Measures to Facilitate Necessity Entrepreneurship:

Western Cape South Africa

Master Thesis within Business Administration

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Abstract

Problem- In the townships and rural areas of the Western Cape province of South Africa unemployment can be as high as 60%. For many, starting a business is the only viable option to survive. There are many organizations seeking to help entrepreneurs to successfully start and manage a business, but services are significantly lacking. We therefore wish to determine what business service providers in the Western Cape are doing today to help necessity entrepreneurs succeed, and what can be done better in the future to facilitate entrepreneurship in the region.

Purpose- The purpose of our research is to identify measures necessary to facilitate successful entrepreneurial start-up activities in the Western Cape province of South Africa for necessity entrepreneurs.

Method- To address our purpose we have used snowball sampling to conduct six in-depth interviews with necessity entrepreneurs and eight with Business Service Providers using semi-structured interviews. In addition, we have utilized convenience sampling to interview 27 necessity entrepreneurs with whom we conducted brief interviews.

Results- From our research it can be concluded that the most important measure necessary to facilitate entrepreneurship for necessity entrepreneurs in the Western Cape is to increase the entrepreneurial capacity of the people. People must be provided with the resources to develop the skills and mindsets necessary to succeed as an entrepreneur and see entrepreneurship as a way of making a career. Secondly, resources must be diverted so that those necessity entrepreneurs with a viable business plan and necessary capacities are provided financial assistance to establish their business. Thirdly, the provincial government must make significant improvements in the abilities of entrepreneurs to access markets. Currently entrepreneurs cannot efficiently access markets and are thereby withheld from valuable business opportunities. Fourthly, the services offered by business service providers must be made more effective and achieve a much greater standard of quality in order to help those most in need better. We are optimistic with regards to development of entrepreneurship in the Western Cape, but must emphasize the fact that there is a significant need for change with regards to services offered to necessity entrepreneurs.
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1 Introduction

This chapter will introduce and give a background to why we are researching measures to facilitate entrepreneurial start-ups for necessity entrepreneurs in the Western Cape province of South Africa. The chapter will begin by giving readers a background to the current entrepreneurial climate of South Africa and the Western Cape in particular. We will then proceed to specify why this type of research is important to the inhabitants of this region. The chapter concludes with an outline of the thesis in order to give readers better insight into the structure of our findings and conclusions.

1.1 Background

Standing at the top of Table Mountain overlooking the city of Cape Town, South Africa, one is standing at the highest point of a society built on extremes. Looking to the left one can see the rich suburbs of Clifton and Camps Bay where the wealthy residents of the Western Cape province swim in the ocean and enjoy multi-colored cocktails under the gleaming African sun. Looking to the right one can see the sprawling Cape Flats region - home to millions of township residents living in meager government-built houses or squatting in inadequate shacks. In the rich suburb of Camps Bay unemployment is nearly non-existent. In townships like Gugulethu or Khayelitsha, unemployment is nearly 60 percent (A. Mankantsuh, personal communication, 2005-04-14).

It is commonly believed that South Africa possess the characteristics of a first- as well as third world economic system (Isaacs, Friedrich, & Visser, 2004). Businesses that operate in the first world economy are professionally managed, have highly qualified employees and are most often owned by successful and socially elite business people. The third world business environment is composed of disadvantaged members of the population who have difficulties accessing capital and are often unskilled. People operating in this sector are limited to the informal sector and are held back by widespread lack of skills, HIV and poverty.

The estimated population of South Africa is about 45 million people. The official unemployment rate is 30 percent (Statistics South Africa, 2001). However, when counting all those who are economically active, 37 percent (nearly 18.8 million people) are unemployed. The poorest 10 percent of the population still live on only one percent of the country’s G.D.P. (S.I.D.A., 2003) with nearly 50 percent of the population living below the poverty line (having an income of less than one US Dollar per day).

The Western Cape province (see map, appendix 7), the region the research for this thesis is based upon, is situated on the southern tip of Africa and is from an economic viewpoint one of Africa’s fastest-growing and richest provinces in terms of technology, business and infrastructure development (Menngos, 2004). Cape Town, which is the legislative capital of South Africa as well as the capital of the province, has a population of 3.1 million (4.5 million total in the province) and boasts one of South Africa’s best skilled workforces as a result of having the highest rate of adult education in the country, though still low by international standards. Despite this positive development, the region still has an unemployment rate of 19.8 percent, heavily concentrated to the black African and colored (South African term for people of mixed ethnicity) communities. In addition, new venture development or entrepreneurship is especially low in the region, with issues such as physical access to markets, human capital and access to finance posing significant difficulties to aspiring entrepreneurs.
The small, medium and micro-sized enterprise (S.M.M.E.) sectors around the world have been instrumental in reducing general unemployment and increasing economic output, especially among the unskilled jobless (Rwigema & Venter, 2004). In South Africa today, a decade after the first non-racial elections, the small business sector has been full of excitement, challenges, disappointments and transformations. At the grassroots level in the Western Cape province, the close interaction of social, political and economic change is particularly strong with an abundance of business service providers trying to facilitate entrepreneurial activity. Although there are reasons to be optimistic, much still needs to be done. In the townships, city centers, and rural farms, entrepreneurial activity has enormous potential but is in great need of economic investments, skill based assistance and market reforms.

In the Western Cape province there are vast areas of opportunity to start a business, yet very few of the tools needed to exploit these untapped resources are freely available. The tourism sector accounts for 20.1 percent of the provinces G.D.P. (Menngos, 2004), an enormous source area of opportunity in addition to the growing clothing and textile industries. The manufacturing and service sectors - only recently opened up to broad private investment - are also in great need of small business support. In the province, people have many business ideas but are finding it extremely difficult to be able to realize them. With many people having little or no collateral to secure a loan, funding is a serious obstacle. In addition, as a result of the former apartheid government¹, large groups of the provincial population lack even a basic education and do not have the skills to be able to start and run a business. The potential is there for entrepreneurs to succeed, but government and private institutions alike must make significant policy and financial investments to help the S.M.M.E. sector grow.

To address this problem of low entrepreneurial activity in the Western Cape province of South Africa, the Western Cape Department of Economic Development and Tourism has identified a distinctive gap that exists in offering efficient and high quality business support and advice services to S.M.M.E.’s (RED Door Business Plan, 2004). A number of government and non-governmental organizations (N.G.O.) have historically worked in the Western Cape to facilitate entrepreneurial activity, but have had limited success at addressing the problem. As a result, the provincial government has acted to consolidate existing programs into an initiative named the Real Enterprise Development (RED) Door. The aim of RED Door is to be “a one-stop-center where S.M.M.E.’s are able to access a single point to seek assistance (RED Door Business Plan, 2004, p. 1).” The aim is to help promote entrepreneurs to succeed by giving them high quality support with the resources that they need to successfully start and operate a small business in the Western Cape. With eight centers currently operating, and another 27 to be opened before the end of 2007 (O. Dyers, personal communications, 2005-04-06), hopes are high that RED Door will be able to provide entrepreneurs with the tools they need to be able to support themselves, create jobs, and help alleviate poverty.

1.2 Problem Discussion

Previous research (see Johansson, Macura, Persson & Sjölund, 2005) investigating reasons for low levels of entrepreneurial activity in South Africa recognized many explanations for

¹ For further information see http://www-cs-students.stanford.edu/~cale/cs201/apartheid.hist.html
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why entrepreneurship is so underdeveloped. Low levels of education, lack of capital, poor governance and other socio-economic factors have all contributed to low levels of entrepreneurship. There is, however, a lack of research suggesting what exactly can be done to alleviate the problem. Government and other institutions have many strategies for what should be done to increase entrepreneurial activity but seem to lack the practical hands-on approach for how to address the problem. As a result of our previous research investigating why entrepreneurship in South Africa is so low, many questions were left unanswered. Questions included: Why are some people with similar circumstances able to successfully start a new business while others fail? What support are previously disadvantaged individuals given to become entrepreneurs? What assistance do entrepreneurs in the Western Cape most need? What is currently being offered? Is there a difference in what service providers perceive to be offering and what entrepreneurs are actually getting?

When evaluating our different questions, as well as different theoretical approaches to researching entrepreneurship in South Africa, we concluded that we wanted to attain a more complete understanding of what support people in the Western Cape province of South Africa are missing to be able to develop business ideas into successful companies. Furthermore, since the province has such an extremely high level of unemployment, we choose to concentrate our research on those who have no alternative for employment other than starting a business, classified as necessity entrepreneurs. By meeting with entrepreneurs, business service providers and government representatives, we wish to build an understanding about what services and support are currently being offered, and what can be done in the future to help more people, better, to start a successful entrepreneurial venture.

The Western Cape province was chosen ahead of the other eight provinces in South Africa (see map, appendix 7) because of its progressive government institutions regarding S.M.M.E.’s, large untapped potential (particularly in the tourism industry) and close proximity between metro, suburban, township and rural communities. In addition, partnerships between our home university (Jönköping International Business School) and the University of the Western Cape regarding S.M.M.E. growth research also influenced our decision to base our work in the Western Cape.

1.3 Problem Area
The foundation for our research was the continued curiosity for the direct link between high unemployment and low levels of entrepreneurial activity as a result of our previous research in this area. Although this link is an underpinning for why we wish to investigate the field of entrepreneurship in the Western Cape, we will not examine the link between these two factors more specifically. Instead, we wish to determine what business service providers in the Western Cape are doing today to help necessity entrepreneurs succeed, and what can be done better to facilitate entrepreneurship. It is our intention to form an understanding about the needs of necessity entrepreneurs and provide proposals as to what we believe can be done to help alleviate the problem of low entrepreneurship in the region.

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2 The project is a joint research project funded by S.I.D.A. and National Research Funding, and is called: The Dynamics of Small Business Enterprising: Challenges to be Faced in the Business Context of Sweden and South Africa.
By highlighting areas of improvement it is our intention to give policy makers practical information about what specific measures are needed to promote entrepreneurship in the Western Cape. By highlighting the needs of necessity entrepreneurs our proposals will primarily address what we perceive to be the group most in need of support, the unemployed previously disadvantaged individuals of the townships and rural areas.

1.4 Purpose

The purpose of our research is to identify measures necessary to facilitate successful entrepreneurial start-up activities in the Western Cape province of South Africa for necessity entrepreneurs.

1.5 Intended Audience

The audience of this thesis is all people who are actively working with or are interested in entrepreneurship and unemployment in South Africa. These groups could include the South African government as well as academic institutions in the country and abroad. Furthermore, non-governmental organizations and private firms may be interested in order to further their understanding of entrepreneurship in South Africa. Our thesis will be published and be made available at the library at the University of Jönköping in Sweden and the University of the Western Cape in South Africa. Our research will also be made available on the DIVA electronic thesis database available to most Swedish Universities.

1.6 Outline of the Thesis

- **Chapter 2 – Theoretical Framework.** This chapter will begin by providing readers with theories and figures relevant to entrepreneurs and entrepreneurship in the Western Cape province of South Africa as well as other theoretical information relevant to our purpose. The chapter will provide a deeper understanding for our chosen subject and act as a foundation for the collection of empirical data.

- **Chapter 3 – Method.** In this chapter a review of the research techniques used to gather empirical data will be presented. We will illustrate why we have utilized a particular research method and how it has been used to fulfill our purpose.

- **Chapter 4 – Empirical Findings.** The empirical findings chapter will give readers a review of the information collected for our research. Key findings of our 41 interviews with entrepreneurs, business service providers, and government officials will be illustrated with the intention to be evaluated in the proceeding chapters.

- **Chapter 5 – Analysis.** In this chapter we have analyzed our empirical data based on the theoretical framework presented in chapter 2. Firstly a critical review of empirical data is given, followed by our own evaluation. Finally measures are proposed which we believe can facilitate entrepreneurship in the Western Cape for necessity entrepreneurs.
• **Chapter 6 – Conclusions.** The chapter intended to give readers a final review of key findings from the analysis section.

• **Chapter 7 – Thesis Discussion.** Here we provide readers with personal reflections upon our research and a discussion on what insights we have gained during the course of the study. Furthermore, we provide suggestions with regards to further research.
2 Theoretical Framework

This chapter introduces the subject area of entrepreneurship, the entrepreneur and explores theoretical issues concerned with defining the terms. Furthermore, this section summarizes the current level of knowledge surrounding the development of entrepreneurship in the Western Cape including business service providers and entrepreneurial training. By highlighting the role of government, non-governmental organizations and other organizations - this section will provide a theoretical base for our empirical findings and analysis.

2.1 The Entrepreneur

The word entrepreneur is derived from the French verb “entreprendre” meaning to undertake or the noun “entrepreneur” meaning go-between. The term “entrepreneur” refers to an individual person while “entrepreneurship” is what that person does (Fleming, 2003 cited in Rwigema & Venter 2003).

As is the case with the process of entrepreneurship, a universally acceptable definition of what an entrepreneur is has yet to be invented. Academics and other experts define entrepreneurship in different ways. Common to most of these definitions is the notion of value creation through new ventures (Rwigema & Venter, 2004). The following are a sample of definitions available:

- “… A person who sets up a business or businesses” (Ask Oxford, 2004).
- “Entrepreneurship is the act of forming a new organization of value” (Bateman & Snell, 1996, p. 208).
- “Entrepreneurship is the seemingly discontinuous process of combining resources to produce new goods or services” (Stoner, Freeman & Gilbert, 1995, p. 160).
- “… The process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence” (Hisrich & Peters, 1998, p. 9).

The dilemma of knowing when and where to apply the label entrepreneur results from the inability of theorists and practitioners alike to reach a common agreement upon what exactly entrepreneurship is, how to measure it and how to develop universal parameters for identifying one (Spring & McDade, 1998). Academics tend to define an entrepreneur by developing a list of specific attributes and conditions specific to an individual in an economic system. Kuratko and Hodggets (2001) list prominent qualities of entrepreneur encompassing:

- The ability to recognize and exploit opportunities
- Resourcefulness
- Creativity
- Visions
- Independent thought
- Energy
- Optimism
- Innovativeness
- Calculated risk taking
- Leadership skills
At the University of the Western Cape, Prof. Leon Hendricks concludes - as a result of a 2003 survey - that successful entrepreneurs share certain traits (Business Times, 2003 cited in Rwigema and Venter, 2004). These include:

- Innovativeness
- Ability to take initiative
- Achievement drive
- Willingness to take calculated risks
- Flexibility
- Competitiveness

It is the entrepreneurs who work to put together new combinations of resources, and who’s actions have consequences on the basis of their organizational skills, their creativity as decision makers and the distinctive “opportunity structures (the settings, circumstances or situations within which the decisions and choices are made)” (Greenfield & Strickon, 1986 p. 11). They act as agents of change, monitoring, anticipating, and executing (Rwigema & Venter 2004).

The entrepreneur is the leading force behind a new venture-encompassing opportunity, and adding value to the marketplace. They are skilled networkers and readers who keep themselves informed about market developments. Building a successful and sustainable venture meeting the markets needs, according to Rwigema and Venter (2004), requires alertness and continual innovation.

Within the frame of this research we define an entrepreneur as:

> Anyone who is either starting a business he or she will wholly or partially own or is someone who is managing a business that he or she wholly or partially owns that is equal to or less than one year old. The business can be in any economic sector, can be any size and can be formal or informal.

(Adapted from G.E.M., 2004, p. 54)

We have chosen the definition above, adapted from the Global Entrepreneurship Monitor (G.E.M., 2004) to define whom an entrepreneur is. We have chosen this definition because of its simple and inclusive nature describing any person, within any business structure and sector who is starting or running a new business. When combined with the definition of what an entrepreneur does found below, we believe that a comprehensive description of an entrepreneur in the Western Cape can be established. Furthermore we have chosen to limit our definition to those involved with a business equal to or less than one year in order to ensure as far as possible that these individuals are in the start-up phase of business development.

### 2.1.1 Necessity Entrepreneurs

This research distinguishes between opportunity entrepreneurs who “pursue a business opportunity” and necessity entrepreneurs who have no better choices for work (G.E.M., 2004). On average, countries with lower per capita income have higher rates of necessity entrepreneur-
Theoretical Framework

Furthermore, it can be noted that necessity entrepreneurship is highly related to economic growth while opportunity entrepreneurship is not (Morris, 2002).

In this report we define a necessity entrepreneur as:

"Someone who is engaged in starting or managing a new firm because he or she has no better work alternatives."

(G.E.M., 2004, p. 54)

For a necessity entrepreneur to be deemed to be successful, we conclude that the person should be running or managing a new firm that is one year old or less (and hence in the start-up phase), and is sustainable. By defining a firm as sustainable indicates that its total revenue is greater than its total costs, and will remain so in the foreseeable future. We have chosen to utilize this definition because it reflects well upon the conditions and purpose of our research.

2.1.2 Entrepreneurial Motivation

There are many reasons for why an individual chooses to start a business. Among the leading motivating factors are profit, challenge, and a desire for independence. According to Rwigema and Venter (2004) entrepreneurial motivation can, for organizational purposes, be divided into pull and push factors. Pull factors can be divided into three separate subgroups, (1) the profit motive, (2) challenge and (3) a desire for independence.

The financial reward of starting a new business can be significant, and is a powerful stimulant to prospective entrepreneurs. While it may not always be the dominant factor for all people to start a business, it is crucial for sustainability and is a barometer for growth. It can be seen as an indication of an entrepreneur’s success and fuels the individual’s standard of living. Sustainability and long-term profitability leading to financial security and an increase in ones standard of living is the ultimate goal.

The challenge of building a new business from scratch into a functioning company is a significant motive for many entrepreneurs. Research suggests that entrepreneurs achieve greater personal contentment than professional managers (Timmons & Spinelli, 2003). Starting a business can give entrepreneurs an opportunity for self-actualization - achieving a feeling of providing for oneself and others. Neither limited resources nor the prospect of failing hinders them. Instead, failure is seen as a learning experience that can help to achieve success in the future. Furthermore research suggests that entrepreneurs, when reflecting upon their careers, point to the creative challenges rather than financial rewards of building their business as their most significant incentives (Rwigema and Venter, 2004).

The desire for independence is another pull factor leading individuals to become entrepreneurs. By controlling one’s own destiny, the freedom to work for oneself is a reoccurring motive for why entrepreneurs are willing to take the risks associated with starting a business. Many people who are not satisfied with the constraints of previous jobs feel that they can perform better on their own. With limited external control, people gain the independence to make their own decisions, allowing for more innovation to occur.

Push factors - on the other hand - involve motivators that persuade people to move away from their current situation and into an entrepreneurial venture. The most common push
factors motivating individuals to become entrepreneurs include (1) poor pay, (2) lack of prospects, (3) lack of innovation and (4) negative displacement or lack of alternatives.

The push factors mentioned here are highly related to job satisfaction. Based on research he did in the 1950's and 1960's, Frederick Herzberg found that job dissatisfaction comes from factors that are extrinsic to the job such as company policy, interpersonal relationships, working conditions, salary, and other factors (cited Dubrin, 2004). If people are not satisfied with their job, or believe that their prospects are limited to move upwards, they may be motivated to start their own business.

Finally, because of negative displacement or lack of alternatives—especially clear in the Western Cape—unemployed (or unemployable) and laid-off workers are often forced to start their own businesses. It is becoming increasingly difficult for recent graduates (at all levels of education) to find work, and many older people find themselves being retrenched. In order to survive, many therefore start their own business out of sheer desperation. Different from many western nations, social security in the Western Cape is limited. If a person cannot support himself or herself the government has very limited resources to help them and thus starvation and poverty result. Starting one’s own business is the only foreseeable alternative for many.

2.2 Entrepreneurship

Until as recently as 1994—with the fall of the apartheid government in South Africa—large, dominant, and state run firms were the key to the country’s industry. However, with the implementation of a new government and constitution guaranteeing the rights of all citizens, entrepreneurship has been seen as essential to growth and job creation.

Entrepreneurship refers to the cognitive and physical process required to start a new business venture. From the conceptualization of an idea to its successful implementation, entrepreneurship involves being able to see an opportunity, gather necessary resources and capitalize upon it. Gilder (1971) emphasizes that one of the key principles of entrepreneurship is the absence of clear and fast rules. There is no universally accepted tenet for how a person becomes an entrepreneur, nor why. Some people will be able to make significant profits, while others will fail. One must question why a given person enters into an entrepreneurial venture, as well as reasons for others failure to do so (Johansson et al., 2005).

For the context of this research the definition below will be used to describe what entrepreneurship is. From conceptualization to start-up this definition summaries the key elements of starting a business making it more relevant than other definitions. What is especially pertinent to entrepreneurship in the Western Cape is the definition’s inclusion of conducting business in a turbulent environment. When compared to other definitions that are more goal oriented, this definition stresses the progression of an entrepreneurial idea from beginning to end in a particular business environment. For these reasons we believe it is the most suitable definition to define what an entrepreneur does within the context of our research.
This leads to a conclusion that the process of entrepreneurship has its foundation in concept and theory, person and intuition (Morrison, 1998). At the heart of this process are human activities and the application of business practices to create something new. It is more than an economic function; it is about initiating change in socio-economic way.

### 2.2.1 The Process of Entrepreneurship

While business ventures are started in many different ways, and for many different reasons, there are a number of features common to the start-up phase of an entrepreneurial activity (Rwigema & Venter, 2004). Features include an opportunity focus, a business plan, resource acquisition and deployment, an appropriate structure, a motivated team and finally a founder or lead entrepreneur. From these seven points three main interdependent variables can be extracted to illustrate the requirements of a successful start-up as illustrated in figure 1, opportunity, resources and an appropriate team. The process begins with opportunity, not money, networks or teams (Timmons & Spinelli, 2003). Opportunities are generally much bigger than either the initial resources available or the talent and capacity of the team; it is therefore the entrepreneurs’ role to balance these elements in a turbulent environment. Figure 1 illustrates the mutual interdependence among these three elements, anchored together by a founding entrepreneur. Each element impacts on, and is informed by, the other two. The concept of the fit and balance between the three elements proposed in the model below is crucial to the success of a start-up. In order for a start-up to be successful (to achieve sustainability) each element must be addressed and answered satisfactorily, depending upon the prevailing business environment.

*Entrepreneurship is the process of conceptualizing, organizing, launching and – through innovation – nurturing a business opportunity into a sustainable venture in a complex, unstable environment.*

(Adapted from Rwigema & Venter, 2004, p. 6)
According to Fass and Scothorne (1990) the process of entrepreneurship can be found to be at the heart of economic development driven by the motivations of those seeking to satisfy their own personal goals. However, there is no universally accepted definition of what the process of entrepreneurship is. Traditional attempts describe it relative to an economic function, ownership structure, degrees of entrepreneurship, size and life cycle of firms and as a resource base (Morrison, 1998). The process of entrepreneurship is holistic and dynamic in nature (Timmons & Spinelli, 2003). The process is more than just starting a business. The dynamic nature of entrepreneurship is characterized by an ability to see opportunities in a continuously changing environment and having the capacity to gather resources in order to realize goals. The essence is in the initiation of change, through creation and/or innovation.

The process involved in starting a new business involves founding (or reinventing) a business venture and growing it into a thriving, agile enterprise (Rwigema & Venter, 2004). Specific steps include:

- Identifying, measuring and refining an opportunity from multiple ideas;
- Formulating a business plan;
- Organizing resources;
- Organizing and mobilizing the enterprise;
- Overseeing new venture creation and growth.

Performing these aforementioned steps better than a competitor implies having a competitive advantage: an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies
higher prices (Tutor2u, 2005). It gives a necessity entrepreneur a higher chance of achieving success and reaching their goals.

### 2.2.2 Startup

During the initial start-up of a business idea it is the skills of the entrepreneur that prevail. The ability to sense an opportunity where others see contradictions, chaos and confusion are critical elements of success (Timmons & Spinelli, 2003). Entrepreneurs must possess the skills to acquire and control resources, often owned by others, in order to pursue the opportunity. In addition to the three elements above, opportunity, resource and team, the entrepreneur must also consider economic, social, cultural, technological, and other impacts from the external environment. This stage is characterized by disequilibrium between opportunity and limited resources as illustrated in figure 2 below.

![Figure 2- Imbalance Between Resources and Opportunity in Start-Up Phase](Adapted from Timmons & Spinelli, 2003, p. 60)

Initially, in the eyes of the entrepreneur, opportunity is large and rapidly growing but its potential magnitude is not known. Opposing this is a lack of resources, particularly funds. This imbalance is shown above in figure 2. The entrepreneur must manage to create a distinctive package of goods and services, which can be marketed to prospective investors and future employees by creating an ambitious but realistic business plan (Rwigema & Venter, 2004).

Once resources (financial, human and physical assets including the business plan) are obtained, entrepreneurs must efficiently build up stock and quality to meet market demands. The structure of the organization at this time is informal and flexible with employees needing to be capable of multi-tasking. In a dynamic and multifaceted environment, reaction time is limited and communication is fairly informal as decisions are virtually made “on the spot.”

This is often a risk-filled and stressful time for inexperienced entrepreneurs. With a lack of experience and knowledge, mistakes are inevitable. However, these mistakes do not neces-
sarily lead to failure of the business. Instead, as has been highlighted earlier, mistakes can be a learning experience in which the entrepreneur can gain practical knowledge to use in the future.

For the research conducted in this thesis, in order to draw a line as to who should and should not be deemed to be in need of support to start a business, we have chosen to use a timeframe of one year or less. Within this timeframe we include entrepreneurs who are either actively in the process of starting or currently managing a new business.

2.3 Entrepreneurship in a South African Context

Although there is an abundance of literature seeking to explain what entrepreneurship is and its implications upon economic growth and society as a whole, much of it has its roots in European and other western cultures (Fick, 2002). Entrepreneurship in South Africa, and more specifically in the Western Cape province, can take many forms that differ greatly from western norms. From the individual selling fruits as part of an informal business, to an international conglomerate formed as a result of many entrepreneurial activities - the actions of entrepreneurship and the people behind them differ greatly (Johansson et al., 2005).

The Western Cape province is still today a greatly segregated society; many poor non-white citizens live in so called townships just outside the cities where infrastructure and standard of living are poor. The ability to physical access markets and supplies is greatly impeded, those living in townships often complain of a lack of opportunities and unemployment is up to 60 percent (A. Mankantsuh, personal communication, 2005-04-14).

Less then 20 years ago there were many laws and rules regulating or preventing groups of South Africans to not only own land, have property rights and have an ability to move freely, but also to start their own businesses (Brief History of South Africa, 2004). The policies suffocated entrepreneurial development and created great divides between ethnic groups hindering many from exploring opportunities3.

Although entrepreneurship is generally studied in the context of business, it also can be applied to many other aspects of society (Rwigema & Venter, 2004) in the Western Cape. It is relevant to government departments, parastatals, non-governmental organizations (N.G.O.), farmers, informal business, the arts and other areas. The ability to see an opportunity and initiate change can have profound effects upon society. In an increasingly competitive world, survival depends on people who are driven by opportunity and who seek to maximize their goals in a sustainable way. In the Western Cape, being an entrepreneur can take many forms. An entrepreneurial activity can be a result of seeing a large-scale opportunity and exploiting it, or a means to earn a small income in order to survive. At the forefront of research concerning entrepreneurship and S.M.M.E.’s in the Western Cape today is its role in creating jobs and alleviating poverty.

There are many factors that inhibit the ability of people in the Western Cape to become entrepreneurs. However, we have chosen to concentrate our research inline with the findings of Wickham (1998). He suggests that there are nine main factors contributing to a lack of new venture creation. They are:

3 For further information see http://www-cs-students.stanford.edu/~calc/cs201/apartheid.hist.html
Theoretical Framework

1) The absence of start-up capital;
2) Costly Funding;
3) High Risk;
4) Legal Restrictions;
5) Lack of training;
6) Inexperience;
7) Poor community image;
8) Insufficient local skills;
9) Weak business networks;

These issues will be discussed and highlighted throughout this research. In addition it can be noted that these 9 issues presented above, will be reduced and grouped together providing four main areas, which our analysis will be centered around.

2.3.1 Entrepreneurial Capacity

Entrepreneurial capacity includes the ability of the education and training system to promote and develop the skills and mindsets of people needed for entrepreneurship (G.E.M., 2004). In the Western Cape province there are significant and widespread inequalities in the educational system. The apartheid system prevented South Africa from achieving its full potential, leaving lifelong scholarly scars on those included in the definition of previously disadvantaged individual (see definition section 2.6.6). Many schools significantly lack resources leading to unequal socio-economic outcomes. In many instances the South African educational system can be divided into two “dual” systems whereby some have access to quality education, at a cost, while others remain restrained to inadequate services leaving them lacking the necessary skills to prosper.

In addition to the basic business skills required to become an entrepreneur, attitudes, behaviors, management competencies, experience and knowledge also contribute to entrepreneurial success. Similarly, it had been demonstrated that successful entrepreneurs have a wide range of personality types. In order to become an entrepreneur one does not necessarily need to fit particular intellectual or personality characteristics. “Great entrepreneurs can be either gregarious or low key, analytical or intuitive, charismatic or boring, good with details or terrible, delegators or control freaks. What you need is a capacity to execute in certain key ways (Timmons & Spinelli, 2003, p. 63).”

What most entrepreneurs share is hard work with individuals driven by an intense commitments and determined perseverance; they see the cup as half-full, rather then half-empty. And they are dissatisfied with the status quo and seek opportunities to improve almost any situation they encounter and believe that they can personally make an enormous difference in the final outcome of their ventures and lives (Timmons & Spinelli, 2003).

Visser (1997) provides an explanation of the general attitude and mindset among the poor population of South Africa. He explains how the majority of the population has grown up with no school or a tradition of business, innovation and/or entrepreneurship. There is a clear deficit in the ability of the people to see themselves as resource creators. In addition, there are few role models to motivate and guide them in career choice and development
Theoretical Framework

(Johansson et al., 2005). Developing an entrepreneurial mindset includes influencing a person’s awareness so that they have the capacity to succeed as an entrepreneur and see entrepreneurship as a desirable way of making a career (G.E.M., 2004). If people do not have confidence that they can achieve goals, they will not attempt to make things happen. (Nancy, 2004; G.E.M., 2001).

2.4 Business Service Providers (B.S.P.)

According to Prof. Eslyn Isaacs of the University of the Western Cape (2005) a B.S.P. is an organization that has been established to assist potential entrepreneurs to start a business, to help manage their existing business or to assist entrepreneurs to grow their business.

A typical B.S.P. should include some of the following services; business functions, education and training, consulting, counseling and coaching, policy and advocacy services, networking and infrastructure services (see figure 3). However depending upon the size, expertise and funding provided to the B.S.P., they might choose to offer only a few of the named services. Most often, and especially in the Western Cape province B.S.P. are chapter 21 not-for-profit, which indicate that organizations are reliant upon external financing to cover operational costs. For the sake of the purpose of this research the model below will highlight the role of B.S.P. in the initial start-up phase of an entrepreneurial activity.

Figure 3- Model for B.S.P. Services

(Isaacs, 2005)

- Management Functions- In order for a business start-up to function effectively it is crucial that the owner or manager has sufficient knowledge of basic management func-
Theoretical Framework

- **Education and Training** - B.S.P. offering education and training have learning modules often directed at large groups of people. Often the focus is placed upon management functions of specific skill training.

- **Consulting, Counseling and Coaching** - Counseling or coaching services may be offered by B.S.P as a result of business people preferring these services to attending training seminars. Many training seminars may be too general in nature for an owner or manager that is seeking specific assistance to solve a particular problem.

- **Networking** - A critical component for success in an entrepreneurial start-up is the extent in which a businessperson is able to work well within networks. A network typically includes partners, customers, suppliers, the community at large, licensing authorities and regulators. A B.S.P. can help to introduce entrepreneurs to networks and help to maintain contacts.

- **Infrastructure Services** - A number of B.S.P. strive on providing office retailing, wholesaling and manufacturing space. In addition related services such as bookkeeping, accounting, information resources, taxation and brokerage services may be offered.

- **Policy and Advocacy Services** - A particular country’s government is generally responsible for providing policy guidelines. However, the government is normally dependent upon assistance and feedback on its relevance by implementers of policy. Therefore, the provincial government depends upon B.S.P. to play an integrated role in identifying problem areas in the policy guidelines, which will enable the government to improve upon its initial guidelines.

2.5 **Entrepreneurial Training and Education**

The Southern Utah University defines entrepreneurial training as the practical applications and common sense approach to gaining the necessary skills to develop a business successfully (Brijlal, Friedrich, Isaacs, May, Solomons, Stoltz, & Visser, 2005). According to Brijlal et al. (2005) there is general agreement among researchers in the field of entrepreneurship that more emphasis should be directed to entrepreneurship training and education as opposed to business education. They stress that business education has a more limited coverage than entrepreneurship education and training, which include additional topics such as innovation and risk taking for example. Ladzani and Van Vuuren (2002), in their model of entrepreneurial training, include motivation, entrepreneurial skills and business skills as important topics to consider (cited in Brijlal et al., 2005). In the table proposed by Nieman and Van Vuuren (1999) illustrated below (see table 1) three components are key to entrepreneurial performance training. These include motivation, entrepreneurial skills and business skills (Ladzani, 2002 cited in Brijlal et al. 2005).

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Entrepreneurial Skills</th>
<th>Business Skills</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to inspire</td>
<td>Creativity</td>
<td>Management/Leadership</td>
</tr>
<tr>
<td>Need for achievement</td>
<td>Innovation</td>
<td>Business plans</td>
</tr>
<tr>
<td>Expectations of the higher achiever</td>
<td>Ability to take risks</td>
<td>Financial skills</td>
</tr>
<tr>
<td></td>
<td>Ability to identify opportunities</td>
<td>Marketing skills</td>
</tr>
</tbody>
</table>
Theoretical Framework

<table>
<thead>
<tr>
<th>Obstacles or blocks</th>
<th>Opportunities</th>
<th>Operational skills</th>
</tr>
</thead>
<tbody>
<tr>
<td>Help</td>
<td>Ability to have a vision for growth</td>
<td>Human resources skills</td>
</tr>
<tr>
<td>Reactions to success or failure</td>
<td>Interpret successful entrepreneurial role models</td>
<td></td>
</tr>
</tbody>
</table>

Table 1- Content of Entrepreneurial Performance Training  
(Adapted from Ladzani, 2002 cited in Brijlal et al. 2005)

Johan Wiklund (2003) states that an entrepreneurial orientation has two components: action, resulting in actual entrepreneurial behavior, and mental orientation or a way of thinking of the small business manager that is not necessarily put into action (see section 2.3.1). Utilizing the three components illustrated in table 1 in collaboration with the orientation suggested by Wiklund (2003) we believe a successful entrepreneurship education can be designed and implemented in the Western Cape (cited in Brijlala et al. 2005).

2.6 Summary of Definitions

In this section, we provide definitions for key terms used throughout our research. We have taken exceptional care to ensure that definitions are accurate and up to date. Readers should have a firm understanding of the nature of the entrepreneur, the process of entrepreneurship, B.S.P.’s and the entrepreneurial environment in the Western Cape. An understanding of these issues should give readers a basis for investigating measures to facilitate entrepreneurial start-ups, for necessity entrepreneurs, in the Western Cape province of South Africa.

2.6.1 Business Opportunities

Business Opportunities are positive movements in the market that present entrepreneurs with a chance to further entrepreneurial ventures through innovation (Coulter, 2001). An opportunity also gives way to a possibility to add value by doing something differently from and/or better than competitors.

2.6.2 Business Service Provider

An organization that has been established to assist potential owners to start a business, to help manage their existing business or to assist owners to grow their business (Isaacs, 2005).

2.6.3 Entrepreneur

For the purposes of this thesis, an entrepreneur is anyone who is either starting a business he or she will wholly or partially own, or is someone who is managing a business that he or she wholly or partially owns that is equal to or less than one year old. The business can be in any economic sector, can be any size and can be formal or informal (adapted from GEM, 2004, p. 54).

2.6.4 Entrepreneurship

Entrepreneurship is the process of conceptualizing, organizing, launching and – through innovation – nurturing a business opportunity into a sustainable venture in a complex, unstable environment (adapted from Rwigema & Venter, 2004, p. 6).
2.6.5  **Necessity Entrepreneur**

“A necessity entrepreneur is someone who is engaged in starting or managing a new firm because he or she has no better work alternatives (G.E.M., 2004, p. 54).” Within the context of this definition, for a *necessity entrepreneur* to be considered successful we assume that the person should achieve sustainability in one year or less.

2.6.6  **Previously Disadvantaged Individual**

A South African citizen who, due to the apartheid policy that was previously in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa in 1983 or the Constitution of the Republic of South Africa in 1993 (Preferential Procurement Implementation Plan, 2003).

2.6.7  **Small, Micro and Medium Enterprise (S.M.M.E.)**

Section 1 of the National Small Business Act 102 from 1996 defines what, in the context of South Africa, a S.M.M.E. is. The Act defines S.M.M.E.’s as separate and distinct business entities in any sector or sub sector of the economy managed by one owner or more. These include cooperative enterprises and non-governmental organizations, as well as branches or subsidiaries. In the Schedule of the Act, S.M.M.E.’s are classified by sector or sub sector in terms of full-time staff compliment, annual turnover, as well as gross asset value (Rwigema & Venter, 2004).

S.M.M.E.’s are:

- **Small**: Businesses in which a secondary managerial level is in place and some management takes place. Generally between 10 to 99 employees.

- **Micro**: Very small enterprises consisting of an owner/manager and no more than 4 employees (Rogerson, 2000). Like necessity enterprises, they have limited requirements for start-up capital and very basic expertise. They do, however, have the potential to grow and develop into a large enterprise (Rwigema & Venter, 2004)

- **Medium**: A certain amount of decentralization takes place in these types of businesses. More complex management structure and in some instances increased division of labor is evident. Employ between 100 to 499 people.


2.6.8  **Start-up**

The process of starting or currently managing a new business that is less than or equal to one year old.
3 Method

In this chapter we present which methods we have used to address our purpose. The chapter begins with a description of qualitative and quantitative methods and which form we have chosen to use. Further, an explanation of how knowledge is created is presented. Preceding this an explanation of how and why we chose to use sampling to obtain interview respondents is given. The chapter is concluded with a description of how our empirical data is analyzed and how results maintain trustworthiness.

3.1 Introduction

When we began the task of writing this thesis we asked ourselves; how and where would we acquire data in an efficient manner providing us with enough information to address our purpose? The study of entrepreneurship in South Africa is a subject matter that we were previously familiar with as a result of previous research conducted within the field (see Johansson et al., 2005). However, our previous research was based primarily on secondary data. In order to re-examine the issue of entrepreneurship in South Africa, we needed to evaluate additional information utilizing primary data. As a result, during a three-month period in 2005, we traveled to the Western Cape province of South Africa, staying in Cape Town, to research the subject.

Before departing to South Africa to begin our research we took a number of steps to ensure that we would be able to work as effectively as possible while we were there. The most important issue was in regards to establishing a network of contacts that could assist us in our research and give us access to interview subjects. Generously, our thesis supervisor provided us with access to leading researches within entrepreneurship in the Western Cape who we contacted before our departure. These researchers in turn put us in contact with representatives both within, as well as outside of the provincial government who were supporting entrepreneurs and the S.M.M.E. sector of the Western Cape.

With the dilemma of choosing how to achieve our purpose, the choice was between different method techniques: qualitative methods or quantitative methods. We wanted to ensure when choosing between qualitative or quantitative methods that it was compatible with our purpose and to ensure that the chosen method could provide us with comprehensive data to gain an adequate understanding about services offered to necessity entrepreneurs, allowing us to draw trustworthy conclusions.

3.1.1 Qualitative & Quantitative Methods

The primary purpose of utilizing qualitative methods is to gain an understanding and draw conclusions from data that is difficult to quantify, this form of data can include things such as feelings, values and peoples perception of their own reality. When utilizing qualitative methods the researcher collects data through interactions with a research subject as well as through observations (Hult, 2003).

When a researcher uses a quantitative research method he or she wishes to base conclusions on data that can be quantified and analyzed with statistical methods and/or tools (Hult, 2003). To use quantitative methods the researcher must possess relevant expertise and enough time to design a research instrument, such as a regression model, to gather data. Using this research instrument the researchers objective is to either confirm or reject a hypothesis of any relationships between pre-decided variables. This will lead to a wider understanding of a phenomenon that can be generalized (Gummesson, 2000; Hult, 2001).
When qualitative methods are utilized it forces the researcher to conduct observations, analyze collected data and, from the data, make subjective interpretations (Stake, 1995). Patton (2001, p. 14) emphasizes that when utilizing qualitative methods the trustworthiness of the analysis depends on the researcher as he or she is the tool of understanding and interpretation (cited in Golafshani, 2003). Empirical data analysis, according to Stake (1995), is a procedure where the researcher is trying to seek meaningful patterns from the collected data.

Qualitative research involves the use of qualitative data; the data can, according to Bryman (2000), be efficiently collected utilizing one of three types of research methods. They include:

- **Participant Observation** – The researchers try to collect primary data through observations of individuals in their everyday life. They also listen to people’s verbal interaction with each other.
- **Interviewing** – A structured conversation with a purpose.
- **Documents** – The researchers collect and examine documents relevant for his or her study.

### 3.1.2 Our Choice of Method

In order to answer our problem statement and address our purpose we chose to utilize a qualitative based research approach. We chose to use this method because it provided us with empirical data that could help us to gain a useful understanding and draw conclusions with regards to how necessity entrepreneurs in the Western Cape could best be helped.

We also felt that the results we could obtain from a qualitative based approach would provide us with a more comprehensive understanding of the multifaceted social issues facing necessity entrepreneurs in the Western Cape. This is because these multifaceted issues are difficult to quantify.

In making our decision we considered the theories of Creswell (1994) who states that personal preferences have an important role to play when a researcher chooses which form of method the investigation should utilize, either qualitative or quantitative (cited in Golafshani 2003). Having previous experiences of using qualitative methods (see Johansson et al., 2005) we felt more comfortable using qualitative methods to conduct our research. We believed that by carrying out interviews and observations with people that were currently engaged in starting businesses, in addition to B.S.P. that support these people, that we could address our purpose in the best possible way.

### 3.2 Creation of Understanding

As a result of the decision to use qualitative methods, we believed that the necessary understanding to address our purpose could best be reached with a hermeneutic approach.

#### 3.2.1 Hermeneutic Approach

Gadamer (1989) said that, “language is the universal medium in which understanding occurs and an understanding occurs when the language is interpreted” (cited in Hult, 2003, p. 23). An individual’s reality is created through interactions with other individuals and through a study of these other individual’s; an understanding of their reality can be reached
(Hult, 2003). A researcher, when utilizing a hermeneutic approach, is not trying to understand reality by utilizing “objective” facts or statistical tools, but through interactions with research subjects (Gummeson, 2000).

3.3 Method of Gathering Data

With consideration to the fact that our research would be based upon a qualitative method we next made a determination as to what type of data collection approach to use.

Using our theoretical framework as a guide for what types of data we required, we used research tools presented by McGrath (1990) to proceed (cited in Ghauri, Grönhaug, & Kristianslund, 1994). The author presents a number of key decisions to be answered by the researcher before the actual data gathering can start, these include:

- What type of data will get the best result? Primary data or secondary data? A combination of the two?
- If secondary, what secondary data resources should be used?
- If primary, how should data be gathered? Through observations or interviewing?
- If interviewing, personal interviews or through questionnaires?
- If interviewing, how should the questions be formulated? Structured or unstructured?
- Who should be interviewed and why? How should they be selected (sampling plan)? How many should be included (sample size)? How valid is the chosen segment? Would the reliability be certain?

With these questions as a guide for how to proceed, a more detailed understanding of the decisions we made will be provided below.

3.3.1 Primary & Secondary Data

Primary data is information that has been gathered by the researcher to match and answer the purpose of what he or she is researching (Lundahl & Skärvad, 1992). According to Eriksson and Wiedersheim-Paul (1997) there are two techniques for collecting primary data; the first one is the use of a questionnaire and the second technique involves interviews and observations.

As we were in South Africa, we had the possibility to collect data by conducting interviews and through observation of the entrepreneurial environment in the Western Cape, to achieve our purpose. In addition, to strengthen our findings and thereby increase the trustworthiness of our results, we also utilized secondary data in our research.

Secondary data is information collected by someone else to suit and answer his or her purpose and should therefore be handled with caution as it can be biased (Bryman, 2000). According to Bryman (2000), secondary data can assist the researcher to obtain information that would otherwise have been difficult to access such as statements, statistics and interviews with people that would otherwise be unavailable.

We used secondary data sparingly for our research. We choose to use this data for statistical reference, when we needed information about provincial government policies and in cases where other general information we could not obtain firsthand was required. When we util-
ized secondary data in the research, we did it with caution and we always tried to confirm and verify the trustworthiness of the data we used with other sources of information.

3.4 Sampling Method

Prior to conducting interviews we decided upon a sampling procedure that would make it possible for us to interview a population that could provide us with knowledge and a comprehensive understanding about necessity entrepreneurs in the Western Cape province.

Sampling involves the methods used by researchers to derive a sample from a population (Ghauri et al., 1994). If the aim of a study were to learn about a certain population the optimum method would be to test all members of the population. However, as a study of the entire population demands extensive time and capital, sampling is used.

Patton (2001) said that there are no rules on what size a sample in qualitative research should ideally be. Rather, he believed that the sample size depends on what the researcher wants to achieve and how trustworthy the information that is obtained from the respondents is. We utilized Patton’s (2001) thoughts and chose a sample that provided us with enough data to achieve our purpose and suited our situation (cited in Golafshani, 2003).

3.4.1 Our Sample Choice

Our sample population was derived with the support of contacts that our thesis supervisor provided to us from The University of the Western Cape. These people helped us by establishing meetings with what they perceived to be good representatives of: B.S.P., people involved in entrepreneurship within the provincial government and necessity entrepreneurs.

The first contacts established were with the Business Place (see section 4.3.1) and the provincial government initiative RED Door (see section 4.1.1). Following the initiation of these contacts, staff at the Business Place and the RED Door referred us to suitable individuals and other B.S.P. of interest to continue our research. Our sample population, as it can be noticed, was therefore allocated through snowball sampling.

Snowball sampling occurs when a researcher initially contacts few potential respondents and then asks them whether they know of anybody with the same characteristics for their research (Trochim, 2005). It relies upon referrals from the initial interview subject to generate additional contacts of interest to the research purpose.

In order to achieve a sample which we perceived to be representative of necessity entrepreneurs in the Western Cape we chose to interview six necessity entrepreneurs and eight B.S.P. (we interviewed people in different positions i.e. project leaders, business advisors and office managers) in-depth and 27 additional entrepreneurs more briefly (see appendices 8, 9 & 10). To ensure that the entrepreneurs in our sample were in fact necessity entrepreneurs, we posed questions to verify this fact (see appendices 3 & 5).

While conducting the interviews for this research we noticed that almost all necessity entrepreneurs we interviewed gave us the same answers to our questions. We therefore perceived our sample to be saturated.

Saturation occurs when a study consisting of a sample of respondents provides the researcher with irrelevant data or no new data at all. If this condition is evident the researcher should have no reason to continue his or her data collection (Glaser & Strauss,
1967 cited in Scott, 2004). With this theory in mind, we concluded that conducting more interviews would not yield additional information (cited in Scott, 2004). However, to ensure that our sample was in fact saturated; we conducted brief one-to-one interviews using convenience sampling.

Convenience sampling is used for the researches expediency, as the researcher can question people on the street, in a restaurant or other places easy for the research to work from. This method is often the only feasible technique for researches with limited time and resources (Trochim, 2005).

The interviews were conducted with street vendors on a popular market square, Green Market Square, in central Cape Town. We interviewed 27 street vendors using a revised interview guide. The guide consisted of fewer questions than the original interview guide used for necessity entrepreneurs (see appendix 5). Upon completing these interviews, we felt confident in our assumption that our sample was saturated.

3.5 Interview Technique

In section 3.1.1 we presented Bryman’s (2000) methods for qualitative research; observations, interviews or document investigations. Ericsson and Wiederheim-Paul (1997) recommend interviews as an appropriate tool to collect primary data. In addition, Merriam (1994) indicates that an interview is a good alternative for information gathering since it provides better and more information than other alternatives such as observation can.

According to Patton (1990) an interview provides the researcher with:

“\textit{What’s on someone else’s mind and the purpose of an interview is not to place words and thoughts in the person that is being interviewed rather getting access to the perspective of the person in question.}”

(Patton, 1990, p. 278)

We believed that the most suitable method to address our purpose given our situation and circumstances was to conduct interviews. Interviews allowed us to understand and gain knowledge about the realities of the entrepreneurial environment in the Western Cape for necessity entrepreneurs.

We believed interviews to be more useful than observation as a data collecting technique because it could, through a two-way interaction, yield specific and direct answers to questions which observation could not. Through interviews with various representatives involved with necessity entrepreneurs in the Western Cape an understanding of the entrepreneurial environment, we believed, could be reached and our purpose be achieved. Upon deciding to utilize interviews, our next step was to choose which form of interviews would allow to collect the data needed to address our purpose.

3.5.1 One-to-one Interview

A one-to-one interview occurs when one person asks research questions to a single respondent and is the most basic interview technique that has developed into the most frequently used in social science fieldwork (Devereux & Hoddinott, 1993).

To successfully conduct a one-to-one interview three conditions must be met:
• The respondent must possess the information being targeted by the research questions.
• The respondent must understand his or her role in the interview as the provider of accurate information.
• The respondent must feel adequate motivation to cooperate.

(Cooper & Schindler, 2001)

3.5.2 Semi-structured Interviews

Within qualitative research, the semi-structured interview is utilized when one wants particular information from interview subjects (Merriam, 1994). A semi-structured interview form comes best to use when the research has a clear focus and more than one individual is conducting the research (Merriam, 1994).

Using semi-structured interviews the order of the questions or exact formulations are not important. By not having a standardized interview procedure one can change the order of the questions to suit the situation better (Andersen, 1994). This, on the other hand, requires an alert interviewer that focuses on getting through pre-made questions in the interview guide, which reveals important issues and simultaneously interact with the respondent to adjust to any new issues that may emerge (Andersen, 1994).

3.5.3 Our Choice of Interview Form

To conduct our interviews we chose to use the structure of the one-to-one interview technique proposed by Devereux & Hoddinott (1993) in a semi-structured form. We believed that this method would provide us with an understanding of the nature of necessity entrepreneurship to achieve our purpose. As we had a clear focus of what we wanted to investigate it opened up the possibility for us to utilize semi-structure interviewing.

Using a semi-structured format we believed that our interview respondents would engage themselves in a more open dialog. As a result, we believed respondents would feel less restricted answering our questions giving us the possibility to gain valuable understanding concerning their thoughts about the entrepreneurial environment in the Western Cape. Another factor leading us to choose semi-structured interviewing was the fact that the technique would allow for material to be compared and analyzed to see if there existed any similarities among interviews.

3.5.4 Interview Preparations

Having decided upon a semi-structured interview form this enabled us to take the next step towards conducting our interviews, preparing an interview guide. An interview guide is a manual, consisting of interview questions, intended to guide the researcher in the interview process to ensure that all relevant information is collected (Ghauri et al., 1994).

The interview guide we constructed helped make certain that all of our interviews were kept strictly within the framework of the purpose we were investigating (see appendices 3, 4 & 5). In addition, we made sure to include a questions in our interview guide that could objectively determine if a candidate was in fact a necessity entrepreneur or not. We designed our interview guide to comply with the fact that we intended to use semi-structured interviews. This entailed that questions were created to be flexible in nature and have the possibility to be asked at any time during the interview.
Jacobsen (2002) suggests that an interview, to obtain relevant and comprehensive results, should be kept between thirty to sixty minutes. According to the author this will yield enough time to achieve pertinent results while avoiding that the respondents would become too tired to give complete and accurate answers. We followed his suggestions and prepared our interview guide so that the total time to complete an interview would take approximately 40 minutes.

3.5.5 Conducting Interviews

While conducting our interviews it was our principal goal to obtain trustworthy results that could be used to address our purpose. Using theories proposed by Cooper and Schindler (2001) we ensured that our respondents had information with regards to why they were chosen to be part of our research sample. We made sure that they understood why they were targeted as respondents and tried to make them feel motivated to give us information that was trustworthy, comprehensive and reflected their current situation to enable us to gain an understanding necessary to address our purpose.

According to Bell (2000), to increase the understanding of findings when carrying out an interview, one person should pose the questions to the subject and another person should take notes and observe the body language of the respondent. To meet these demands we separated interviewing and note taking roles and alternated responsibilities.

Jacobsen (2002) explains that interviews should take place in a familiar environment to the respondent. This will hopefully lead to more trustworthy answers, which reflects the interview respondent’s reality. To ensure that this condition was met we went to the offices of the business service providers to conduct our in-depth interviews. Both the entrepreneurs as well as management of these centers were familiar with the environments and we hoped that they would feel comfortable answering our questions there.

Andersen (1994) writes that if an interviewer wants to make the people he or she interviews feel on an equal basis with the researcher and answer truthful on questions asked, efforts must be made to ensure that dress and level of language match the abilities and situation of the respondent. We followed Andersen’s (1994) advice and adjusted our clothes and general demeanor, especially the sophistication of language used, to be appropriate to the level of the respondent. If a person in the provincial government was to be interviewed, we wore a shirt and a pair of dress pants. If an entrepreneur in a township was to be interviewed we wore more relaxed attire. We also tried to adjust how we formulated the questions in response to the level of education, experience and age of the subject.

3.5.6 Tape Recording

Seidman (1998) recommends researchers to tape-record all their interviews to ensure that no uncertainties of what has been said during an interview will occur. The recorded data provides the researcher with resource to avoid situations when uncertainties in what was said during an interview can occur.

The use of a Dictaphone was especially helpful to us because we, at times, had difficulties understanding the accent of South African English. To ensure that we did not miss any important information the Dictaphone allowed us to concentrate upon asking the questions given in our interview guide (see appendix 3 & 4) and allowed us to review answers at a later point of time to guarantee comprehension.
We were aware of the fact that the Dictaphone could make some of the interview respondents feel uncomfortable or nervous, but we tried to make it as easy for them to adjust by explaining the reason why it was important to record the interview. Respondents were always satisfied with our explanation and nobody appeared to be excessively uneasy with the recorder or objected to its use.

3.5.7 Interview Evaluation

All people we interviewed were polite, friendly and tried to help us with our research by answering our questions. However, we did experience some difficulties in keeping respondents to stay within the frame of our intended questions, a result of using semi-structured interviews. Many were keen to speak in-depth about other issues not relevant to our questions or researched purpose. Another issue we had to deal with was the difficulty in understanding the English spoken by some respondents. Some had a heavy South African accent while others had languages other than English as their mother tongue. As a result, at times, answers were unclear. However, most often, with careful review with the Dictaphone this could be overcome.

Another factor which we are aware could effect the trustworthiness of our results is in regards to our sampling technique. Snowball sampling, though cost effective and practical to use, may not always provide a sample that is truly representative of a population, which can introduce bias because not all members of a population are represented. However, we are certain that our 41 interviews provided us with comprehensive data that allowed us to draw conclusions and address our purpose.

3.6 Analyzing and Interpreting Research Findings

Within the frame of qualitative research there is, amongst researchers, some concern about the usability of traditional reliability and validity as they are measures of objectivity more suitable to quantitative studies (Daymon & Holloway, 2002). However, since qualitative research is more subjective Daymon and Holloway (2002) suggest that other measures should be used to achieve higher quality. According to the authors, the quality of findings in qualitative research is characterized by trustworthiness. The criteria for evaluating trustworthiness are that results should be credible, dependable and confirmable.

Lincoln and Gubum (1985) wrote that in order for results to be credible, readers must accept the findings to be true within their own social context (cited in Dayom & Holloway, 2002). To enable credibility the researcher has to present and guarantee the following:

- Correct data, including correct rendering of statements.
- Research should show how analysis and interpretation is supported by data.
- All relevant data and information should be presented.
- Selected methods and techniques should be appropriate to the problem area and purpose.

(Gummesson, 2000)

Dependability, similar in nature to credibility, refers to the ability of readers to evaluate the quality of the analysis and conclusions through following the researchers conclusion-
making processes. To achieve a high level of dependability each particular detail of how and why conclusions were found should be described (Dayom & Holloway, 2002).

Finally the confirmability of research refers to how well researchers have been able to link the findings and conclusions of the study to the empirical data, while removing prior assumptions and preconceptions (Daymon & Holloway, 2002). Results can be deemed to be confirmable when there is a clear link between data and its sources, to conclusions.

### 3.6.1 Achieving Trustworthiness

The impact of the chosen method has profound implications upon the trustworthiness of data collected and results obtained. Having a weak or unstructured method can lead to wrong and/or misleading results and conclusions (Bell, 2000). With this in mind, we carefully proceeded to evaluate which methods could provide with the most trustworthy results.

As has been indicated earlier, we choose to use a qualitative based research approach to obtain trustworthy empirical data to evaluate how to facilitate entrepreneurship in the Western Cape.

As we utilized interviews to collect data, reliability and validity were not measures that we concentrated upon when collecting data. Instead, it was our intention to ensure the trustworthiness of our study by enforcing and explaining step of our research to guarantee credibility, dependability and confirmability of our findings.

To ensure that readers are able to understand our methods to collect, evaluate and interpret data in a South African perspective, and thereby maintain credibility, we have as often as possible tried to provide essential information with regards to the social context of the country. Highlighting important theory and socio-economic events and facts, we have tried to ensure that somebody who is previously unaware of the details of the country can accept the context of our suggestions.

We have tried to present a dependable analysis and evaluation of findings by providing readers detailed steps of methods and techniques of how we gathered and utilized data. In addition, we have presented all relevant data so that readers can understand how and why we came to the conclusions we did. As a result, readers should be able to follow our conclusion-making process ensuring trustworthy results.

To ensure the confirmability of our data and conclusions we have used a Dictaphone for each in-depth interview. This has allowed us to transcribe and immediately record conversations with interview subjects and thereby verifies information removing, to a certain extent, our own prior assumptions and preconceptions. We are however aware of the fact that while conducting interviews it is still possible that our own body language, the way question’s were asked, and replies given to subjects may have implied that our own assumptions at times became evident.

We are certain that our chosen method has assisted us to achieve our purpose and that our results and conclusions are trustworthy.
4 Empirical Findings

In this chapter we will provide a review of interviews conducted with necessity entrepreneurs, business service providers as well as government representatives. In addition, a review of brief interviews conducted to check for sample saturation will be provided. Each section will begin with an introduction to the particular services offered by each institution or the necessity entrepreneurs we interviewed.

In order to collect empirical data to address our purpose we have conducted eight interviews with four business service providers. We have interviewed representatives of the provincial government of the Western Cape as well as other non-governmental organizations. These organizations all seek to create a facilitating environment for entrepreneurs to successfully launch and manage a business opportunity. In addition, we have also interviewed six necessity entrepreneurs to understand what business assistance clients receive and what support they lack to successfully launch their idea. Furthermore, we conducted brief interviews with 27 other entrepreneurs. Other interviews that we have conducted which have not been relevant to our purpose (such as those with entrepreneurs deemed not to be necessity entrepreneurs) have been omitted. In total we have utilized 41 interviews for our research.

It is our intention to present our empirical findings in a systematic and consistent way so readers can gain an understanding of how N.G.O.’s and the provincial government are supporting necessity entrepreneurs. This chapter will begin with a brief introduction to the initiatives of the Western Cape provincial government, followed by a review of business service providers in the region. Finally interviews conducted with necessity entrepreneurs will be summarized.

4.1 Provincial Government Initiatives

The City of Cape Town, through the Department of Economic Development & Tourism (D.E.D.T.), is striving to promote and support the S.M.M.E. sector. The goal for the D.E.D.T. is to develop a physical and economic environment, friendly towards S.M.M.E.’s. They are doing this by means of supporting business service providers financially, with market information and market research. The D.E.D.T. also works to encourage business-to-business linkages and stimulate business development initiatives (CapeGateway & Swisscontact, 2005).

4.1.1 Real Economic Development (RED) Door

To address the problems and lack of S.M.M.E. development in the Western Cape, RED Door has recently been created by the D.E.D.T. The goal of RED Door is firstly to help entrepreneurs develop business ideas into sustainable endeavors, and secondly, to educate provincial communities about the possibilities of starting a business. The RED Door is intended be a one-stop-center where entrepreneurs are able to gain access to expertise and seek assistance to develop a business idea (RED Door Business Plan, 2004). Any entrepreneur will be welcome, but special focus will be put on youth, women, the disabled and those coming from a previously disadvantaged background.

There are currently eight RED Door offices that have officially been opened with a goal to open an additional 27 by the end of 2007 (O. Dyers, personal communications, 2005-04-06). Their physical locations in the Western Cape have been chosen because of the high
levels of unemployment prevalent there. In Khayelitsha, for instance, nearly 60% of the population is unemployed (C. Nogaya, personal communications, 2005-04-21). Each of the RED Door offices offers its clients introductory and advanced courses in areas critical to succeed in business such as accounting, leadership and marketing (Capegateway, 2005).

4.1.2 Umsobomvu Youth Fund:

The Western Cape provincial government, in January 2001, initiated the Umsobomvu Youth Fund (U.Y.F.). The goal of the fund is to reduce the high unemployment rates among young in the region by promoting job creation and skills development for people between the ages of 18 and 35. The word “Umsobomvu” is Nguni (Southern African language) for “rising dawn” and is a symbol of the new era full of hopes and opportunities for the young people of the Western Cape.

The Umsobomvu Youth Fund's goal to reduce unemployment is built around four strategic areas:

- To create and design job creation programs.
- To outsource the implementation of these programs to service providers.
- To support and work with existing youth initiatives.
- To support capacity building for service providers.

(Capegateway, 2005).

The U.Y.F. and the RED Door initiative are parts of the provincial governments strategy of promoting increased economic growth, employment and economic participation for all citizens in the Western Cape (Capegateway, 2005).

4.2 Interviews with RED Door Representatives

In order to gain an understanding of the services offered by RED door we conducted 4 interviews with representatives from the organization. Interviews took place in the RED Door offices with the regional and local managers, in addition to business advisors. The findings of our interviews are summarized below.

4.2.1 Mr. Benito Hope
• RED Door Atlantis Office Manager
• Date of interview: 2005-04-12

Background:

Mr. Hope originally comes from a city in the Western Cape called Darling, a town near Atlantis (1 hour north-west of Cape Town (see map appendix 7)). Before beginning his employment as office manager of RED Door Atlantis, he worked as an in economics teacher in Darling for over 14 years. He had also been active in an initiative assisting entrepreneurs at an N.G.O. called Atlantis Economic Development Trust (A.E.D.T.).

When A.E.D.T. and the provincial government established a partnership to jointly operate RED Door Atlantis, Mr. Hope applied and was granted the position as office manager.

Motives for Becoming an Entrepreneur:

Mr. Hope believed that the motives for why people start businesses are mixed; one side is that they want to add value to society by creating employment opportunities for other people. The other motive is that people want to earn money.

M. Hope indicated that the majority of the clients coming to his office were there because they need to find employment to survive. They have no other alternatives. According to Mr. Hope, many have realized that the only way they can survive is to create their own businesses and support themselves.

Hinders to Becoming an Entrepreneur:

Mr. Hope indicated that access to finance is the principal hinder for people in Atlantis to start a business. In addition, he said that many people who have a business idea do not have an adequate business plan communicating this. This, at later stage, will results in problems accessing capital form financial institutions.

“If somebody comes into bank they must have a viable (business) plan so that they can secure money.”

(B. Hope, personal communication, 2005-04-12)

Business Support:

Many people come to the RED Door office expecting to receive funds. Mr. Hope said that RED Door does not directly give people money; instead, they work toward facilitating the process of people to access money through partnerships with financial institutions. Furthermore, RED Door advises people how to write a business plan that meets the criteria of commercial lenders.

Mr. Hope also highlighted the fact that people in the Atlantis region lack essential business skills. To overcome this skill gap, Mr. Hope has designed different educational programs, which consists of workshops and seminars. He hopes that these programs will increase the level of business skills among people and increase the success rate of start-ups in the Atlantis region.

Mr. Hope believes that everybody, regardless of gender, ethnicity, or age, should have the right to present his or her idea to one of RED Door’s business advisors to prove that it is viable. The advisor will listen and try to support the person’s idea with all of the resources available to them within RED Door. People with a viable business idea are, according to
Empirical Findings

Mr. Hope, supported by RED Door to further develop their idea with feedback from a business advisor.

“A business plan consists of the entrepreneur’s idea, designated target market, marketing strategies and competitor analysis.”

(B. Hope, personal communication, 2005-04-12)

**Future for the Entrepreneur:**

Mr. Hope thought that the RED Door initiative would, in the future, meet the requirements in the Western Cape to support and empower individual entrepreneurs with the tools necessary to start a business. Mr. Hope explained that not much time has passed since apartheid was abolished, so an initiative such as RED Door can strengthen and facilitate the regions development eliminating unemployment and poverty amongst its citizens. The future for the Western Cape and its entrepreneurs looks good according to Mr. Hope.

“We are trying to open up opportunities for the people, as the voice of the government we must help.”

(B. Hope, personal communication, 2005-04-12)

### 4.2.2 Mr. Albert Mankantshu

- RED Door Khayelitsha Office Manager
- Date of interview: 2005-04-14

**Background:**

Mr. Mankantshu is a former banker from the private sector. As a banker Mr. Mankantshu felt unsatisfied with the fact that many loan applications from entrepreneurs were rejected because they lacked financial security. He felt compelled, as a result of his own experiences from banking, to support these people that had an idea but did not have the expertise or experience to apply for money. He came across information that RED Door was recruiting an office manager for the Khayelitsha office, applied for the position and was accepted. He had been the office manager of the RED Door Khayelitsha branch since November 2004.

**Motives for Becoming an Entrepreneur:**

Mr. Mankantshu said that in Khayelitsha, the greatest motivation for why people start a new business is because they are unemployed and cannot find a job. Mr. Mankantshu mentioned that there is a great frustration among the unemployed since they cannot support themselves or their families.

According to Mr. Mankantshu, many people of Khayelitsha see entrepreneurship as the key to providing for themselves and their families. Since they lack other alternatives, starting a business is seen as the only way to earn an income. In addition, Mr. Mankantshu indicated that beyond providing for themselves, many *necessity entrepreneurs* were motivated by that fact that if their business performed well, they would be able to employ others.

**Hinders for Entrepreneurs:**

According to Mr. Mankantshu the most important explanation for why people avoid starting a business in Khayelitsha is a result of difficulties accessing finance. He mentioned that in South Africa and the Western Cape particularly; commercial banks demand extensive
collateral for a financial loan. Most people in Khayelitsha, according to Mr. Mankantshu, lack this.

The majority of the people in Khayelitsha, according to Mr. Mankantshu, live in governmental funded houses, which are not accepted as collateral. Mr. Mankantshu said that even if a business idea has viability, no loan is granted because applicants lack financial security. Those that have an idea and the entrepreneurial capacity to launch a business opportunity are hindered from doing so.

**Business Support:**

Mr. Mankantshu said that to address the difficulties for people to obtain capital and start a business, once they have a viable business idea, RED Door would assist them to create a business plan. Working together with a business advisor, clients, using a pre-fabricated template, will work jointly to create a business plan. This plan should, according to Mr. Mankantshu, have enough information about the business and be of high enough quality to be accepted by banks.

It is not only support to write a business plan that RED Door is assisting people with. RED Door also acts to allow entrepreneurs to present their ideas and receive feedback from a RED Door business advisor Mr. Mankantshu said. The goal of this is to strengthen the business idea and make it more realistic to implement ensuring sustainability.

Mr. Mankantshu indicated that people coming to the RED Door were especially interested in using computers, connected to the Internet, to conduct market research. Utilizing the computers entrepreneurs can conduct their own market and competitor analysis in addition to finding other information related to their business.

Mr. Mankantshu said proudly that RED Door Khayelitsha had been very effective in giving people information and answers to entrepreneurship related issues. Since their opening in November 2004, until late February 2005, the organization has helped their clients to win tenders for a total value of R5 200 000.

“For a period of 4-5 months, R5 200 00 in won tenders is a great achievement for RED Door.”

(A. Mankantshu, personal communication, 2005-04-14)

**Future for the Entrepreneur:**

Mr. Mankantshu mentioned that a problem his RED Door branch experiences’ is a lack of funding from the provincial government. He explained that because of the high unemployment level in Khayelitsha, approximately 60%, there are many people that need support. However, with the financial restraints on his organization he felt unable to assist all those that needed help. In the future, as more people were made aware of the RED Door office, he felt that this issue would become increasingly important to deal with.

If the above-mentioned problem could be resolved, Mr. Mankantshu felt that if RED Door Khayelitsha continues to help and support people at the same pace as it has so far, the future of entrepreneurship for necessity entrepreneurs of the Western Cape is bright.

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1 R5 200 000 = SEK 5 959 268 as of 2005-05-27
“If we give the necessary tools for the entrepreneurs in the Western Cape, a great future will meet them and together we will overcome unemployment.”

(A. Mankantshu, personal communication, 2005-04-14)

4.2.3 Mr. Andile Gweshe and Ms. Tembi Mloyeni

- Mr. Gweshe is Business Advisor at the RED Door Khayelitsha.
- Ms. Mloyeni is the Western Cape regional manager for RED Door.
- Interview was conducted jointly with Mr. Gweshe and Ms. Mloyeni for their convenience.
- Date of Interview: 2005-04-22

Background:
Mr. Gweshe, before joining RED Door Khayelitsha as a business advisor, studied small business management at a technicon (technical college) in Cape Town. His entrepreneurial experience was limited to a start your own business course integrated in his studies. He was recruited immediately upon completing his technicon degree to continue with his education as a paid assistant to a lecturer. In this role, he helped and supported his lecturer in managing undergraduates that had problems with their studies in the small business management program. Mr. Gweshe had also been employed as an administrator at the provincial Housing Department, part of the provincial government. It was at the Housing Department that he was made aware of and gained an interest in the RED Door initiative. This curiosity led him to apply for a position as a business advisor.

Ms. Mloyeni had a long history and rich experiences of working with B.S.P.. Her last employer helped entrepreneurs to receive tenders from the public sector, register their businesses and provide business skills courses. In September 2004, Ms. Mloyeni was approached by the provincial government to become project manager for RED Door. This entailed her having responsibility to establish the planned 35 RED Door offices in the Western Cape province.

Motives for Becoming an Entrepreneur:
Mr. Gweshe and Ms. Mloyeni both thought that the lack of employment opportunities and the will to survive is what motivate the people in Khayelitsha to start a business most. Many people have lost their jobs and have no expectations of finding another one.
Hinders to Becoming an Entrepreneur:

Both interview subjects expressed that the reason for why there are so few start-ups in and around Khayelitsha is that people do not possess any money to invest into their ideas. People in the region barely have enough money to survive. In Khayelitsha, poverty is a tremendous problem to overcome. Even if a person has an idea and receives capital to invest, he or she will often not invest the money into the business because the money is used to buy food first. In addition, they mentioned that it was extremely difficult for entrepreneurs to be granted loans and venture capital from commercial banks. This is most often due to the fact that they lack collateral.

“I call them survivalist businesses; it’s hand to mouth.”

(T. Mloyeni, personal communication 2005-04-22)

In Khayelitsha, the fact that people lack the capability to see where there are opportunities on the market frightened Mr. Gweshe and Ms. Mloyeni. In Khayelitsha, people have not received a proper education and many lack the ability to identifying an opportunity in the market and capitalizing upon it said Mr. Gweshe and Ms. Mloyeni. Instead of opening a new and unique business to meet market demands, people chose to copy similar businesses as their neighbor. According to Ms. Mloyeni, people do not want to risk energy, time and money on something creative and different when they could just as easily copy an already working business.

The third challenge that an entrepreneur has to overcome in the Khayelitsha region is, according to Mr. Gweshe and Ms. Mloyeni, achieving efficient access to markets. Even in the local shopping center in Khayelitsha the rent is too high leaving people with aspirations to establish a business outside. People cannot access this established market place, which makes people even more frustrated according to Mr. Gweshe and Ms. Mloyeni.

“This is seriously hampering business. They can’t rent here. It keeps the people away.”

(T. Mloyeni, personal communication 2005-04-22)

Business Support:

“I have seen many people open a business and end up more in dept than they were before.”

(T. Mloyeni, personal communication 2005-04-22)

People initially come to RED Door Khayelitsha to receive capital, said Mr. Gweshe and Ms. Mloyeni. They said that RED Door does not give capital to people. Instead they both understood RED Door’s primary task to support entrepreneurs with guidance and information about how to develop a business opportunity, formalize a business and provide training to develop necessary skills to facilitate entrepreneurship.

Ms. Mloyeni said that she wanted to see that a person was as prepared as possible for the challenges of business before they go into debt. The history of South Africa has left many people in the Khayelitsha region lacking business skills and as a result are not equipped to apply for loans. It is therefore the responsibility of RED Door to increase skills among these people through various business courses and workshops.

“Most businesses, if not well managed, will fail within six months.”
Future for the Entrepreneur:

Mr. Gweshe and Ms. Mloyeni predicted a bright future for entrepreneurs in the Western Cape with the support and guidance of RED Door. RED Door is working to sustain and maintain relationships with necessary stakeholders, most especially with trying to incorporate the involvement of private institutions.

“I think it is a good situation. We need to give people a push to succeed.”

4.3 Business Service Providers

The business service providers in the Western Cape, in addition to RED Door, play a vital role in facilitating entrepreneurial activities for necessity entrepreneurs. When conducting research three B.S.P. were continuously mentioned as those that provided the best, though very different service. These B.S.P. include the Business Place, the Nations Trust and Swiss Contact. A brief description of the services these organizations offer will be given, followed by a summary of interviews conducted with their representatives.

4.3.1 The Business Place

The Business Place serves as an information center to entrepreneurs where the young staff supports the business needs of clients. Support includes business opportunity identification, idea evaluation, tender evaluation, financing help, Internet and computer access.

The Business Place, in addition to providing the services mentioned above, also works as a referral center to other more specialized business service providers. The Business Place’s network of service providers is situated in one building for clients to have easy access (C. Nogaya, personal communication, 2005-04-21).

4.3.1.1 Ms. Cindy Nogaya

- Office Manager of the Business Place
- Date of interview: 2005-04-21
Background:
Ms. Nogaya has completed a bachelor degree in marketing and originally comes from the Eastern Cape province (see appendix 7). After finishing her degree she worked with event management in the Easter Cape and then went on to work for a development organization similar to the Business Place.

After this job she moved to Cape Town and started working for an investment bank called Investec, as she was curious to see what a corporate environment was like. She worked there for two and one half years and gained work experience within the fields of finance and private banking, but as not personally fulfilled with the job. After speaking to one of her managers she was told about the Business Place (a subsidiary of Investec) and immediately became interested. She had been working at the Business Place since February 2005.

“I became really excited to do something that really benefits people. Doing things that people need.”

(C. Nogaya, personal communications, 2005-04-21)

Motives for Becoming an Entrepreneur:
According to Ms. Nogaya most people coming to the Business Place become entrepreneurs in a process that is forced upon them. Because they are not able to find employment the only solution for them to survive is to start their own business.

Hinders to Becoming an Entrepreneur:
Ms. Nogaya considered the greatest factor to why not more people engage themselves in a start-up is a lack of confidence. Ms. Nogaya said that many people are missing an entrepreneurial mindset, which she described as a person’s attitude towards life and its limits. The average Business Place client is, according to Ms. Nogaya a necessity entrepreneur, and has a long history of being treated badly. Even today people are treated according to their skin color and not how well they perform. The implications of this, according to Ms. Nogaya, are that it affects the mindset of these potential entrepreneurs very negatively. In addition, even if a person has the confidence to start a business, Ms. Nogaya said that the majority of the Business Place clients could not afford to invest money into their idea.

Another issue affecting clients is in regards to the lack of necessary business skills to access the “white” markets, according to Ms. Nogaya. She saw predominantly white markets to be the greatest source of opportunity for previously disadvantaged individuals, but also the one most difficult to enter as a result of apartheid.

“We have been brought up to be laborers, we haven’t been brought to be employers.”

(C. Nogaya, personal communications, 2005-04-21)

Ms. Nogaya said that the majority of the clients visiting the Business Place office are under-skilled but do not realize it themselves. Clients often think that if they obtain capital they can start a business and make money easily.

“People always think that money is the solution to the success of their business idea, but many times it is not.”
Empirical Findings

(C. Nogaya, personal communications, 2005-04-21)

Ms. Nogaya expressed another factor that hinders entrepreneurs to access markets is the resistance of ethnic groups to work together. Still today she indicated that African blacks are reluctant to conduct business with coloreds, whites with African blacks, etc. This fact makes it substantially more difficult for markets to work effectively according to Ms. Nogaya.

Business Support:

Ms. Nogaya mentioned how important it is for her and the Business Place to support and create an entrepreneurial spirit among its clients. The Business Place is trying to fill these people with hope and a belief that everything is possible. Part of this strategy is to change the fundamental reasoning of how people think and spend their money:

“There are people that live in a shack, but buy an expensive car, that is that kind of culture we have, being flashy on the outside and poor on the inside.”

(C. Nogaya, personal communications, 2005-04-21)

The Business Place actively works to recognize and evaluate what specific expertise an entrepreneur lacks, beyond capital, to start a business. If an entrepreneur lacks essential business skills the Business Place sends them to business courses and seminars offered by other B.S.P.

Future for the Entrepreneur:

Ms. Nogaya said that to improve the prospects of entrepreneurship in the Western Cape all stakeholders including B.S.P., the private sector, the provincial government and private citizens have to become involved. They have to set common goals and try to learn from each other’s mistakes and experiences to enable better support for necessity entrepreneurs. A problem that Ms. Nogaya saw with regards to supporting necessity entrepreneurs is that the majorities of all B.S.P.’s (excluding RED Door) are not self-sustainable and are constantly in search of capital to survive.

4.3.2 The Nations Trust

The Nations Trust (N.T.) is a non-profit small business organization for youths. Its patrons are Her Majesty Queen Elizabeth II of England and former president of South Africa, Nelson Mandela. The main motive for creating the N.T. was to help support the millions of young South Africans searching for employment opportunities to support themselves and their families (Nations Trust, 2005).

The N.T. believes that entrepreneurship is an opportunity for young people to earn a sustainable income. The fund was created to support previously disadvantage individuals between the ages of 18 and 35 with start-up capital and business support. Since its foundation in 1995, until May 2005, the N.T. has assisted 1226 entrepreneurs with business start-ups and has a goal of helping an additional 9000 by 2010.

The Nations Trust offers small business loans (up to R50 000\(^5\)) to young entrepreneurs in accordance with an agreement to join a N.T. mentor program. The program provides every...

\(^5\) R50 000 = SEK 57 300 as of 2005-05-27
entrepreneur that has been granted a loan from N.T. a mentor with relevant business experience. The mentor will follow the progress of the start-up throughout the agreed payback time of the loan, up to 12 months, and try to ensure that the business maintains sustainability.

Funding for the youth loans are received from government indirectly through the Um-sobomvu Youth Fund voucher program. The mentor program is supported and funded by private institutions.

4.3.2.1 Mr. Neo Seleke

- Nations Trust Western Cape provincial manager.
- Date of interview: 2005-04-19

Background:

Mr. Seleke is the regional manager for the Nations Trust in the Western Cape province. He originally comes from Kimberly in the Northern Province and came to Cape Town in 1996 to further his studies at a technicon after finishing his matric (high school diploma). At the time, Mr. Seleke believed that Cape Town was full of opportunities and thought it was the right time for him to move away from Kimberly.

At the technicon he firstly studied small business management and later continued to study marketing after completing his first degree. Before starting at N.T., he had worked as a lecturer helping people to understand the process of starting a business including sales, marketing and business development.

He joined N.T. as a business analyst in 2003 and was recently promoted to regional manager for the Western Cape.

Motive for Becoming an Entrepreneur:

Mr. Seleke said that the motivation of providing and supporting one's own family is the primary reason why people consider starting a business. According to Mr. Seleke, these start-ups, known as necessity start-ups, involve entrepreneurs that have not chosen to start a business as a career option, but rather because they are forced to start it to survive.
Empirical Findings

“People are involving themselves in start-ups because of frustrations of not finding a job.”

(N. Seleke, personal communication, 2005-04-19)

Hinders to Becoming an Entrepreneur:

Mr. Seleke mentioned a great problem among previously disadvantaged individuals in the Western Cape is that they do not have a history of entrepreneurship and business. Children throughout this population have never had the possibility to see their parent’s, family members or neighbors engaged in starting a business.

“The population does not have role models or success stories that would provide them with enough self-confidence to start up something of their own.”

(N. Seleke, personal communication, 2005-04-19)

As a result of not being in an entrepreneurial environment, people do not consider entrepreneurship as an option to increase quality of life. Another factor that these people have to overcome is that they do not have an entrepreneurial capacity, expressed by Mr. Seleke, to be formed at an early age. Mr. Seleke said that many P.D.I. in the Western Cape lack an entrepreneurial mindset because schools have not encouraged entrepreneurship and as a result, not many start businesses.

“The lack of basic business knowledge forces many start-ups to fail.”

(N. Seleke, personal communication, 2005-04-19)

Mr. Seleke also said that there are many people with ideas, however, these people lack capital to launch their ideas.

“Financial institutions normally demand collateral in exchange for funds, and a greater part of the P.D.I. do not have any collateral, which means that they cannot start a business even if the idea is viable.”

(N. Seleke, personal communication, 2005-04-19)

Business Support:

The Nations Trust, according to Mr. Seleke, works to provide people between the ages of 18 and 35 with access to capital. Mr. Seleke said that the N.T. also provides practical assistance regarding starting a business.

Mr. Seleke expressed that the average N.T. client lacks sufficient business skills to run and manage a business successfully. To address this problem the N.T. links entrepreneurs with other external B.S.P. that can help train the potential entrepreneur. When clients achieve sufficient business knowledge they go through an approval process leading to an application for a loan from the N.T.

An entrepreneur can receive funding of up to R50,000 from the N.T. youth program. In order to qualify for these loans the entrepreneur must take part in N.T.’s mentor program. The mentor program is designed so that every entrepreneur is provided a mentor with relevant business experience. In addition to assisting the entrepreneurs business, the mentor also ensures that the funds received by the entrepreneur are not misused.
Future for the Entrepreneur:

Mr. Seleke believed an important initiative to increase entrepreneurship in the Western Cape is to change the mindset of people towards entrepreneurship. This will require all stakeholders’ participation to ensure success.

The provincial government is, according to Mr. Seleke, actively working to promote entrepreneurship. Mr. Seleke, however, expressed some doubt if the outcomes of the RED Door initiative, in terms of business start-ups and the economic growth resulting from it, would be as great as the monetary investment. Had Mr. Seleke been able to decide he would have provided more investment for external B.S.P. such as the N.T. It must be noted however that Mr. Seleke believed that if the RED Door lived up to its expectations, a great future for the entrepreneurs in the Western Cape could be achieved.

4.3.3 Swiss Contact

Swiss Contact is a politically neutral non-governmental organization, founded 1959 in Switzerland. Private businesses, associations, foundations, public donors as well as private benefactors have financed Swiss Contact’s operations around the world. Over 300 people are actively working for Swiss Contact in 24 countries around the world (Swisscontact, 2005).

Swiss Contact’s mission statement is to “Help Others to Help,” by cooperating with local government, local service providers and N.G.O.’s. Swiss Contact’s primary service is to help local stakeholders become more efficient in their methods of helping small and medium sized enterprises (Swisscontact, 2005).

4.3.3.1 Swiss Contact South Africa (S.S.A.)

The South African Swiss Contact subsidy was initiated in 2003 and is located in Cape Town. S.S.A. is working to strengthen and improve the entrepreneurship climate in the Western Cape by supporting the S.M.M.E. sector. It integrates local programs and initiatives striving to help local B.S.P. to improve their services offered. (Swisscontact, 2005).

4.3.3.2 Hans-Heinrich John Kuhn

- Founder of Swiss Contact South Africa
- Date of interview: 2005-04-20

Background:

Mr. Kuhn is originally an engineer who studied at a technical university in Switzerland. Upon completing his degree he became involved in a family business as an engineer. He eventually grew into having more responsibilities and ended up running the business that produces kitchen cookware. After meeting the managing director of Swiss Contact, Mr. Kuhn decided to travel to South Africa and initiate the local Swiss Contact branch in Cape Town.
Motives for Becoming an Entrepreneur:

According to Mr. Kuhn many people in the Western Cape region become entrepreneurs because they have no other alternatives. He indicated that for many living in townships and rural areas, in order to survive, starting their own business is the only alternative.

Hinders to Becoming an Entrepreneur:

Mr. Kuhn identified that many necessity start-ups do not survive for a long period of time. He thought that the reason for this was that not everybody has the capacity to become an entrepreneur and manage a sustainable business.

“Entrepreneurial character is something you’re born with and can’t be trained.”

(H.J. Kuhn, personal communication, 2005-04-20)

Mr. Kuhn said that even if a person has the skills and talent to undertake an entrepreneurial venture, a lack of finance often hinders him or her from realizing it.

“They will not get any financial support because they cannot get collateral, they have no security.”

(H.J. Kuhn, personal communication, 2005-04-20)

In addition, Mr. Kuhn mentioned that a serious hinder to entrepreneurship in the Western Cape was the inefficient use of resources by B.S.P. He mentioned an example of B.S.P. that churned out expensive business plans, funded by the Umsobomvu Youth Fund, which had little practical use. Entrepreneurs paid 10% of this cost and the U.Y.F., the remaining 90%. However, many times the final results were poor. Business plans were of a generic nature, and often the entrepreneur it was intended for had little knowledge of the details because somebody else created it with little involvement by the client. Mr. Kuhn said that because clients do not understand their own business plan, financial institutions reject them. B.S.P are not currently all working efficiently.

Business Support:

Swiss Contact South Africa, according to Mr. Kuhn, is working to help N.G.O.’s and B.S.P. to increase the quality of services offered through operational strategy suggestions. In addition, S.S.A. is working to create both an accreditation mechanism to rate B.S.P. as well as a mentor system for entrepreneurs. S.S.A., according to Mr. Kuhn, is working to fundamentally change this inefficient system.

Another business support initiative introduced by S.S.A. is the Small Business Week forum. This initiative seeks to put necessity and informal entrepreneurs in contact with more established businesses. Run as an event, it seeks to give those that would otherwise not be able to attain business linkages the ability to do so (Swisscontact, 2005).

Future for the Entrepreneur:

According to Mr. Kuhn the provincial government spends R110 million per year on S.M.M.E. development, which he believes should provide a promising future for necessity entrepreneurs in the Western Cape. Mr. Kuhn admitted that R110 million is probably not enough to help all people, but it is a start.
In addition, he thought that the government RED Door initiative could, if implemented in the right way, help many people obtain and develop the crucial entrepreneurial capacity to identify opportunities and start a business in the Western Cape.

### 4.4 Entrepreneurs

Below a summary of the six in-depth interviews we conducted among necessity entrepreneurs will be presented. It is our intention to present findings in a structured way for readers to gain knowledge and insights regarding what drove these individuals to want to start a business, what they perceived as their biggest challenge to do so, what support the received from B.S.P. and finally what they expect their future to look like. The in-depth interviews presented below took place at the Business Place in Cape Town

#### 4.4.1 Mr. Mongezi Makhalima

- **Date of interview:** 2005-04-15

**Background:**

Mr. Makhalima was in his mid-twenties and was looking to start his own business. Mr. Makhalima had been unemployed for an extended period of time and was having a difficult time raising the necessary capital required to finance his idea. He obtained his matric in 1998, originally coming from the Eastern Cape province. He moved to the Western Cape to go to Technician. However, he was not able to finish his degree because of financial difficulties.

Mr. Makhalima saw an opportunity to open an Internet café in his township (Crossroads). He saw a need for a store with Internet resources because the students in his community had no other way to access the information it could provide. He wanted to market his product towards students who were in need of using computers for school assignments. Mr. Makhalima said that what motivated him to start his business was that if students did not have computers they would turn to crime and drugs. The next best alternative for students to get Internet access was to go to another township in the surroundings area. However, this would incur time and money being unnecessarily wasted according to Mr. Makhalima.

To be able to realize his idea Mr. Makhalima needed money. Since he lacked collateral and had a history of problems with commercial banks, he could not obtain the required capital
to start his business. When he initially sought contact with the Business Place he thought that they would give him capital.

“I just need R90 000 to start my business.”

(M. Makhalima, personal communication, 2005-04-15)

Entrepreneurial Support:

During his first visit to the Business Place Mr. Makhalima did not receive capital as he had expected. Instead, in order to complement his business skills, he was introduced to a B.S.P. working with the Business Place that could help him. Mr. Makhalima said that he gained a broader understanding of business practices from the course that the B.S.P. held. Mr. Makhalima expressed that the Business Place and its partners had helped him to save time and become more efficient when conducting market and competitors analysis.

Mr. Makhalima was also enrolled in a mentor program that the Business Place offered. This program, he said, gave him the possibility to discuss and receive feedback about his business idea with an experienced businessperson.

Mr. Makhalima believed that if he had not gotten the support from the Business Place and its service providers, he would not have come as far as he had. He was convinced that his Internet café would be established by the end of January 2006.

“I have a hope that they will be able to help me!”

(M. Makhalima, personal communication, 2005-04-15)

4.4.2 Mrs. Helena Lamont and Ms. Jasmine Takim

- Date of interview: 2005-04-15

Background:

Mrs. Lamont and Ms. Takim both originate from a suburb of Cape Town called Parrow. Mrs. Lamont and Ms. Takim have previously been involved with organizing weddings and catering for the occasions. As a result of them both being unemployed for an extended pe-

\[ R 90 \, 000 = SEK \, 103 \, 141 \text{ as of 2005-05-27} \]
Empirical Findings

period of time, they sought help from the Business Place. Their business idea was to establish a wedding planning and event catering business.

“Why not make something that I’m good at into a business?”

(H. Lamont, personal communication, 2005-04-15)

They approached the Business Place because they wanted to grow their business from the informal status it was currently at.

Entrepreneurial Support:

Mrs. Lamont and Ms. Takim visited the Business Place with expectations of obtaining finance for their business opportunity. When they realized that the Business Place did not have capital to give to its clients, Mrs. Lamont and Ms. Takim proceeded to receive support to improve their business plan. Mrs. Lamont and Ms. Takim had tried unsuccessfully to obtain finance, before visiting the Business Place, with a simple self-made business plan. This had not worked with a result that all financial institutions visited had refused them a loan. Mrs. Lamont and Ms. Takim said that the Business Place had also helped them find suitable financial institutions that would consider financing their idea in the future.

Without the support of the Business Place, Mrs. Lamont and Ms. Takim did not feel they would be able to successfully start and manage their business. However, with the support of the Business Place Mrs. Lamont and Ms. Takim believed that they could achieve success.

“I have great plans, and I need capital. Without the Business Place, this would have been hard to find, if not impossible.”

(H. Lamont, Personal Communication, 2005-04-15)

4.4.3 Mr. Kamal Pillay

- Date of interview: 2005-04-15

Background:

Mr. Pillay was born and lived greater parts of his life in a township outside of Durban, South Africa called Phoenix. To further his education he moved to Cape Town to study international management. To finance his studies in Cape Town he started his first informal business selling customized parking disc holders.
Mr. Pillay was currently applying to patent one of his ideas, a kitchen appliance product, which he had plans to export to Europe (a non-disclosure agreement was made in regards to the details of this product). The factor that motivated him most to engage himself to start a business was his dream of being his own boss and controlling his own destiny.

Lack of sufficient financial resources was what held Mr. Pillay back from starting his business. He believed in his ideas and the only factor standing in his way was finance, also the reason why he initially contacted the Business Place.

**Entrepreneurial Support:**

Through a newspaper advertisement Mr. Pillay was made aware of the Business Place. He understood the role of the Business Place to help him raise the capital necessary for him to start his business. However, the Business Place did not help him in the sense that Mr. Pillay thought before contacting them. After discussions with a business navigator at the Business Place, he was referred to another B.S.P., which cooperated with the Business Place to try to attract venture capital.

The B.S.P. helped him to gain enough capital to apply for a patent for his invention. Mr. Pillay also received support and guidance to create a business plan, necessary for him in the process of raising capital for his start-up. To support entrepreneurs more efficiently and facilitate for successful start-ups, Mr. Pillay suggested that the Business Place should initiate some sort of internship program where entrepreneurs would have a chance to increase their business knowledge and experience.

Mr. Pillay thought that the support he received from the Business Place and its partners was excellent and helped him to advance faster through the process applying for finance and patents. Although he thought the support was helpful, he still believed that he was personally capable of applying for a patent, writing a business plan and accessing capital without the Business Place.

**4.4.4 Mr. Patience Mbueno**

- Date of interview: 2005-04-15
Background:

Mr. Mbueno was a refugee from Congo who had been in South Africa for 8 years. In Congo he used to work as a French teacher. However, because of the political climate in Congo, he moved to Angola and became an informal trader purchasing petrol from the capital city and bringing it to mines at a profit.

Throughout Mr. Mbueno’s entire life he had art and sculpting as a hobby. When he came to South Africa he figured that he could make a living out of his hobby and became a full time sculptor and painter.

The first period of time for his business was great and interest for his works was huge. However, he had recently been hit by an economical setback due to difficulties in maintaining a steady income. He could not afford to have Internet or other means of communicating with his overseas clients. As a result Mr. Mbueno had lost customers and his sources of income.

Entrepreneurial Support:

Mr. Mbueno did not lack business experience or knowledge to run a business. What he lacked was capital and also the means to communicate with his customers. The Business Place solved his problems as they had computers and Internet where he could keep contact with important clients and do research for new paintings and sculptures.

With the technical support of the Business Place, Mr. Mbueno was slowly getting back on his feet financially. Mr. Mbueno believed that he could start his business again without the resources of the Business Place.

4.4.5 Mr. Jason Tyatyaza

- Date of Interview: 2005-04-15

Background:

Mr. Tyatyaza was born and lives in a township near Cape Town called Gugulethu. Mr. Tyatyaza was in his mid-twenties and had a deep interest in hip-hop culture and lifestyle.
Together with a friend they developed an idea for a hip-hop merchandise retail store in central Cape Town. According to Mr. Tyatyaza and his market research, this market had not received any attention in Cape Town and had huge potential.

Mr. Tyatyaza perceived access to finance as his greatest challenge to opening a retail store. Without any previous business experience, track record or anything to put up as collateral, he said it was difficult to access the money necessary to start his business.

**Entrepreneurial Support:**

Mr. Tyatyaza said that when he first came to the Business Place he expected them to do everything for him i.e. find him funding, write his business plan and conduct market research.

After understanding that they would not do everything for him, he began to orientate himself with what services they in fact offered. He had participated in business skill development workshops, made a business plan with a template provided by the Business Place and received help to develop and refine his original business idea. In addition, he mentioned that he often utilized the computer resources that the Business Place had.

> “I attended a management course, which will be accredited to me and increase my chances with the finance institutions.”

(J. Tyatyaza, personal communication, 2005-04-15)

Without the help and support of the Business Place Mr. Tyatyaza said he would not have come as far as he had to realize his retail store.

Mr. Tyatyaza had a positive outlook about his future thanks to what he perceived to be valuable support from the Business Place. He believed that he could open his retail store within a year in Cape Town.

> “Now that I’ve come so far, nothing can stop me.”

(J. Tyatyaza, personal communication, 2005-04-15)

### 4.5 Brief Interviews

After conducting six in-depth interviews with *necessity entrepreneurs* we noticed that respondents were continuously giving us the same answers, we therefore perceived our sample to be saturated. In order to determine if our belief that saturation occurred in our sample, we conducted an additional 27 brief interviews with street vendors on a popular market square in central Cape Town, Green Market Square. The interview guide we designed (see appendix 5) was composed of five questions in accordance with our problem area and research purpose.

The interview guide was constructed in such a way so we could firstly determine if the respondent were in fact *necessity entrepreneurs* and could therefore be included in the research. As a result one out of the 27 respondents interviewed was determined not to be a *necessity entrepreneur* according to our definition (see section 2.6.5). A graphical representation of our findings can be found below.
Empirical Findings

Figure 4- Brief Interviews

The key finding of our brief interviews was that it supported our belief that saturation occurred in our original sample of necessity entrepreneurs. We could conclude that necessity entrepreneurs engage themselves in a business start-up because they have no other alternatives to survive. We also found out that our respondents perceived access to finance and access to a vibrant market as significant obstacles to their businesses. In addition, it can be noted that only 8% of our sample were aware of the fact that there are business service providers in the Western Cape that can help them and only 4% of our total sample had heard of RED Door.
5 Analysis

In this section we provide an evaluation of our empirical findings based upon the theories presented in chapter two. The section is divided into four main areas of concentration: entrepreneurial capacity, access to finance, access to markets and business service providers. Each section will begin with a review of findings from interviews followed by evaluations about these observations. Finally suggestions will be given with regards to how entrepreneurial start-ups can be facilitated in the Western Cape province for necessity entrepreneurs.

The most pressing problem facing the Western Cape province of South Africa is the absence of sustained growth and job creation, essential components of reducing poverty and improving the living conditions for its citizens. The official unemployment rate in the Western Cape is 19.8 percent, however when one uses more flexible measures, including discouraged workers, the prevailing rate is much higher (Menngos, 2004). In the townships of the Cape Town metropolitan region such as Khayelitsha and Gugulethu, unemployment rates go as high as 60 percent (N. Seleke, personal communication, 2005-04-19). Developing entrepreneurship and creating more S.M.M.E.’s is seen as a vital component of improving quality life for inhabitants of the Western Cape.

The subjects of our research are pushed into starting a business because of a lack of other alternatives. Motivated by poor pay, lack of prospects, lack of innovation, or negative displacement (Rwigema & Venter, 2005), they are persuaded to move away from their current situation and into an entrepreneurial venture. In the Western Cape province the most prevalent motivators to becoming a necessity entrepreneurs are lack of prospects and/or a lack of alternatives, often a result of unemployment. Motivated by not having other alternatives interview subjects saw entrepreneurship as a means to survive.

When analyzing what can be done to facilitate entrepreneurship in the Western Cape we have primarily rooted our arguments on the theoretical model proposed by Timmons and Spinelli (2003) (section 2.1 and 2.2). Complementing Timmons and Spinelli’s (2003) theoretical model of entrepreneurship emphasizing the mutual dependence of opportunity, resources and the team (we have primarily used the first two points), we have also chosen to utilize the more practical points suggested by Wickham (1998) describing hinders to entrepreneurship in the Western Cape. Using the nine points suggested by Wickham (see section 2.3) we have, based upon our empirical data, concentrated inhibiting factors into four main areas; lack of entrepreneurial capacity (derived from points 3, 5, 6, 7, 8), absence of start-up capital (derived from points 1 and 2), poor access to markets (derived from points 4 and 9) and insufficient business support to service these needs. These four elements throughout our research were evident as the main hinders to creating a more facilitating environment for entrepreneurs, and will therefore be the foundation of our analysis section and the bases for gaining an understanding of our empirical findings.

In the following section key findings from our interviews will firstly be summarized, and important issues will be highlighted. We will then proceed to give personal reflections upon results obtained during interviews, as well as general observations regarding entrepreneurship amongst necessity entrepreneurs in the Western Cape. We conclude each section with proposals as to what we believe, based upon our findings, can be done to practically facilitate successful start-ups amongst necessity entrepreneurs. The analysis section is divided into four main strategic areas as illustrated in figure 5.

It must also be indicated that for our analysis, we conclude that all respondents that we have included in our sample are in fact necessity entrepreneurs. Each interview candidate an-
answered questions in order to determine if they were a *necessity entrepreneur* or not according to the definition we chose to use (see section 2.6.5).

Looking into the future of entrepreneurial development, what lies ahead for the people of the Western Cape is a daunting task, but the benefits of promoting entrepreneurship to achieve sustainable livelihoods, improving social conditions and alleviating poverty is an undisputable necessity.

5.1 *Entrepreneurial Capacity*

Developing an entrepreneurial capacity includes the ability of the education and training system to promote and develop the skills and mindsets of people needed for entrepreneurship (G.E.M., 2004). Mr. Kuhn (H. Kuhn, personal communications, 2005-04-20) suggested that it is human nature that not every person is capable of starting a business however, in South Africa, that problem is much more pronounced. As a result of the historical development of the province people have been marginalized, with some reaping the benefits of quality education while others are completely lacking. The effect of this, according to our interview subjects, is that people lack firstly basic skills and second the capacity to become entrepreneurs. They lack innovativeness, initiative, achievement drive, willingness to take calculated risks, flexibility and competitiveness, traits suggested by Prof. Leon Hendricks (Business Times, 2003) to be common among successful entrepreneurs (cited in Rwigema & Venter, 2004). Ms. Nogaya mentioned this point especially when she described the typical *necessity entrepreneur* coming into her organization. She indicated how clients often were full of ideas, but often lacked the abilities to join together all necessary details of becoming a successful entrepreneur such as creating a business plan, acquiring resources, and
identifying opportunities. Her clients, she believed, in many instances lacked an entrepreneurial capacity (C. Nogaya, personal communications, 2005-04-21).

Quality education is a significant resource enabling individuals to take advantage of entrepreneurial opportunities. Throughout our interviews it was apparent that when entrepreneurs visit B.S.P. for help, they often lack basic skills to proceed. Many people are not able to read and write properly, do not know how to conduct research regarding a business idea and in addition do not understand the process of starting and running a business (such as requirements to register, pay taxes, and functioning of banks). Interview subjects blamed these setbacks upon the continuing impact of apartheid. People are lacking the basic skills to run a business, and also lack a spirit of entrepreneurship vital for a successful business start-up.

What also became apparent during our interviews was the absence of creativity and business sense of many in the Western Cape. Most of the business service providers expressed that the majority of the time a new person came with a business idea, it was not something new but a copy of an already existing idea (often internet cafes and selling vegetables was mentioned). It was expressed that people lack the creative ability to identify an opportunity. Mr. Seleke (N. Seleke, personal communications, 2005-04-19) suggested that in many disadvantaged communities there is no sense of business and opportunity creation. People do not see themselves as resource creators. In addition Ms. Mloyeni, when explaining what she thought was the biggest challenge to developing entrepreneurship in the Western Cape said:

“Most people here in Khayelitsha, they lack initiative or spark. Everybody wants to open a phone shop; they are all copying each other. Nobody is identifying a service gap. They are taking what others are doing. People are just trying to survive.”

(T. Mloyeni, personal communications, 2005-04-22)

5.1.1 Evaluation

Developing an entrepreneurial mindset includes influencing a person’s awareness so that they have the capacity to succeed as an entrepreneur and see entrepreneurship as a desirable way of making a career. The educational and training systems of the Western Cape has been historically barred and is currently ineffective at promoting and developing the skills and mindsets of people needed for entrepreneurship (G.E.M., 2004). In order to become a successful entrepreneur, according to Timmons and Spinelli (2003), individuals need to sense an opportunity where others see contradictions, they must posses the skills to acquire and control resources, in addition they must also consider many other economic, social, cultural, technological and other impacts from the external environment. As a result of our interviews it is clear that in all cases, to varying degrees, necessity entrepreneurs in the Western Cape lack these skills. As indicated by Visser (1997) people do not see themselves as resource creators and they have no role models to motivate and guide them in career choice and development. We consider the development of entrepreneurial capacity in the Western Cape to be the most challenging objective but also most important goal for the provincial government. In order to build an entrepreneurial society steps must be taken from the early development of children, and continue as a lifelong process. Business advisors continuously told us about the challenges they faced in trying to provide basic business skills to their clients. They also suggested this lack of business skills and mindset was a primary reason for why their clients failed.
During the apartheid era non-white members of society, and especially blacks were trained to be laborers (C. Nogaya, personal communications, 2005-04-21). With this in mind it has been extremely difficult to establish a culture whereby people are able to identify opportunities, gather necessary resources, and capitalize upon this idea when they have historically always been told what to do. Kuratko and Hodgetts (2001) have suggested a number of key characteristics such as resourcefulness, creativity and the ability to recognize and exploit opportunities, vital for an entrepreneur. As a result of the past many in the Western Cape do not possess these characteristics suggested by Kuratko and Hodgetts (2001) and are not capable of starting a successful business.

Rwigema and Venter (2004) indicate that there are five specific steps (see section 2.2.1) necessary to start a new business and grow into a successful, thriving enterprise. Of the five steps they mention, the ability to formulate a viable business plan was the phase which representatives from B.S.P mentioned most often to be lacking among necessity entrepreneurs. B.S.P saw it as their primary task to help clients develop such a plan, but also the area in which entrepreneurs were in the greatest need of skill based assistance.

The opportunities for people to start their own business are tremendous in the Western Cape, but in order to achieve more successful business start-ups among necessity entrepreneurs there are many things that need to happen. In relation to the model proposed by Timmons and Spinelli (2003) (see figure 1) in the Western Cape it is entrepreneurial capacity, seen as a competitive resource, which is affecting entrepreneurs’ ability to succeed most seriously in our opinion. Without the necessary resources entrepreneurs are not able to approach capital markets, find opportunities or communicate their ideas effectively. Without a sufficient education and culture of business it is difficult for people to view themselves as resource creators and someone who has the ability to start a business. They will not have the full abilities to conceptualize, organize and launch a business into a sustainable venture.

5.1.2 Suggestions

In order to increase the entrepreneurial capacity of Western Cape citizens it is necessary that the government as well as private institutions take steps to improve the education system. At a basic level significant improvements need to be made to improve the efficiency of the school system, predominantly towards schools servicing previously disadvantaged communities. Secondly, the business mindset and skills of necessity entrepreneurs must be increased. To meet these needs we therefore suggest:

- The incorporation of entrepreneurship in the core curriculum of primary and secondary education emphasizing a practical, hands on approach. From secondary school onwards a minimum of 3 hours per week should be spent on courses related to developing business skills and entrepreneurial mindset among the youth. By teaching basic principles of establishing and running a business at a young age learners will be much more inclined to understand how businesses work, and may hopefully be inspired to start their own.

- Significant investment in the infrastructure and resource base of schools. Requirements that at least 60 % of teachers at a given school are qualified and increased accountability (related to job security) that principles of schools achieve minimum of 65 % matric pass rates for learners.

- The establishment of a comprehensive and efficient mentor system for entrepreneurs. Initially 100 top managers from the Cape Town metro area would be selected and developed into the program. This would include professionals with rele-
vant business skills assisting entrepreneurs with business advice in their own area of expertise. Mentors would track an individual’s progress and would provide support in the creation and development of a business start-up.

- Community marketing and outreach programs intended to identify people with necessary skills and entrepreneurial capacities to make them aware of resources available to them and promote the idea of starting a business. Establishment of mobile education units that could travel around the region and give workshops and support to start-ups. Staffed by RED Door and other B.S.P. representatives to increase the awareness of services offered and provide on the spot training.

- Internship programs and adult education advocating the basic principles of starting a business and giving people skills necessary to do so. Implemented through critical success stories being highlighted to general public, business workshops, learnership programs, and other basic adult education measures.

### 5.2 Access to Finance

As indicated by Timmons and Spinelli (2003) one of the most important skills for an entrepreneur to possess in the start-up phase is the ability to acquire and control resources. In the overwhelming majority of interviews conducted with entrepreneurs, business advisors, government representatives and others, obtaining finance was raised as the most significant challenge to S.M.M.E.’s and entrepreneurs in the Western Cape. Every single entrepreneur that we interviewed, similar to the findings proposed by Wickham (1998), identified a lack of finance as the main challenge to starting a business in the province. In addition, the majority of the government representatives and B.S.P. also mentioned finance as the main hinder to starting a business for necessity entrepreneurs. Accessing finance for necessity entrepreneurs who typically have no track record or without any form of collateral is extremely difficult. As a result of people in the townships not typically owning their houses or land, securing a loan and obtaining capital is impossible. In addition, entrepreneurs complained about the strict and rigorous requirements of banks and other financial institutions as a source of frustration in starting a business.

“*It’s unfortunate that a lot of people don’t own houses; they have just put us into shacks and whatever. We (black Africans) have never really become permanent residents of the Western Cape its just always been a preferred white or colored area. Because people could then start putting up their houses as collateral. The market here just doesn’t support entrepreneurs.*”

(T. Mloyeni, personal communications, 2005-04-22)

#### 5.2.1 Evaluation

In order to be able to realize a business opportunity, according to Timmons and Spinelli (2003) entrepreneurs need resources, both financial and non-financial. It can be noted however that in all interviews, the lack of financial resources was indicated to be the most serious hinder to entrepreneurship in the Western Cape. The main characteristic of the lack of working capital for entrepreneurs and S.M.M.E. development is focused around high interest rates and/or limited access to capital. The most obvious source of money that entrepreneurs turn to, according to our interview subjects, is commercial banks in the form of a loan. However, the high transaction and monitoring costs in combination with high risks keeps commercial banks away from the S.M.M.E. sector. Although the owner or manager
of a business may be technically qualified because of previous experience, they lack basic managerial skills preventing banks from granting loans.

Rwigema and Venter (2004) suggest that in the initial start-up phase of a business idea there is an imbalance between a potentially large and growing opportunity and the limited resources available to an entrepreneur. In order to survive an entrepreneur must overcome this risk filled disequilibrium and obtain resources. Of the entrepreneurs that we interviewed all, according to their answers, would seemingly agree with the previous argument. The difficulty in obtaining financial resources was most often the reason why they initially established contact with a business service provider.

Similar to the findings of Wickham (1998) we agree with the fact that lack of finance is an important issue in hindering entrepreneurs to successfully start businesses in the Western Cape. However, contrary to what most of our interview subjects said, we argue that access to finance, while an important issue, is not the biggest obstacle to overcome in order to facilitate entrepreneurship for necessity entrepreneurs. Lack of finance is only one of many components preventing people from starting businesses, and we perceive other issues to effect the capabilities of people to start a business more. If one looks at the prevailing situation and working environment of the Western Cape it is not access to capital which is the most serious hinder to facilitating entrepreneurship, but entrepreneurial capacity. We argue that if you are not able to conceptualize and organize a business idea, regardless of finance, you will not be able to launch a successful business.

5.2.2 Suggestion

Irrespective of whether or not access to finance is the most significant hinder to entrepreneurship in the Western Cape, it is a major problem that must be dealt with to increase the possibilities that a necessity entrepreneur can successfully start a business. In order to help alleviate the issue we suggest the following measures.

- Training programs should be established with the participation of commercial banks to help necessity entrepreneurs gain the skills necessary to communicate their ideas effectively to these institutions. This service should be extensively marketed.
- Increased loan guarantee programs whereby the government will act as a security for the entrepreneur in dealing with commercial banks. If the government can with its funds act as security to commercial banks for loans made to necessity entrepreneurs, we believe banks will be more willing to loan as risks are more diversified.
- Redistribution of venture capital (many traditional finance institutions provide business loans, but only above R100, 000\(^7\)) away from large and established enterprises to necessity entrepreneurs who require far less money to launch a business (requiring loans of less than R50 000). Additionally efforts should be made by the provincial government to group small venture capital institutions together so funds are more concentrated into one larger pool and can be used more effectively.
- The initiation of loaning schemes requiring loan beneficiaries active participation in mentoring and skills development programs. This will hopefully lead to better use and more accountability of the money being loaned, as mentors will continuously

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\(^7\) R100 000 = SEK 116 557 as of 2005-05-27
be able to evaluate how funds are being used and assist the entrepreneur with business decisions.

- The development of a free property appraisal service to give ownership rights and deeds to property so that people can use their land and houses as collateral for bank loans. Secure titles make assets fungible and facilitate business interactions between strangers.

- Increased government strategies in the long term to change the mindset of mainstream financial institutions to be more positively inclined towards small business start-ups. Initially this would be in the form of joint ventures between provincial government and private banks to raise awareness of the S.M.M.E. sector. In addition increased venture capital reserves whereby necessity entrepreneurs will receive a loan and business counseling in return for a stake in the business.

5.3 Access to Markets

“It’s useless to tell people what to do when there is nowhere for the people to go with their services.”

(A. Gweshe, personal communications, 2005-04-22)

The third key area of interest raised during interviews with both service providers as well as entrepreneurs was the difficulty in accessing markets and the resources required to exploit these opportunities. In the model proposed by Timmons and Spinelli (2003) having access to markets, and the opportunities that these markets contain, is a key point in being able to become an entrepreneur. Within this context two aspects of accessing markets were highlighted by those interviewed, firstly proximity to physical markets to buy and sell products and secondly cultural divides restricting access to markets along ethnic lines. Without being physically near or allowed to enter a market, people will not have business opportunities and can therefore not become entrepreneurs, even if necessity requires it.

Regarding the first point interview subjects primarily highlighted the costs associated with getting their goods and services to market as a major concern. When conducting our brief interviews 27% of respondents indicated access to markets to be the most significant challenge to starting a business. In addition, when answering what support they need the most from B.S.P. 15% of entrepreneurs mentioned help in accessing markets as their biggest need. The necessity entrepreneurs that we met with did not, most often, have their own means of transport. As a result they were restricted to informal and cramped mini-bus taxi’s to transport their goods. These taxis, our interview subjects indicated, are a debilitating expense for somebody with no income. In addition, since these taxis are shared with other people, they have limited carrying capacity.

A second point that was brought up with regards to access to markets is the cultural divides that separate different communities. This is especially true in the Cape Town metropolitan area. It was expressed that entrepreneurs from one ethnic community are reluctant to do business with another, even if there are opportunities it is possible to capitalize upon. Ms. Mloyeni brought up an example (personal communications, 2005-04-22). Ms. Mloyeni had experience of working in the Cape Town township of Khayelitsha, a black African community. She expressed that in the neighboring township of Mitchell’s Plain, a colored township, there were more markets and opportunities for entrepreneurs. However she mentioned that the black entrepreneurs were extremely reluctant to cross into the colored
community and conduct business. The felt alien in the colored township and did not want to conduct business there. In addition, Ms. Mloyeni mentioned that the colored communities were often not welcoming to black Africans coming to their neighborhoods to do business, a great cultural divide is still present. This same phenomenon can be noticed in business between other ethnic groups in the Western Cape as well.

5.3.1 Evaluation

In terms of entrepreneurial opportunities a person gains a significant advantage in being close to large markets and suppliers, and thereby increases the likelihood that they can successfully start a business. In line with traditional theories of supply and demand, entrepreneurs must be able to easily and efficiently sell their supply where it is demanded. In the townships and rural areas of the Western Cape, necessity entrepreneurs cannot easily get their products to market and therefore lack opportunities. Similarly, buyers must have the financial means and be willing and able to buy the products offered. Together, this match between buyers and sellers creates business opportunities whereby potential entrepreneurs can fill a gap in services not currently being offered. These opportunities are absent for many people in the Western Cape preventing them from being able to start a business. In addition, in a point raised by Mr. Gweshe (personal communications, 2005-04-22) if a business is unable to have efficient and reliable access to supplies, it may be difficult to operate since they lack sufficient resources. Many entrepreneurs in the rural areas of the Western Cape as well as townships surrounding city centers, lacking finance and transportation, cannot reach the market place. They are therefore not able to access market opportunities and are not able to become successful entrepreneurs. The minority of entrepreneurs that can however access markets are forced to pay more to get supplies and will have to sell their goods or services at a higher price to recoup the costs associated with getting products to market. The lack of opportunities and resources, key components in the model of entrepreneurship proposed by Timmons and Spinelli (2003), make it difficult for necessity entrepreneurs in the Western Cape to successfully start a business.

5.3.2 Suggestions

Improving and facilitating access to markets and reducing cultural divides are difficult and time-consuming tasks for the government and general public to overcome. However, without improvements to these points many people in the Western Cape, not being able to access market opportunities, do not have the ability to become successful entrepreneurs. Without regard to cultural barriers, it is our opinion that time is the most essential resolution to overcome the problem. However, active steps to promote cultural understanding can facilitate this process. In order to help alleviate the problems above we suggest the following measures:

- Government must significantly improve the basic infrastructure of rural areas and more importantly the townships of the Western Cape. Money must be invested to pave roads and increase accessibility of public transportation at a reasonable cost. Public transportation in the province, currently composed of informal mini-bus taxes must be managed better to ensure reliability. We suggest that government takes a more active role in managing services offered to ensure better quality transportation methods.
- Establishment of mentoring programs whereby principle and agent are from varying backgrounds and ethnicity thereby promoting cross-cultural exchanges.
• Establishment of trade fairs whereby buyers and sellers can meet and establish business contacts. A mixing of first and second economies both domestically and internationally should occur. Currently Swiss Contact South Africa Small Business Week is one such exposition, however we suggest an increase in similar ventures.

• A more active approach must be taken in trying to overcome cultural barriers between communities. Cultural outreach programs for all citizens to improve relations among ethnic groups.

5.4 Business Service Providers

A business service provider is an organization that has been established to assist potential owners to start a business, to help manage their existing business or to assist owners to grow their business (Isaacs, 2005). A major problem that became immediately apparent while conducting interviews was the lack of knowledge amongst necessity entrepreneurs regarding the services offered by B.S.P. Of interviews conducted with entrepreneurs not actively participating in a program established by a B.S.P., only one person was aware that organizations existed to help them with their business. Of the entrepreneurs interviewed who were in contact with a B.S.P. provider however, all were generally very satisfied with the support that they had received from the business service providers they had been in contact with, including both government and non-government institutions. Most stated that when they first sought the support of a B.S.P., such as the RED Door or The Business Place they initially came expecting to receive money. However, once entering into the programs established by the B.S.P., they went through a process of formalizing their business idea so that they could achieve a functioning, viable and sustainable business. Generally, those interviewed were satisfied with the availability and the quality of support and services, with few negative experiences (negative experiences were often related to restrictions imposed by the B.S.P. such as age requirements or time available to access internet). Entrepreneurs working with the providers suggested that the organizations could increase their marketing efforts so that more people, in need of their services, know what they offer.

A point raised by the managers as well as the business advisors working with the B.S.P. was the difficulties in acquiring finances and maintaining sustainability of their operations. The B.S.P. that we met for the purpose of this essay, with the exception of RED Door, were all not-for-profit N.G.O.’s. As a result, they were dependent upon external financing (though this in many cases came indirectly from the government). Heavy focus was put upon receiving and maintaining financing for the operations instead of working with the clients to develop business ideas. Interview subjects mentioned that some B.S.P. in the Western Cape were more concentrated upon the numbers of clients serviced (and thereby paid for) than the actual quality of the results. Ms. Nogaya (personal communications, 2005-04-21) suggested that if B.S.P. were able to concentrate more upon clients than attracting capital, they would be able to offer better service.

5.4.1 Evaluation

As can be noted from the theoretical framework section a typical business service provider model should include some of the following services; business functions, education and training, consulting, counseling and coaching, policy and advocacy services, networking and infrastructure services (Isaacs, 2005). Of the necessity entrepreneurs interviewed for this research who had been in contact with a B.S.P., all were satisfied with the services received. However, it became clear during the interviews that our subjects who were recipients of free or low-cost services, often coming from previously disadvantaged backgrounds, were
reluctant to complain about the assistance offered. Although they said that B.S.P. were working well, in our opinion, we feel that there is significant room for improvement in the services offered by B.S.P., particularly to necessity entrepreneurs.

One of the biggest problems that we noticed with the B.S.P. sector in the Western Cape was the abundance of actors on the market offering inadequate services. Many service providers offered satisfactory business support to assist necessity entrepreneurs in the process of starting their business. However, it became increasingly clear over time, that other providers saw an opportunity to exploit taxpayer money and offered poor services. They did not increase motivation, entrepreneurial or business skills of necessity entrepreneurs, components suggested by Ladzani (2002) to be central for them to offer to help entrepreneurs (cited in Brijlal et al., 2005). These organizations, especially those concentrating on business plans, offered generic and poor services and were paid too well for their time and effort. Little value was added and they made no contributions towards helping potential entrepreneurs succeed in starting or managing a successful business.

The Umsobumvu voucher program, though seemingly good-natured also seems to have serious problems. This issue was highlighted particularly by B.S.P. outside of RED Door. When a client pays only 10 percent of the cost of the service, and the government the remaining 90 percent there is not an equilibrium formed between what the buyer is willing to pay and what suppliers are willing to sell for. The price of the service, such as writing a business plan is artificially set by the government, leading to inefficiencies. The government is paying too much for business plans, which, according to our research, are having little effect on increasing entrepreneurship. At present the voucher program does not seem to be working well. Mr. Kuhn explains:

“Take for example the business plan providers. People pay 10% of the cost and the rest comes from Umsobomvu at 90%. All they have to show is a business plan. However how many of these business plans are rejected by the financial institutions? They have no result, nobody cares about that. Nobody is really monitoring the real value added, the providers are not focusing on the clients.”

(H. Kuhn, personal communications, 2005-04-20)

Maintaining sustainability of the B.S.P. in the Western Cape is another major problem mentioned especially by Mr. Kuhn and Ms. Nogaya (H. Kuhn, personal communications, 2005-04-20 & C. Nogaya, personal communications, 2005-04-21). Establishing a successful B.S.P. is a task that requires significant time. At present, most N.G.O.’s in the Western Cape are financed on a three-year basis. After completing this time they must reapply for finances, which is not always granted. As a result there is a high turnover of B.S.P.. Managers of B.S.P. (other than RED Door) stress that they must be able to work on a longer time span in order to be able to achieve full capacity and accumulate practical knowledge and working experience about how best to help people, rather than finding finance for the operations. If this can be achieved we believe that B.S.P. will be able to motivate and help more necessity entrepreneurs better.

Finally the marketing efforts of the B.S.P. we met with seem to be clearly inadequate. Of 27 interviews conducted with necessity entrepreneurs not currently working with a B.S.P., only one individual (see figure 4) knew that such organizations existed. Interview subjects were extremely interested in support that they could receive to help their business, but simply did not know where to turn for help.
What we believe is the key to facilitating entrepreneurship for *necessity entrepreneurs* is to integrate already established high quality B.S.P. with the RED Door initiative. By incorporating the business skills of established actors into the RED Door, we believe the initiative can gain a head start. In addition, where the RED Door is not available to assist an entrepreneur, they must use a network of accredited high quality B.S.P. as a further resource. This will undoubtedly create a situation whereby some B.S.P. will not survive as their funding and services will be taken over by the RED Door, but we deem this to be a necessary step in order to increase the levels of *necessity entrepreneurship* in the Western Cape.

### 5.4.2 Suggestions

Based upon the model created by Isaacs (2005) with regards to what services B.S.P. should offer, we have formulated a number of measures we believe could help B.S.P. give more effective support to *necessity entrepreneurs* in the Western Cape. The results of these measures is that more people could be helped at a lower cost.

- Continued rollout of the provincial government RED Door initiative with a higher concentration on rural areas as well as those with high unemployment. Increased incorporation of the private sector, through a tax credit scheme, in providing business tenders and skill sharing to the RED Door staff and clients.
- Establishment of mobile RED Door offices that can move around the province and dramatically increase the span of services offered to areas that would otherwise be neglected because of location and costs associated. Mobile units will provide business workshops, administrative assistance, networking opportunities, and policy advocacy services.
- Establish an objective and comprehensive ranking system whereby services offered by B.S.P. can be measured and systematically compared. Ensure that government finances are only given to B.S.P. that achieve a certain level (as determined by the ranking system) of high service standards.
- Establishment of recording methods and databases to measure the value added by B.S.P.. The databases can then be used as a foundation for B.S.P. to share information and knowledge with regards to how *necessity entrepreneurs* can be helped most effectively. Require audits of outcomes to increase accountability of public funds.
- Increased financial support to accredited B.S.P. and reduction or removal of finances to providers that do not maintain minimum quality standards.
- Redeployment of the Umsobumvu voucher program. Removal of age restrictions on funds and reduced government’s burden in the financing moving more of the cost to the client. Establish pay as you go practices for clients to increase accountability of service providers, and establish greater financial commitments of entrepreneur from an earlier stage. This would also help to achieve greater sustainability for business service providers.
- Increased marketing to potential entrepreneurs who are otherwise unaware of services offered. Advertising must be specifically targeted, though not exclusively, to those most in need of services or people coming from previously disadvantaged backgrounds in townships and rural areas. In addition more success stories of entrepreneurs must be communicated to the public to inspire potential entrepreneurs.
Conclusions

In this chapter we will summarize key findings from the analysis section with the intention to highlight what specific measures are required to facilitate entrepreneurial start-ups for necessity entrepreneurs in the Western Cape province of South Africa.

The purpose of this thesis has been to suggest measures to government and non-government entrepreneurial business service providers to facilitate entrepreneurship in the Western Cape province of South Africa for necessity entrepreneurs. Using a semi-structured interview technique we have been able to interview entrepreneurs as well as those associated with the service providers to gain an understanding of what is currently being done to assist necessity entrepreneurs. Using our findings, together with a theoretical basis of entrepreneurship, we have suggested specific actions we believe to be necessary to facilitate the ability for necessity entrepreneurs to successfully start a business. Our final conclusions are summarized below.

We believe that the provincial government of the Western Cape must significantly increased efforts to promote and develop a climate whereby a necessity entrepreneur can succeed. Government, especially through the creation of RED Door, is making efforts. However, we feel that efforts can be made much more effectively and must be more drastic in nature to ensure that those people most in need of help are obtaining the support that they need.

We believe that the single most important initiative to facilitate the process of starting a business for necessity entrepreneurs, is to increase the entrepreneurial capacity of the population. Without basic skills in collaboration with business skills it is next to impossible for a person to start a business. Lacking the ability to identify opportunities, gather resources and capitalize upon the idea, as a result of a lack of skills, is a serious problem in the province.

The provincial government of the Western Cape must strengthen the abilities of the education and training system to promote and develop the skills and mindsets needed for entrepreneurship. We suggest that this should be done by means of improving the basic functioning and level of primary and secondary schools in the province and introducing entrepreneurship into the course curriculum. The curriculum must be focused upon increasing motivation, self-confidence, entrepreneurial and business skills. In addition, to improve the skills of the adult population and increase the chance of an entrepreneur achieving success, we suggest the establishment of community outreach programs and a comprehensive mentoring initiative to identify potential entrepreneurs and equip them with the necessary skills to do well.

The lack of low interest venture capital and loans is another major hinder to facilitating and developing entrepreneurship in the province. Banks are too hesitant to provide loans to necessity entrepreneurs because of the high transaction and monitoring costs, coupled with high risks. The entrepreneurs on the other hand are faced with high interest rates and collateral requirements that have potentially devastating effects to their businesses. To counteract the current circumstances in the short term we suggest that the government redistributes some of its enterprise development funds away from large established enterprises towards smaller sized business encompassing necessity enterprises with viable business ideas or tenders. These enterprises, while associated with larger risks, require far less capital and are more prone to produce sustained economic growth. In addition, we suggest that all loans to S.M.M.E.’s, as far as possible, be attached to obligations to enter skills development and mentoring/coaching programs. In the long term efforts must be made to change the mindset of commercial banks to open for small business loans and provide financing to a broader range of people than is currently offered today.
Conclusions

With respect to access to markets, another fundamental obstacle to facilitating entrepreneurship in the Western Cape, practical solutions are more difficult to propose. Infrastructure of the province must be improved, especially in the underdeveloped rural areas and townships. An entrepreneur’s access to markets and thereby access to business opportunities varies immensely depending upon the community he or she lives in, and these inequalities must be equalized so that all people have equal chance to start a business and provide for themselves. In addition, cultural barriers between ethnic groups must be minimized, but perhaps time is the only true solution to this problem considering the country’s history of racial segregation and oppression.

Finally, the assistance provided by the provinces business service providers, while currently helping entrepreneurs greatly, can also greatly be improved. The newly established RED Door initiative of the Western Cape carries with it high hopes of filling in the gaps of what B.S.P. before it have failed to achieve. With support from the government, both politically and financially, it is posed to be able to greatly facilitate entrepreneurship in the Western Cape. Although the strategic foundation of the project is well founded, it is also in need of a successful implementation. We stress that an increased collaboration with already established service providers on the market, who hold the practical knowledge of how to help entrepreneurs in the best way, is the most important resource for success, but the RED Door seems to currently be neglecting this. Providers such as the Business Place have extensive practical knowledge about what services necessity entrepreneurs need and how to provide them in the best way, so called best practices. We believe that this knowledge needs to be incorporated much more, and more actively into RED Door. Also, we would like to see more focus being put on attracting private investments and initiatives towards the RED Door so that it is not solely a government endeavor. Establishing firm ties with private South African corporations we believe would increase the sustainability of the project and increase its ability to help necessity entrepreneurs to succeed.

In conclusion we remain positive and optimistic about the future of entrepreneurship for necessity entrepreneurs in the Western Cape. The government as well as private institutions are investing heavily towards creating a better and more productive environment for necessity entrepreneurs and political policies reflect this. However, there are still large areas of the province’s initiatives with regards to necessity entrepreneurs that can be significantly improved. Invest in the people first and the rewards will follow. We believe that by following the measures we have suggested the provincial government of the Western Cape will be able to significantly improve the quality and efficiency of services offered to necessity entrepreneurs. As a result more people will start business, more successful businesses will be formed and people will gain confidence in the fact that they can succeed.
7 Thesis Discussion

In this section we will provide the reader with a discussion of our own opinions with regards to our research and achievement of the research purpose. We will also provide suggestions for further research that can be conducted.

7.1 Achievement of Purpose

When looking back at the process of writing this thesis it is always possible to say that things could have been done differently to address the purpose of our research differently. We are however confident that the methods we have utilized have allowed us to successfully address our problem area and fulfill our purpose. We have been able to evaluate the work of government and non-government organizations to facilitate entrepreneurship in the Western Cape. In addition, we have been able to speak with necessity entrepreneurs struggling to start a business and see what resources they need to ease the process of launching their idea. The result of this is that we have been able to give a number of key proposals in four main strategic areas that we believe are crucial to creating a more efficient and productive business environment for necessity entrepreneurs. It can be noted that our analysis and conclusions regarding entrepreneurship in the Western Cape are susceptible to our own preconceived notions of the subject, however we are confident that our results are trustworthy.

7.2 Thesis Criticism

As stated we are confident that we have been able to answer our problem and achieve our purpose. We are however aware that aspects of our research design could have been conducted differently. To further strengthen the trustworthiness of our research we would draw attention to the following areas that could have been conducted differently or utilizing complementary methods.

7.2.1 Rural Entrepreneurs

Living in a rural area of the Western Cape involves significantly different difficulties and challenges for an entrepreneur than one living in the Cape Town metropolitan region. While conducting research for this thesis, despite our efforts, the majority of our empirical data was collected in the greater Cape Town region (within a 2 hour proximity). Three quarters of all citizens of the Western Cape live in Cape Town, as a result, government and non-government B.S.P. were heavily concentrated in the Cape Town surroundings and thus became the main source of data for our research. We have always tried to pose questions to policy makers regarding areas outside of the greater Cape Town region, but have had little first hand contact with those working and living there. As a result generalizations regarding our findings may be more suitable for urban entrepreneurs than those in rural areas.

7.2.2 Practical Suggestions

When trying to determine practical measures to facilitate the ability for necessity entrepreneurs in the Western Cape to successfully launch a business we used our own assumptions and ideas regarding what we thought could work best. Based upon this at times our suggestions lack practical and/or theoretical evidence that they work. However, as often as possible
for each suggestion made, we have tried to use an informed opinion and use our best judgment to proceed. The result, while not tested, we believe would greatly help facilitate entrepreneurship in the Western Cape.

7.2.3 Understanding the Country

Traveling to South Africa entails arriving in a country that is vastly different from Sweden in many different ways. Perhaps the most apparent difference is the effect apartheid has had on the country. Though we have tried to be sensitive and as informed as possible regarding the history, culture, politics and other aspects of life in South Africa, since we have not been raised there, can perhaps never fully understand what it entails. As a result, we are aware of the fact that our own opinions and judgments about entrepreneurship in the Western Cape are susceptible to personal preconceived notions and biases. Our culture, history and social interactions are different from South Africa and may imply that our understanding of the country is different from others.

7.3 Suggestions for Further Research

As a result of time and financial restraints it was difficult to evaluate how our measures to facilitate entrepreneurship in the Western Cape would practically work. Given the possibility to continue our research it would be interesting to investigate whether or not our suggestions would in fact work measured using quantitative methods. The scales of our measures are in some cases grand (such as improving the education system and renovating roads) while others can be tested on a smaller scale. It would be interesting to follow a sample of necessity entrepreneurs and create a development plan in which they follow our suggestions and evaluate if in fact it facilitates the process for a necessity entrepreneur to successfully start a business.

At present the national government of South Africa is undertaking a major restructuring to give increased support to entrepreneurial development. It would be interesting to investigate whether the needs of other provinces are the same as in the Western Cape, or if this area is an isolated pocket in the country. Researching whether a broad national policy to increase entrepreneurship works across such a diverse country as South Africa would have significant implications on improving the theoretical bases of entrepreneurship in developing countries we believe. It follows however that our research, while limited to the Western Cape, does still improve the theoretical bases of entrepreneurship in developing countries.

Another interesting area of opportunity of further research would be to determine the amount of capital necessity entrepreneurs actually require to finance their business ideas. Often loans and venture capital allocated to help entrepreneurial activities is far beyond the requirements of necessity entrepreneurs. It would be beneficial to policy makers to try to determine what the financial requirements of necessity entrepreneurs actually are, and devise policies according to these findings.

7.4 Final Thoughts

Before the mid-1970’s, a majority of the citizens in South Africa, no matter how smart or enterprising they were, were banned from the best jobs in South Africa and starting their own businesses. Similarly, different educations for different ethnic groups produced a soci-
Thesis Discussion

...etly whereby some could reap the benefits of vast natural resources, cheap labor and a warm climate ideally suited to tourism, while others were left living in shacks with nothing to their name. This is still evident today 11 years after the dismantling of the apartheid regime.

Today entrepreneurs coming from previously disadvantaged backgrounds, who were previously barred from owning and running a business, are making a considerable contribution to economic development in the Western Cape. After actively working and interviewing entrepreneurs and B.S.P. in the Western Cape we are confident that progress is being made, and are optimistic that the provincial government is working towards creating an environment in which it is easier for necessity entrepreneurs to successfully start a business. With this said it must be made clear that creating this environment will take considerable and sustainable efforts from all people in the Western Cape. Some issues can be solved now, while others will take generations to eradicate.

“If we give the necessary tools for the entrepreneurs in the Western Cape, a great future will meet them and together we will overcome unemployment.”

(A. Mankanshu, personal communication, 2005-04-14)
Reference List


1) Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>A.E.D.T.-</td>
<td>Atlantis Economic Development Trust</td>
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<tr>
<td>B.S.P.-</td>
<td>Business Service Provider</td>
</tr>
<tr>
<td>D.E.D.T.-</td>
<td>Department of Economic Trade and Tourism</td>
</tr>
<tr>
<td>D.T.I.-</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>G.D.P.-</td>
<td>Gross Domestic Product</td>
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<tr>
<td>G.E.M.-</td>
<td>Global Entrepreneurship Monitor</td>
</tr>
<tr>
<td>N.G.O.-</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>N.T.-</td>
<td>Nations Trust</td>
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<tr>
<td>P.D.I.-</td>
<td>Previously Disadvantaged Individuals</td>
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<tr>
<td>RED-</td>
<td>Real Enterprise Development</td>
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<tr>
<td>S.I.D.A.</td>
<td>Swedish International Development Cooperation Agency</td>
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<tr>
<td>S.M.E.-</td>
<td>Small and Medium Sized Enterprise</td>
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<tr>
<td>S.M.M.E.-</td>
<td>Small Medium and Micro Sized Enterprise</td>
</tr>
<tr>
<td>S.S.A.-</td>
<td>Swiss Contact South Africa</td>
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<tr>
<td>U.Y.F.-</td>
<td>Umsobomvu Youth Fund</td>
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2) How Entrepreneurial is South Africa?

International comparisons of the 37 participating countries in G.E.M. (2002) show that South Africa ranks (this data, though two years old is used because it provides a more complete situation of South Africa, as well as indicates that conditions are becoming worse over time):

- 19th in overall entrepreneurial activity with 6.54 percent of the adult population involved in an entrepreneurial venture established since January 1999. This rate is the lowest of all the developing countries participating in G.E.M. (Thailand, India, Chile, Argentina, Brazil, Mexico and South Africa).

- 15th in start-up activity (a start-up is a business that has not paid salaries and wages for longer than three months), with just under 5 percent of the adult population involved in starting a business.

- 29th in new firm activity (a new firm is a business that has paid salaries and wages for longer than three months but less than 42 months), with only 2 percent of the adult population involved in new firms.

- 9th in necessity entrepreneurship (a necessity entrepreneur is involved in a new business because s/he has no other choice for work), 2.38 percent of the adult population are necessity entrepreneurs (see appendix 6).

- 29th in opportunity entrepreneurship (an opportunity entrepreneur is involved in a new business to pursue an opportunity), 3.3 percent of the adult population are involved in pursuing exploitable opportunities (see appendix 6).

- In all measures of entrepreneurship South Africa ranks lowest of all developing countries in G.E.M.

- South Africa is in the lowest quartile of all G.E.M. countries in two key measures, namely opportunity entrepreneurship and new firm activity.
3) Questionnaire- Entrepreneurs

General Information:

Tell us about your background; education, history of entrepreneurship, from the area;

1. Have you personally started a business before? Formal/Informal?
   A. Do you believe your business worked well?
   B. What didn’t work well?
2. How did you come up with your business idea? Last time? This time?
3. Why do you want to start a business now? What motivates you?
4. Was the idea for your business your own or was it influenced or developed by another person/organization? If so by whom or what organization?

Factors behind contacting Business Service Provider

5. Have you, before contacting RED Door/the Business Place, ever been to any other business service providers?
   A. If so, what was the name of it and what did they help you with?
   B. If yes, were you satisfied with the service you received? In what ways?
   C. What could have been done to offer better service?
6. How did you find out about RED Door/the Business Place?
   A. Are they doing enough to make sure people like you know about their services?
7. How much time has passed from when you first came up with the business idea to today?
   A. What stopped you from doing it earlier?
8. What do you think will be the biggest challenges or risks when you start your business?
9. What do you feel that you most need help/support with?
   A. Do you think RED Door/The Business Place can help you with this?
   B. If you can’t get support for these problems here, how will you solve them?
10. What services did you expect to receive before contacting RED Door/The Business Place?
Overall Opinion

11. How has RED Door/the Business Place helped you so far?
12. What assistance were you most satisfied with?
13. What help were you least satisfied with?
14. Did you get the services you were expecting? More/less?
15. If you were manager of RED Door/the Business Place what would you have done differently?
16. What is your overall opinion of RED Door/the Business Place?
17. How do you see the development of your idea/business in the future? Will you continue to come here to the RED Door/Business Place?
18. Do you think you would be able to run a business without their help?

Additional Comments? Would you like to add or retract from any of your answers?

Thank you greatly for your time and answers!
4) Questionnaire - Service Providers

General Information

1) Tell me about your background. Education, history of entrepreneurship, from the area?
2) Have you ever started a business before? Formal/Informal?
3) What has led you to work with entrepreneurship in the Western Cape?

General Entrepreneur

4) What is the most important factor for people becoming entrepreneurs in the Western Cape? Push/Pull, necessity/opportunity
5) What do you think are the biggest challenges to being an entrepreneur in the Western Cape today?
6) Why do not more people in the Western Cape start businesses?

Organization Specific

7) What do you perceive RED Door/The Business Place to do? What kind of support do you and your organization provide to entrepreneurs?
8) What specifically is RED Door/the Business Place doing to increase entrepreneurship?
   a) What kind of support is most in demand?
   b) What could be done better?
9) Why do you think people come to RED Door/The Business Place?
10) (Only the Business Place) In your marketing material you mention that you help clients form a viable business idea! What does this involve?
11) How do you select which ideas will be supported?
12) Do you use service providers? Name? Purpose?
   a) On what criteria have service providers been chosen?
13) What is the most important service offered to entrepreneurs from RED Door/The Business Place?
14) What services are most frequently requested from RED Door/The Business Place?
Appendix

a) Is there any help that you think is needed but not currently offered by your organization?

15) Do you think that RED Door/ The Business Place is working effectively at present time? Why or why not?

16) How does the future look for entrepreneurs in the Western Cape? What role will RED Door/The Business Place play in that future?

17) How do you perceive the entrepreneurial support from the government in the Western Cape to be? Please give examples and specify?

18) Additional comments? Would you like to add or retract anything from your answers?

Thank you greatly for your time and answers!
5) Brief Questionnaire- Entrepreneurs

1. Why did you start your business?
2. What was the biggest challenge to start your business?
3. What support would you have needed the most when starting your business?
4. Do you know about any organization that can help you with your business?
5. Have you heard of RED Door?

Thank you greatly for your time and answers!
6) Maps

South Africa including provinces

Western Cape Province

(Places, 2005)
## 7) B.S.P. Respondents

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<th>Name</th>
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8) Entrepreneur Respondents

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<td>Mongezi Makhalima</td>
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9) Respondents from Brief Interview

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