p>The support institutions could form an agreement with the Government to reduce the initial regulatory burden of potential entrepreneurs. Aspects that could form part of such an agreement are tax breaks, lighter BB-BEE focus (especially during start-up) etc.</p>

Cultural and social norms	No mention was made of this aspect in either one of the three support institutions investigated.
Theory	<p>A favourable legal and economic environment is conducive to entrepreneurship. However, for entrepreneurship to flourish, the individuals who consider entrepreneurship as a career need a national culture that supports and encourages entrepreneurial activity in terms of the financial rewards, sense of achievement, social status and individual fulfilment that the entrepreneurs experience (Lee and Peterson, 2000. The aspects of the culture of a specific region, which either promotes or inhibits entrepreneurship, must thus be thoroughly analysed.</p> <p>Research continuously points to the fact that South Africans lack entrepreneurial spirit. On average, school-leavers have the perception that they will find work in the corporate world as opposed to considering creating their own businesses, however, the South African labour market is not creating jobs at a fast enough rate (Luiz and Mariotti, 2011).</p> <p>It is therefore vital that a deliberate effort is made to foster a culture of entrepreneurship in the country. Not only for the current generation of individuals who need to become job providers rather than job seekers, but also for future generations. There is growing recognition that experiences, attitudes and events prior to new venture creation have a critical influence on the individual's propensity to start-up. Therefore, those who have a family history of entrepreneurship or who can see their immediate peer groups recognise the value of entrepreneurship are more inclined to consider starting their own business (Endeavour SA, n.d.; Van Vuuren and Groenewald, 2007).</p>
Recommendation	<p>The support institutions could identify a manner in which to broadcast their success stories to the general public in order to get the attention of the general public and to possibly encouraging individuals to approach the institution. Moreover (as previously mentioned) access to useful and proper information and communication as well as finance may also inculcate a culture of entrepreneurship.</p>

Internal market openness	No mention was made of this aspect in either one of the three support institutions investigated.
Theory	<p>Even though market openness is acknowledged internationally as a driver of economic growth, most countries are still struggling with regulatory barriers and this has a negative impact on true market openness (OECD Reviews of Regulatory Reform, 2002).</p> <p>Barriers to entry are defined as those factors that discourage new firms from entering into a specific industry, even though the current firms in the industry are earning massive profits. Generally these barriers to entry are either behavioural or economic; however, the characteristics of the specific industry can also serve as barriers to entry. These industry characteristics include demand, technology, costs and licenses. For an economic or behavioural barrier, including industry characteristics to be considered a barrier to entry, it must imply costs for new entrants which the established businesses do not bear (De Bruyn & Gibson, n.d.).</p>
Recommendation	<p>New entrants have to bear several expenses in the process of new venture establishment which established businesses do not have to incur anymore. To name only a few, new entrants have to develop business plans which entail market research, financial projections, etc. which makes the development of a business plan a costly procedure. Moreover, new entrants must acquire BEE rating certificates, zoning certificates (when applicable) and far more in order to comply with all the regulatory aspects expected of them. The support institutions should work together with the government and negotiate a lighter regulatory burden for the entrepreneurs who are progressing through their funding and commercialisation process.</p>
Commercial infrastructure	No mention was made of this aspect in either one of the three support institutions investigated.
Theory	<p>Commercial structure refers to a variety of aspects, including:</p> <ul style="list-style-type: none"> ▪ Sub-contractors ▪ Suppliers ▪ Consultants ▪ Professional services (e.g. accountants and lawyers)

	<ul style="list-style-type: none"> ▪ Banking services <p>The concern relating to the commercial infrastructure with regards to SMMEs is the fact that typically SMMEs struggle to afford access to the above-mentioned services, which are actually vital to SMMEs (Turton & Herrington, 2012).</p>
Recommendation	The various support institutions should play a primary role in this aspect. Once these institutions access in-depth industry knowledge through R&D, they will be able to fulfil the role of mentors and also contribute to the networks of prospective entrepreneurs in terms of suppliers, consultants, etc.
Physical infrastructure	No mention was made of this aspect in either one of the three support institutions investigated.
Theory	<p>Turton and Herrington (2012) note that research conducted by the National Planning Commission in the discussion on infrastructure development in SA established that inadequate investment in the energy and transport sectors, along with ineffective operation and maintenance of existing infrastructure had a severely limiting effect on the economy. Due to the lack of investment in and development of the SA infrastructure, many new opportunities that could have emerged are lost and the cost of doing business increases dramatically (Pottas, n.d.).</p> <p>Consequently, infrastructure is increasingly placed at the forefront of the government's agenda and this led to government committing substantial resources to infrastructure development to redress economic infrastructure backlogs and inadequacies which have become a constraint to economic growth. The significant impact that infrastructure has on transforming the economy through economic growth and job creation is now recognised and highly sought (The Presidency, 2012).</p>
Recommendation	Unfortunately with regards to the support institutions there are limited options for them to address this issue as this remains an aspect that should be addressed by government. However, the support institutions can give specific precedence to entrepreneurs who aim to start ventures, or introduce products that can address the issues related to the constraints of the physical infrastructure of SA, such as solar technology.

Internal market dynamics	No mention was made of this aspect in either one of the three support institutions investigated.
Theory	<p>The market dynamics of South Africa are cited as one of the limiting factors in terms of entrepreneurship. The market shifts of SA do not change dramatically enough and thus opportunities are limited as competition and innovation are restricted in this environment. This in turn can explain why SA's rate of perceived opportunities is below average (Turton & Herrington, 2012). The market is too stable and provides few opportunities for nascent entrepreneurs.</p> <p>Nevertheless, a dynamic market is vital for entrepreneurship in SA. When there is continuing shifts in demand and supply, business opportunities invariably arises (Turton & Herrington, 2012). This implies that the demand for products remains fairly stable and the supply for these stable demands is met. In other words, this imposes yet another form of entry barrier for new entrants.</p> <p>With the above-mentioned in mind it seems there is much that government can do to promote entrepreneurship. Duncun (2012) quotes the minister of economic development, Ebrahim Patel on admitting that they "have not created an environment where entrepreneurs can flourish and at the same time jobs are being lost on a daily basis".</p>
Recommendation	The improvement of the internal market dynamics will be a logical flow out if the above mentioned issues are addressed. When internal market openness is achieved, the commercial and physical infrastructure are improved, more R&D is conducted in order to identify new opportunities and funding is more readily available to entrepreneurs and a more dynamic market will be fostered.

In order to summarise the recommendations offered in table 7.2 a short discussion ensues.

It is **recommended** that the funding barrier to entrepreneurship is overcome by altering the product offerings in terms of the minimum amount of funding available and the terms and conditions under which funding can be secured.

Should each of the support institutions focus their attention on a limited amount of specific sectors to fund and focus their attention on these specified, few industries, the research and development (R&D) conducted in these industries can be invaluable in identifying gaps/

opportunities in the market and consequently give appropriate advice to entrepreneurs regarding which venture opportunities to pursue and which not, but moreover, research can be conducted on the reasons for success and failure in a specific industry.

Additionally, the issue of commercial infrastructure can be largely addressed as these support institutions will not only be able to serve as excellent mentors using their in-depth knowledge and understanding of the specific industries they focus on during R&D conducted, but they will also know who the suppliers, distributors etc. in these industries are, thus giving the entrepreneurs access to a wide variety of networks. This serves as the first *supporting recommendation* for the phase-oriented process as the mentorship that can be provided by the various support institutions when they have accurate and in-depth knowledge of an industry as well as established networks in that industry, can improve greatly, which in turn will have a significantly positive impact on the success rate of the ventures.

Additionally it is **recommended** that the support institutions and government reach an agreement where, should the entrepreneur manage to progress through a well-structured, encompassing evaluation and funding process as implemented by the support institutions, the administrative and regulatory burden of these first time entrepreneurs must be significantly reduced. This in turn will also address the issue of market openness to a great extent as the additional costs incurred by the entrepreneurs will be limited. Furthermore, in order to address the issue of a lack of physical infrastructure, the support institutions can negotiate more rewards, even fewer regulatory burdens or a reduced repayment of the loan for entrepreneurs with either service or product solutions to the current physical infrastructure problems, such as through solar powered products.

This highlights the second *supporting recommendation* to validate the implementation of the phase-oriented process. Through the literature review conducted as well as the empirical results that were obtained in this study it is proven that the phase-oriented process is a well-structured and encompassing process to commercialisation. This can serve as the basis for the negotiations with the government in that the likelihood of success increases dramatically when the entrepreneurs go through a well-structured process, thus reducing the risks for the government and increasing the possibility of venture success, which will ultimately lead to several economic benefits such as job creation.

Also, the support institutions must obtain a platform where their success stories of entrepreneurs who applied for financial assistance and have become established business people can be relayed in order to influence the society's social and cultural norms and ultimately impact positively on the perceptions of entrepreneurship. It is the argument of the researcher that when the above-mentioned recommendations are in place at the support institutions, internal market dynamics will be a logical, positive outcome.

An additional **recommendation** in this regard is to argue for the holistic approach to all of these limiting factors to entrepreneurship instead of viewing these factors in isolation. Figure 7.2 is offered as a summary of the interaction between these limiting factors according to the author of this study. However, a short discussion on figure 7.2 follows in order to clarify the concepts and highlight the interaction between the various factors noted.

The government is responsible for the regulations and policies formulated; the physical infrastructure and the education on both primary and secondary levels. The type and level of education received on both primary and secondary levels will have an impact on the cultural and social norms pertaining to entrepreneurship. The regulations and policies in terms of the availability and terms of funding will influence the availability of funding and the combination of the regulations and policies, as well as the availability of funding will impact on the internal market openness of a society. Moreover, the funding available will influence the amount of R&D that can be conducted, which in turn will impact on the commercial infrastructure, and this is a reciprocal process as the commercial infrastructure will ultimately also impact on the type of R&D conducted. Once the issue of internal market openness and commercial infrastructure is addressed, the internal market dynamics will also be influenced in a positive manner.

This highlights the third **supporting recommendation** for the phase-oriented- process. The phase-oriented process argues that all of the limiting factors to entrepreneurship are connected and inter-related and that the entity of issues must be collectively addressed, albeit in various phases. Only once these limiting factors to entrepreneurship are addressed in a collective manner, can a positive impact on the entrepreneurial rates of SA be expected.

The phase-oriented process in essence addresses several of the limiting factors, merely by implementing them correctly in the various government entrepreneurial support institutions. In effect, any individual (whether they apply for funding or support at government institutions or start their ventures on their own) will benefit from implementing the phase-oriented

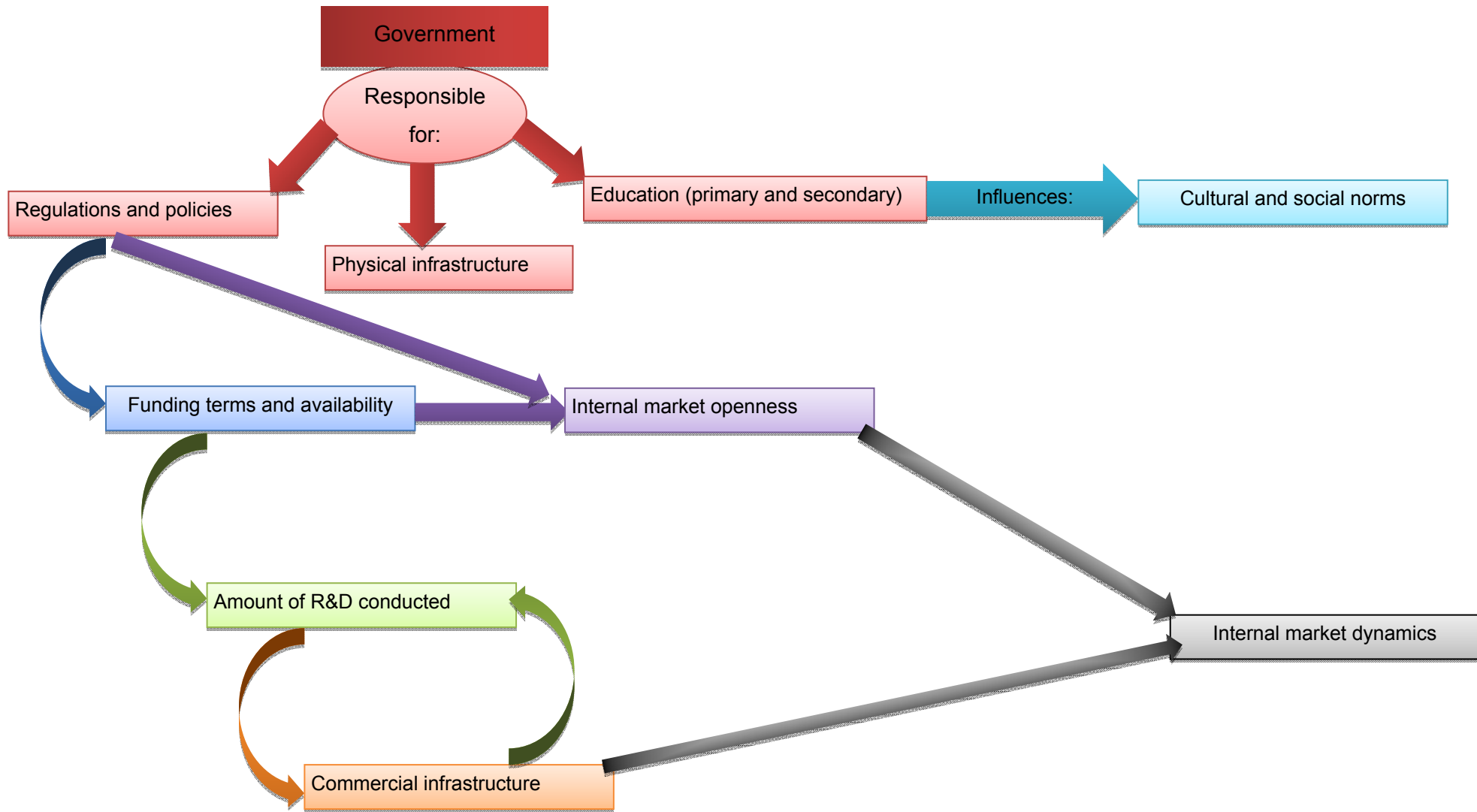
process as it leads the entrepreneur to important aspects of every venture and focuses their attention on all the issues to be addressed in commercialising a new venture.

Through chapter 2 of this study, the first two secondary objectives of this study were answered as these objectives were to:

- Evaluate factors inhibiting entrepreneurship and
- Evaluate the effectiveness of government entrepreneurial support institutions in addressing these barriers.

Since the government entrepreneurial support institutions are largely still ineffective (as shown in chapter 2, section 2.4) in addressing these constraints, the policies pertaining to entrepreneurial establishment as well as the mandates of the government entrepreneurial support institutions should be re-evaluated and adjusted. Recommendations on these adjustments will commence once the conclusion from the empirical data are drawn, in paragraph 7.5.

Figure 7.2: Integration of the limiting factors on entrepreneurship.



Chapter 3 commenced with a thorough analysis of business plans - including the importance and function of business plans, the history of business plans and an analysis of the two opposing schools of thought regarding business plan development (the planning vs. the learning school of thought). Following this, business plans were investigated as they relate to the formation of new or established businesses along with the conditions that influence the decision to draw up a business plan and the impact of business plans on the success rate of new ventures. This chapter concluded with an in-depth analysis of the concepts feasibility, viability and sustainability as these concepts form the core of the proposed phase-oriented process.

7.3.2 Main literature findings from Chapter 3 (Feasibility, viability and sustainability as encapsulated in business plans).

Planning is always beneficial to any venture and the higher the degree of accurate and reliable information, the higher the value of business planning (Brinckmann et al., 2010). However, the problem that most new ventures face is that they are surrounded by uncertainty and inaccurate information on which to base their business planning, but developing a business plan remains a fundamental aspect to securing external support. Conversely, established businesses have access to factual past financial statements and industry related knowledge but as they do not need to access external funds, they do not develop business plans merely as an internal monitoring tool. The discrepancy between the value of business planning for new ventures as opposed to established businesses is, to a large extent, the reason why there is no consistency in the current literature on the benefit of developing a business plan. Planning will always be a positive activity with many benefits, however, the level of planning must be moderated to the level of information and knowledge available.

Based on this argument Gruber (2006) argues that three variables will settle this debate on the usefulness of business plans: the level of uncertainty and dynamism in the environment and that entrepreneurs must focus on high value planning activities as opposed to all planning activities (contingent factors); key activities in the planning process as opposed to all the planning activities (process attributes) and lastly, the core functional areas and the level of attention given to these areas (planning areas). Building on this perspective is the contingency based perspective, which argues that the situation of a specific business will determine which planning activities must be considered in the value creation process and

consequently that entrepreneurs must scrutinise the planning process in order to reveal where the true and measurable value is created.

However, the feasibility, viability and sustainability phase-oriented process is an additional improvement on the contingency based approach as it argues that all planning activities must be included in the process of venture formation, but at different and distinct stages of venture formation. Thus entrepreneurs will go through the entire planning process and obtain all the benefits associated with business planning while severely limiting the moderating impact of uncertainty in the process of business planning.

Although entrepreneurs are currently encouraged to conduct feasibility, viability and sustainability studies prior to, or during, business formation, there is no clarity in the current literature on the definition or the aspects that should be included in each of these studies. This inconsistency has such a big impact that the feasibility, viability and sustainability studies have in essence become the same document. Moreover, these three studies each mirror the aspects included in a typical business plan. Consequently the benefits that can be obtained from conducting feasibility, viability and sustainability studies are lost as there is no distinct benefit associated with any of these concepts.

The important conclusion of this chapter is that business planning is vital to any venture. However, it is essential that the planning activities conducted are well structured and based on facts rather than assumptions. Where business plans are the accepted manner in which to conduct the business planning activities associated with new venture formation, the researcher of this study proved that the phase-oriented process encapsulates all the elements of a typical business plan, however, it is structured around the various phases of venture formation as well as the different levels of information available, thus enabling entrepreneurs to formulate their plans based on factual information.

Upon the completion of chapter 3 of this study several secondary objectives were answered from a literature perspective. These objectives were stated as:

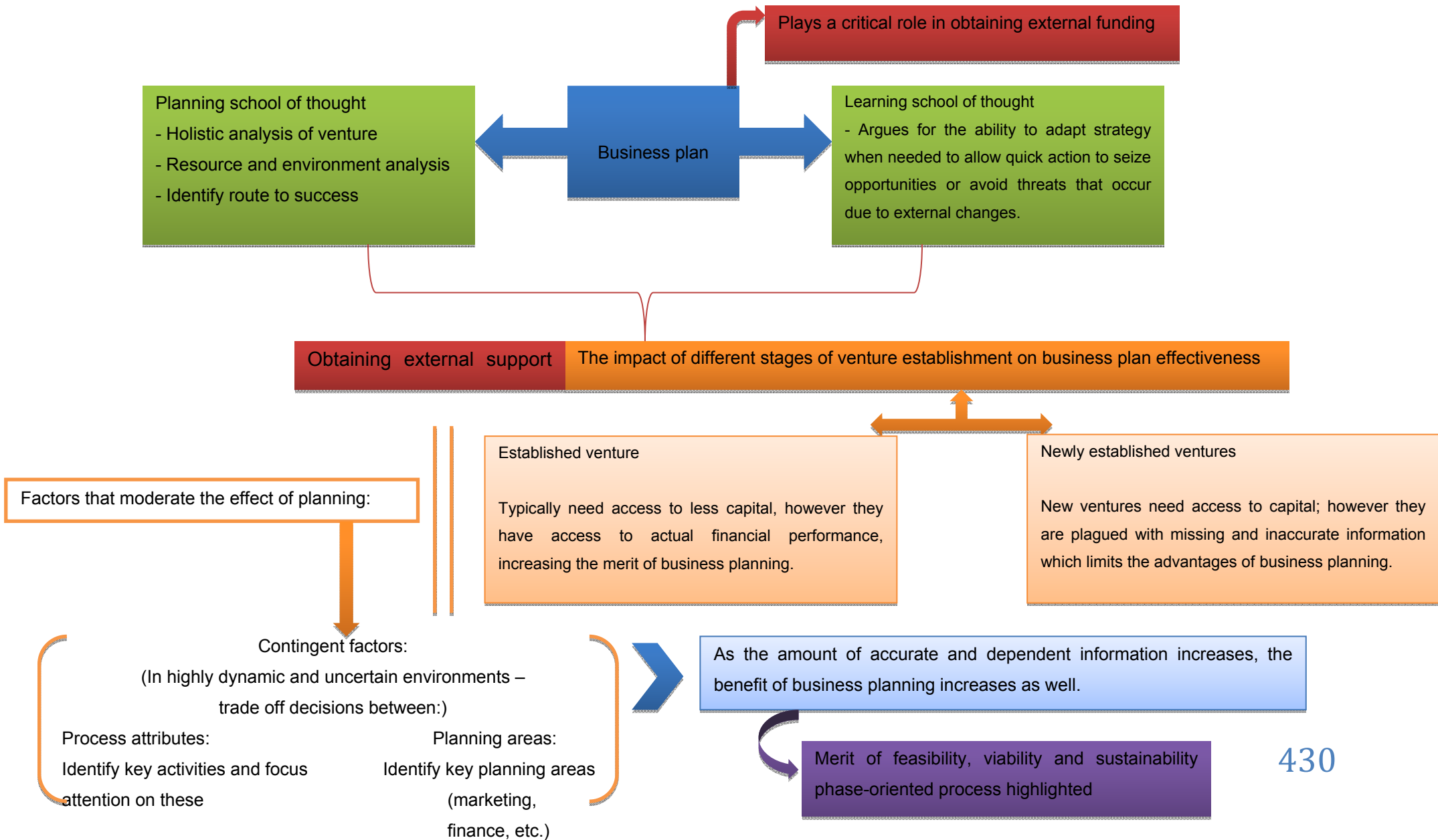
- To investigate the current application to approval process implemented by the support institutions.
- To determine the role of the business plan in the application process of support institutions.
- To develop a new feasibility, viability and sustainability phase-oriented process for the various support institutions in order to improve the success rate of the

commercialisation of innovations through implementing an encompassing commercialisation process.

Appendixes B – D of this study summarise the current application process of the support institutions included in this study. However, the evaluation process will be discussed in section 7.5, the empirical findings. Additionally, the key roles that business plans currently play in the application process were highlighted at the onset of chapter 3 (section 3.1 – 3.6). Hereafter chapter 3 of this study (section 3.7 – 3.9) offers an in-depth discussion into the concepts of feasibility, viability and sustainability as well as identifying the aspects that should be included in these concepts. Subsequently it was possible to argue the theoretical merit of the newly constructed phase-oriented process and attain the stated objective.

Figure 7.3 offers a summary of the interaction of the concepts discussed in chapter 3 of this study and illustrates the interaction between the various elements that were included in this chapter.

Figure 7.3: Illustration of the interaction of planning and learning school of thought with business planning.



The **recommendation** that follows from the literature review conducted in this chapter is once again that the feasibility, viability and sustainability phase-oriented-orientated process must be implemented in government institutions in order to determine the true merit of a proposed venture as once the phase-oriented process has been properly implemented and completed, the outcome of all of these phases added together is still a typical business plan. However, after completing this process, the business plan will be based on valid information as opposed to the perception of the entrepreneur. It must be stressed that the business plan is not merely a summary of the feasibility, viability and sustainability phases, but a document that encapsulates the future goals and strategies of the venture, based on the thorough and accurate information obtained during the phase-oriented-orientated process.

Chapter 4 served as additional justification for the phase-oriented-orientated process as suggested in this study, as it illustrated that this phase-oriented-orientated process adhered to the requirements of successful commercialisation. This chapter concluded with an encompassing discussion and illustration of the phase-oriented-orientated process.

7.3.3 Main literature findings from Chapter 4 (Factors of successful commercialisation and the phase-oriented-orientated process).

In order to substantiate the argument that the aspects included in the phase-oriented process (feasibility, viability and sustainability) are logical and sufficient, the elements included in each of these phases were identified through a thorough literature review and the initial argument for the factors to be included in each of these phases is based on a theoretical argument. However, to add to the argument for the phase-oriented process, the elements included in each of the phases were compared to the elements which are included in the typical layout of a business plan. From this comparison it became clear that all of the elements that are included in a business plan are also included in the phase-oriented process. Since business plans are currently deployed as the only manner in which the support institutions included in this study evaluate the potential of a proposed venture it is valid to argue that the complete overlapping nature of the phase-oriented process and the business plan serves as proof of the merit of the suggested phase-oriented process.

Moreover, the elements included in the phase-oriented- process were also compared to the aspects that influence the commercialisation of innovation as it is argued in the current literature that the incorporation of these factors into the commercialisation process will significantly increase the probability of success.

The phase-oriented process as suggested in this study addresses two major issues that emerge from the discussion above. Firstly, the approach that is argued to commercialise the product (which will ultimately influence the success or failure of the product) is structured and developed in a complementary and encompassing process in the form of the three phases, namely Feasibility, Viability and Sustainability. Secondly, all of the aspects that contribute to successful commercialisation are included in the suggested phase-oriented process.

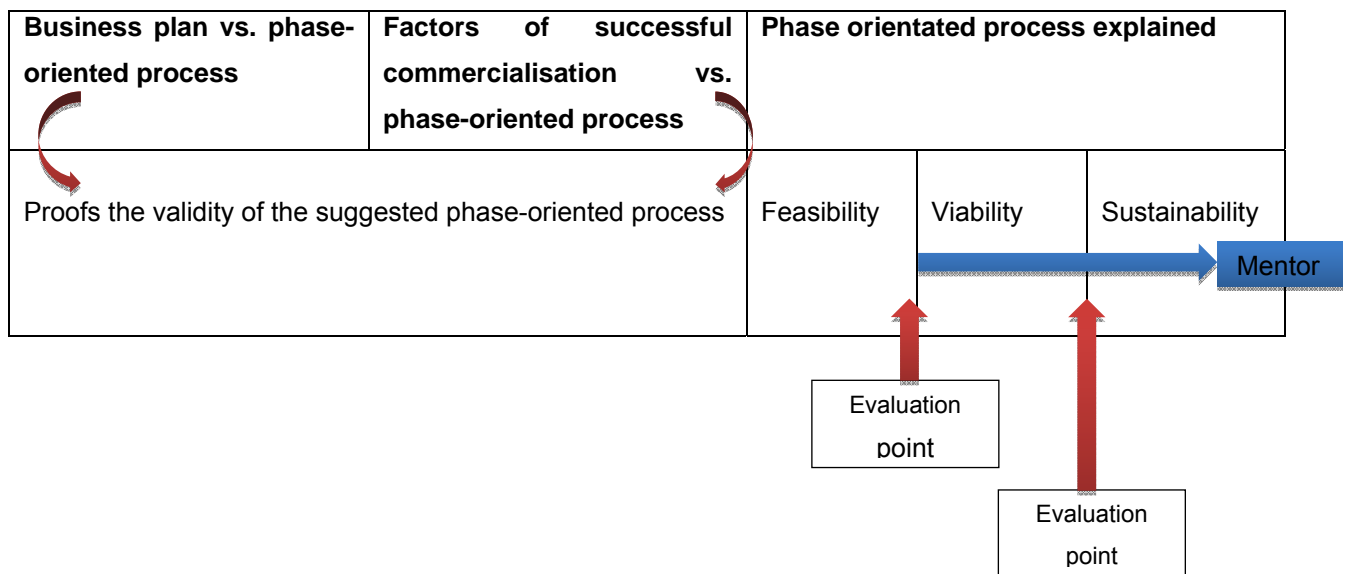
The last section of chapter 4 focused on an in-depth discussion on the suggested phase-oriented process in order to ensure that all of the elements are highlighted and the specific rationale for this process is clear.

Table 7.3 offers a summary of the main outcomes of chapter 4 and provides a visual representation of the main aspects from chapter 4.

Table 7.3: Summary of chapter 4.

Business plan vs. phase-oriented process	Factors of successful commercialisation vs. phase-oriented process	Phase-oriented process explained
<p>Proven correlation between the aspects included in a business plan and those included in the phase-oriented process. Aspects are just expected and integrated at various stages. Consequently the argument for the phase-oriented process is validated.</p>	<p>Through the phase-oriented process all of the factors that influence successful commercialisation are included and addressed, thus strengthening the argument for the phase-oriented process.</p>	<p>Feasibility phase: Only the technical merit is addressed and the entrepreneurs are solely responsible for this phase.</p> <p>Viability phase: Market opportunity is validated and the help of a knowledgeable mentor with industry related experience is acquired.</p> <p>Sustainability phase: Strategies and financial projections are set in place with the help of the same mentor in order to ensure the sustainability of the venture.</p>

Table 7.3: Summary of chapter 4 (continued).



The **recommendation** that follows from chapter 4 is that the feasibility, viability and sustainability phase-oriented process serves as a replacement for all of the separate elements identified as factors for successful commercialisation as this process encapsulates all of the noted details. More so, once the distinct phases (feasibility, viability and sustainability) have been completed, the entrepreneur will be able to construct a thorough and solid business plan that can serve as a complete internal planning tool which will provide direction for the future activities of the entrepreneurial venture, thus ensuring survival and growth.

The objectives of this study that were attained through the completion of chapter 4 were:

- To compose a list of the aspects that influence the commercialisation process as well as
- To develop a new feasibility, viability and sustainability phase-oriented process for the various support institutions in order to improve the success rate of the commercialisation of innovations through implementing an encompassing commercialisation process.

The aspects that influence the commercialisation process are summarised in tables 4.3 – 4.9 of chapter 4 while the entire chapter serves as motivation and legitimisation of the suggested phase-oriented process.

7.4 *Research methodology*

This study is based on the pragmatic school of thought with the main focus being the investigation of the research problem as along with posing practical solutions to the problem (Giacobbi & Poczwardowski, 2005). Thus it is argued that the aim of pragmatism is to “provide practical solutions to contemporary problems experienced by people and society” (Giacobbi & Poczwardowski, 2005).

More specifically, in order to provide the most comprehensive understanding of the research problem, the researcher employed mixed methods research which enables the researcher to draw liberally from both quantitative and qualitative assumptions (Giacobbi & Poczwardowski, 2005), consequently, a sequential- exploratory mixed method was implemented in order to best address the contemporary research problem and provide reliable and reasonably accurate data.

This research design commenced with a qualitative method in order to explore the research problem (The data was collected through interviews with the individuals who are responsible for business plan evaluation at the support institutions included in this study) where-after a quantitative method was implemented to explain relationships found in the qualitative data (trained fieldworkers completed the questionnaire with entrepreneurs who had successfully started their own business). Thereafter an additional qualitative phase was implemented in order to further enrich the data obtained (focus groups were held with the individuals who applied for funding at the support institutions included in this study).

The data collected for this study was summarised and analysed using qualitative techniques, such as Interactive Qualitative Analysis and descriptive statistics as the main emphasis of a sequential-exploratory study is on the qualitative data obtained.

7.5 *Main empirical findings*

Based on the empirical results of this study, the researcher argues that the main reasons why innovators find it difficult to move through the commercialisation process, i.e. the main empirical findings of this study, can be summarised in two core aspects. These two aspects are the **support institution** at which the innovators apply for support as well as the **entrepreneurs** themselves.

These two core concepts have several underlying aspects as the institution comprises corruption/ unethical behaviour; funding process, lack of information, general process, mentorship, support institution employees and regulatory aspects. The entrepreneur encapsulates a number of aspects, including; access to markets, the entrepreneur and the team as well as the business plan. Table 7.4 offers a summary of these two core concepts, as well as the aspects they encapsulate.

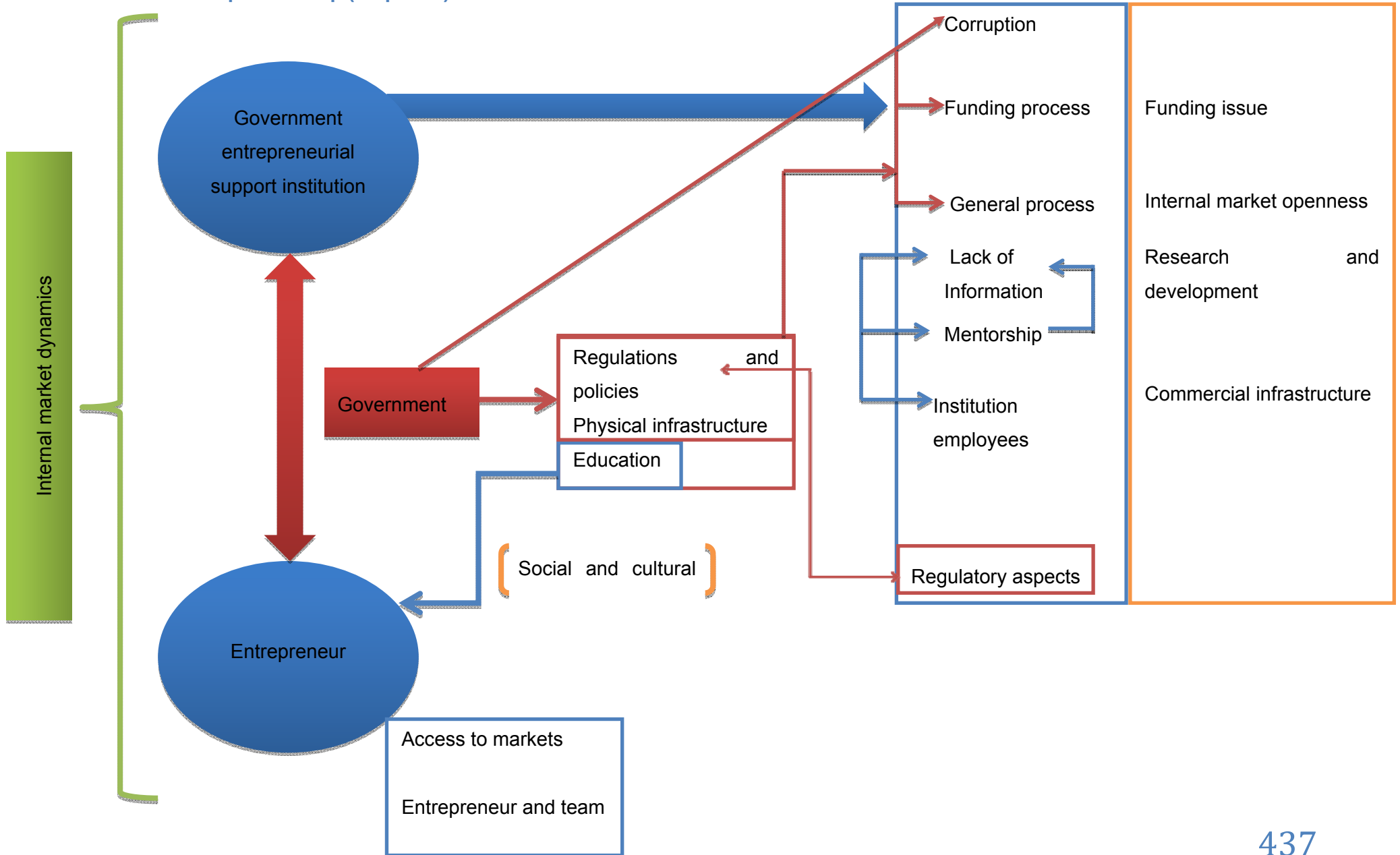
Table 7.4: The reasons why innovators find it difficult to move through the commercialisation process based on the empirical findings of this study.

Support institution	Entrepreneur
<p>Corruption/ unethical behaviour</p> <p>The general perception is that corruption is found on all levels of the government support institutions and that the applicants do not trust the institutions.</p>	<p>Access to markets</p> <p>Entrepreneurs experience difficulty in obtaining reliable market/ industry related information. Moreover, it is not just identifying a proper target market, competitors, etc. that pose a problem to perspective entrepreneurs, but the retention of these customers as well.</p>
<p>Funding process</p> <p>Noted as a long, complicated and very costly funding process inundated with red tape, further complicated by poor administration and incompetence on the institution's side. Moreover the standardised manner in which unique ventures were evaluated was highlighted.</p>	<p>The entrepreneur and the team</p> <p>Entrepreneurs are passionate people who can develop business ideas, however, they lack certain business related skills. Mentors can assist them with the development of these skills through their continuous interaction</p>
<p>Lack of information</p> <p>The lack of information on the specific funding process which institutions implement and the reasons as to why a specific business plan was disapproved.</p>	<p>Business plan</p> <p>Entrepreneurs must take ownership of their business plans and understand all aspects and implications thereof as opposed to paying consultants to write the business plan</p>
<p>General process</p> <p>A significant administrative burden and inconsistency in the consultants who tend to the queries of applicants.</p>	

Support institution	Entrepreneur
<p>Mentorship Mentorship is only offered once the venture needs restructuring, as opposed to at the onset of the venture where mentorship can have a major impact on venture structuring and ultimately success.</p>	
<p>Support institution employees Significant need for skilled employees who receive sufficient good, relevant and continuous training. Once thorough training is in place, the employees will be able to answer enquiries posed by the entrepreneurs thus significantly impacting on the length and frustrations associated with the current process.</p>	
<p>Regulatory aspects The regulatory burden on entrepreneurs is extensive, costly and overwhelming due to a general lack of information and support to ensure compliance.</p>	

In order to integrate the literature findings with the empirical findings figure 7.4 is an illustration of the interaction between the literature and the empirical findings. In order to interpret figure 7.4, the following description is offered: All of the blue blocks and the concepts written in blue are the result of the empirical findings of this study whereas the concepts written in orange represent the main limiting factors to entrepreneurship as identified in the literature. Additionally, the arrows in the figure indicate the interaction and influence of the concepts listed here on each other.

Figure 7.4: Interaction between the limiting factors to entrepreneurship (Theoretical) as well as the barriers to entrepreneurship (Empirical).



This chapter analysed the data of the three phases of this research study and once all of the data obtained was analysed, the researcher was able to condense all of the stated information into two main factors (the support institution and the entrepreneur), with specific aspects included in each, as the primary reasons why entrepreneurs experience difficulty in progressing through the current application and funding process of the support institutions.

The main purpose of collecting and analysing data is to address the problem statement as well as answer the primary and secondary objectives of the study at hand. The primary objective of this study, which in essence addresses the problem statement of this study, is to investigate why entrepreneurs experience difficulties in the commercialisation process which the support institutions currently implement. The data obtained from the focus groups presents the main answer to the noted problem statement in that entrepreneurs perceive the current process as one that is flawed with corruption, difficult, demanding on the entrepreneur and costly while faced with the lack of information and mentorship. Additionally, the incompetence of the support institution employees and severe regulatory burdens were cited as the core difficulties that entrepreneurs experience throughout the process.

Upon completion of the literature review as well as the data analysis, the researcher of this study is able to offer some recommendations (section 7.6) in an attempt to increase the start-up rate of new entrepreneurial ventures. This can only be done by creating a truly conducive environment for entrepreneurs through addressing the main limiting factors to entrepreneurship as well as the current barriers to commercialisation in the funding process as implemented by the support institutions.

7.6 Main Recommendations

Recommendation 1:

The first recommendation of this study, as noted at the onset of this chapter, is that government entrepreneurial support institutions must implement the feasibility, viability and sustainability phase-oriented process. From both the literature review and the empirical analysis, the merit of this process has been argued as it not only encompasses all of the aspects that are presently included in business plans, but also addresses the factors that influence successful commercialisation. Moreover, the phase-oriented process was presented to expert review prior to conducting the interviews with the support institution employees. All of the experts who participated in this review supported the notion of a phase-oriented process and confirmed that all of the vital aspects to commercialisation of

new ventures were included in this process. The feedback obtained from the interviews that were conducted with the individuals who are responsible for the evaluation of the applications received at the government support institutions was overwhelmingly positive. They all agreed that this process will reduce the amount of work and red tape currently associated with the funding process, afford the institution employees time to interact with the entrepreneur and/ or entrepreneurial team in order to make an accurate judgment on their skill level and abilities and reduce the costs associated with the current process – for both the institution and the entrepreneur.

Additionally, all of the interviewees agreed that, according to their perspectives and experience, this phase-oriented process would definitely increase the rate of successful commercialisation. By implementing the phase-oriented process, the entrepreneurs will have access to mentors with relevant and accurate industry skills and knowledge, which will significantly improve the decision-making of the entrepreneurs as well as their access to markets, to mention only a few of the benefits of mentorship. Furthermore, several of the barriers in the current evaluation and funding process (as implemented by the support institutions included in this study) as were cited by the focus group respondents, are instantaneously addressed by implementing the phase-oriented process. The barriers that will be addressed are i) corruption, as there will be constant interaction between the entrepreneur, the mentor and the support institution which will enable all of the parties involved to monitor the activities of the other parties, ii) complexity of the general process, as this phase-oriented process vastly reduces the amount of administrative work for all the parties involved and iii) availability of information, since the well-structured process and trained employees (please see recommendation 4) will ensure that access to information is readily available and the mentorship provided will address, to a great extent the need for industry specific information.

Recommendation 2:

Upon implementation of the phase-oriented process (which is a well-structured, encompassing process that considers and includes the aspects that influences successful commercialisation as well as all of the components of a typical business plan) it is recommended that each of the support institutions should reach an agreement with the government where first-time entrepreneurs have a significantly reduced financial burden in terms of all of the compliance issues to adhere to. Moreover specific employees from the government should work in unison with specific employees from the support institutions in order to aid entrepreneurs with all of the legal compliance issues where quick and accurate

feedback is ensured. Through the implementation of this recommendation the negative influence of the amount, and costs associated with regulatory aspects are severely reduced, along with the complicated nature of the current funding process caused by the legal red tape.

Recommendation 3:

The third recommendation is that every government support institution should have limits posed on the amount of strategic business units, or focus areas/ industries they are allowed to fund. This will ensure that truly skilled and knowledgeable mentors can be acquired in a restricted number of the specific fields the institution focuses on. By implication the mentors will focus on only one field/ industry in which they are already skilled, but through this specialisation, they will continuously gather more and more expertise and a general 'feel' for the specific industry. Moreover, these mentors will be able to build relationships with the typical suppliers and distributors in this industry as well as several other networks, which will benefit the entrepreneurs they assist to a great degree. Consequently these mentors will be able to truly provide accurate information and sufficient, and enabling, support to the entrepreneurs. Through conducting constant R&D in the industries each of these support institutions will focus on, they will address several of the limiting factors to entrepreneurship including commercial infrastructure (as networks will be available to the entrepreneurs), the lack of R&D as these mentors will constantly monitor the industry in order to be able to identify new opportunities or threats as well as reducing the complex nature of the general process since the allocated mentor serves as a facilitator through the process.

Recommendation 4:

Another central recommendation of this study is that all of the employees of the support institutions receive proper and thorough training in order to be able to effectively answer applicants' questions, give feedback on the progress of an application or guide entrepreneurs in the appropriate sequence of steps in the process. In other words, all of the employees who are involved in this undertaking will be able to give quick and accurate feedback to the entrepreneurs. Additionally, since a culture of focusing only on certain aspects of a business plan has been created in these support institutions, the employees must be sensitised to the interactive nature of the suggested phase-oriented process which implies that the next phase can only be as good as the prior phase. There would be no overriding aspects or shortcuts in this phase-oriented process, as this process is based on the core aspects to improve the odds of success for any entrepreneur. Therefore all of the elements cited in the phase-oriented process are equally important and contribute

proportionately to the success of the venture. By implementing this recommendation the difficulties experienced with the general process will be significantly reduced.

Recommendation 5:

One of the key aspects of the phase-oriented process is the fact that it is recommended that a knowledgeable and experienced mentor(s) is assigned to each one of the limited focus areas of the institution and provides support and guidance to the entrepreneurs who will operate in that specific area. Through this mentorship all the information that is needed in the viability phase (i.e. evidence of customer interest and an evaluation of industry conditions) can be validated by a mentor who understands and actively participates in the specific industry. It is not intended by the author of this study for the mentor to end up doing all the work for the entrepreneur, but rather that they answer the questions of the viability stage together, with the mentor acting merely as a sounding board, a validation to the opinion of the entrepreneur and a source of advice. The entrepreneurs who are involved in this new phase-oriented process must take complete ownership of the process and not depend on the mentor to be a quick solution to the commercialisation process, but rather to see the mentor as a knowledgeable partner who can guide the entrepreneur's thinking and decision-making. Consequently, aspects such as a lack of information and the lack of access to market will be addressed by implementing this recommendation.

Recommendation 6:

Proper entrepreneurial training must be implemented where not only primary, secondary and tertiary institutions are involved, but industry experts as well. All of the entrepreneurs who receive assistance through the phase-oriented process could be expected to partake in social responsibility by serving as guest lecturers, case studies or mentors themselves for the youth. Enabling children to understand the value of entrepreneurship from a young age and then equipping them with the right skills to successfully manage an entrepreneurial venture implies that by the time these children are ready to start their own entrepreneurial careers, they would already have a "lifetime" of effective entrepreneurial training to count on. This recommendation will address the limited primary and secondary education that is currently available in terms of entrepreneurship, but to a certain extent would also contribute to the R&D conducted as it can become part of the entrepreneurial curriculum to identify opportunities in an industry, etc.

Recommendation 7:

The seventh recommendation pertains to the entrepreneurs, as they need to realise the fundamental role that they play in the process of evaluating, funding, establishing and successfully maintaining a new venture. The mentors that are assigned to entrepreneurs and the support institutions will fall away when the venture is established in the market and therefore it is the responsibility of the entrepreneurs to gain as much knowledge, expertise, information and as many networks as possible to ensure the future success of the venture. Consequently these entrepreneurs can become true experts in the industry in which they will operate and manage their ventures. This underscores the importance of the active involvement of the entrepreneur in the entire phase-oriented process and the fact that entrepreneurs must take complete control of their ventures while benefitting from the support of the mentor(s) assigned to them. Moreover, once the entrepreneurs manage to successfully move through the feasibility, viability and sustainability phases all the while submerging themselves in the information and knowledge available to them, they will be able to construct a proper and encompassing business plan to serve as an internal monitoring tool outlining goals and strategies for future growth. The business plan is not merely a summary of the three completed phases, but rather a roadmap with a strong future orientation.

Recommendation 8:

The last recommendation this study offers is that the support institutions must consider taking an equity stake in the ventures that progress through the stages of the phase-oriented process rather than demanding a large amount of surety to be invested upfront by these entrepreneurs. In other words, the entrepreneurs must still invest some of their own capital; however, they have the option to dilute the amount of upfront capital required with the amount of shares the support institution can acquire in their ventures. The equity shares obtained by the institution must be available to the entrepreneur (as a first option, but any investor the entrepreneur approves of as well) to buy back and in this manner the support institution will recover their initial expenses. This will also lead to a vested interest from the institution to make the venture as successful as possible as they will receive their ultimate reward only once the entrepreneurial venture is successful. Through this recommendation the immediate financial pressure is relieved from the entrepreneur, but it still expects the commitment of the entrepreneurs as ultimately they will have to honour the agreement between them and the institution and if they cannot buy back the shares from institution, they will have to reimburse the institution financially.

7.7 *Achievement of objectives*

The achievement of the objectives have been highlighted throughout this chapter, however, a short summary is offered to consolidate the information.

The primary objective of this study was to conduct a critical analysis into why, regardless of the best efforts of support institutions, innovators find it difficult to successfully move through the commercialisation process. This objective was answered through the focus groups conducted with the individuals who had applied for funding from the institutions included in this study. Nine key factors were identified from the feedback obtained from them nine as limiting factors to progress through the commercialisation process. These nine factors, in order of importance, are:

1) Corruption/ unethical behaviour; 2) Funding process; 3) Access to markets; 4) Lack of information; 5) Process (general process); 6) Mentorship; 7) Entrepreneur and team; 8) Support institution employees and 9) Regulatory aspects.

As indicated in the recommendations above, by implementing the phase-oriented process as argued for in this thesis, all of the above-mentioned barriers are addressed. Therefore it is argued that the success rate of the institutions will increase as a result of implementing the phase-oriented process, as all of the barriers, from the experience of the applicants, have been addressed.

The following secondary objectives were formulated in order to support the primary objective and guide this study:

1. To evaluate the limiting factors to entrepreneurship.

The twelve limiting factors to entrepreneurship have been identified and thoroughly discussed in chapter 2 of this study. From the literature review conducted the twelve limiting factors were identified, discussed and the current situation in terms of SA has been investigated and summarised.

2. To investigate the effectiveness of the government entrepreneurial support institutions in addressing these limiting factors.

Chapter 2 also consisted of an in-depth analysis of the three government support institutions that were included in this study which entailed; a description of their mandate, vision and mission; the funding activities; the process each of these institutions implement; the services

offered, as well as the success rate of each of these institutions. Chapter 2 concluded with a summary of the three support institutions and the extent to which they address the factors that were identified as limiting factors to entrepreneurship.

3. To investigate the current application to approval process implemented by the support institutions.

This objective was partly achieved through the literature review of chapter 2 as this entailed a review of the process currently implemented by the institution. However the empirical data that was generated through the interviews conducted with the employees of the support institutions responsible for the evaluation of the business plan applications they receive yielded many more specific and in-depth insights into the application and approval process. The four key themes that emerged from these interviews were business plan, mentorship, the entrepreneur and or team, as well as the current process implemented by the institutions.

4. To determine the role of the business plan in the application process of support institutions.

This was achieved through the interviews as well due to the fact that the employees highlighted the fact although a complete business plan is expected from all of the applicants, the team at the institution typically entirely rewrites the plan and only certain key aspects are evaluated by the evaluator. In essence, the main factor that influences the decision of whether to fund or not is influenced by the entrepreneur and/or entrepreneurial team (although the current process offers very limited interaction between the employees and entrepreneurs).

5. To compose a list of the most significant factors that influence the successful commercialisation of the applications received by support institutions.

From the interviews conducted in the first qualitative phase of this study it was evident that the main criteria that influence the funding decision of the institutions included in this study are the entrepreneur/ entrepreneurial team. However, due to the limited interaction that the current funding process offers between the entrepreneur and the evaluating individual it is only possible to get an accurate perception of the skills and abilities of the entrepreneur if the project progresses to the due diligence phase.

The problem with this is twofold: Firstly, to progress to the due diligence stage is costly – for both the entrepreneur who applied for funding as well as the institution and if the

entrepreneur does not perform on the expected level during the due diligence investigation, all the investment from the entrepreneur and the institution is wasted. Secondly, many individuals who would be excellent entrepreneurs might not even be able to progress to the due diligence stage and prove their worth as they have stronger technical skills and struggle to express themselves through business plans.

Additionally, the logical structure and transparent nature of the business plan will have a significant impact on the evaluation of the business plan. It is vital that entrepreneurs ensure a logical, clear and well-structured business plan to these support institutions. All of the individuals who partook in the interviews agreed that the success rate of the applications would be vastly improved if they offered mentorship from the onset of the venture formulation process as this would address possible weaknesses of the entrepreneurs and broaden their network (although they do not currently offer mentorship during the process). The last factor that was highlighted as a significant factor in the successful commercialisation of the applications received was the current evaluation and funding process. It was described as a long, costly and frustrating process and that the improvement of the process implemented will have a significant contribution to the successful commercialisation of the applications received.

6. To identify the aspects that influence the commercialisation process.

Figure 7.3 is offered as the summary of this objective. The limiting factors to entrepreneurship, as theoretically identified, are in constant interaction with the barriers to entrepreneurship as cited by the focus group respondents. These limiting factors should be addressed as an entity in order to positively influence the commercialisation process of innovations.

7. To develop a new phase-oriented process for the various support institutions on how to improve the success rate of the commercialisation of innovations through implementing an encompassing commercialisation process.

7.8 Contribution of the study

According to Glatthorn and Joyner (2005) “a professionally significant study makes an important contribution to the field in one of the following ways: test a theory, contributes to the development of theory, extends existing knowledge, changes prevailing beliefs,

suggests relationships between phenomena, extends a research methodology or instrument or provides greater depth of knowledge about previously studied phenomena.”

The contribution of this study is noted in the fact that it contributes to the development of theory and consequently extends existing knowledge and therefore changes prevailing beliefs. Moreover, the relationship between specific phenomena was illustrated and the research methodology was extended. Lastly, greater depth of knowledge was acquired on a previously studied phenomenon.

The fundamental contribution of this study is the suggested phase-oriented process which was argued from a theoretical perspective, validated by an expert review and confirmed with empirical data. The contribution that this phase-orientated process offers is the fact that the total process of new venture establishment is broken down into manageable phases, each with its own evaluation criteria and specific milestones to achieve. The implication thereof is that any negative variances from the intended goal of successful commercialisation can be identified and addressed in a timely manner without the time and cost implication that a completed process would have on an entrepreneur.

The argument associated with this phase-oriented process is that entrepreneurs should conduct the feasibility phase on their own; however, if they manage to meet the evaluation points set in this phase they progress to the viability phase where they will obtain the help of a mentor in order to validate the opportunity with accurate and factual information. Regardless of the support of a mentor, the entrepreneurs must remain actively involved in the process to ensure that they make optimum use of the knowledge, information and networks that are available to them as they progress to the sustainability phase. Once the sustainability phase is complete, the entrepreneurs are able to add together all the aspects that were addressed through the phase-oriented process and present a business plan that can serve as an excellent internal monitoring tool to ensure that the entrepreneurs implement the strategies that they developed with the help of an expert mentor.

The contributions that follow from implementing this phase-oriented process are noted as the end of the debate on the need for, and effectiveness of, business plans in the process of starting a new venture. The planning and the learning school of thought on business plans should no longer be seen as two opposing schools of thought, but as two consecutive and complimentary phases. During periods of high uncertainty, entrepreneurs will commence

with the learning school of thought and as they progress through the phase-oriented process and the level of uncertainty decreases, they will move to the planning school of thought.

Moreover, the government is enabled to provide effective support to entrepreneurs in overcoming the limiting factors to entrepreneurship through the established support institutions since the interactive nature of the limiting factors have been highlighted and the barriers to commercialisation in the process currently implemented have been identified.

The theoretical contribution of this study is seen in the fact that the terms feasibility, viability and sustainability has been accurately defined and the aspects that constitute each of these terms have been delineated and clarified.

This particular study not only extends existing knowledge and provides greater depth of knowledge, but it also changes prevailing beliefs on what has been researched about the commercialisation of innovation through government support institutions.

7.9 Limitations of the study

The limitation of this study is in the fact that although this argued phase-oriented process is validated through a thorough theoretical analysis, an expert review as well as the opinion of the individuals who evaluate the business plan applications at the support institutions, it has not yet been implemented at any of the institutions. Consequently, although this is a theoretically sound process, it has not yet been proven to be practically sound.

An additional limitation of the current study is the restriction in the number of respondents as only three support institutions and two focus groups were conducted in this study. Although the process implemented by all of the various support institutions greatly overlap and remain constant, minor nuanced differences might influence the general perception of the applicants at other support institutions.

Moreover, an additional limitation is cited in terms of the implementation of the recommended phase-oriented process (and does not pertain specifically to the study itself). This is cited as a limitation to this study as although the phase-oriented process was proven academically and practically sound it will have no value-adding benefits if the right parties do not implement the suggested process.

7.10 Areas for further study

A specific area for further study is to implement the suggested phase-oriented process at a government support institution and to monitor the impact thereof on the time to market as well as the success rate of the entrepreneurs who progressed through this process. This will enable the researcher to make changes to the process if necessary and serve as the ultimate legitimisation of the suggested phase-oriented process.

Moreover this study can also be conducted at other government support institutions to obtain a broader perspective from the applicants and to argue for general barriers to commercialisation across all government support institutions.

An additional area for future research can be to extend the investigation of the current study to the support institutions of different provinces in order to enable a cross-province comparison, but also enable a nationwide improvement in terms of entrepreneurship through implementing the phase-oriented process.

7.11 Summary

The aim of this study was to conduct an evaluation of support institutions in enhancing the commercialisation process which necessitated an investigation into two aspects namely i) the current process implemented in the support institutions as well as the important criteria influencing the funding decision and ii) the difficulties entrepreneurs experience in the commercialisation process which the support institutions implement. Upon the completion of this evaluation the researcher was able to argue the merit of the suggested phase-oriented process for the institutions to implement as it has been determined what these institutions must change in their criteria to enable entrepreneurs to move from one phase to the next to commercialisation thus improving the speed and rate of successful commercialisation.

After a thorough discussion on the limiting factors to entrepreneurship and the current process implemented by the support institutions, the inability of the government support structures to address the limiting factors were highlighted. Since entrepreneurship is vital to the economic growth and development of a country it is crucial to alter the manner in which the support institutions guide entrepreneurs through the process of commercialisation in order to increase the start-up rate of entrepreneurial ventures. Moreover, these limiting factors are not separate issues, but related aspects with a core issue to address and/or improve on; namely, the activities of the government (summarised in figure 7.1).

Hereafter the importance of business planning was underscored, but the moderating effect of the level of uncertainty on the level of planning effectiveness was highlighted. Hence the argument ensued that the development of a business plan should not be considered the optimum manner in which to found a new venture as the level of uncertainty is exceptionally high at the commencement of the entrepreneurial journey. However, with the implementation of the argued phase-oriented process, the level of certainty, clarity and support increases with every phase that the entrepreneur successfully completes, until the entrepreneur progresses to a stage where combining the work conducted in the previous phases amounts to a typical business plan. Moreover, this business plan will be based on factual information as opposed to assumptions and the accurate inputs of an industry expert (in the form of a mentor) rather than the perception of the entrepreneur. The phase-oriented process argues for constant intervals of evaluation in terms of clear and established guidelines with each phase. Therefore the evaluating individual or panel do not have to digest the information of an entire business plan while waiting for the due diligence team to confirm the facts stated in the business plan, but they can regularly measure the ability of the proposed venture to attain specified milestones.

Through the methodology implemented the main factors that influence the decision to fund a business plan application or not, according to the perspective of the support institution employees, were identified along with the barriers that the applicants at the various support institutions encounter in the commercialisation process. Therefore the suggested phase-oriented process is not just legitimised through a theoretical perspective (business plan and factors of successful commercialisation) but also in the fact that it addresses all the issues as noted by the support institution employees as well as the barriers highlighted by the applicants included in this study.

Now, more than ever, the importance of entrepreneurship must be stressed and ensuring that the individuals who pursue entrepreneurship receive the support they need in order to successfully establish and grow an entrepreneurial venture must become a primary motivating factor for all parties involved in or influencing the commercialisation process. It is the firm belief of the author of this study that a properly structured and comprehensive process, implemented by skilled and knowledgeable individuals with the support of an expert, will significantly increase the speed of commercialisation and the possibility of long-term success for entrepreneurial ventures.

~ END ~

Appendix A: Potential entry barriers impacting on individual's decision to enter into entrepreneurship or not.

The potential entry barriers that will impact on individual's decision to either enter into entrepreneurship or not are:

- Future limiting barriers
 - Entrepreneurship may limit labour-supply choices in future.
- Hidden costs barriers
 - Both formal- and informal restrictions. Formal restrictions such as regulations and informal restriction that can include theft, extortion and non-economic related costs.
- Capital barrier
 - Most studies suggest that this is the primary barrier to entry. Includes the unstable income stream of self-employment as well as capital constraints that limit the liquidity entrepreneurs have for initial capital investment.
- Skills barrier
 - Lack of skills to operate a business.
- Cultural barriers
 - The perceptions of a community regarding entrepreneurship and whether obtaining a formal position of employment isn't more desirable.
- Regulatory barriers
 - For example registering business entities and compliance to certain regulations
- Crime
 - The risk that entrepreneurs carry in terms of theft and robbery.
- High structural costs
 - This refers to the transport and infrastructural costs. Often acquiring the needed capital to start a business is a major obstacle especially considering the availability of limited resources.
- Fear of failure
 - This psychological barrier is associated with the risk of not knowing whether the venture that you establish will be a success or not.
- Bargaining power of suppliers
 - Suppliers who provide the entrepreneurs with the needed resources to produce their products and services can increase their prices or poor quality goods can be delivered. This barrier is especially prominent when the new

entrant cannot obtain the resources from other suppliers or if the suppliers provide their resource to many other firms.

- Bargaining power of customers
 - Customers can play competitors off against each other as they can demand lower prices, higher quality, better service or unique products.
- Competition
 - Especially if the industry has many, established competitors as they can start a price war which will leave a vulnerable start-up in dire straits.
- Threats to new entry in markets
 - If there are few additional barriers to entry, the ease with which other potential new entrants can enter the market will in itself be a big barrier to entry.
- Threat of substitutes
 - Substitute products and services imply possible financial losses to entrepreneurs as customers can now choose between alternatives.
- Unreliable electricity
- Corruption
- Poor infrastructure
- Overall state of the economy
- Poor governance factors
- The price of utilities
- Political climate
- Legislation and regulations
 - Heavy compliance burden is diverting time and resources away from firms' core business
 - Labour legislation specifically makes employing staff risky.
- Poor management, technical and entrepreneurial skills
- Lack of financing
- Imperfect competition
- Long bureaucratic processes
- Lack of access to international markets
- Lack of access to information
- Lack of technology and machinery
- Entry of global companies creates entry barriers for local companies
 - Small companies do not have the buying power of international companies
- Literacy
- Culture of SA towards entrepreneurship

- Lack of access to micro financing
- Lack of assets to use as collateral
- Product differentiation barriers
- Absolute cost advantages of firms
- Economics of scale
- Large initial capital requirements
- Patents and licensing
- Limited size of the market

Source: (Department of Basic Education n.d.; Maphalla, 2009; Gatt, 2012; Supermarket.co.za: The website for FMCG, Retailers, Wholesalers and Suppliers. 2013; Van-Staden, n.d.; Ellmore, 2011; Department: Trade and Industry. 2011).

Appendix B: Business plan guidelines of the IDC

Executive summary: General overview of the business

Legal entity

Copies of:

1. All registration documents to confirm that a legal entity has been set up (CM1, CM22, CK1, CK2 etc.).
2. Income Tax and VAT documents to confirm that entity has been registered for Income Tax and VAT with SARS.
3. Income Tax and Vat clearance certificates for an already existing business.

Shareholders and management

1. Detailed CVs of all shareholders, directors and senior management/key personnel. In the case of a Close Corporation, this would apply to members (please include ID numbers, contact details, education and work experience).
2. Details of shareholders involvement in the business.
3. Motivation that management has the necessary experience to successfully manage the business, including manufacturing, operational, administration, human resources, finance and marketing
4. Signed shareholders agreement. For a new business, this should be in draft form at least.
5. Amount of funds that shareholders will be injecting into the project as their own contribution and source of these funds (FICA purposes).
6. Personal balance sheet of all shareholders.
7. Other business interests of shareholders and directors.
8. Details of any other professionals assisting management, such as auditors or lawyers.

Broad-based black economic empowerment

1. Existing businesses with a turnover of more than R5 million must provide the IDC with a BBBEE ratings certificate.
2. If applicants do not have a rating, they have the option to do a self-assessment at BBBEE rating are not necessarily dependent on ownership alone (Be One SA, n.d.:1 of 1).

Organograms

1. Include organograms of the following:
 - a. Group structure (if there is more than one company);
 - b. Hierarchy of staff; and
 - c. Operational/manufacturing processes.

Technical

Capital Expenditure: land and buildings

1. For a new business ensure that a site has been identified and a draft lease agreement or Offer to Purchase/Purchase and Sale agreement has been obtained. It is preferable that exclusivity be obtained for the purchase of the site, and sufficient time be given to allow for finance to be obtained without the seller/lessor selling or leasing the property to someone else in the interim.
2. For land and buildings to be purchased, a recent valuation is necessary. This will need to be performed by a registered valuator.
3. Current quotations for all building work to be performed. This should preferably be approved by a quantity surveyor or other suitable person in the construction industry.
4. Technical drawings for all building work to be performed. This should be done by a qualified architect.
5. Construction contractor to be engaged should be registered with the National Home Builders Registration Council (NHBRRC).
6. Ensure that all necessary regulatory approvals have been obtained. This would include Environmental Impact Assessments (EIA), rezoning of property if required, etc. For new businesses these should at least have been applied for. Copies of all approvals or applications to be included in business plan.

Capital Expenditure: plant and equipment, furniture, motor vehicles, computer equipment, and so on

1. Current (recent) quotations from suppliers for all other fixed assets to be purchased (preferably not older than 2-3 months).
 - a. Ensure that the fixed assets to be purchased are sufficient to meet production forecasts from a capacity point of view.
2. For assets to be imported, cognisance to be taken of the following:
 - a. Forward Exchange Contract (FEC) cover on such assets
 - b. Commissioning details;
 - c. Repair and maintenance arrangements; and

- d. Upfront letters of credit or deposits that may be required by the supplier
3. Be sure to budget adequately for other “soft assets” such as office furniture, photocopy and fax machine, etc. which are not directly related to the production process.

Production

1. A copy of the production process, and process flow diagram.
2. A copy of the factory layout.
3. A detailed copy of the bill of materials, together with recent quotations for all raw material input cost.
 - a. Ensure that there is an adequate and constant supply of raw materials available – for example, alternative suppliers, the impact of raw material prices, historical and expected price trends, availability, etc.
4. Key staff involved in the production process and a transfer of skills plan.

Staffing

1. Cost to company breakdown of all salaried, waged, part-time and contract employees, historical and going forward.
 - a. Number of staff and their cost to company by occupational level
 - b. Please include details of all staff, from part-time to director level
 - c. Ensure that staff numbers are adequate and in line with production capacity and forecasts.
 - d. Ensure that salaries and wages are preferably market related and not below minimum wage guidelines for the industry.
2. Process of identifying and hiring of new staff.
3. CVs of all key management staff not already provided under 4.) above

Marketing analysis

1. Projected turnover levels need to be based on secured contracts, letters of intent and/or detailed market research. Copies of all contracts with customers (these may still be in draft form), letters of intent from potential customers and market research to be included in business plan.
 - a. Turnover levels projected without any marketing back up or based purely on verbal agreements will be significantly discounted, which would likely result in the business forecasts being non-viable.

- b. For existing businesses, include full details of existing contracts being serviced and remaining periods on these contracts.
2. For existing businesses, also include full details of major customers, existing networks and relationships formed, and work done for major customers over the past 12 months, which is not contract based.
3. A detailed marketing strategy and market research is required. It is imperative to distinguish between general and specific marketing research and strategies (i.e. retrieving information from National/International databases, internet etc. on general status of the industry your business is involved in is important and comprises the general marketing compilation.) Over and above this, it is vital that there is a specific marketing strategy in place that encompasses how the business in question is going to attract market share and achieve projected turnover levels.
4. Some of the areas that the marketing research should focus on are:
 - a. Competitor analysis;
 - b. Competitive edge of the business;
 - c. Demand vs. supply;
 - d. Sustainability of the business;
 - e. Future developments (technological, new market entrants, alternate products etc.);
 - f. Contracts with customers;
 - g. Letters of intent from potential customers;
 - h. Other networks and relationships that might have been created; and
 - i. Strategic location of the business.

Financial information and forecasts

1. For existing businesses, detailed historical financial statements for 2 years (audited where applicable) and latest management accounts (not older than 3 months).
2. Include a detailed five-year forecast of:
 - a. The income statement;
 - b. The balance sheet; and
 - c. The cash flow statement.
 - d. If possible, show monthly forecasts of income statement, balance sheet and cash flow for the first 12 months.
3. Please detail the amount of funding applied for and the application of these funds
4. Please provide copies of agreements with other financiers

Balance sheet

1. Include all existing assets and liabilities as well as assets and liabilities that will be brought into the company as per the current application for finance.
2. For new loans to be taken, budget on realistic payback periods. These would normally be in the region of 5 years for IDC purposes and will depend on the company's cash flow forecasts. Note the loan term may also vary based on the industry your business operates in.
3. Working capital levels (debtors and creditors) to be budgeted for in terms of company's debtors and creditors payment policies, or for a new business this will be based on terms negotiated with debtors and creditors.
4. Stock to be budgeted for based on anticipated stock levels to be held (include raw materials, work in progress and finished goods).
5. Owners' contribution into the business to be included as shareholders'/members' loans in the balance sheet. This needs to be unencumbered, interest free and with no fixed repayment terms.
6. Non distributable reserves must be based on valuations performed by a registered valuator. This may be discounted for financing purposes.
7. Any Goodwill on the balance sheet may also be discounted for financing purposes (depending on value and nature of Goodwill).

Income statement

1. Sales projections in the income statement should tie in closely with any contracts and letters of intent obtained from potential customers, marketing research performed and other networks and trade relationships created. Sales should be conservatively phased into expected levels over a reasonable period to allow for the time it will take to penetrate the market.
2. Cost of sales to be accurately costed and budgeted for per product item.
3. Take all possible expenses into account. Expenses frequently omitted include:
 - a. Depreciation;
 - b. Rates and taxes;
 - c. Security costs;
 - d. Insurance costs;
 - e. Bank charges;
 - f. Audit fees;
 - g. Marketing, Advertising and Entertainment;
 - h. Interest costs; and

- i. Royalties and commissions.
4. All expenses in the income statement should be adequate for the size of the business and its operations. For example, the salaries and wages bill should be directly linked to the number staff (including directors) to be hired multiplied by their total cost-to-company.
5. Interest rates on all new loans to be taken should be budgeted for at a minimum of prime.
6. Normal company tax to be factored into the income statement.

Entrepreneurs who develop business plans in order to attain the necessary funding for acquisitions need to comply the following guidelines in developing the business plan:

IDC Business plan guidelines for acquisitions:

1. Where you intend acquiring into an already existing company, you need to obtain the past three years historical financial statements and latest management accounts for the current year (not later than three months old).
2. The valuation will be based on the Discounted Cash Flow method (that is valuing the operations of the business based on its income-generating potential based on historical and projected future performance) and not necessarily the value of the assets. This discounted cash flow calculation will need to form part of your business plan.
3. For acquisitions, it is advised that you speak to potential financiers once you have obtained the historical financial statements and latest management accounts to determine if the selling price is reasonable, prior to even drawing up your business plan.
4. Note for IDC purposes, the following will apply for all acquisition transactions:
 - a. The purchaser must be a historically disadvantaged person or majority black-owned business.
 - b. The IDC would require at least 50% of the total IDC funding required to be reinvested into the company for growth and expansion.
 - c. There must be an expansion phase which forms part of the acquisition, i.e. an increase in the industrial capacity base and an increase in employment.
 - d. The selling price needs to be to the satisfaction of the IDC as determined by the discounted cash flow method of valuing a business.

- e. The selling price may be paid to the seller over a period of 2-3 years, subject to pre-determined targets of profitability being achieved.

The turnaround time that IDC has from the initial application to the final decision to fund the proposed venture or not is 90 calendar days.

Source: (Industrial Development Corporation, 2013).

Appendix C: Business plan guidelines of Business Partners

1. A cover or title page

2. Executive summary

The executive summary is the MOST vital part of the business plan — it has to sell your strategy for success to the investor.

The summary is an overview of the entire plan and must contain the highlights of the business plan and summaries of each section. Therefore, although it is at the beginning of the document, it is usually written last to capture the essence of the plan.

The summary stands alone and should not refer to other parts of your document.

3. Business overview

3.1. Business profile

- Write a business profile, including the following:
- Information on the background and history of the business;
- Indicate the business form (proprietorship, close corporation, company);
- Is it a new business, take over, expansion, franchise?
- The mission, and the company's long and short term objectives in terms of business growth and development, as well possible exit strategies (for example: buy out investors, sell to larger company, go public, etc.).

3.2. The product or service

- Describe the product or service:
 - Describe in full the product or services offered by the business, the innovative features of these products and services, and the competitive edge they afford the business over rivals in the market;
 - The expected product life cycle where applicable;
 - Include descriptions of key technologies employed and current and future research and development.
- Describe the location, premises and, where applicable, production facilities.
- Describe the production and technology:
 - Describe production processes and capacity, identifying any existing constraints and possible problem areas;
 - Include a detailed analysis of the process of installing and commissioning any new technologies and production processes;

- Include information on quality assurance systems and procedures, and certification;
 - Details of suppliers and sub-contractors, and any contractual arrangements governing the supply of key inputs.
- Elaborate on the business's past achievements and strengths, past problems and weaknesses, and critical success factors.

4. Company management

4.1. The entrepreneurs

- Include a description of the skills and experience of the entrepreneurs covering the key areas of technology and product development, production, sales, marketing, finance and administration;
- Describe the position and the specific functions and responsibilities of each entrepreneur and/or manager;
- Attach a detailed curriculum vitae of each entrepreneur;
- Indicate the financial contribution of each entrepreneur to the business, and the current shareholding structure.

4.2. The management structure of the business

- Show company ownership structure, business units and subsidiaries where applicable;
- Attach an organisation chart showing the functions and responsibilities of directors, key management and staff;
- Formulate remuneration, incentives, share options, and conditions of employment of key management and directors;
- Analyse of any deficiencies in management and how these positions are to be filled;
- Comment on current and future employment levels, labour relations and union membership;
- Include details of systems to be implemented: information technology, accounting, administration, management information and stock control systems;
- Include details of auditors, attorneys, bankers and professional advisers.

4.3. Franchise information (where applicable)

If the business is a franchise, include what is covered in the management package the franchisor provides in this section.

5. The market

5.1. Industry analysis

- Summarise the industry in which you will compete. Find most of the facts from government statistics and trade organisations. Discuss topics such as:
- Current trends and developments in the industry;
- Large and important players in the industry;
- How the industry is segmented;
- Problems the industry might be experiencing;
- National or global events influencing the industry;
- National and global growth forecasts;
- How legislation affects the industry (for example, how the law limiting smoking in a restaurant affects the industry).

5.2. Market analysis

- Describe the existing market and its potential for growth;
- Include a detailed analysis of the size and maturity of the market, trends and seasonality exhibited by the market, and the business's current and expected market share together with an analysis of the time, resources and actions required to achieve this desired market share;
- List existing and potential customers, supported by letters of intent, orders on hand, contracts, where applicable;
- Include a detailed analysis of competitors, the price and quality of their products, service and delivery, and their expected reaction to your activities;
- Highlight and discuss your competitive advantage.

6. Sales and marketing strategy

- Elaborate on current and planned sales and marketing strategies and promotional activities (advertising, exhibitions, promotions, public relations, etc.);
- Describe your distribution strategy and channels;
- Formulate sales staffing, recruitment, remuneration and commission structures;
- Include a detailed motivation and substantiation of sales projections (in monetary and physical terms) with a comprehensive analysis of the lead time expected to reach sales targets and milestones (e.g. break-even point);
- Elaborate on your pricing strategy and how it compares with your competition;
- Where the business is a franchise, include the full marketing strategy of the franchisor.

7. Financial statements and projections

Include only a summary of the financial statements and projections in the body of the business plan — attached detailed analysis as an appendix.

- Include operating budgets, cash flow projections, income statements and pro forma balance sheets for at least three years (recommended five years). Provide monthly projected figures for the first and second year, quarterly figures for years three and four and annual projections thereafter.
- Where applicable, provide:
 - Historical financial performance as shown by at least the last three sets of audited annual financial statements and up to date management accounts comprising income statements (monthly and year-to-date), balance sheets, and debtors and creditors age analysis;
 - Costing methodology employed, or to be employed, and detailed costings giving a full analysis of cost of sales;
 - Pricing policies giving a full analysis of theoretical and actual mark-up and gross profit percentages;
 - Rebates, discount structures and terms offered to and received from customers and suppliers respectively;
 - Break-even and sensitivity analysis;
 - Details of overdraft and factoring facilities (bank, limit, security and interest rate) and medium and long term loans;
- Ensure that your financial projections agree with any other statements in the business plan (for example, costs involved in your proposed marketing strategy).
- Formulate and motivate your capital requirements.

8. Legal and regulatory environment

Include:

- Details of any licences, copyrights, trademarks and patents registered (or in the process of being registered);
- Details of any legislation and regulations governing the industry, product and production processes;
- Proof of compliance with tax and labour legislation (VAT, PAYE, RSC, UIF, COIDA, Employment Equity Act, Skills Development Act, etc.) where applicable;
- Details of duties and tariffs to which inputs or products are subject if the business is a regular importer or exporter.

9. Swot analysis and risk/reward assessment

- Discuss definite and possible strengths, weaknesses, opportunities and threats;
- Give an honest assessment of the risks faced by the business, entrepreneurs and investors in relation to the potential for growth, profitability, and capital appreciation;
- Discuss strategies that can be implemented to address the risk factors highlighted.

10. Appendices and supporting documentation

The following supporting documentation, inter alia, should be included where applicable:

- Newspaper clippings, promotional literature, product brochures, market research, trade and industry publications;
- Partnership, association or shareholders' agreements;
- Offers to purchase, purchase and sale agreements;
- Contracts, orders, letters of intent;
- Memoranda of understanding, lease, franchise, agency or distribution agreements;
- Documentation relating to licences, copyrights, trademarks and patents;
- Quotations or pro-forma invoices for capital items to be purchased;
- Detailed personal balance sheets of the entrepreneurs;
- Copies of identity documents and marriage certificates of the entrepreneurs;
- Schedules of life assurance and endowment policies of the entrepreneurs;
- Copies of company or close corporation certificates and registration documents;
- Drawings, work flow charts, plans, factory layouts, maps, etc.;
- A list of persons to whom reference can be made regarding creditworthiness, product and service quality, and the skills, abilities and integrity of the entrepreneurs.

Source: (Business Partners, 2014h:1-4 of 6).

Appendix D: Business plan guidelines of the NEF

	Existing firm		Start-up
	Close corporation	Company	Company
Application form	X	X	X
Affidavit from other company members or directors that they are aware of the contents of the application form	X	X	
Three (3) year audited financials (income statement, balance sheet, cash flow statement)		X	
Five (5) year financial projections (income statement, balance sheet, monthly cash flow statement) with the first year prepared on a monthly basis	X	X	X
Recent management accounts (income statement and balance sheet)	X	X	
Personal statements of assets and Liabilities of all company members or directors including those of spouses if person is married in Community of Property	X	X	X
Business bank statements for the past twelve (12) months	X	X	
Certified ID copies of all members or directors	X	X	
Registration Documents and all the legal documents relevant to the entity	X	X	X
CK1 and/or CK2	X		
CM1 (certificate of incorporation and the certificate to commence business) and memorandum and articles of association		X	
Detailed profile of the Franchisor, where applicable	X	X	
Details of why the business is for sale, where applicable	X	X	
Sale agreement, where applicable	X	X	

Franchise agreement, where applicable	X	X	
Historical financials of other franchises that are similar in size and in similar location	X	X	
Indication from the Franchisor of how much a new franchise in a similar location will cost	X	X	
Indication of whether the lease agreement will be ceded to the new company after the sale or a new lease agreement will be signed if lease is ceded and how long it will still run for before renewal?	X	X	
The prospective buyer must have been approved by the franchisor	X	X	
Fica compliance – proof of residence	X	X	
Detailed CV of principal applicant	X	X	X

All of the above-mentioned documents should reach the NEF simultaneously in order to reduce possible delays in the process. If no delays are encountered, it takes approximately 6 to 8 weeks from receiving an application to the approval stage, however, it can take up to 3 to 4 months for the process to be completed to the disbursement stage.

Source: (National Empowerment Fund, 2014e:1 of 2).

UNIVERSITEIT VAN DIE VRYSTAAT
UNIVERSITY OF THE FREE STATE
YUNIVESITHI YA FREISTATA



FIELDWORK TRAINING MANUAL

1. INTRODUCTION

Fieldworkers play an essential role in the research process. As a fieldworker, you are responsible for collecting the information that will later be analysed and written up as a report. Your main tasks are to attend training and to collect the data by carrying out thorough face-to-face surveys.

To ensure that the research is carried out in a scientific way, the fieldwork must be carried out according to specific procedures.

Missing information or incorrect selection of respondents will make it difficult to analyse the data and will impact on the quality of the report that can be produced for the client. High quality data collection is therefore crucial for the rest of the research process, and the responsibility for ensuring this lies with you.

2. ROLE OF THE INTERVIEWER

It cannot be overemphasised that:

“the fieldworker, as the one who collects information from the listed sites, occupies a central position in the project. As a result, the success of the project depends to a great extent on the quality of each interviewer’s work”.

Interviewers’ main responsibilities include, but are not necessarily limited to the following:

- ◆ Successfully completing the training course prior to the survey;
- ◆ Becoming familiar with the questionnaire, as well as the procedure to identify and establish contact with targeted respondents;
- ◆ Conducting interviews at the selected businesses during the fieldwork and take required measurements as trained; and
- ◆ Returning to the business if the information on the questionnaire is found to be inadequate by the fieldwork manager.

Survey research interviewing is a SPECIALIZED kind of interviewing because the goal is to obtain important information from another person accurately. While some people are more skilful at interviewing than others, one can become a good interviewer through experience and practice. It is important that you study this training manual and the questionnaire carefully, so that you can ask questions. Ask questions at any time, so that mistakes can be avoided later during the actual interviews. Furthermore, you can learn a lot from your fellow interviewers by asking questions and talking in general about situations encountered in practice and in actual interview situations. It is very important that you do not discuss the detail of interviews or reveal the name and address of respondents in order to ensure anonymity and confidentiality.

The formal training period is merely an opportunity to provide you with the basic knowledge and information regarding the survey, questionnaire, etc. Continued observation and supervision during the fieldwork will complete the training process. This is especially important during the first few fieldwork days, because if you run into unfamiliar situations, it will be helpful to discuss them with your team. Fellow interviewers may be running into similar problems, so you can benefit from each other's experiences.

Respondents often do not have a clear concept of what is expected from their side. Interviewers should obtain all the information accurately but still remain neutral and objective, without revealing their own opinions and being judgemental. The interviewer should not show shock, surprise but help the respondents answer truthfully.

3. STEPS OF AN INTERVIEW

- a. Introduction and entry - Interviewer gets to the place of the interview, introduces him/herself and then secures the co-operation from the respondent.
- b. Main part – Asking questions and recording answers (Probing – neutral request to clarify ambiguous answers)
- c. Exit – Interviewer thanks respondent and leaves. Edit the questionnaire and records all the details

4. IMPORTANT TO REMEMBER

The respondent has several rights that must be respected in the interview:

- a. Right to privacy
- b. Right to participate voluntarily in the study

- c. Right to know the true purpose of the research
- d. Right to decide which questions to answer

5. CONDUCTING AN INTERVIEW

The ability to conduct a successful interview is an art. It should not be treated as a mechanical process. Each interview provides us with new information, therefore we need to make it as interesting and pleasant as possible. Also remember that every single interview is unique, a once-off experience from which you as future professional can learn. Therefore, treat each interview that you conduct with enthusiasm and commitment – keep the value and end-product of the overall endeavour in mind! The ability to conduct a successful interview develops with practice, but there are basic principles that should be followed:

5.1. Building rapport with the respondent:

You and the respondent are strangers, and one of your main tasks as an interviewer is to establish rapport with the respondent. The questionnaire contains questions of a sensitive nature and the respondent's willingness to co-operate with you will depend on his/her first impression of you. The most successful interviewers are the kind of people that respondents are comfortable with. Ensure that your appearance is neat and your manner friendly when you introduce yourself. Dress and grooming can be regarded as signs of person's attitude and orientation. You will be issued with a Letter of Introduction from the Centre for Development Support that should assist you in gaining access to the business.

5.2. Make a good first impression:

When you first approach the respondent, do all that you can to make him/her feel at ease. Start the interview with a smile and a greeting such as "Good afternoon. How are you?" Then proceed with your introduction.

An example of a good introduction is:

"My name is _____. I am a fieldworker from the Business Management Department at the University of the Free State. We are conducting research on the business environment in Beaufort West. We are interviewing as many of the businesses in Beaufort West as what we can and we would like to include you in the study". It is important that respondents are informed about the kinds of questions that will be asked. The respondent should be free to ask questions to ensure that they understand what they are agreeing to take part in. You can then show the Letter of Introduction to the respondent.

5.3. Always have a positive approach:

Do not have an apologetic manner and use words such as "Are you too busy?", "Would you spare a few minutes?" or "Would you mind answering some questions?" Such questions invite refusal before you even start. Instead, tell the respondent "I would like to ask you a few questions" or "I would like to talk with you for a few minutes".

5.4. Stress confidentiality of responses when necessary:

If the respondent is not eager to answer questions or asks what the data will be used for, explain that the information you collect will be kept confidential and all information will be pooled to write a report. Do not talk about other interviews that you have conducted or show completed questionnaires to other interviewers or supervisors/editors in front of a respondent or any other person. As an interviewer you **MUST NOT** discuss the responses given by the respondent with anybody else outside the research team. Sharing information about the respondents with somebody outside the research team is in direct violation of the confidentiality agreement that would have been established with the respondent. It is very important for the interviewer to maintain professionalism throughout the research process.

Probing

Interviewer should be pleasant and must communicate a genuine interest in getting to know the respondent without appearing to spy too much. Try to keep the interview informal and conversational so that the respondent feels comfortable. Sometimes respondents may not give an answer that is easily coded and the interviewer will need to probe for clarity. Probing means asking short follow-up or related questions to get more detail about the response of the respondent. For example, a respondent may be asked if he has heard about the new government law that has been passed to help keep people out of debt and how the legislation can help. He may respond that he has heard of this legislation and that the legislation will protect him. His response has not answered the question as to how the law will help to keep him out of debt, so further probing is necessary. Interviewers should use neutral probes when probing and avoid directive or leading probes.

- Can you tell me what you mean by your answer?
- Can you be more specific?
- What do you think?
- Can you think of any others?
- What is your best estimate?

5.5. Answer all the respondent's questions frankly:

The respondents may ask some questions about the survey, or how he/she has been selected for the interview before he/she agrees to be interviewed. Be direct and pleasant in your answer. The respondent may also want to know how long the interview will take. If he/she asks, tell her that the interview usually takes about 5 minutes. If necessary, indicate that you will return at another time if it is inconvenient for him/her to answer questions now.

6. TIPS IN CONDUCTING THE INTERVIEW

6.1. Be familiar with the questionnaire:

If the interviewer is unfamiliar with the questionnaire, the study suffers and also places an unfair burden on the respondent. The interview will also take a lot longer. Ultimately the interviewer should be able to read the question to the respondent without error. E.g. It is like an actor in a play – the lines must be a natural conversation but the language must be portrayed exactly.

6.2 Be neutral throughout the interview:

Most people are polite and will try to give answers that they think you want to hear. Therefore, it is very important that you are absolutely neutral when you ask the questions. Do not ever let your facial expression or the tone of your voice allow the respondent to think that he/she has given the right or wrong answer.

The questions are all carefully formulated to be neutral, so that they do not suggest that one answer is preferable to another answer. If you fail to read the complete question, you may destroy this neutrality. Therefore, it is important that you read the whole question as it is written. If the respondent gives an ambiguous answer, probe in a neutral way, by asking questions such as "Can you explain a little more?", "I did not quite hear you. Could you please tell me again?", "There is no hurry. Take a moment to think about it?"

6.3 Never suggest answers to the respondent:

If the respondent's answer is not relevant, do not prompt him/her by saying something like "I suppose you mean that ... Is that right?" Usually, he/she will agree with your interpretation of his/her answer, even if that was not what he/she meant. Rather probe in such a way that the respondent comes up with the relevant answer.

6.4 Do not change the wording or sequence of the questions:

The wording and sequence of the questions in the questionnaire must be maintained. If the respondent misunderstood the question, repeat the question slowly and clearly. If he/she still does not understand, you may reword the questions, but be careful not to change the meaning of the original question. Provide only the minimum information to get an appropriate answer. Also do not alter the answers that are given – record the answers exactly as given.

6.5 Handle hesitant respondents tactfully:

There will be times when the respondent says "I don't know", gives an irrelevant answer, acts bored, contradicts something she/he has already said or refuses to answer the question. When this happens, you must try to re-interest him/her in the conversation. Spend a few moments talking about things unrelated to the interview (e.g. her town/village, the weather, etc.).

If the respondent is giving irrelevant or elaborate answers, listen to what he/she has to say and do not stop her abruptly or rudely. Try to steer him/her gently back to the original question. Maintain a good atmosphere throughout the interview. The best atmosphere is one in which the respondent sees the interviewer as a friendly, sympathetic and responsive person who does not intimidate him/her, and to whom he/she can say anything. If the respondent is reluctant or unwilling to answer a question, try to overcome his/her reluctance explaining once again that the same question is asked of people in other provinces and that the answers will all be merged together. If he/she still refuses, write "REFUSED" next to the questions and proceed as if nothing has happened. When you have completed the interview, you can try to obtain the missing information at the end, but do not push too hard for an answer. Remember that the respondent cannot be forced to give an answer.

6.6 Do not form expectations:

You must not form expectations about the ability and knowledge of the respondents. At the same time, remember that differences between you and the respondents can influence the interview. Always behave and speak in such a way that the respondent feels at ease and comfortable talking to you.

6.7 Do not hurry the interview:

Ask the questions slowly so that the respondent understands. Once the question has been asked, pause and give him/her time to think. If the respondent feels hurried, or is not allowed to formulate their own opinion, they may answer "I don't know" or give an inaccurate answer.

If you think that the respondent is answering without thinking to speed up the interview, say to him/her "There is no hurry, your opinion is very important, so please consider your answers completely".

6.8 Language of the interview:

The questionnaire has been translated into the language that you will need to conduct the interview in. There may, however, be times you will have to slightly change the wording of the questions to fit the local dialects and culture. It is very important not to change the meaning of the questions when you rephrase them.

7. GENERAL PROCEDURES FOR COMPLETING THE QUESTIONNAIRE

7.1 Asking questions

As previously stated, you should ask each question exactly as it is written in the questionnaire. Speak slowly and clearly so that the respondent will have no difficulty in hearing or understanding the question. Be very careful when you change the wording so that you do not change the meaning of the original question. Probe if necessary. Probing requires both tact and skill and it will be one of the most challenging aspects of your work as an interviewer.

7.2 Recording responses

All interviewers will use pencils to complete the questionnaires. There are two types of questions in the questionnaire: (1) questions with pre-coded responses that need to be circled; and (2) questions which do not have pre-coded answers ("open-ended questions").

7.2.1 Questions with pre-coded responses where the code needs to be circled

For some questions we can predict the types of responses a respondent will give. These responses are listed in the questionnaire. To record the respondent's answer, you merely circle the number (code) which corresponds to his/her reply. Make sure that each circle surrounds only one number.

Example:

How many employees do you have?

1 – 2 employees	1
3 – 5 employees	2
6 – 10 employees	4
11 – 15 employees	5
16 or more employees	6

Sometimes, pre-coded responses will include an "other" category. The other code should be utilised when the respondent's answer is different from any of the pre-coded responses listed for the question. Record the respondent's answer in the space provided.

Example:

What kind of premises do you have?

7.2.2

Formal business site/shop in the CBD	1
Formal business site/shop in the industrial area	2
Brick structure next to home	3
Shack next to home	4
Hawker's table /Street-corner selling	5
Working from / within home	6
Other (Specify.....)	7

Recording answers which are not pre-coded

The answers to some questions are not pre-coded. In entering the responses for these questions, you must write the respondent's answer in the space provided. For some questions, you will have to write the response on the line provided.

Example:

26. Is there anything inhibiting you from expanding your business?

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

7.2.3 Correcting mistakes

It is extremely important that all answers are neatly recorded. For pre-coded answers, ensure that you circle the code with the correct answer carefully. For open-ended responses, write the reply legibly so that it can be easily read. If you make a mistake in entering a respondent's answer, or he/she changes the response, cross out the incorrect answer and enter the correct one. If you have an eraser, neatly erase the incorrect answer and fill in the correct one. Do not forget to fill in an answer that you have erased. Best would be to undertake the erasing and correct filling of answers at an appropriate time so as to not waste the respondent's time!

7.3 Following instructions:

It is very important not to ask respondent questions that are irrelevant to his/her situation. For example, a person that does not know about the Uranium Mine, will not be able to give an opinion on the impact that it will have. In situations where a particular response makes subsequent questions irrelevant, an instruction is written in the questionnaire directing you to skip to the next appropriate question. It is important that you carefully follow skip instructions.

Example:

Are you aware that there are future plans to establish a Uranium Mine outside of Beaufort West?

YES Question 5.4)	(continue with	1	NO Question 5.8)	(go to	2
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7.4 Checking completed questionnaires

The fieldworkers must check each questionnaire once the interview has been completed. This should be done before you leave the business to ensure that every appropriate question has been asked, that all answers are clear and reasonable and that your handwriting is legible. Also check that the skip instructions have been correctly followed.

You can make minor corrections, but serious errors must be clarified by the respondent. Apologise, explain that you made an error and ask the questions again. Do not recopy questionnaires. The answers need to be clear and readable, it is not necessary that the questionnaire itself be neat. Each time you rewrite the answers on a new questionnaire, you increase the chance of an error. If you need to make calculations, you may write in the margins or use the back of the questionnaire. Explain anything out of the ordinary writing by in the margins or at the back of the questionnaire. These explanations are helpful to the supervisor/editor when checking the questionnaires. Explanations are also read in the office and used to resolve problems encountered during coding the questionnaires.

8. SUPERVISION OF FIELDWORKERS

Observation and supervision during fieldwork form an integral part of the training and data collection process. Your manager will play an important role in continuing your training and ensuring the quality of the data. S/he will:

- Observe your progress;
- Spot check some of the selected sites provided to you to ensure that you correctly record information provided;
- Review each questionnaire to ensure that it is complete and internally consistent; and
- Help you solve any problems that you may experience with finding the assigned business, understanding concepts in the questionnaire or with difficult respondents.

The project leader may release from service any interviewer who is not performing at the level necessary to produce the high quality data required to make the project a success. In particular, deviating from the sample instructions or completing a questionnaire without doing the interview will constitute a serious offence.

RESEARCH QUESTIONNAIRE

Please answer the following questions as honestly as you can and be sure to give an answer for every question. The questionnaire will be regarded as anonymous.

Section A: Demographics of the entrepreneur

1) Gender?

Male	1	Female	2
------	---	--------	---

2) Age group?

≤ 20	1	21- 30	2	31- 40	3	41- 50	4	≥ 50	5
------	---	--------	---	--------	---	--------	---	------	---

3) Race/ Ethnic group

Black	1	Coloured	3	Asian	5
White	2	Indian	4	Others	6

4) What is the current age of your business venture? _____

5) In which stage of the life cycle phase is your business currently in? (Please mark the appropriate option with an X).

Start-up stage	1	Growth stage	2	Maturity stage	3	Declining stage	4
----------------	---	--------------	---	----------------	---	-----------------	---

6) What is the highest formal educational qualification you have obtained?

Less than matric	1	Matric	2	Diploma	3	Degree	4
Honours	5	Masters	6	Doctorate	7	Other: (Please specify)	8

7) Please state the diploma/ degree you have obtained:

8) Have you ever enrolled for any short course; training programs or diplomas in business management or a related discipline? (Please indicate the appropriate option by marking it with an X.)

Business Management	1
Finance	2
Bookkeeping	3
Marketing	4
Entrepreneurship	5
Human resource management	6
General management	7
Management Accounting	8
Marketing management	9
Sales management	10
Tourism management	11
Project management	12
IT/ Computing	13
Other:	

PART B: NATURE OF THE BUSINESS

9) In which Economic Sector will you classify your business? (Please indicate the appropriate option by marking it with an X.)

Agriculture	1	Technology/IT	2	Wholesales, Motor vehicles and Repairs	3
Manufacturing	4	Financial Services	5	Accommodation & Hospitality	6
Property & Real Estate	7	Business Services & Consultants	8	Retailing & Consumer Services	9
Health care, Education, Social service	10				

10) How many people does your business currently employ?

A micro enterprise (0-5 people)	1	Very small (5-10 people)	2	A small enterprise (10-50 people)	3	A medium enterprise (50-120 people)	4	A large enterprise (≥120)	5
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Mentorship

11) Have you obtained the help of a business coach and/or mentor?

Yes	1	No	2
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(If you answer No, please move to **question 24** in this section)

12) If yes, please indicate the type of coaching/mentoring sessions you mainly had: (*please check ONE only*)

Structured	1	Semi Structured	2	Unstructured		Flexible from session to session	3
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13) During which phase of your venture's life cycle did you obtain the help of a mentor?

Before start-up	1	During start-up	2	After start-up	3	To assist with difficulties experienced	4
-----------------	---	-----------------	---	----------------	---	---	---

14) On which key areas did your mentor concentrate throughout the mentoring process?

Skills development	1
Goal setting/ planning	2
Problem solving	3
Networking	4
Financial aspects	5
Market research, customer identification, sales projections	6
General management	7
Human resource management	8
Other:	

15) In which area(s) did you require the help/ assistance of a mentor?

16) How often did/ does your mentor monitor your progress?

17) Please indicate whether your coach/mentor ever had the following: *(please check ALL applicable options)*

Owned a business	1	Been a partner in a business	2	Sold a business	3
Publicly listed a business	4	Worked for a corporate enterprise	5	Industry related knowledge	6

18) What industry related knowledge/expertise does your mentor have?

19) What contribution, if any, in your opinion does business coaching (directly or indirectly) make to your business success?

20) To what degree did your coach/mentor fulfill the following role?

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
Sounding board (e.g. open/honest feedback)	1	2	3	4	5
Listener (e.g. empathy, encouragement)	1	2	3	4	5
Counselor (e.g. analysed problems)	1	2	3	4	5
Advisor (e.g. expert knowledge, skills)	1	2	3	4	5
Provided access to networks (e.g. provided access to others)	1	2	3	4	5
Provided access to resources	1	2	3	4	5

21) What proportion (%) of your business success would you attribute to coaching and/or mentoring?

22) Please indicate the main reason you engaged a coach/mentor in your venture:

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
To increase my skills and knowledge	1	2	3	4	5
To grow my business	1	2	3	4	5
To better manage business processes	1	2	3	4	5
To better manage staff relationships	1	2	3	4	5
To change my behavior	1	2	3	4	5
To increase my performance	1	2	3	4	5
To develop my potential	1	2	3	4	5
To expand my thinking	1	2	3	4	5
To get access to information I would not have been able to get on my own	1	2	3	4	5
To get access to networks I would not have been able to develop on my own	1	2	3	4	5

23) Please indicate which of the following statements are applicable to you as a result of the coaching/mentoring you have received.

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
I am able to make better decisions	1	2	3	4	5
I have more ideas/options to deal with issues	1	2	3	4	5
I can achieve my objective/goals	1	2	3	4	5
I have greater self awareness	1	2	3	4	5

I understand my strengths/weaknesses	1	2	3	4	5
I identified my development needs	1	2	3	4	5
I have a more positive attitude towards life	1	2	3	4	5
I have a greater degree of confidence that my business will succeed	1	2	3	4	5
I understand the industry in which I operate better	1	2	3	4	5
I am more aware of the environment in which I operate (competitors, suppliers, distributors, etc.)	1	2	3	4	5
I have a clearer perception of my target market	1	2	3	4	5

24) If you did not obtain the help of a mentor, please indicate the reason(s) for your choice.

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
I am confident in my own abilities	1	2	3	4	5
I have a great management team and do not need the help of a mentor	1	2	3	4	5
It is my perception that mentors do not contribute positively to venture success	1	2	3	4	5
I am afraid that a mentor will always impose his/her opinion and not listen to my opinion/ respect my decisions	1	2	3	4	5
I do not know how to get access to a mentor	1	2	3	4	5
I think it is costly to have a mentor	1	2	3	4	5
I do not want to become dependent on someone and struggle upon their departure	1	2	3	4	5
I did not find a suitable mentor	1	2	3	4	5

PROCESS

25) How long did you take to commercialise your business idea? (Year and month. e.g. 5 months, 1 year 4 months)

26) Do you think that if you had delayed to enter the market with this idea, someone else would have stolen the idea?

Yes	1	No	2	Maybe	3	I do not know	4
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27) Please indicate the degree to which each of the following aspects had a negative impact on the time and difficulty of venture establishment.

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
Many regulatory burdens	1	2	3	4	5
The costs associated with non-business related expenses (e.g. certification, zoning, legal requirements)	1	2	3	4	5
No clear guidelines as to how to establish a business	1	2	3	4	5
Lack of access to market related information	1	2	3	4	5
Lack of access to networks to facilitate venture establishment	1	2	3	4	5
The general business climate	1	2	3	4	5
Access to funding	1	2	3	4	5
Identifying the opportunity	1	2	3	4	5
Clarity surrounding the technical aspects of the proposed product/ service	1	2	3	4	5
Market research	1	2	3	4	5
Management team	1	2	3	4	5
Industry (competitors, suppliers, distributors)	1	2	3	4	5
Financial planning	1	2	3	4	5
Strategy formulation	1	2	3	4	5
Developing a business plan	1	2	3	4	5

28) Which of the following advantages do you consider as outcomes for quickly taking your products to the market?

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
Through early market entry, I developed a cost advantage	1	2	3	4	5
Through early market entry, I face less competitive rivalry	1	2	3	4	5
Through early market entry, I secured important channels	1	2	3	4	5
Through early market entry, I am better positioned to satisfy customers	1	2	3	4	5
Through early market entry, I can monitor changes in the market that might be difficult to detect for firms not in the market	1	2	3	4	5
Through early market entry, I have built up my own networks	1	2	3	4	5
Through early market entry, I have created customer loyalty	1	2	3	4	5
Through early market entry, I am able to protect product uniqueness	1	2	3	4	5

29) If you were not the first to introduce a particular product / services the market, which advantages did you consider as motivations for the late entry?

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
The longer period gave me more time to gain more information about customer demand and protection from imitation	1	2	3	4	5
The longer period guided my thinking process and decision making process	1	2	3	4	5
The longer period helped me to assess whether the opportunity "really" exists and whether I believe I can make it work or not	1	2	3	4	5
The longer period enabled me to identify key success	1	2	3	4	5

factors before I committed resources based on my best guess of what these key factors might be					
The longer period enabled me to gain more information on the potential size of the market and how fast it will grow	1	2	3	4	5
Entrepreneurs that delay entry have the opportunity to learn from first movers without incurring the same costs	1	2	3	4	5
Delayed entry can reduce technological uncertainty by learning from the first mover's R&D program	1	2	3	4	5
By entering a market later, customers' uncertainties have already been reduced by the first movers	1	2	3	4	5

30) Please indicate the extent to which each of the following statements had an impact in delaying your entry to market.

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
Government laws and regulations	1	2	3	4	5
Feedback/ support from funding institutions	1	2	3	4	5
Lack of funding	1	2	3	4	5
Waiting times for feedback/ approval from various institutions	1	2	3	4	5
SABS approval	1	2	3	4	5
Entry barriers to the existing market	1	2	3	4	5
Lack of infrastructure	1	2	3	4	5

BUSINESS PLAN

31) When you started your business, did you have a business plan?

Yes	1	No	2
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32) If yes, did your business plan meet the requirements of a funding institution? (Was your business plan successful in obtaining funding?)

33) Regardless of whether you answered yes or no in question 32, please indicate the reason for your answer.

34) If your answer for question 31 was no, please indicate your main reason(s) for not writing a business plan?

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
I did not apply for debt financing and thus didn't need a business plan	1	2	3	4	5
I am so experienced in the line of business I am going into that there was no need for a business plan	1	2	3	4	5
The business too simple and small to warrant a business plan	1	2	3	4	5
To enable myself to take quick action to seize opportunities, or avoid threats that might arise from a constantly changing environment	1	2	3	4	5
Developing a business plan is too time consuming	1	2	3	4	5
I do not have the adequate knowledge about business plans or how to prepare them	1	2	3	4	5
I did not know where to obtain help to develop a business plan	1	2	3	4	5
I do not think a business plan serves an important function in venture establishment	1	2	3	4	5
I do not have access to accurate information	1	2	3	4	5
It is costly to develop a business plan	1	2	3	4	5

35) If your answer for question 31 was yes, what was your main reason for writing a business plan?

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
To obtain funding	1	2	3	4	5
To evaluate a market opportunity and the possibility of ultimate success	1	2	3	4	5
To guide the thinking process and decision making process of the entrepreneurs	1	2	3	4	5
To provide an all-inclusive framework and overall direction, to enhance the consistency and coordination across the venture	1	2	3	4	5
As an internal planning tool	1	2	3	4	5
In order to attract partners	1	2	3	4	5
To determine the cost and benefit of restructuring	1	2	3	4	5
To determine the cost and benefit of expansion	1	2	3	4	5
To determine the market size and the possible market share I can obtain	1	2	3	4	5
To make certain projections	1	2	3	4	5

36) Which percentage (%) of the business plan did the following people write?

I wrote it myself	1
Your business partner	2
A business consultant	3
I paid someone else to write the entire plan	4

(If other, please specify: _____)

37) Do you think a business plan is useful for venture establishment? Why or why not?

38) Besides writing a business plan, what other key factors did you take into consideration before starting your business?

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
The product/ service offering of my business	1	2	3	4	5
Who my customers are	1	2	3	4	5
How I will reach my customers	1	2	3	4	5
The amount of money it will cost to produce my product	1	2	3	4	5
The competition already in the market	1	2	3	4	5
Potential competitors/ substitutes for my business	1	2	3	4	5
The suitability of the location	1	2	3	4	5
The resources I need to successfully start and manage my business	1	2	3	4	5
To identify legal aspects	1	2	3	4	5
To determine feasibility	1	2	3	4	5
To determine the growth potential	1	2	3	4	5

39) Do you understand the implications of your business plan?

Yes	1	No	2	I am not sure	3
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40) Which sections/ aspects of your business plan do you find the most helpful?

1) 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
The executive summary	1	2	3	4	5
Marketing plan	1	2	3	4	5
Operational plan	1	2	3	4	5
Human resources	1	2	3	4	5
Financial plan and projections	1	2	3	4	5
Market analysis	1	2	3	4	5

ENTREPRENEUR/ TEAM

41) How many individuals form part of your entrepreneurial team?

42) What skills/ qualifications do your team members have?

43) How did having an entrepreneurial team influence venture formation?

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
Better planning	1	2	3	4	5
Faster establishment	1	2	3	4	5
Better networks	1	2	3	4	5
More skills	1	2	3	4	5

44) Please indicate the extent to which you agree or disagree with each of the following statements.

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Characteristics	Statements					
Risk taking propensity	I prefer being low-paid employee with apparent job security	1	2	3	4	5
	I am willing to take a low risk for a sure rate of return	1	2	3	4	5
	I do not fear investing my money on a project whose risk I have calculated	1	2	3	4	5

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Characteristics	Statements					
Innovativeness	I know my "customers" and understand their requirements	1	2	3	4	5
	I have an ability to identify fresh and innovative approaches to existing situations	1	2	3	4	5
	anticipate change and perceive trends before they become apparent to others	1	2	3	4	5
	anticipate future consequences or implications of current situations or events	1	2	3	4	5

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Characteristics	Statements					
Competitive aggressiveness	Are you nice to your competitors or do you feel like you want to beat them up	1	2	3	4	5
	Do you use violent behaviour towards your competitor	1	2	3	4	5
	Do you use illegal means to gain a competitive advantage over your competitor	1	2	3	4	5
	Do you criticize your competitors to make them look bad at their job	1	2	3	4	5

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Characteristics	Statements					
Need for achievement (nAch)	I am open to new ideas and prefer to work independently than in teams	1	2	3	4	5
	I set my mind to achieve a goal in relation to a set of standards	1	2	3	4	5
	I am a moderate risk taker and like to anticipate future possibilities	1	2	3	4	5
	I do not see negative feedbacks and challenges, as a source of discouragement	1	2	3	4	5

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Characteristics	Statements					
Commitment and determination	I am driven by the wiliness to undertake personal sacrifices	1	2	3	4	5
	I am decisive and very persistent in problem solving	1	2	3	4	5
	I am able to overcome setbacks when faced with challenges	1	2	3	4	5

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Characteristics	Statements					
Locus of Control	I believe that I can determine my own destiny	1	2	3	4	5
	I am willing to accept both positive and negative consequences of my decisions and actions	1	2	3	4	5
	I believe my success lies in my own abilities and efforts	1	2	3	4	5
	I believe success is a product of luck and fate, rather than personal efforts	1	2	3	4	5

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Characteristics	Statements					
Opportunity obsession	I have an intimate knowledge of customers' needs and market drive	1	2	3	4	5
	I prefer to focus on new opportunities than on money	1	2	3	4	5
	I am highly market-driven (e.g., focused on customer and technology trends, competition, etc.).	1	2	3	4	5

43) Did you have prior experience in the sector that your business is operating in before you established your business?

Yes	1	No	2
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45) If yes, please specify the nature of your experience.

47) Have any of your family members ever owned or operated a business?

Yes	1	No	2
-----	---	----	---

48) Do you have a business partner?

Yes	1	No	2
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49) If yes, how many business partners do you have? _____

50) Do you believe that having a business partner increase your likelihood of success?

Yes	1	No	2
-----	---	----	---

51) Please motivate the answer you have given above. (i.e. Why do you believe that a partner will either increase your likelihood of success or not?)

52) Which of the following attributes/ characteristics describes your business partner?

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Statements	Strongly Disagree				Strongly Agree
My business partner(s) and I have the same, or similar, qualifications	1	2	3	4	5
My business partner(s) and I have experience in similar same industry	1	2	3	4	5
My business partner(s) and I have previously worked together successfully	1	2	3	4	5
My business partner(s) and I only know each other on a social level	1	2	3	4	5
My business partner(s) have a variety of skills that they bring to the venture	1	2	3	4	5
My business partner(s) have access to wide networks	1	2	3	4	5
My business partner(s) and I can easily, and successfully communicate with each other	1	2	3	4	5
My business partner(s) and I can handle conflict	1	2	3	4	5

53) What were your reasons/motives for starting the business? Please indicate the appropriate answers with a tick.

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Pull and push factors	Strongly disagree				Strongly agree
Being my own boss	1	2	3	4	5
Need for autonomy	1	2	3	4	5
A need for power	1	2	3	4	5
Independence and flexibility	1	2	3	4	5
Wealth creation	1	2	3	4	5
Opportunities in the market	1	2	3	4	5
To provide job security	1	2	3	4	5
To realise my dream	1	2	3	4	5

I enjoy taking risks	1	2	3	4	5
Earn a reasonable living enjoying a quality life	1	2	3	4	5
Unemployment	1	2	3	4	5
Poverty	1	2	3	4	5
Experiencing low pay in current employment	1	2	3	4	5
Not happy with current employment	1	2	3	4	5
Niche market	1	2	3	4	5
Interest in a subject	1	2	3	4	5

PERFORMANCE MEASUREMENT

54) Please indicate the approximate results of your business of the last year, by marking an X on the most appropriate answers.

Indicators	Decrease 20%	Decrease 10- 20%	Stable	Increase 10-20%	Increase > 20%
Net profit/ year	1	2	3	4	5
Total amount of sale/ month	1	2	3	4	5
Equipment/ Assets	1	2	3	4	5
Number of customers	1	2	3	4	5
Number of employees	1	2	3	4	5
Growth in market share	1	2	3	4	5
Customer satisfaction	1	2	3	4	5
Customer satisfaction relative to competitors	1	2	3	4	5
Product/ service quality	1	2	3	4	5

55) On average what is your turnover per month?

56) On average how much how is your business expenditure per month?

57) How many people were working with you when you started this business?

58) How many people are working for you now? _____

Success factors for successful commercialisation

59) Please select a number from 1 (Strongly Disagree) to 5 (Strongly Agree) which best matches your level of agreement or disagreement with each statement below as it relates to the most recent product or service introduction by your business

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

Factors	Strongly disagree				Strongly agree
The product / service did not meet our objectives for being considered a success	1	2	3	4	5
The product / service achieved our market share objectives	1	2	3	4	5
The product / service generated additional business opportunities for the company	1	2	3	4	5
The product / service achieved our sales objectives	1	2	3	4	5
The product / service achieved our profit objectives	1	2	3	4	5
I ensured that the product can be made at a beneficial cost.	1	2	3	4	5
I know what and how much resources will be needed at which phase of the development process	1	2	3	4	5
I determined the characteristics of the new product's market, technologies, and competitive situation	1	2	3	4	5
My customers must know exactly what are they buying and how will they benefit from it	1	2	3	4	5
I have determined my know-how and skills capacity and, when needed, acquired technical knowledge from outside sources.	1	2	3	4	5

I obtained good market information and did adequate homework prior to venture establishment	1	2	3	4	5
I collaborated and communicated with others who have different perspectives	1	2	3	4	5
I identified all the steps to complete in the commercialisation process and completed all of these steps.	1	2	3	4	5
I guarded against poor market research, inadequate market analysis, weak market studies, test markets and market launch, and inadequate resources devoted to marketing activities	1	2	3	4	5
I clearly defined the product – its target market, the concept, benefits and positioning, and its requirements, features and specs – before development began	1	2	3	4	5
I implemented high quality marketing actions such as preliminary and detailed market studies, customer tests, field trials and test markets, as well as market launch	1	2	3	4	5
I know exactly who the intended users are and ensure that the invention will meet their needs.	1	2	3	4	5
There is adequate revenue potential in a reasonable time frame to justify the effort required to commercialise the invention.	1	2	3	4	5
Changes in market demands were evident in time for adequate management decisions.	1	2	3	4	5
The invention fits easily into established distribution networks.	1	2	3	4	5
I did sufficient succession planning to be aware of rapid changes, the impact that these changes will have on the invention	1	2	3	4	5
I mobilised the adequate financial resources that are needed to commercialise the invention	1	2	3	4	5
The financial resources are managed efficiently	1	2	3	4	5
I have developed a commercialisation strategy to act as a game plan for getting my invention to the market	1	2	3	4	5
I considered whether the invention has more potential and greater returns in the form of royalties or assignment fees, than from selling it myself.	1	2	3	4	5
I have efficient access to external networks of resource	1	2	3	4	5

providers to ensure successful commercialisation					
I ensured that I can effectively manufacture and sell my invention on a part-time basis in order to be able to focus attention of the marketing activities as well or to still earn an income from another job.	1	2	3	4	5
I scrutinized the availability and content of the support and development services provided by the local institutions.	1	2	3	4	5
Infrastructure of the local technology business environment was examined.	1	2	3	4	5
Innovators must acquire sufficient resources for commercialisation. This entails not only financial resources, but any resources that are needed to successfully commercialise an invention.	1	2	3	4	5
I ensured that there is an attractive environment for SMMEs. In other words, the political-legal, economic and technological environments, to name a few, was positive to commercialise the specific invention.	1	2	3	4	5

THANK YOU

Appendix G: 1973 Business plan layout

The outline expected of business plans are listed below:

1. Introduction
2. Proposal and use of proceeds
3. Speculative features and risk factors
4. Capitalisation (present and pro-forma)
5. Ownership (present and pro-forma)
6. The company
 - a. History, including pre-formation
 - b. Products/ processes/ services
 - c. Operations and manufacturing facilities
 - d. R&D, patents, trade secrets
 - e. Personnel break down
 - f. Sales
 - g. Current economics of product, etc.
 - h. Markets
 - i. Competition
 - j. Synopsis of management background and track records
- k. Synopsis of professional relationships with lawyers, bankers and accountants
 - l. Financial and management controls
 - m. Analysis of prior income statements and future projections
 - n. Near-term outlook
 - o. Summary
7. Appendices
 - a. Biographies of key personnel (should be more extensive than synopsis above)
 - b. Organisational structure of company
 - c. Product literature
 - d. Audited financials
 - e. Pro-forma p/l, cash flow, balance sheet, capital requirements, staffing requirements, etc.
 - f. Analysis of comparative financial ratios of similar public companies in your industry area
 - g. Glossary of technical terms and definitions

Source: "Sample table of contents for typical private placement », in The Business Plan Package (1973).

Appendix H: Interview questions (Qualitative phase)

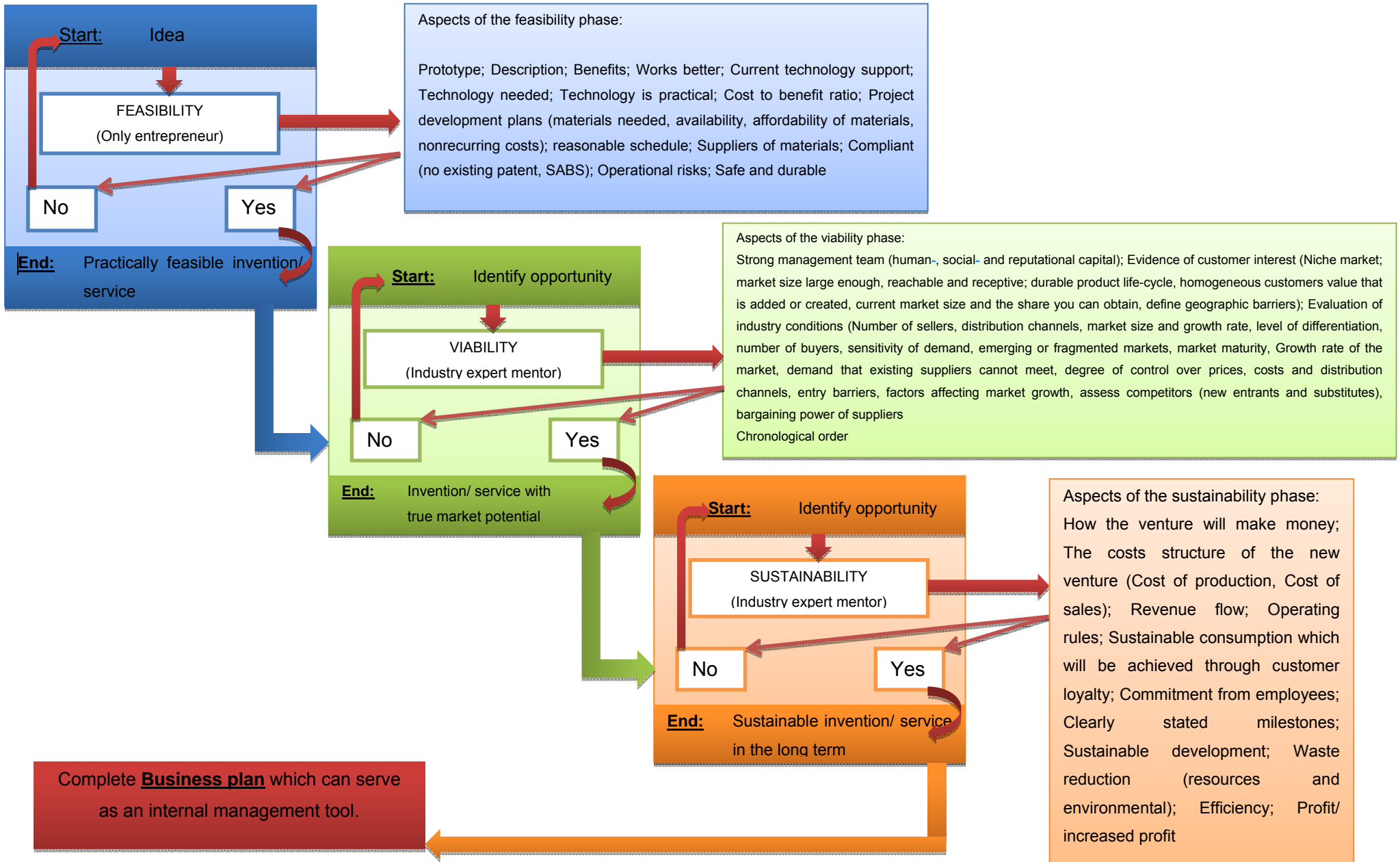
- Can you please explain the process your institution follows? From the initial contact that the applicant makes to the final approval or disapproval?
- Do you expect the applicants to develop a business plan upon application?
- Are there several individuals who are responsible for the evaluation of business plans?
- How do you ensure that the evaluation criteria/ standard is the same across various evaluators?
- Is the evaluation of a business plan a long process?
 - Why or why not?
- Do you find the evaluation of a typical business plan difficult?
- Are there any “soft issues”/ gut feel aspects that you implement while evaluating the business plans?
 - What are there soft issues/ gut feel aspects?
- Which aspects/ sections of a business plan is the most important to you?
- How do you determine whether these aspects/ sections are good or bad, complete or incomplete?
- Do you investigate the information that the entrepreneur provides to you, for example the estimated market size, etc.?
 - How?
- According to your experience, which aspects of a business plan does a typical entrepreneur struggle with the most?
- Do you provide any form of mentorship during the application process?

- Please explain.
- Do you provide any form of mentorship after the application process?
- When do the most applicants fall out of the evaluation process when they apply for funding in your experience?
- According to your opinion, can this dropout rate be lowered by providing mentorship to entrepreneurs?
- How many applications does your institution typically receive?
- What is the current success rate, approximately, of your institution?
- What action plans does your institution have in place to increase this success rate?
- According to this PhD study Feasibility is defined as the practicality of a proposed idea and answers the question: “Can this physically be done?”
 - What does your institution do to determine the feasibility of a business plan?
- Viability is defined as the possibility of achieving success and focuses on the opportunity in the market, the industry in which the venture has to exist as well as the entrepreneurial team.
 - What does your institution do to determine the viability of a business plan?
- Sustainability is defined as the possibility to achieve long term success in terms of the triple bottom line, People, Planet, Profit. And a large part of this focuses on the strategies that the entrepreneur will implement as well as the financial management of the business.
 - What does your institution do to determine the sustainability of a business plan?
- Please see the attached illustration:
 - Do you think this phase-oriented process will be effective to evaluate business plans? Why or why not?

- Do you think this phase-oriented process will be a better evaluation method than the standard business plan to determine the potential of a new venture? Why or why not?
- Do you agree with the logical flow of this illustration? Explain/ motivate your answer.
- Is there anything that you would change/ add to this process? Please explain your answer.

~ Thank you for your time ~

Figure 7.4: Interaction between feasibility-, viability- and sustainability study.



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