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Interventions supporting entrepreneurship: understanding changes in unemployment and gross domestic growth (output)

Hlengani Cedric Mathebula

A research report submitted to the Faculty of Commerce. Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management in Entrepreneurship and New Venture Creation

Johannesburg, 2015

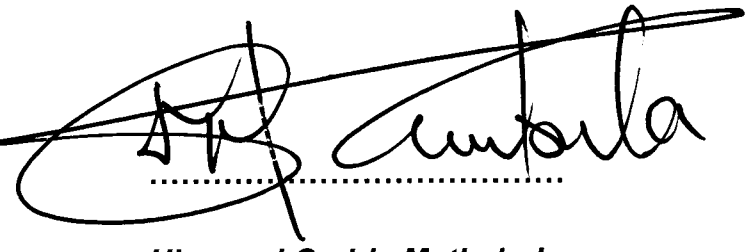
ABSTRACT

This study attempts to confirm the importance of small business and entrepreneurship in reducing unemployment and ultimately lifting the domestic output of South Africa through targeted strategies. The impact of a reduction in unemployment on domestic output is based on a negative relationship between unemployment and output. This relationship between unemployment and domestic output is investigated using Okun's law (named after Arthur Melvin Okun, who first measured the relationship between the two variables in the early 1960s). Apart from purely using Okun's law, the study further analyses the negative relationship for different age groups in South Africa. The results of the regression analysis show that the coefficient for the older age group of employable citizens is smaller than that of the younger ones. This could indicate the preference of non-conventional employment by the older age group, while the younger age groups seize every job opportunity that comes along to obtain job exposure and better skills. The challenge for government is to create an environment that is conducive to promoting entrepreneurship and to provide support for small businesses, in particular for the older age group.

This study relies on Okun's law to assess the relationship between the change in unemployment and gross domestic growth (output). Unlike other studies, this study further analyses this relationship for various age groups of the economically active population. For South Africa, a negative relationship was found by running a simple regression model based on Okun's law for ages 15-24, 25-34, 35-44 and 45-54 respectively. The findings imply that creating ordinary jobs for young people who are still seeking to be skilled and matured in the workforce raises output visibly. The creation of ordinary jobs for the older group raises output to a lesser extent due to the fact that this group has an inclination to be independent and self-employed after having been in the official workforce for an extended period with limited opportunities to advance further in their career ladders.

DECLARATION

I, ***Hlengani Cedric Mathebula***, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of requirements for the degree of Master of Management in Entrepreneurship and New Venture Creation at the University of Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.



.....

Hlengani Cedric Mathebula

Signed at: Parktown

On the 21st day of May 2015

DEDICATION

This research paper is dedicated my late Grandmother Nyanisi Mhlava Manganyi and my mother Mhlava Mamayila Manganyi who passed away on 21 April 2014, the day I first submitted this work to the faculty. I owe all my being to these two special women in my life. Their lack of education did not stop them from encouraging me to study. I also dedicate this work to my children who saw less of me during this time but remained understanding: Jessica, Tsundzuka, N'tsakisi, Rhabela and Mamayila.

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This research would not have been possible had it not been for my active participation in many forums that required me to interrogate the state of small business and Black Economic Empowerment (BEE) in particular. Special thanks goes to the following organisations that I have had the privilege to lead: the Black Business Executive Circle, Eskom Pension and Provident Fund, African Leadership Group and BMW South Africa.

Without the cooperation of the Small Medium Micro Enterprises (SMMEs) this research would not have possible, and I thank you for your participation.

Finally, I thank my friends and mothers to my children for the support and encouragement.

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LIST OF ABBREVIATIONS

AltX	-	Alternative Stock Exchange Listing
ASGISA	-	Accelerated and Shared Growth Initiative in South Africa
BEE	-	Black Economic Empowerment
DTI	-	Department of Trade and Industry
GEAR	-	Growth, Employment and Redistribution
GDP	-	Growth Domestic Product
IPAP	-	Industrial Policy Action Plan
KHULA	-	Khula Enterprise Finance Limited
JSE	-	Johannesburg Stock Exchange
NEF	-	National Empowerment Fund
Ntsika	-	Ntsika Enterprise Promotion Agency
NPC	-	National Planning Commission
OECD	-	Organisation for Economic Co-operation and Development
SAWEN	-	South African Entrepreneurs' Network
SEDA	-	Small Enterprise Development Agency
STATS SA	-	Statistics South Africa
UYF	-	Umsobomvu Youth Fund

1. CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

This study investigates the importance of small business and entrepreneurship in reducing unemployment and ultimately increasing South Africa's domestic output. The impact of a reduction in unemployment on output is based on a negative relationship between unemployment and output. This relationship between unemployment and domestic output is known as 'Okun's law', named after Arthur Melvin Okun, who first measured the relationship between the two variables in the early 1960s. While Okun's law seems very basic, it has proven to hold true for several countries over a period of time. The creation of employment by the South African government has in the past not yielded the much-desired level of output and has in fact increased the level of government expenditure through salaries. Considered in isolation, this partly suggests that while employment creation is important for South Africa, the targeted group and the source of employment should not be overlooked. Therefore the purpose of this study is to demonstrate that growth strategies aimed at reducing unemployment for a specific age group can increase the economic output of the country.

1.2 Context of the study

The global financial crisis that occurred in 2008 impacted negatively on the economies of various countries through trade and finance (Phago, 2010:13-14). A study conducted by the Organisation for Economic Co-operation and Development (OECD) (2009) suggested that while the financial crisis affected most firms in various countries, small firms specifically were observed to have been most adversely affected.

The reasons for increased vulnerability of small firms include being too small to be downsized further, a lack of diversification of their product offerings, and placing too much reliance on funding, entrepreneurial culture, and the establishment of good governance, among other factors. Small- and medium-sized enterprises, by virtue of their vulnerability to periods of economic downturn, need adequate financing and other forms of support, including operational support, assistance with the development of new products and training of staff, and support in terms of sustainability to meet the challenges at each stage of their business progression. Notwithstanding these potential challenges, small businesses and entrepreneurs still remain important in creating new jobs, which in turn assist in enhancing the economic growth of countries (OECD, 2009).

When the democratic government took over in South Africa in 1994, it acknowledged inheriting the country where the culture of promoting entrepreneurship and support for small business was not seen as an integral part of creating employment that would ultimately boost the domestic output of the country. The democratic South African government accordingly devised specific strategies and concepts that would boost entrepreneurship in the country. These include, among others, Black Economic Empowerment (BEE), Growth, Employment and Redistribution (GEAR), Accelerated and Shared Growth Initiative in South Africa (ASGISA), Industrial Policy Action Plan (IPAP) and the New Growth Path strategy (National Planning Commission, 2011: 89-108). While developing these policies and strategies, the government formed numerous support structures for financing young businesses as well as the institutions that will provide general service support to them.

These structures proved to be useful during the early days of South African democracy but as more of these strategies were formed, they tended to become too many and overly complex. The outcome of the survey of young entrepreneurs suggested that some of the new entrepreneurs found these structures to be confusing and less effective. Nonetheless, since 1994 there has been an increase in the number and value of transactions of small business financed by the government, although some moderation has been observed over time (OECD, 2009).

The governments of many economies have thus implemented various strategies to encourage participation by a large number of its citizens in the labour force (OECD, 2009). These governments have accordingly formed official government agencies to create an economic environment that is conducive to fostering and promoting an entrepreneurial culture in their respective countries. This was done due to governments realising that they cannot absorb the increasing level of new entrants to the job market on their own while sustaining the current old employees who do not add relatively more value (as per the law of diminishing returns) to the output of the country due to their inclination to become self-employed either as entrepreneurs or through forming small businesses.

Rwigema and Venter (2004) define entrepreneurship as "a process of conceptualizing, organizing, launching and through innovation, nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment". Entrepreneurship, as one of the sub-components of production, is considered to be a vital contributor to, and indeed engineer of, economic growth. During the 1970s, entrepreneurship was defined as a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach and leadership balanced (Timmons, 1999: 27). In addition, Timmons et al. (1987: 409) further suggest that entrepreneurship results in the creation, enhancement, realisation and renewal of value not just for owners, but also for all participants and stakeholders.

At the heart of this process, according to Timmons (ibid), there is the creation and/or recognition of opportunities, followed by the will and initiative to seize business opportunities. Therefore, entrepreneurship requires a willingness to take risks – both for personal and financial reasons. Entrepreneurship is recognised across the globe as one of the main elements necessary to foster growth and development in economies (Timmons, 1999: 27).

1.3 Problem statement

The mere existence of business and the concomitant establishment of new business result in employment creation and have multiplying effects on the economy. This is what the governments of most world economies strive to achieve by utilising various strategies and programmes aimed at establishing and expanding businesses. Countries such as the United Kingdom (UK), the United States of America (USA) and South Africa are among the countries that have initiated special programmes aimed at reducing unemployment and poverty while at the same time boosting economic growth.

This partly indicates the need for a co-ordinated effort by the South African government and the private sector to create an environment that will promote entrepreneurship and strategies that will ensure the sustainability of small businesses of entrepreneurs even during periods of financial crisis. The latter objective should be important for every government that considers the participation of small business in its economy as an important driver of output. In addition, the manner in which small businesses are supported after establishment usually determines the resilience of small firms and young entrepreneurs during times of market turbulence.

The research problem that this study undertakes to investigate is: What kind of relationship exists between unemployment and economic output in South Africa, and what concomitant governmental interventions exist to promote entrepreneurship?

In order to address the research problem, the research questions raised are the following:

- What is the relationship between unemployment and economic output in South Africa?
- What are the pertinent measures and interventions adopted by government to promote entrepreneurship?

These questions are raised based on this study' underlying assumption for this study is that sufficient entrepreneurship support would decrease the rate of unemployment thereby contributing to positive economic output. An additional assumption is that the fluctuations in unemployment figures often reflect the conditions of small businesses in terms of their stability and sustainability.

1.4 Significance of the study

The study contributes to the issues pertaining to unemployment and economic output in South Africa. This study serves as a consideration of the kind of government intervention necessary to boost entrepreneurship in South Africa. In this way, the question of how entrepreneurs could be supported is necessary to boost economic growth and vice versa.

1.5 Delimitations of the study

While this study considers the Labour Force Survey from Statistics South Africa (Stats SA) from 2001-2013, for the purpose of this study the shorter period from, 2008-2013 is used instead. This delimitation serves as a consideration to limit the impact of financial crisis on the South African economy and the resultant structural changes. As mentioned earlier, this study further analyses the relationship between unemployment and economic output for different age groups as differentiated by Stats SA's Labour Force Survey (see Table 3.1) (Statistics South Africa, 2013).

1.6 Definition of terms

This study considers two key definitions, namely, entrepreneur and unemployment.

1.6.1 Entrepreneurship

An entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit (US Bureau of International Information Programs). Entrepreneurship includes all types of businesses as long as they were formed for job creation and unemployment alleviation purposes (Ndedi, 2013). The term 'entrepreneurship' is used interchangeably with 'small businesses' in this study.

1.6.2 Unemployment

This refers to the proportions of unemployment specifically in South Africa. The most common definition of unemployment is that someone is actively looking for a job but unable to find one. For the purpose of this study, the rate of unemployment is calculated as the number of unemployed persons against those in active employment at a particular stage (Statistics South Africa, 2013).

1.7 Layout of study

The structure of the study is arranged as follows: chapter 1 serves as introduction and deals with the questions relating to the purpose and context of the study. It further articulates the problem statement, the significance and limitations of the study and a definition of terms and the assumptions advanced in the study. Chapter 2 serves as the first component of the literature review, and focuses on job creation and its impact on domestic output. Further, Okun's law is used to prove that the negative relationship between unemployment and output also holds for South Africa.

Chapter 3 is an extension of the literature review but specifically considers impediments for business growth in South Africa. In chapter 4, the issues pertaining to research methodology are considered in order to ensure validity and reliability of the research.

Chapter 5 provides the presentation of results and information from the datasets as used in the study before chapter 6 considers a discussion of the results and their meaning in relation to the research problem of the study. Finally, chapter 7 concludes the inquiry and highlights recommendations for further study.

2. CHAPTER 2: LITERATURE REVIEW: JOB CREATION AND REAL DOMESTIC ECONOMIC OUTPUT

2.1 Introduction

In this chapter- the literature review is undertaken, taking due cognizance of issues pertaining to the creation of employment and the actual domestic output. The discussion considers factors of employment creation and economic growth in relation to the problems regarding global issues that negatively influence job creation and domestic growth. In essence, this discussion considers various scholarly contributions and key models that have been used to describe variables that support the creation of employment and economic growth interventions. In addition, this chapter considers the measures and policy interventions that have been considered by government to support entrepreneurship.

2.2 Conceptualizing key constructs of entrepreneurship, job creation and growth

2.2.1 Entrepreneurship

The question of entrepreneurship basically considers entrepreneur' skills to establish and grow a business. According to Brookes (2015: Online) 'entrepreneurship is the development of a business from the ground up-coming up with an idea and turning it into a profitable business. But while the definition of entrepreneurship may be simple, its execution is much more difficult'. This is a very important consideration in that black entrepreneurship in South Africa have not been able to establish their businesses in a sustainable manner in a required number to create jobs and subsequently address unemployment and stimulate economic growth.

2.2.2 Job creation

Job creation requires an understanding and efforts by responsible authorities to ensure that both those who unemployed and those having inadequate income levels and are still trapped within poverty brackets. Accordingly, the International Labour Organisation (Online) of the United Nations views the promotion of 'full, productive and freely chosen employment to include the following key outcomes:

- coordinated and coherent policies to generate inclusive job-rich growth;
- skills development policies to increase the employability of workers, the competitiveness of enterprises and the inclusiveness of growth;
- policies and programs to promote sustainable enterprises and entrepreneurship.

In other words, ensuring that interventions are made to provide platforms to citizens to participate in the economic activities where poverty levels are minimised and while maximum economic benefits are derived.

2.2.3 Domestic economic growth

The implementation of several interventions such as encouraging savings as well as stimulation of investment and production could be interpreted to be in line with the thinking of increasing economic growth (Rasmidatta, 2011:8). This is often seen to be issues pertaining to the gross domestic products (GDP) growth (Government Communication and Information Systems, 2001: 137). In this regard, The Business Dictionary's assertion on GDP is 'the value of a country's overall output of goods and services (typically during one fiscal year) at market prices, excluding net income from abroad.

This is usually estimated in three ways which, in theory, should yield identical figures. They are:

- Expenditure basis: how much money was spent;
- Output basis: how many goods and services were sold; and
- Income basis: how much income (profit) was earned'.

The above key constructs are essential in providing the basis for discussion and literature review in this study. This is because the need to understand literature review is often considered within a particular context which is provided here by these constructs. The discussion below provides the literature on the factors of employment creation and economic growth as well as economic growth and unemployment. Further, measures to promote economic growth, the transformation of the economy and promotion of small business receive attention in the context of the foregoing definitions of the construct of this study.

2.3 Factors influencing employment creation and economic growth

The financial crisis of 2008 had an adverse impact both on major financial institutions and the small institutions linked to them. The impact of the crisis went on to affect entrepreneurs worldwide, especially those lacking government and private sector support. World economies are still faced with the challenge of resuscitating some of the domestic sectors and companies to restore sustained economic growth amid uncertainties in global financial markets.

Some countries including the US, UK and Japan implemented unconventional policies to revive domestic demand for the products of domestic companies to ultimately affect growth positively. While the crisis had a negatively impact on economies globally, it simultaneously provided an opportunity for countries to assess and review their growth strategies in terms of broader economic participation and growth sustainability.

The two most important elements to consider when assessing or developing a growth strategy are the self-assessment of the country in terms of its economic progression, and the level of employment created from such economic growth. Porter, Sachs and McArthur (2002) identify three stages of economic development: at an early stage, the economy is presumed to be largely factor-driven by basic requirements such as institutions, infrastructure, sound macroeconomic environment, and efficient healthcare and primary education.

As the economy progresses further it becomes more efficiency-driven, where efficient goods, labour and financial markets play a key role in its competitiveness. In the final stage, the economy settles into an innovation-driven mode characterised by business sophistication. While most countries can partly create employment at any stage of their development, the rate of employment creation can vary according to the level of domestic skills supply in a particular country at a specific progression stage. It is crucial for every growing economy to ensure that the economic progression is also reflected in the country's supply of skills to effectively create business opportunities and reduce unemployment. In most economies small business and entrepreneurs are the key drivers to job creation and growth.

Accordingly, to move towards potential growth, a country must make available growth opportunities, including factors of production, to all its citizens.

Mohr (1998) suggests that economic growth, full employment, price stability, balance of payments and equitable distribution of income serve as useful criteria for judging the economic state and growth potential of an economy. The first two criteria are the most relevant for the purpose of assessing the impact of increasing unemployment on economic growth. Economic growth broadly refers to sustainable development and prosperity, while employment essentially relates to a meaningful level of participation of all races and genders in the economy.

The neo-classical model of economic growth, developed by Solow (1956) and Swan (1956), can be used to describe the relationship between unemployment and economic growth. Each economy produces goods and services demanded by consumers with its limited factors of production. In short, all economies operate within some demand and supply model. This model stipulates that each year (denoted by 't'), the supply side produces an amount of the single aggregate commodity, real gross domestic product (GDP) (denoted by 'Y'), using three factors of production. These are the existing stock of physical capital, (denoted by 'K'), the existing labour force (denoted by 'L'), and the available technology (denoted by 'T').

This can be expressed as:

$$Y= f (K, L, T)..... (1)$$

Assuming that capital and technology are constant, then

$$Y= f (L)..... (2)$$

Thus, appropriate investment in labour and skills improvement can lead to an increase in productivity. Therefore, through investment in labour and skills, a country can facilitate the meaningful participation in the economy through increased employment and provide an environment that is supportive of entrepreneurial investment, ultimately affecting domestic growth positively. Okun's law of gross domestic product and unemployment will be used later in this section to prove the existence of a negative relationship between the two variables.

However, it is first worth mentioning that to improve growth and combat unemployment, the country has to understand that in addition to its progression stage, the composition of its population and demographics is also relevant for appropriate allocation of resources and developmental aid. According to Stats SA (2013), South Africa's 2013 mid-year population was estimated at 52, 98 million.

The black African population group is in the majority (42, 28 million) and constitutes almost 80 per cent of the total South African population. The white population is estimated at 4,60 million (8,7 per cent), the coloured population at 4,77 million (9,0 per cent) and the Asian population at 1,33 million (2,5 per cent).

Approximately 51 per cent (approximately 27,16 million) of the population is female. About 29,2 per cent of the population is aged younger than 15 years and approximately 7,8 per cent (4,15 million) is 60 years or older. Assuming that the majority of South Africans are in a good state of health, this implies that almost 60 per cent of the population is employable. The level of unemployment in South Africa during 2005 to 2013 has been estimated to be between 24 and 25 per cent.

Table 2.1: Mid-year population estimates for South Africa by population group and sex, 2013

Population group	Male		Female		Total	
	Number	% of male population	Number	% of female Population	Number	% of total population
African	20 607 800	79,8	21 676 300	79,8	42 284 100	79,8
Coloured	2 306 800	8,9	2 459 400	9,1	4 766 200	9,0
Asian	669 200	2,6	660 100	2,4	1 329 300	2,5
White	2 239 500	8,7	2 362 900	8,7	4 602 400	8,7
Total	**25 823 300**	**100,0**	**27 158 700**	**100,0**	**52 982 000**	**100,0**

Source: Statistics South Africa, *Mid-year Population Estimates 2013*

Given the dominance of black Africans in South Africa's population, it follows that the majority of the unemployed people are blacks, especially of young age. While according to Stats SA unemployment declined from 25,4 per cent in 2001 to 24,7 per cent in 2013, implying the country's overall unemployment rate improved somewhat over time, the unemployment rate of the black population remains high.

Also, the year-on-year improvement in the unemployment rate amid the slowdown in growth could merely be reflecting the rising employment in non-real sectors of the economy. Analysis of the employment number is therefore important to assess the concentration of unemployment, the appropriate policy remedies and the overall impact of the aforementioned prominent strategies on domestic growth. The impact of reduced unemployment on domestic output is illustrated by using Okun's law as discussed in greater detail in the next section.

2.4 Relationship between economic growth and unemployment

Literature concerning the changes in economic growth and unemployment mostly suggests that there is a negative relationship between growth and unemployment. In practice, in a perfect world, *ceteris paribus*, more labour should result in higher output of goods and services. The relationship between unemployment and domestic output is known as Okun's law, named after Arthur Melvin Okun, who first measured the relationship between the two variables in the early 1960s. Although Okun's law seems very basic, it has proven to hold for several countries over a period of time.

Geldenheys and Marinkov (2006) conducted empirical research to estimate the relationship between economic activity (cyclical GDP) and changes in the unemployment rate (cyclical unemployment) using data from 1970 to 2005. Using several detrending methods to decompose output and unemployment series into trend and cyclical components, the study found evidence of the existence of Okun's law. The negative correlation was evident from the negative signs of the coefficient found from the estimates, with long-run estimated coefficients found to be larger than the short-run estimated coefficients. The study, however, found more evidence of asymmetries in Okun's law, with more a pronounced relationship observed during recession periods.

Although Okun's law is logical, it has been recently challenged by some structural changes in selected economies following the 2008 financial crisis and new non-conventional monetary policies adopted by these economies. Some authors suggesting Okun's law to be weakened by the structural factors include Sanchez and Liborio (2012), who found that during the economic recession the rate of decrease in output seemed to be associated with a higher rate of unemployment than Okun's law suggested, and that the rate of reduction in unemployment during the recovery period was more than what was expected.

The study was based on the US and used data from 2009 to 2011. Nevertheless, Knotek (2007) describes Okun's law as still useful, but maintains that the relationship has not been a sufficiently correlating one over time due to the state of the business cycle and the fact that the duration of contractions and expansionary phases of recent cycles has increased due to longer expansionary phases. While the statistical analyses of these two variables may contradict Okun's law over a short period, for reasons given above, Okun's law is still regarded as useful in forecasting the impact of changes in unemployment and growth.

This study relies on Okun's law to assess the relationship between the change in unemployment and gross domestic growth (output). Unlike Knotek (2007), this study further analyses this relationship for various age groups of the economically active population. The research's reliance on Okun's law is due to the fact that it has only two variables, which in turn limits excessive instability.

2.5 Measures and interventions adopted to promote entrepreneurship

The above section outlined the importance of stimulating entrepreneurship particularly for the mature economically active population. When the democratic government took over in South Africa in 1994, it acknowledged inheriting a country where black people were excluded from decision making in mainstream economic activities. Entrepreneurship, especially among blacks, was not encouraged due to laws such as the Group Areas Act which prevented blacks from trading in certain areas of the country and limited their right to education.

The new democratic government assessed the level and type of participation in economic activity by race group and concluded that, in general, entrepreneurship in South Africa was not too popular but was even less so among black people. According to Brookes (2015: Online) 'entrepreneurship is the development of a business from the ground up-coming up with an idea and turning it into a profitable business. But while the definition of entrepreneurship may be simple, its execution is much more difficult'.

This is a very important consideration in that black entrepreneurship in South Africa have not been able to establish their businesses in a sustainable manner in a required number to create jobs and subsequently address unemployment and stimulate economic growth (Ndeli, 2013).

In order to redress the imbalances created by the racial policy of apartheid, the democratic government realised that it needed to create some special programmes and devise various strategies, including the establishment of funding institutions and preferential treatment to foster entrepreneurship for the previously disadvantaged groups and to increase the country's domestic output.

2.6 Transformation of the economy

In redressing the inequalities from the past it was imperative for the post-democracy government to engage in economic transformation, including the introduction of BEE and the promotion of small businesses, especially those formed by blacks. BEE is generally defined as a programme designed by the South African government to redress the inequalities of apartheid through giving preferential treatment to previously disadvantaged groups and providing financial assistance to start up potential businesses.

Transformation of the economy and the society in general was crucial in creating an equal society and a representative decision-making body within the country. South Africa is unlikely to attain a higher level of economic growth without the participation of the majority of the country's citizens (Black Economic Empowerment Commission, 2000).

In 1998 the South African government formed the National Empowerment Fund (NEF) through the National Empowerment Fund Act No 105 of 1998. The main purpose for the formation of the NEF was to finance BEE groups who were serious about transforming the South African economy. The NEF was re-launched and capitalised in 2004 by the then Minister of Trade and Industry Minister, Mandisi Mpahlwa. Prior to 2000 there was no co-ordinated and uniform approach to the application of the BEE programme, culminating in uneven interpretation of the BEE concept.

In 2000 the Black Economic Empowerment Commission (the Commission) was formed to develop a clear and coherent vision and strategy for BEE. The successful implementation of BEE was to be evaluated according to the following accomplishments (BEE Commission, 2000):

- A substantial increase in the number of black people owning and controlling existing and new companies;

- A significant increase in the number of new black-owned enterprises, black empowered enterprises and black-engendered enterprises;

- A significant number of black people in senior management and executive positions;

- Increased income levels of black people and reductions of inequalities; and

- Increased in ownership of land, access to infrastructure and increased acquisition of skills.

The Commission dealt extensively with the issue of transferring ownership of corporations from whites to blacks. Also in 2000, the Preferential Procurement Policy Framework Act No. 5 of 2000 was enacted with the purpose of enhancing the involvement of black business in public tendering.

The Broad-Based Black Economic Empowerment (B-BBEE) Act 53 of 2003 was adopted with the aim of making the necessary policy recommendations to challenges associated with the transformation of the country. B-BBEE was, however, challenged by fronting, where black people were co-opted into the ownership of the company with or without their knowledge or just for camouflaging. In 2007, the B-BBEE Codes of Good Practice were announced as a way of providing a framework for the implementation of the B-BBEE.

The generic scorecard forms an integral part of the B-BBEE Codes of Good Practice. The generic scorecard considered (Broad Based Black Economic Empowerment, Codes of Good Practice, 2007):

- The Ownership Element, as set out in code series 100, measuring the effective ownership of enterprise by black people;

- The Management control element, as set out in code series 200, measuring the effective control of enterprises by black people;

- The employment equity element, as set out in code series 300, measuring initiatives to achieve equity in the workplace under the BEE Act and the Employment Equity Act;

- The skills development element, as set out in code series 400, measuring the extent to which employers carry out initiatives designed to develop competencies of black employees;

- The preferential procurement element, as set out in code series 500, measuring the extent to which enterprises buy goods and services from suppliers with strong B-BBEE procurement recognition levels;

- The enterprise development element, as set out in code series 600, measuring the extent to which enterprises carry out initiatives intended to assist and accelerate the development and sustainability of other enterprises; and

- The socio-economic development and sector specific contribution element as set out in the code series 700, measuring the extent to which enterprises carry out initiatives that contribute towards socio-economic development or sector-specific initiatives that promote access to the economy for black people.

In 2014, the BEE Act No. 46 of 2013, which was an amendment to the B-BBEE was enacted. This Act intended to:

- Establish the B-BBEE Commission to monitor the implementation of B-BBEE;
- Create a monitoring and evaluation framework by all institutions;
- Create a statutory offence of fronting and other related offences;

and

- Strengthen the application of the Codes for the public sector and other sectors.

These measures and interventions were introduced in an effort to ensure that participation of blacks in the economic activities would be substantive and visible. In that way, employment creation and economic growth could be realised. Essentially, what this part of the literature review strongly highlights is that the introduction of the National Empowerment Fund, the BEE Commission, the BEE scorecard and other measures taken to monitor compliance by the business community, indicates how participation of blacks in entrepreneurial activities is supported and regulated in South Africa.

2.7 Promotion of small businesses

Apart from promoting the participation of the previously disadvantaged citizens and encouraging entrepreneurship among black South Africans, the support to small business also became an area of focus. Government, state-owned enterprises and the private sector worked jointly to boost the participation of small business in the economy and their development.

The following section describes the intervention of government and the private sector to improve the establishment of new businesses and the sustainability of existing small ones. Due to the general lack of data pertaining to measures adopted to promote black entrepreneurship and the specific indicators to measure the success of black entrepreneurs, this study therefore assumes that black entrepreneurs are an integral part of small businesses and that policies adopted to enhance small businesses also encompass the latest generation of black entrepreneurs.

Thus for the purpose of this study, references to small business also refer to black entrepreneurs. Black people represent the largest proportion of unemployed people in South Africa by race (see Table 2.1) and they are more likely to explore starting their own business in an endeavour to catch up on wealth creation with less capital.

2.7.1 The national government interventions

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (the White Paper) was introduced in 1995 with the aim to promote entrepreneurship in South Africa as a means to create jobs, equity and access to markets by those who were not able to do so previously. The White Paper also acknowledged constraints that emerging small businesses were experiencing. Arising from the White Paper were a number of support institutions formed for the provision of access to finance and other export services to small businesses. These institutions included Khula Enterprise Finance Limited (Khula), Ntsika Enterprise Promotion Agency (Ntsika), the NEF, the Small Enterprise Development Agency (SEDA), the Umsobomvu Youth Fund (UYF) and South African Entrepreneurs' Network (SAWEN), among others. These institutions are described briefly below:

(a) Khula Enterprise Finance

Khula is an agency of the Department of Trade and Industry (DTI) formed in 1996 to solely facilitate access to finance by small enterprises. Khula provides assistance through various delivery channels, including commercial banks, retail financial intermediaries and micro-credit outlets. It also provides mentorship services to guide and counsel entrepreneurs with various aspects of businesses management. Khula merged with the South African Micro-Finance Apex Fund and Industrial Development Co-operation's (IDC) small business activities to form the Small Enterprise Finance Agency (SEFA).

(b) Ntsika Enterprise Promotion Agency

Ntsika was established as a government agency that offered non-financial support to small businesses such as management development and business development services. Ntsika also merged with other institutions to form SEDA in 2014.

(c) Small Enterprise Development Agency

SEDA was established by the DTI in December 2004 by merging Ntsika, the National Manufacturing Advisory Centre (NAMAC), and the Community Public Partnership Programme (CPPP). It provides business development and support services for small business through its national network strategy. At the end of December 2012, SEDA had established 43 branches, 18 mobile units, 48 electronic information kiosks, 3 enterprise information centres, 12 enterprise development centres, 42 incubation centres and 47 access points where SEDA is co-located in.

(d) The National Empowerment Fund

The establishment of the NEF has already been described earlier in the section. As at 31 March 2013, the NEF had approved R5 billion towards the assistance of entrepreneurs and small businesses since its recapitalisation in 2004. Due to insufficient funds allocated to these funding agencies, including the NEF, it was reported in 2013 that more than 150 entrepreneurs had reportedly been turned away to seek funding elsewhere (Holmes, 2013).

(e) Umsobomvu Youth Fund

The Umsobomvu was established in 2001 to offer business development services to the youth of South Africa. Umsobomvu also provides entrepreneurship training for school children and to the youth who have already left school to prepare them for future independence. Part of its mandate includes the creation of jobs, skills development and skills transfer to South Africa's youth. In 2009, Umsobomvu and the National Youth Commission merged to form the National Youth Development Agency (NYDA).

(f) South African Entrepreneurs' Network

The government also put in place measures to raise women entrepreneurship through institutions geared towards supporting businesses owned by women. One such institution is known as the South African Women Entrepreneurs' Network which has been tasked to articulate business issues specifically as they relate to women. The Technology for Women in Business initiative was also established as discussed below.

(g) Technology for Women in Business

This initiative was formed by the DTI in 1998 with the purpose of advancing women in business through the use of science and technology in their businesses. Its main objectives were:

- to facilitate action by female entrepreneurs at all levels;
- to create successful role models;
- to unlock solutions to progressive approaches to doing business in the global economy; and
- to exploit partnerships with government, corporates and women-focused organisations.

2.7.2 Provincial government intervention

At provincial level a number of institutions were established to offer small business development services and support. The aim of creating assistance at provincial level was to ensure that the national government plan of facilitating participation of small business was executed effectively and accordingly. Gauteng Enterprise Propeller (GEP) was established to provide support services to small businesses in Gauteng. In Limpopo, the Limpopo Business Support Agency (Libsa) was formed to assist small businesses in the region. Similarly, the Western Cape's Red Door is one of the small business development agencies created promote small business owners. These are among a wider range of institutions and initiatives at the provincial level of government.

2.7.3 State-owned enterprises

State-owned enterprises have been instrumental in coming up with projects earmarked for the promotion of small businesses and the provision of relevant access to finance. Among the state-owned enterprises assisting the government with small business development services is the IDC, which focuses on funding projects that have an impact on economic growth and job creation. Most financing has been provided to small business in the manufacturing and mining sectors. The IDC has also been instrumental in helping entrepreneurial projects move beyond the informal sector into the economic mainstream.

2.7.4 The private sector

The private sector has largely heeded the call by the South African government to participate in the development of the small business sector. Large businesses have embarked on in-house projects such as the Youth Enterprise Support Programme by the South African Breweries (SAB Kickstart) and Shell LiveWire initiated by Shell Petroleum to assist businesses owned by the youth. Commercial banks also have specialised SME divisions that provide finance to deserving entrepreneurs, and the extension of credit to small business is discussed in the next section. The participation of the private sector in strengthening small business was also supported by the formation of public-private sector partnerships.

These included South Africa's Tourism Enterprise Partnership (TEP) and Incubation Support Programme (ISP) that offer support to small business to a point where they become self-sufficient, among other objectives.

2.8 Conclusion

This chapter outlined the literature on issues pertaining to job creation and economic output, and discussed the government measures and interventions to support black participation in the entrepreneurial activities in South Africa. From this literature review, it is evident that while there are government interventions to support the business environment, entrepreneurship challenges remain momentous.

The involvement of state-owned enterprises and the private sector has further supported entrepreneurship in order ensure the development of the small business sector. In this way, it is assumed that stimulating economic growth would lead to increased employment opportunities.

3. CHAPTER 3: LITERATURE REVIEW: IMPEDIMENTS TO BLACK ENTREPRENEURSHIP DEVELOPMENT

3.1 Introduction

In the previous chapter, the first component of the literature review was presented. While the previous chapter focused on the literature review pertaining to the unemployment and economic output, this chapter considers other literature regarding impediments to black entrepreneurship. This is done through a detailed perusal of scientific studies conducted by reputable institutions, such as Stats SA, the World Bank, and the OECD, among others.

This chapter considers the second part of the literature review in this study by focusing on the hurdles and problems often facing blacks in business. Aspiring and established black South Africans are faced with a number of constraints and limitations that prevent them from realising their business ideas and growing their businesses.

These constraints also prevent them from maximising their potential and influence to some of the existing social challenges in their communities and the overall country's output. In its Global Competitiveness Report, the World Economic Forum (2013) surveyed business executives in South Africa with the aim to identify some of the factors viewed as the most problematic for conducting business in the country.

Respondents had to select five problematic factors from a list of sixteen. The results are shown in graph 1, Annexure 4. The graph shows that the respondents rated skills shortages as the main constraint for conducting business in the country. This is followed by tough labour regulations and the inefficient government bureaucracy. Some of the factors identified in Annexure 4, Figure1 will be discussed in detail in this section. The government has noted some of these issues and is currently working towards finding ways to reduce these impediments.

3.2 Government regulations

The Business and Migration Solution (2012) identified over-regulation as one of the reasons driving small business away from establishing businesses in South Africa and seeking investment opportunities elsewhere on the continent. This partly highlights the significance of how the South Africa's regulations and policies are unsupportive of entrepreneurs. Some of the major regulatory burdens highlighted by the experts surveyed by the Global Entrepreneurship Monitor (GEM) (2012) included restrictive labour laws, unnecessary regulations, limited tax incentives, and administrative red tape. According to the OECD (2013), the impact of the burden is heavier on small and medium enterprises as they tend to be poorly equipped to deal with the challenges arising from regulations. This means small enterprises have to dedicate a significant amount of time and costs dealing with the administrative matters required to meet the regulatory requirements.

From a regulatory perspective, it seems as if the most worrying feature for South African entrepreneurs is the rigidity of the country's labour laws. The negative impact of the rigid labour laws on South African entrepreneurship will be discussed briefly in the next section.

3.2.1 Rigid and severe labour laws

It has been established that the country's labour laws are too tight and are thus hindering entrepreneurial growth (GEM 2012). This is also evident from the World Economic Forum's (2013) Global Competitiveness Report, which ranked South Africa's labour market efficiency as poor at 116 out of 148 countries surveyed. The surveyed countries represented 99 per cent of the world's gross domestic product. The report also shows that 18,5 per cent of the 47 surveyed South African respondents, particularly business executives, listed restrictive labour regulations as the second most problematic factor for doing business in South Africa. Some of the negative factors contributing to this labour market inefficiency included, extremely rigid hiring and firing practices, inflexibility of companies in setting wages and the existence of significant tensions in labour-employer relations.

The following is the ranking of South Africa's labour markets (World Economic Forum, 2013):

- Co-operation in labour-employer relations – 148th;
- Hiring and firing practices – 147th;
- Flexibility of wage determination – 144th;
- Pay and productivity – 142nd; and
- Overall labour market efficiency – 116th.

Of the 148 countries surveyed, the report ranked South Africa as having the second most difficult practices regarding hiring and firing. Because of the rigid labour laws, several entrepreneurs find themselves reluctant to employ more people and rather prefer to keep the employment levels in their business as low as possible or even employing workers on contract basis. In his address at the launch of labour law challenge, Mashaba (2013) expressed his concerns about the extent to which labour laws suppress entrepreneurship and job creation in South Africa.

The labour environment is somewhat difficult and costly for businesses to hire and fire employees. Ultimately, small businesses cannot afford the high costs of making hiring mistakes. This is further supported by Finmark Trust's (2010) views that, the employing and firing of workers in South Africa is expensive and therefore discourages recruitment by new enterprises while keeping small enterprises from growing.

This situation is particularly difficult for black entrepreneurs who, in most instances, start up a new business with less adequate skills that require further complementing through hiring relevant skills. In addition, some black entrepreneurs work on two projects simultaneously as a away of balancing their risk. This leaves them not much choice but to employ some additional resources. However, due to the high cost of labour, they sometimes end up with minimal labour support and eventually failed businesses.

The situation is further exacerbated by the existence of minimum wages. The World Economic Forum's (2013) Global Competitiveness ranked South Africa at 144th out of 148 countries in terms of flexibility of wage determination.

Employers are forced, by law, not to pay below minimum wages and this often puts pressure on the limited financial resources of entrepreneurs. In the absence of speedy measures to resolve the complexity of the domestic labour market, entrepreneurs find it difficult to hire more people. This hiring practice is a lamentable scenario given the high rate of unemployment in South Africa.

In general, the cost of compliance to labour law is high, time consuming and complex. At times, entrepreneurs are forced to study the labour laws or pay labour experts to provide guidance to comply with the various laws. The challenge in studying or understanding the laws can be partly attributable to the limited exposure to education by most entrepreneurs. Entrepreneurs, at times, can be individuals with the natural talent to be innovative despite their low level of education.

The business environment in South Africa does not quite cater for such caliber of business people and they are most likely to get around their shortcomings by relying on costly experts' assistance or by creating some ways of circumventing the laws only to be punished later. In the presentation during the Further Education and Training (FET) and partnership conference Mongalo (2012), president of the Limpopo Chamber of Business, emphasised that "when laws are difficult to adhere to or are making business difficult to operate they do not encourage entrepreneurship development". The important point here is that business laws should be transparent, easy to interpret and accessible to the general public. It is also crucial that these laws reflect the dynamics of the country's population and the aim of government to reduce unemployment to promote growth.

3.3 Lack of access to funding

A lack of funding to start up a new business venture has largely been a constraint to small business enterprises, specifically those who are considering venturing into business on their own for the first time and those who have been operating on the margins of bankruptcy partly due to low orders and delayed payment for receivables.

The lack of capital to start a new business becomes partly evident when analysing savings data of the household sector. An important consideration to note is that entrepreneurs can be considered to be part of the household sector as they usually embark on a one- or two-person venture in most cases. It should also be kept in mind that the data on household savings represents only the population that falls in the formal sector surveyed. The informal sector's entrepreneurs would arguably be in a worse position than those in the formal sector. In general, the household sector has been dissaving partly as a result of their high indebtedness and erosion of disposable income through high inflation. The level of dissaving was significantly sizeable prior to 2010 before gradually moderating from 2011 to 2013 as the household sector embarked on debt consolidation (South African Reserve Bank, 2014).

The level of household dissaving amounted to R929 billion in 2006 before declining to R635 million in 2013. This decline in the dissaving rate, however, did not necessarily mean a solid rise in the net wealth of households' balance sheets nor increased personal capital to fund a business venture- it was rather used to reduce debt following the lessons learnt from the recent financial crisis.

The consolidated data on the credit exposure to SMEs by domestic banks also suggests that supply of credit to fund new small business ventures has been declining on a month-on-month basis (see Figure 2). The decrease in the financing of new business could be resulting from both the supply side and the demand side as the confidence of business and consumers oscillating around the contractionary range. The high rate of unemployment and the low level of net retirement income of prospective entrepreneurs, especially among black people, could also be a source of doubt and lead to risk aversion by prospective future business owners.

With regard to the supply side, entrepreneurs have found the commercial banks' lending criteria to be somewhat stringent on account of sensitivity to non-performing loans. The banks, on the other hand, found themselves squeezed following the post-crisis Basel III requirements of increased recapitalisation and higher liquidity requirements. This data, nonetheless, mostly reflects the approved funds to small entrepreneurs that approached the banks and does not give an indication of the applications that were rejected. In addition, credit extended by micro-lenders to very small-scale entrepreneurs is usually not accounted for due the challenge in collecting such data.

Another indicator that confirms the downward trend in the funding of business ventures with a shareholding of 25 per cent or more black ownership is the funding provided to such qualifying applicants by the Industrial Development Corporation.

The 25 per cent black ownership requirement comprises both individual black entrepreneurs with sufficient capital to meet the 25 per cent benchmark as well as black partnerships. Figure 3 depicts the number of eligible loan applications approved and the value of such loans. The number of black businesses funded surged from 1994 and peaked in 2002 to resume a downward trend until 2004, after which it remained fairly muted to 2013. The latest trends typically reflect the challenges faced by entrepreneurs in obtaining financing. Despite this, the value of funding from the IDC increased from 1994 to 2010 before decreasing from 2011 onwards. The increase in value largely shows the price effect rather than real growth in the number of participation of new entrepreneurs.

The increase in the number of deals approved for empowering previously disadvantaged entrepreneurs is also reflected in the rise of the number of deals approved by the NEF. Figure 4 shows that the number of deals approved has increased substantially over the past few years, from only one transaction worth R5 million in the 2004 fiscal year to 135 transactions worth R1, 3 billion for the fiscal year ended 31 March 2013. The NEF has, since the 2013 fiscal year-end, approved a total of 519 transactions with a cumulative value of approximately R5 billion.

Although there are several institutions apart from those discussed above that provide funds for start-up and existing businesses, small black businesses are at times finding it difficult to take advantage of these opportunities. In fact, in South Africa, there has been several institutions formed for the purpose of funding entrepreneurs and small businesses. The increased rate of forming financing agencies has added to the complexity of the procedures and has rendered some of them to be less effective and obscure to prospective business people. Black entrepreneurs, particularly the new ones, also often do not qualify for funds due to low or lack of collateral. The banks' requirement for full collateral transactions discriminates between strong clients and weak clients, causing the new entrepreneurs generally to be denied the required funding.

The OECD (2013) adds that another limiting factor experienced by young firms is that they are unable to provide banks with a credit history, which is one the most important credit-granting requirements. Some financing institutions use this as the basis for granting credit as opposed to the potential of the business idea – an incorrect judgement at times. A lack of bank accounts as a result of unemployment or low income, especially income not paid through the bank account, is another factor that prevents black entrepreneurs from accessing funds. A survey conducted by the International Finance Corporation (2006) shows that only about 38 per cent of black women in South Africa aged 18 or more have bank accounts, compared to over 90 per cent of white women. Some of the reasons cited for not having bank accounts include not having a job, lack of regular income and individuals not having money to save.

A study by FinMark Trust (2010) found that about 34 per cent of South African small business owners mentioned money-related matters as the main constraint they face when starting businesses. The difficulty in accessing funds is further supported by a study by the International Finance Corporation (2006), which identifies the challenges and opportunities affecting South African women entrepreneurs in accessing finance. One of these challenges is a lack of awareness of development finance, resulting in only a few women in business knowing about the different institutions and the different products on offer.

A lack of access to funding was also ranked as the main barrier perceived and experienced by small, medium and micro-sized enterprises (SMME). Further, in a study conducted by Maphalla (2012), the study focused on entrepreneurs in the township of Mamelodi with the primary objective of identifying the barriers perceived and experienced by SMME entrepreneurs in establishing, sustaining and growing enterprises.

Naidoo (2011) conducted a study that investigated the borrower-specific financial constraints that prevent black youth entrepreneurs from accessing finance for business start-up in South Africa. The study, which surveyed about 113 (with a 97 per cent response rate observed) black youth entrepreneurs in the Tshwane metropolitan area, found the following main reasons for not being able to access finance:

- Not financially ready – lack of bank account;
- Business idea not viable – poor business plan;
- Poor credit history;
- Lack of material skills;
- Lack of managerial skills;
- Lack of collateral;
- Lack of own savings or accumulated capital; and
- Lack of network with relevant people.

While the 2008 financial crisis impacted both the supply of and demand for capital-related credit as well as working capital of small businesses, some salient features of small businesses and entrepreneurs were observed. The OECD (2013) further highlights some generic reasons why small businesses struggle to access finance especially from the private banking sector, finding that banks view the entrepreneurs as:

- being the most vulnerable in times of financial crisis;
- having difficulty to downsize as they are already small in size;
- being more likely to shut down during crises as they are downsized;
- being less diversified in their economic activity;
- having weaker financial structures;
- having a lower or no credit rating;
- being heavily dependent on credit; and
- having fewer financing options.

Most of these factors are structural for most new entrepreneurs and funding policies should take these into account when designing a funding strategy. However, the study conducted Ernst & Young (EY) (2013) in its EY G20 Entrepreneurship Barometer 2013 which surveyed 1 500 entrepreneurs brought interesting findings.

According to the EY G-20 Entrepreneurship Barometer, South Africa is a country that presents strong opportunities and barriers to the success of young and small businesses. Small businesses are encouraged to pursue their growth potential but their entrepreneurial culture and freedom to innovate are limited. The regulations from of tax and business compliance perspective are not complicated relative to other emerging economies. However, concerns revolve around the rigidity and cost of labour in the country. The survey also found that a lack of education and skills is a further impediment to developing and growing small businesses.

3.4 Lack of training and development

The challenge posed by a lack of skills is twofold: firstly, established businesses find it difficult to attract individuals who possess the required level of skills and knowledge they need to grow their businesses. Secondly, certain black individuals lack the specific entrepreneurial skills required to start up and grow a business. The skills base is particularly poor among entrepreneurs in remote (rural) areas, and also among the youth who have inadequate educational backgrounds for various reasons, ranging from a lack of funds for schooling, family responsibilities and low levels of enthusiasm to become educated, viewing entrepreneurship an easy way out of poverty.

The Global Entrepreneur Monitor GEM (2012) has for the past few years been identifying education and training as the main factor limiting the growth of entrepreneurship in South Africa when compared with other developing countries. According to the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa of 1995, one of the biggest reasons for entrepreneurial skills shortages in South Africa is that local universities and secondary schools are not exposing students to practical entrepreneurial skills, nor showing them how to protect intellectual property. Basu and Virick 2008 in GEM (2012) emphasise the benefits of educating students about entrepreneurship development and state some of the following benefits:

- it can enhance an individual's level of self-efficacy, with studies proving that entrepreneurship education is strongly related to entrepreneurial intention;

- it can increase students' interest in entrepreneurship as a career; and

- it can lead to more positive attitudes towards a career in entrepreneurship.

In measuring the extent to which entrepreneurship is incorporated in the quality of primary and secondary education, the 2012 GEM survey shows a mean score of 1,81 for South Africa. The mean score is the lowest when compared to the scores of all 12 entrepreneurial framework conditions developed by the GEM (2012).

The report cited a lack of entrepreneurship and business skills curricula throughout South African schools, colleges and universities for all qualifications as primary reasons for the low score. In the absence of such skills not being taught at various educational institutions, graduates intending to start businesses end up leaving school without knowledge on how to realise the business ideas, and how to approach funders or commercialise their products. The lack of entrepreneurial orientation either through formal or informal training has therefore resulted in many black South Africans preferring to enter the job market instead of becoming entrepreneurs.

3.5 Cultural impediments

Diane Francis in Raiz (2011) is of the view that attitudes towards entrepreneurship are affected by whether a society is fear-based and shame-based. With regard to the former, the fear of losing money or of not earning enough pushes individuals to take risks and being entrepreneurial. This is more representative of a society where individuals are expected to be self-reliant and take care of themselves. According to Maphalla et al. (2012), the hindrance of fear of failure is more psychological and does not apply only to the poverty-stricken townships but to most entrepreneurs.

Additionally, fear is aroused by the risk concerned in leaving a comfort zone for the relative uncertainty of a new business. Because of fear, a number of aspiring black entrepreneurs are discouraged from pursuing entrepreneurship and rather opt for being employed elsewhere in the interest of job security. Pennington (2013) regards the importance of having job security as being more important than actualising the full potential for many black South Africans.

Raiz (2011) categorises South Africa as a shame-based society where the failure of a business is often followed by several penalties. Such penalties after a business failure include, among others, the difficulty in obtaining credit as failed entrepreneurs could be blacklisted. This makes it even difficult for failed entrepreneurs to re-enter the job market again.

Another cultural barrier to promoting black entrepreneurs, especially, black women, is the psychological impact of cultural norms that pressurise them into running a home;, taking care of children and often their entire families. As a result, more women are taking the route of being involved in informal entrepreneurship. In his presentation during the Women's Day celebration held at Rivri Law College, Malefane (2011) stated that the concentration of activities of women in business is located in the area of crafts, hawking, personal services and the retail sector. The situation is, however, slowly improving as women are becoming more involved in mainstream economic activity.

3.6 Inadequate infrastructure

The difficulties encountered by both aspiring and established black entrepreneurs, especially those located in rural areas, are exacerbated by a lack of adequate infrastructure. Small enterprises, of which many are black businesses, are highly sensitive to the availability, quality and cost of infrastructure facilities and business premises. According to the National Planning Commission (2012), "the economy has been constrained by inadequate investment in the energy and transport sectors, along with ineffective operation of maintenance of existing infrastructure" (GEM, 2012).

The Doing Business Report (2012) ranked South Africa 150thout of 189 countries in terms of electricity supply. The survey reports that an applicant has to go through five procedures and wait about 226 days from the date of application to the time of electricity connection. This is almost double the waiting time of between 133 days and 89 days for sub-Saharan Africa. The country has also over recent years experienced a series of electricity tariff hikes, while more are still expected in future. The increases in tariff hikes have prompted small business entrepreneurs to operate on tight profit margins. The higher costs and long delays experienced with installation and connection lead to the hampering of early-stage entrepreneurial activity.

Another infrastructural barrier to black entrepreneurship is a lack of information and communication technology (ICT) in remote areas. Information technology has over the past several years become a vital and integral part of successful businesses. Owning a single computer could be very beneficial compared to the absence of one. For example, e-mail is the main means of communication between entrepreneurs and their stakeholders as it is quick and efficient. Much valuable information needed to start businesses is available online and entrepreneurs can minimise cost and save time by accessing information and acquiring knowledge from the comfort of their homes rather than having to physically visit specific locations to access such information at a cost.

Other infrastructural constraints affecting black entrepreneurs especially are a lack of:

- Equipment;
- Transport, especially for moving stock;
- Finding business premises or land; and
- Connecting water.

3.7 High entry barriers and economies of scale

Small businesses and black entrepreneurs in particular have been affected by high entry barriers that already exist in certain sectors of the economy. Most sectors continue to specialise, mechanise and become technologically complex, raising the cost of entering certain industries in terms of monetary value and skills. Despite the fact that some conditions have been relaxed to consider the previously disadvantaged entrepreneurs during the process of tendering, black entrepreneurs find themselves in a position, after being granted a tender, of having to outsource some important parts of their business to the more established firms.

This approach tends to be very costly and results in only a small fraction of the profit from the tender being a net reward to the entrepreneur. The redeeming factor for new entrepreneurs in an environment of high entry barriers can be through innovation and finding new markets. Government can also intervene by subsidising new contracts or lowering the entry barriers.

Some entrepreneurs have found stock accumulation to be contributing to the high input cost to their business. Unlike their established counterparts, they find themselves not receiving large discounts on their orders due to the fact that their orders tend to be relatively smaller. This scenario usually persists until such time that their order volumes pick up through increased demand. However, even these entrepreneurs' orders would not necessarily rise to the order levels of the established firms. The issue of trade credit is also another factor arising from the size of the orders. Bigger firms are easily afforded trade credits compared to new entrepreneurs who have no trade record or trade references.

3.8 Insufficient research and development

Another impediment that affects entrepreneurial capacity among the black community is poor thought conceptualisation that lack in-depth research. Partly as a result of limited resources to conduct basic research, new entrepreneurs often present an idea that is seen non-viable or not feasible in terms of long-term sustainability. This is one of the factors causing finance providers to doubt ventures, especially when they consider the sustainability and repayment period. Research and development is a prerequisite for innovation and the introduction of new products.

Furthermore, a lack of access to these resources limits black entrepreneurs to simple business opportunities accessed by affluent black entrepreneurs. Most black entrepreneurs, outside B-BBEE, are found in the communication, accommodation and human resources industries. This also forces black entrepreneurs to resort to informal trading that does not require deep research and is not regulated for product standards.

3.9 Lack of governance

Although South African black entrepreneurs have gradually come to terms with corporate governance, the level of governance still has some room for improvement. Black entrepreneurs have in the past faltered by seeking to increase their own personal value over those of the business and its success. This was because owners of black businesses have not been in a privileged position to get sufficient exposure to the management of businesses.

Thus for black entrepreneurs, investment in business entails more than just raising capital to initiate a business but also education in governance. However, corporate governance is not the sole safety net that would prevent business failure; business skills also still need to be in place (Jenny Cargill and BusinessMap SA, 1999).

This notion is supported by the Hempel Committee, who states that "Business prosperity cannot be commanded. People, teamwork, leadership, enterprise, experience and skills are what really produce prosperity".

Black entrepreneurs should also guard against apportioning equity among themselves based on the monetary value contributed by each partner and using the same criteria to make decisions. The skills contributed by partners with less monetary value can be crucial in sustaining the business going forward. Governance should also ensure that entrepreneurs' ventures are appropriately geared to reward the owners with solid profits and to leave enough room to acquire more finance when necessary in the future.

Specialisation or focus is also one of the important areas where good governance can save entrepreneurs from straying from their core business. The challenge facing black entrepreneurs is their inability to balance governance issues and the running of day-to-day operations due to the dual role they play. As a result, they find it difficult to balance business needs and personal needs, being entrepreneurial and driving the business forward.

3.10 BEE Fronting

Fronting is when companies pretend to be compliant with the B-BBEE Amendment Bill by putting black people in higher positions to make them appear as owners of businesses. Although fronting artificially lifts the statistics of black-owned businesses, it is in fact an impediment that prevents the true and natural development of talent. This practice, was, however, discouraged by the government by passing laws regarding it as a punishable act of fraud.

3.11 Conclusion

This chapter constituted the second part of the literature review. This is because this chapter considered practical impediments that are often considered by other scholars and have implications on negatively affecting the success of small businesses. The discussions in this chapter considered several impediments that need to be considered in making small businesses successful.

Obviously, the two chapters (two and three) consider research questions on the relationship between unemployment and economic output in South Africa as well as the pertinent measures and interventions adopted to promote entrepreneurship. In maintaining a proper focus on these two research questions, the literature review chapters consider detailed discussions, firstly, on job creation and real economic output where the scholarly materials are analysed.

In the discussions, the key constructs, factors influencing employment creation, the relationship between economic growth and unemployment, measures and interventions to promote entrepreneurship, the transforming economy and promotion of small businesses are advanced.

These discussions cover the two research questions as highlighted in chapter one of this study. Secondly, a discussion on the impediments of black entrepreneurship development is necessary as done in chapter three. This is to argue that the identified hurdles in the literature equally need attention in facilitating the measures and interventions supporting entrepreneurship among black people in South Africa. The next chapter considers a discussion on the research methods used in this study.

4. CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

The previous chapter focused on the literature review which undertook to understand the pertinent impediments that negatively affect the success of small businesses in South Africa. This chapter provides a discussion on the design of this study and the relevant methodologies used. This is a necessary consideration since it provides an understanding of how the study was conducted and addressing issues regarding the validity and reliability, reliability, analysis and interpretation of the data.

4.2 Research methods and design

The discussion of the research methods and designs consider two key aspects in this study, namely, data collection method and the applicability of Okun's law to this study.

4.2.1 Data collection

According to Bertram and Christiansen (2014:97), it is not always compulsory for researchers to collect their own data especially when high quality secondary data exists. This study therefore uses data sets from Stats SA. The collection of data has considered quantitative data that has been published from 2000-2013. These are quarterly surveys conducted to provide information on South Africa's unemployment statistics and any recorded fluctuations in the country.

The advantage of this approach includes the fact that the vast amount of information, which could be difficult to conduct at an individual level, is accessible and therefore saves much time and funds from being spent on data collection. The disadvantage of such an approach, however, is the fact that the researchers have less of control over data collection and which one is essential in their studies. In this study, this does not constitute a problem area, as this data is relevant (Bertram and Christiansen, 2014:98).

4.2.2 Okun's law and its different versions

This study relies on Okun's law, to assess the relationship between the change in unemployment and gross domestic growth (output). Unlike other studies, this study further analyses this relationship for various age groups of the economically active population. For this study as focus is in the South African context, the relationship was considered by running a simple regression model based on Okun's law for ages 15-24, 25-34, 35-44 and 45-54 years respectively (refer to data analysis of section 6.2.1 and on charts 6.1-6.5).

There are four alternative versions of Okun's law: firstly, the difference version which considers the outcome of the changes in the unemployment rate in relation to the corresponding changes in real output. This version relies on real-time data that is available at the time.

The second version is the gap version which links the change in unemployment with the corresponding output gap (difference between potential output and actual output).

The third version is the dynamic version which essentially expands the difference version by taking into consideration past and current output and unemployment. It assumes that past and present output patterns can influence the current level of unemployment.

The last version is the production approach version which relies on the basic economic theory that the output of a country is a function of labour (employment), capital and technology, as mentioned at the start of this section. Although this approach allows more detailed analyses of more variables that affect unemployment and output, it has proven to be more cumbersome.

For the purpose of this study the difference version is considered.

4.3 Population and sampling

The study used data sets collected by the Stats SA regarding the Labour Force Surveys, which in turn considered longitudinal studies that observed trends from 2000-2013. Table 3.1 below shows data sets used where analysis and arguments considering the relationship between unemployment and economic output in this study are employed. This constitutes an important part of the study's analysis. This study considers data sets regarding labour surveys that Stats SA conducts on a quarterly basis although a focus in this regard makes a consideration to those characteristics (as key variables) are observed from 2001-2013 (refer to Table 5.1).

4.4 Procedure for data collection

Data was collected through the use of electronic search engines. These are modern digitalised searches that allow researchers to access the required data sets online. This study considers secondary data collection, that is, data sets from Stats SA's Labour Force Surveys as its main datasets for understanding the relationship between unemployment and economic output in South Africa.

This relationship is investigated using Okun's law. In this way, a quarterly publication of these surveys provides an opportunity for a longitudinal consideration of the data on unemployment figures as well as their relationship to economic growth (see figure 5.1). Furthermore, additional data on the turnover of industries by business size receives attention and is used for the purpose of this study.

Other research companies that have augmented the data sets used from Stats SA and whose data is available on digital searches include the following:

- SBP has conducted growth analysis of SMEs in South Africa since 2011.

  The full name for their surveys is called the 'SBP SME Growth Index'. This study also considers the 2012 survey results which were published during 2013. This survey undertakes to target a sample of 500 small and medium-sized companies across the different sectors of the economy that have actually employed between 10-49 employees (SBP, 2013).

- The SME Growth Index reveals that over 230 000 data points have been revealed. Specifically for the purpose of this inquiry, this study is able to draw points that relates to its research problem as the choices are abounding.

- The Johannesburg Stock Exchange AltX has also conducted studies that offer insights on the number of companies and market capitalisation.

- Data presented by the Industrial Development Corporation is also considered in which the number of black-owned or black empowered companies were provided with funding approvals.

4.5 Data analysis and interpretation

The analysis of data of this nature provides an opportunity to investigate the frequency distribution of the data. This is essential as longitudinal observation of data sets provided by Stats SA is able to highlight particular trends pertaining to unemployment and economic output.

In determining the comparison of the data sets, the study needs to determine whether two measurement variables are associated with each other, that is, whether as one variable increases, the other tends to increase or decrease. As highlighted in this study, the data sets considered the relationship between the two variables, namely, unemployment and economic output. In this regard the findings indicate a negative relationship on unemployment and economic output and as such did not show any significant equivalence.

This is considered for all age groups observed and their negative coefficient does not differ significantly at 0,23 years for the 15-24 age group and 0,16 years for the 25-34 age group.

A consideration of simple regression analysis is also applicable in a case where Okun's law is considered to understand the relationship between unemployment and economic output. The graphical results of these two variables (unemployment and economic output) were then analysed using a simple regression analysis as outlined in charts 6.1-6.5 of chapter 6 of the study. Additional data sets from other companies, namely, SBP SME Growth Index; JSE Alternative Exchange Listing (AltX) and Independent Development Corporation (IDC) were also analysed through descriptive statistics, which is useful in interpreting results of large scale quantitative research (Bertram and Christiansen, 2014:138).

What should, however, be borne in mind is that data was not evenly distributed in the different data sets, but was largely determined by the research problem of this study. Additional data sets therefore provided support where the main data set from Statistics South Africa was found to be lacking. In this regard, it means that data sets were not normally distributed as usually required by descriptive statistics, although still doable.

4.6 Limitations

One limitation of this study is that the data pertaining specifically to black entrepreneurs is scarce, therefore qualifying the assumption that black entrepreneurs would be included in small businesses as well as in BEE transactions.

4.7 Validity and reliability

Whenever, research projects are undertaken, the principles of validity and reliability have to be seriously considered. Validity and reliability considerations have therefore been taken into account in this study since the methodology section above described in detail how data collection and analysis were undertaken. Thus, with regard to reliability, it is noted that the major findings of this study could be repeated while in terms of validity the study has ensured that strict scientific research methods and requirements were adhere to. As indicated, these aspects were demonstrated in the choice and application of the research methods for this study.

4.8 Demographic profiles

Part of the information provided in table 5.1 in chapter 5 regarding Stats SA's Labour Force Surveys from 2000-2013 is concerned the key demographic profiles of those participants that were studied. Table 5.1 provides data on the labour force specifically regarding the South African situation and also separately for Africans/blacks of between 15-64 years of age categories.

4.9 Conclusion

The focus of this chapter was mainly on justifying the methodological choices made in this study. Since quantitative secondary data is used from Stats SA's data sets, issues around data reliability and validity exists, particularly given the relatively short period of data observed. The research methodology chapter gives way to the presentation of results as done in the next chapter.

5. CHAPTER 5: PRESENTATION OF RESULTS AND FINDINGS

5.1 Introduction

In the previous chapter, a discussion on research methods employed in this study was provided. This chapter presents the results and findings as analysed from the data sets. The data sets used are Stats SA's SBP Growth Index (2013), the Johannesburg Stock Exchange's study on black ownership of listed companies and the IDC's analysis of important sectors.

The responses of the different age groups of the economically active population vary as may be observed from the results. Charts 2 and 3 are scatter plots and reflect the correlations between the creation of jobs for the age group 15-24 years and 25-34 years respectively, while charts 4 and 5 plot the same data for age groups 35-44 and 45-54 years respectively.

5.2 Presentation of results and findings

The sub-sections below provide detailed secondary data relevant to the problem of this study. These are datasets conducted by highly reputable and relevant institutions on the questions of economic growth and unemployment issues as well as governmental interventions in support of entrepreneurship in South Africa. The first one is the main data sets presentation from the Statistics South Africa.

5.2.1 Labour force statistics

The labour force statistics presented in table 5.1 below serves as the main data sets which have been consolidated from the quarterly data sets of the Stats SA from 2001-2013. It provides relevant data in the understanding of unemployment (employment) trends using several variables related to this study's research problem.

Table 5.1: Labour force statistics

Labour force characteristics

	2001	2005	2008	2009	2010	2011	2012	2013
South Africa								
Population 15-64 yrs	27 397	29 438	31 765	32 360	32 958	33 563	34 175	34 790
Labour Force	16 182	16 766	18 831	18 597	18 352	18 706	19 200	19 752
Employed	12 076	12 769	14 585	14 194	13 788	14 070	14 425	14 866
Rates (%)								
Unemployment rate	25.4	23.9	22.5	23.7	24.9	24.8	24.9	24.7
Employed / population ratio (Absorptio	44.1	43.4	45.9	43.9	41.9	41.9	42.2	42.7
Labour force participation rate	59.1	57.0	59.3	57.5	55.7	55.7	56.2	56.8
Black/African								
Population 15-64 yrs	20 749	22 623	24 625	25 175	25 731	26 297	26 874	27 458
Labour Force	11 701	12 226	14 055	13 825	13 614	13 990	14 466	14 960
Employed	8 242	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rates (%)								
Unemployment rate	29.6	27.7	26.5	27.8	29.0	28.6	28.4	27.9

Source: Statistics South Africa, Labour Force Survey (2013)

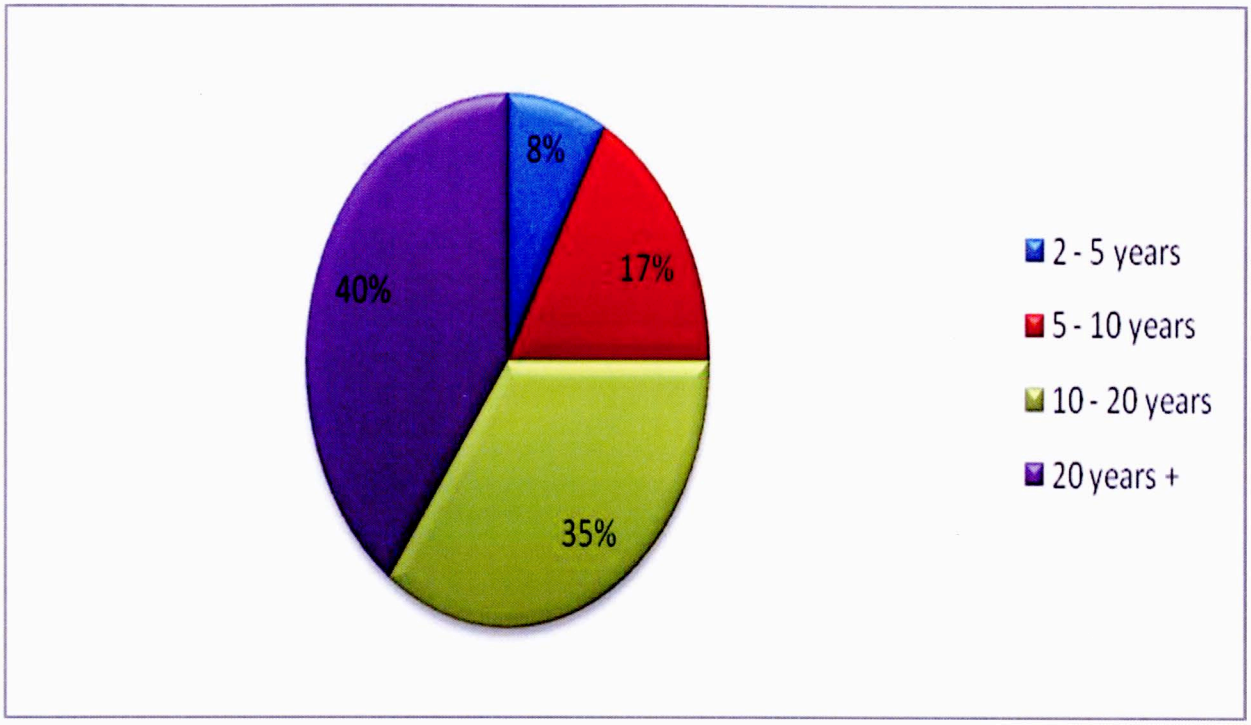
5.2.2 Small and Medium Enterprises Growth Index

One of the measures available to assess the dynamics and activity in the SME sector of the South African economy is the SBP SME Growth Index, which has been collecting data in this regard since 2011 and has built a solid reputation as SME data collectors. Figure 1 below presents the relevant components in relation to this study's research problem, which considers unemployment and economic output in relation to entrepreneurial growth and the subsequent research questions raised.

This data is presented below:

Figure 5.1: Selected performance indicators:

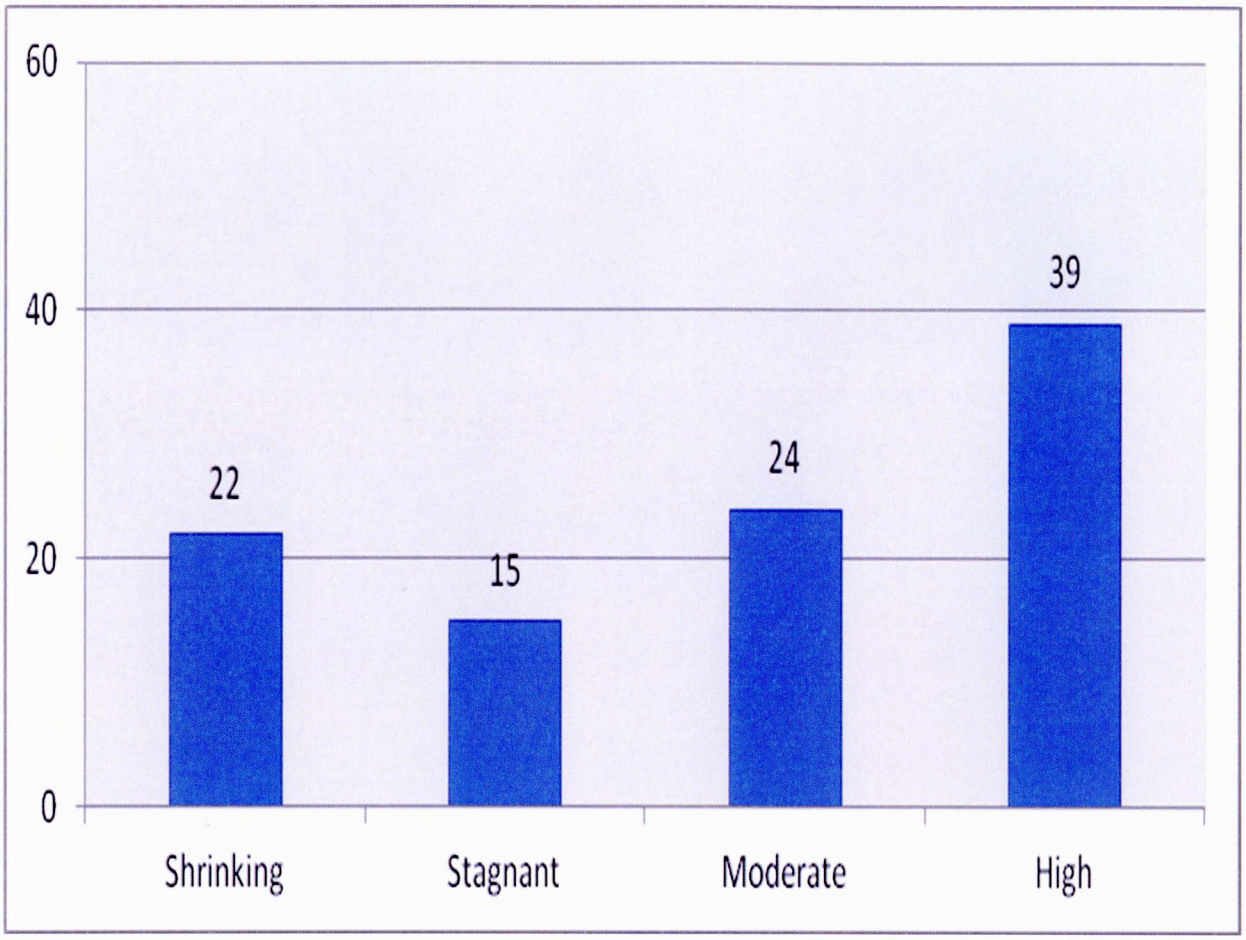
Age distribution of SME panel firms in percentage



Source: SBP (2013)

The SME Growth Index tracks the dynamics driving South Africa's SME community, and in particular in SME businesses' ability to grow. The second important factor related to performance of SMEs is their ability to grow. Figure 5.2 below indicates that only 30 per cent of SMEs are reporting high growth, while the rest ranges between moderate and negative growth.

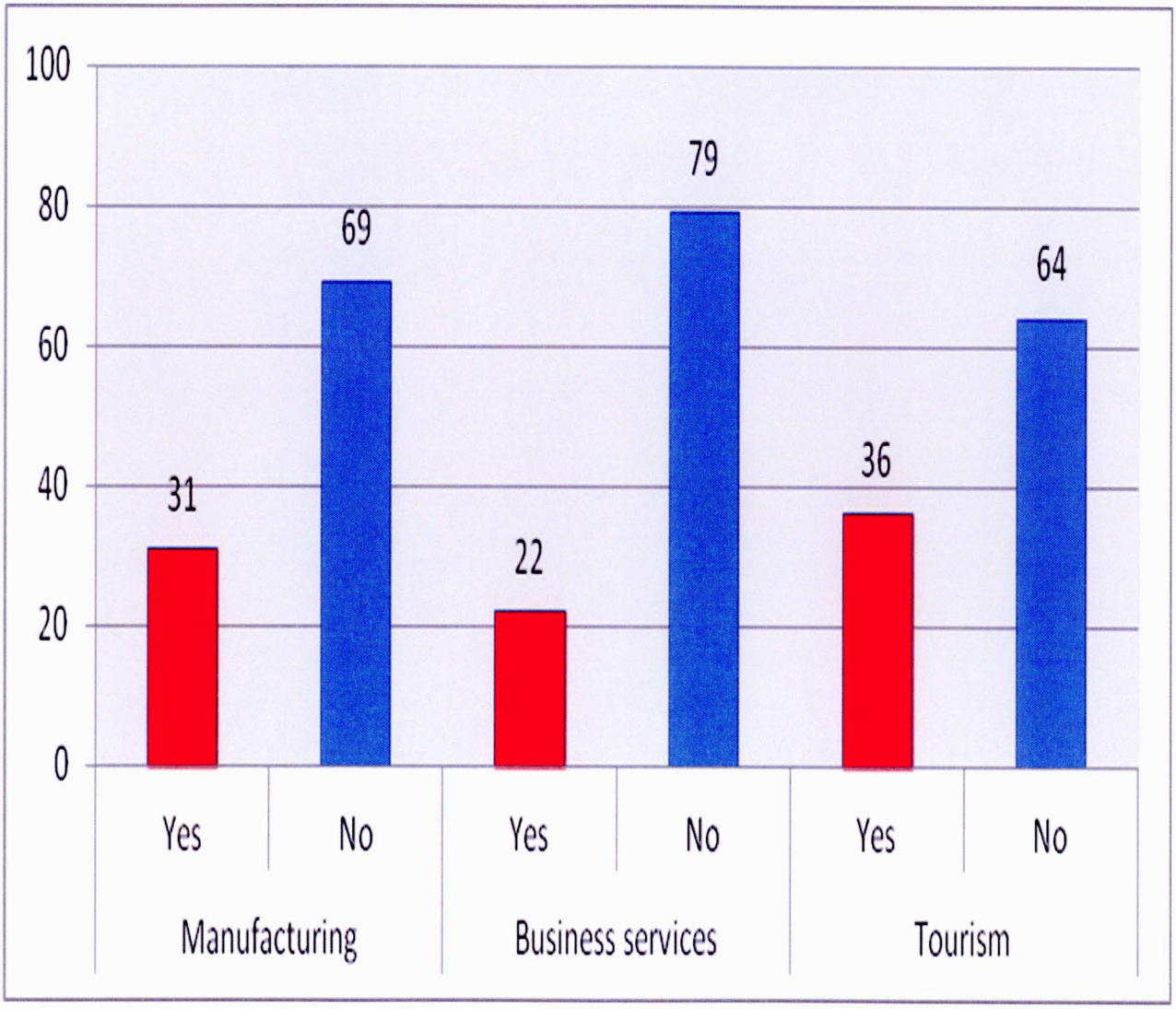
Figure 5.2: Growth trajectory of SME panel firms (per cent)



Source: SBP SME (2013)

Figure 5.3 below provides more detail on the percentage of SMEs in the 500 firm panel.

Figure 5.3: Threat of survival faced by SME panel firms during 2013 (expressed as percentages)



Source: Source: SBP (2013)

5.2.3 *Black-owned JSE listed firms (Alternative Exchange Listings [AltX])*

The Johannesburg Stock Exchange (JSE) is faced with many criticisms regarding the need to facilitate the participation of black entrepreneurs as listed companies. As a result, the JSE also undertakes studies to monitor and support black entrepreneurs to know whether they increase or maintain their business listings. Data from the JSE is listed below:

Figure 5.4: Alternative exchange listings (AltX)

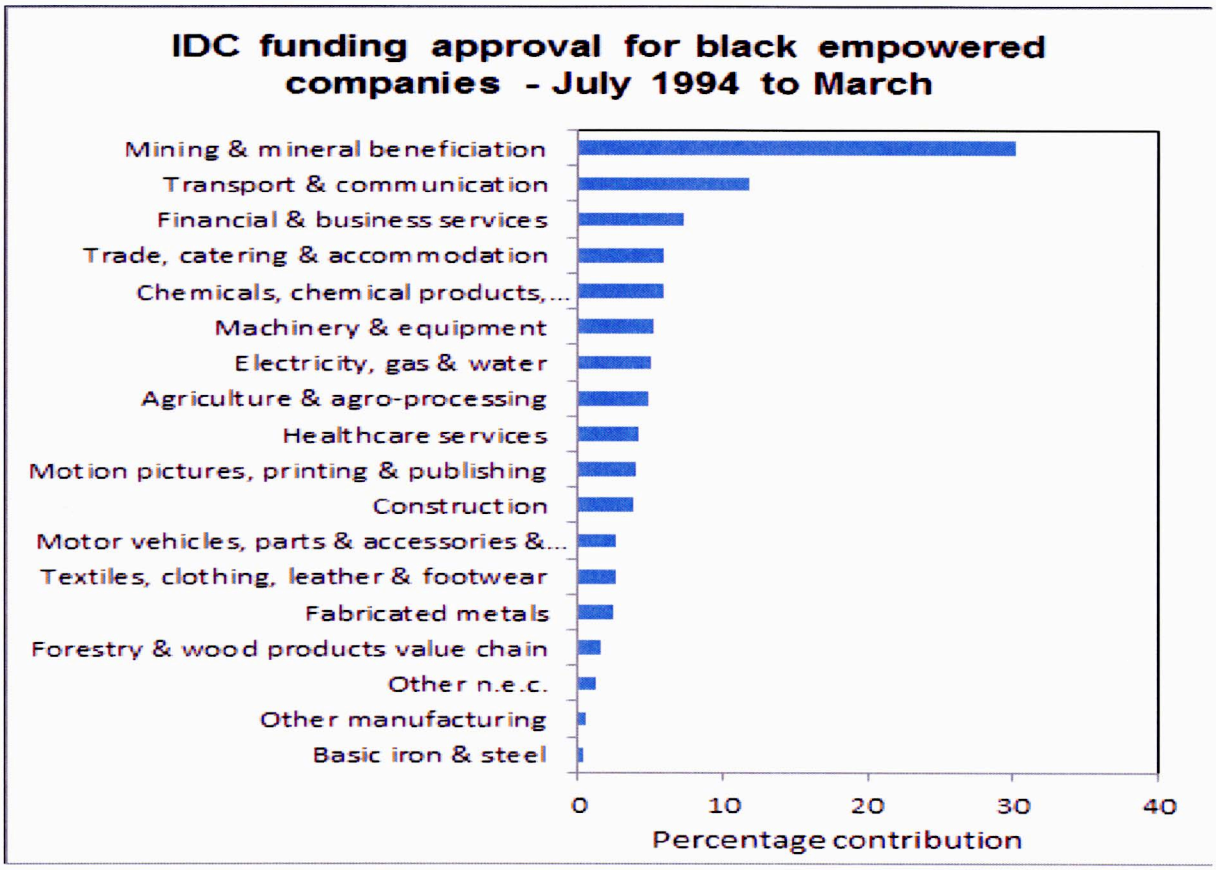


Source: JSE (AltX), (2012)

5.2.4 *IDC important sectors findings*

Figure 5.5 below depicts funding approved per sector for black-owned companies by the IDC. This data is also longitudinal and provides an analysis of support provided to black-owned firms from 1994 to 2013.

Figure 5.5: IDC funding approval for black empowered companies



The contribution of these sectors was derived by considering data from the Annual Financial Statistics Survey which classifies the range or size, of small, medium and large enterprises based on their turnover. See Table 5.6 below for detailed turnover data by industry and size.

Table 5.6: Turnover of industries by business size – R millions

		Range for classification of small, medium & large enterprises based on			
Mining and quarrying	Small	≤ R15 million	6,996	3,768	3,973
	Medium	> R15 million ≤ R58,5 million	8,684	7,172	8,332
	Large	> R58,5 million	326,561	415,859	457,870
Manufacturing	Small	≤ R19,5 million	173,148	139,290	148,267
	Medium	> R19,5 million ≤ R76,5 million	199,846	157,032	160,209
	Large	> R76,5 million	1,249,650	1,316,183	1,465,815
Construction	Small	≤ R9 million	49,403	49,093	51,560
	Medium	> R9 million ≤ R39 million	38,449	60,905	51,039
	Large	>R39 million	186,313	149,152	187,504
Trade*	Small		432,175	420,358	504,150
	Medium		197,279	263,310	247,196
	Large		1,247,141	1,315,207	1,543,154
Transport, storage and comminication	Small	≤ R19,5 million	34,872	33,886	38,658
	Medium	> R19,5 million ≤ R39 million	20,024	22,698	23,493
	Large	> R39 million	456,268	495,036	549,053

***Trade industry DTI cut-off points**

Industry	Small enterprises	Medium enterprises	arge enterprise s
Wholesale trade	Turnover ≤ R48 million	Turnover > R48 million, Turnover ≤ R96 million	Turnover > R96 million
Retail and motor trade	Turnover ≤ R28,5 million	Turnover > R28,5 million, Turnover ≤ R58,5 million	Turnover > R58,5 million
Accommodation and catering trade	Turnover ≤ R9 million	Turnover > R9 million, Turnover ≤ R19,5 million	Turnover > R19,5 million

Source: Statistics South Africa

This data was used to estimate the turnover of, for example, mining and quarrying to the total turnover of the economy. The ratio of turnover derived was then applied to the output at basic prices for the corresponding industry. The resultant output ratio for a particular industry gave an indication of the importance of small businesses in a particular industry.

5.3 Conclusion

The 2008 financial crisis proved to have had a great impact on the overall global economy. While the most notable negative impact was on trade and finance, it was also accompanied by substantial losses in employment. In addition, the strength, depth and resilience of firms in almost all the sectors of the economy were tested. Similar to detoxification, firms with unsound financial policies and weak balance sheets were swept away.

The firms involved in goods trading were largely affected via significant reduction in demand. In South Africa this led to a rise in unemployment to approximately 24 per cent in 2013. The loss in employment was reflected in the increase in the rate of insolvencies and liquidations of firms and individual companies. Data from Stats SA suggests that around 50 per cent of all liquidations nationally emanated from small businesses with noticeable bankruptcy in the construction, utilities, transportation and agricultural sectors.

This gives the impression that small businesses and entrepreneurs seem to be most vulnerable during the time of financial crisis. The following section describes the performance of small business by accessing the development of the SME Growth Index, the activity of the JSE and some specific sector analysis.

6. CHAPTER 6: DISCUSSION OF THE RESULTS

6.1 Introduction

The previous chapter focused on the presentation of this study's results, while this chapter provides a, discussion thereof. This discussion is in line with the research problem of this study. Moreover, these results link with the previous chapter, with pertinent cross referencing included where appropriate.

6.2 Results pertaining to research question 1: relationship between unemployment and economic output

6.2.1 Okun's law analysis of labour force statistics

This chapter considers the data provided in section 5.2.1, in particular, Table 5.1. This discussion is imperative for this study and is done in considering data analysis in view of Okun's law. As indicated earlier a simple regression analysis is used. The detailed application of Okun's law is provided for in different section of this study, namely, sections 2.3; 4.2 and 4.4. Charts 6.1 to 6.5 below provide a detailed analysis of the data provided in Table 5.1 using the difference version of Okun's law.

Chart 6.1: The difference version of Okun's law, age group 15-64 using equation 2

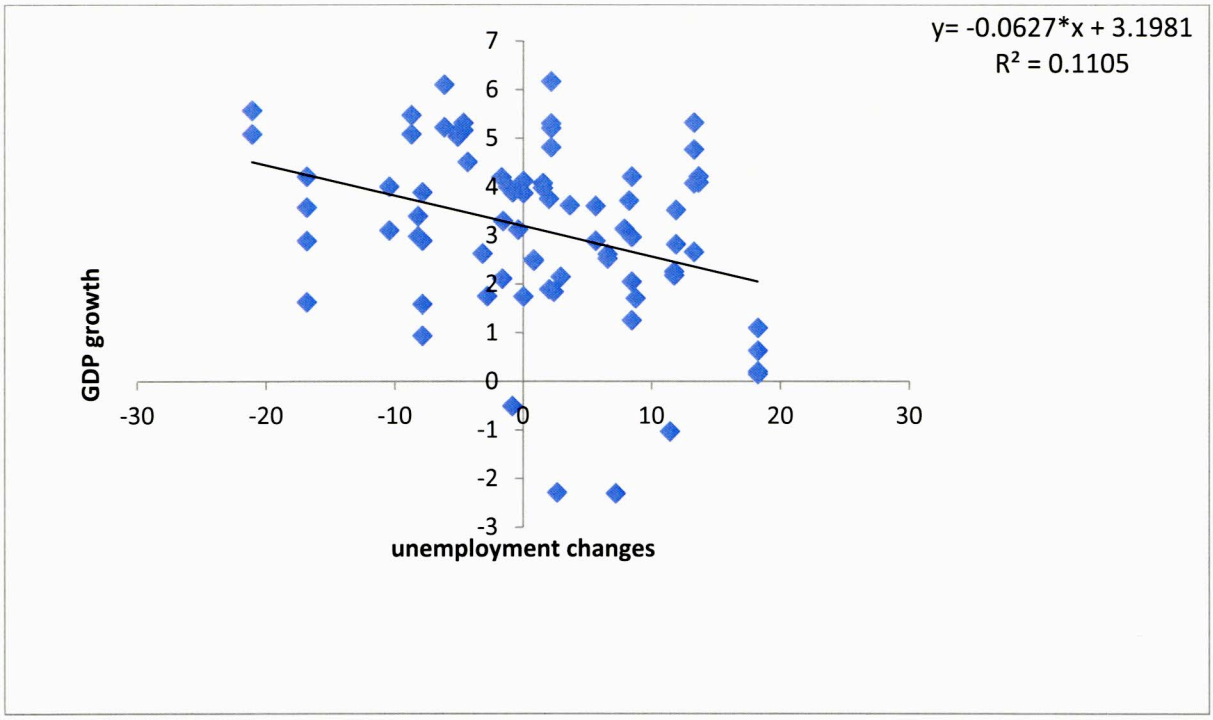


Chart 6.2: The difference version of Okun's law, age group 15-24

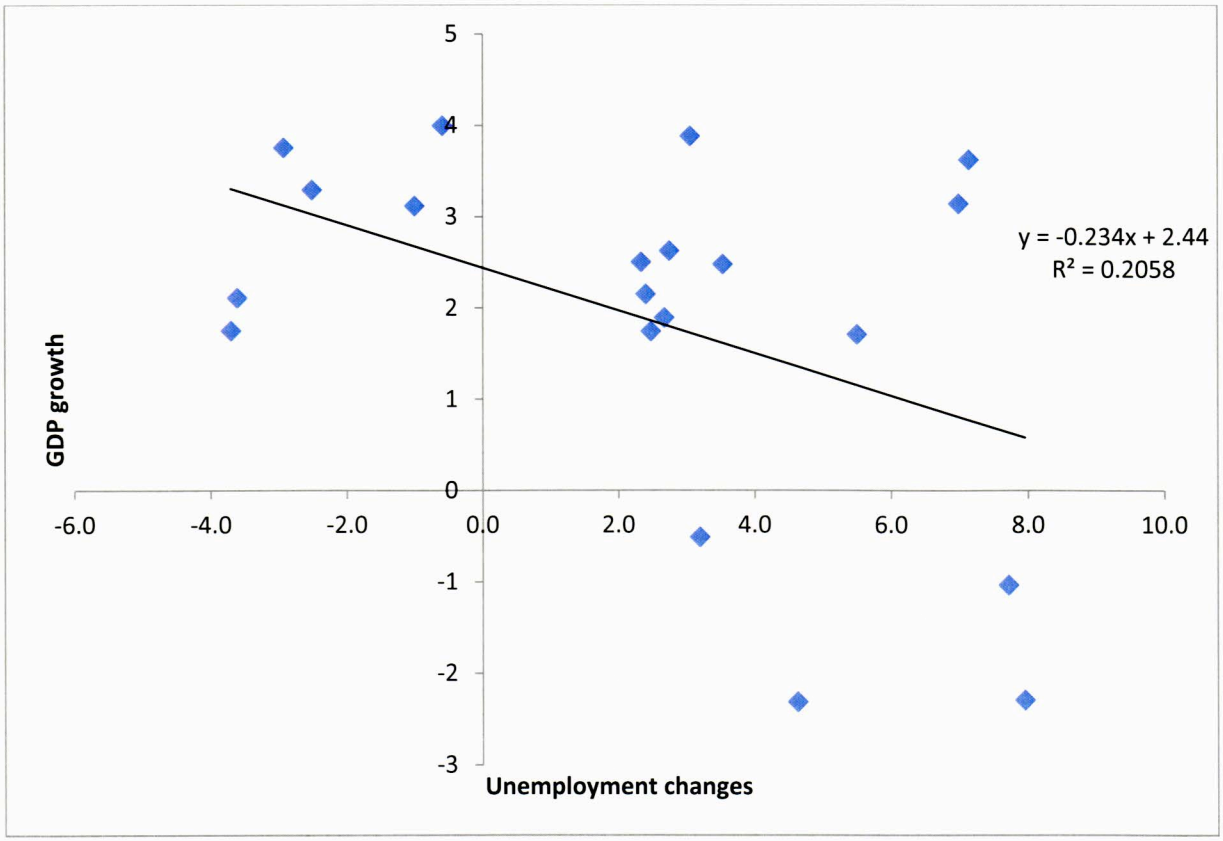


Chart 6.3: The difference version of Okun's law, age group 25-34

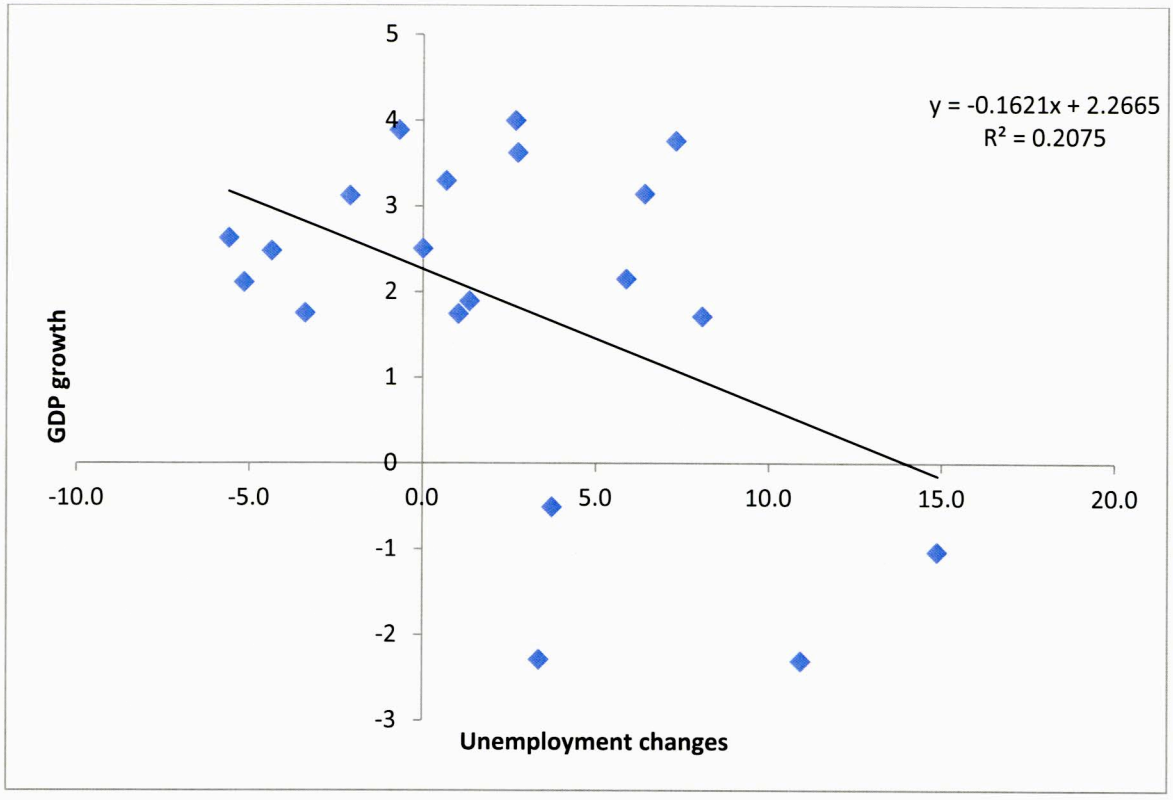


Chart 6.4: The difference version of Okun's law, age group 35-44

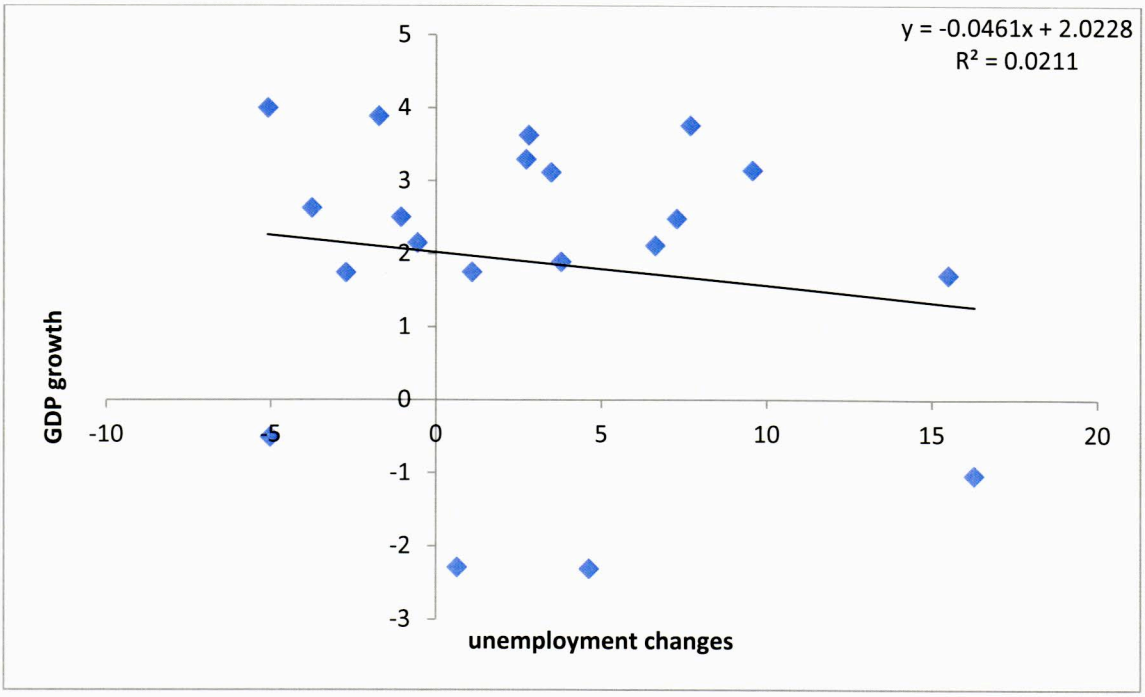
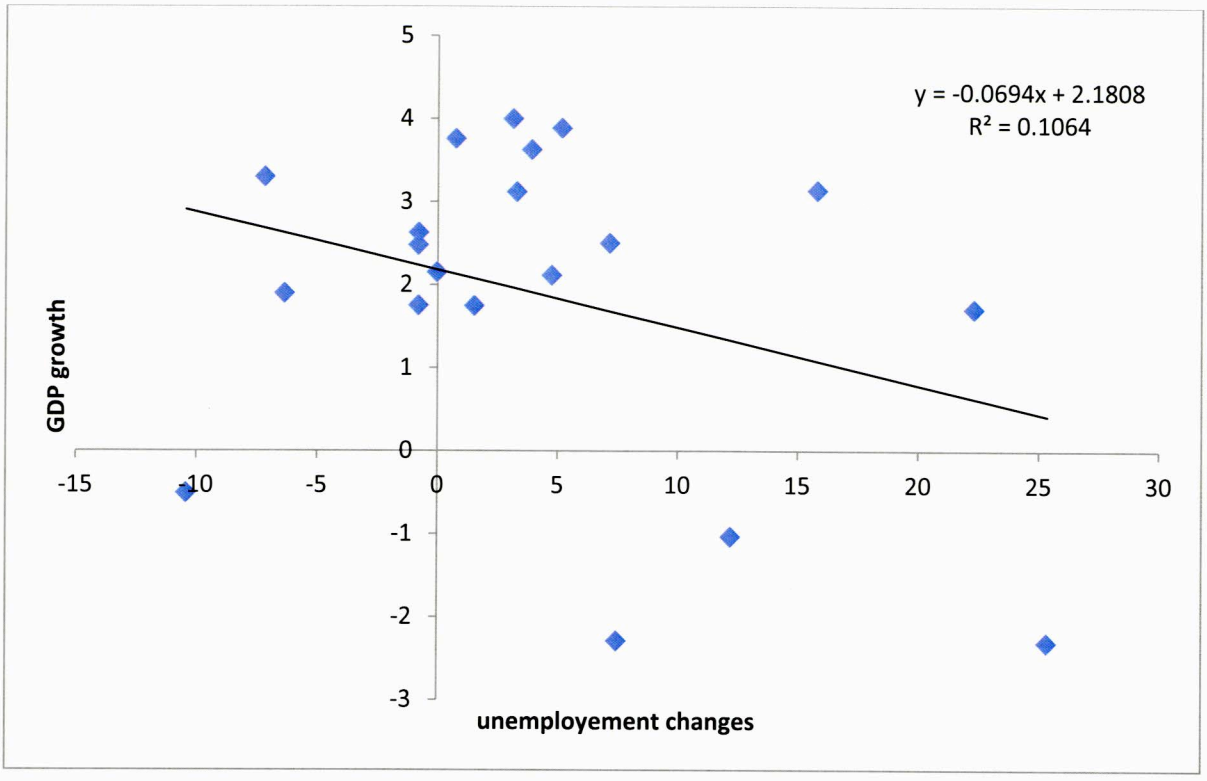


Chart 6.5: The difference version of Okun's law, age group 45-54



Y= economic output, x= unemployment

The empirical analysis is done using changes in the quarterly data of unemployment rate and GDP growth rates, with the sample period from 2001 to 2013 and also using the sample period from 2008 to 2013. The reason for analysing a long series is to observe the validity of the relationship, while the shorter sample period analyses the data after the structural break resulting from the financial crisis. Okun's law can be written as:

Change in growth = a – b*(change in unemployment)

where (a) denotes a constant and (b) represents Okun's coefficient. The coefficient is negative to show that the reduction of unemployment will most likely result in an increase in economic output. Further, a simple regression analysis was run using the equation above, where positive quarterly changes in unemployment over the period 1994 to 2013 resulted in an increase in output.

Chart 5.1 shows that there is a negative correlation between the two variables from 1994 to 2013. The estimated coefficient for unemployment shows that a 1 per cent increase in unemployment would result in a decline of 0,06 per cent in GDP growth rate.

The relationship between the two variables is the same for all age groups and their negative coefficient does not differ significantly at 0,23 years for the 15-24 age group and 0,16 years for the 25-34 age group. This means that a percentage reduction in unemployment would result in a positive change of 0,23 per cent in output for the younger age group and a positive change of 0,16 per cent for the next age group. The resultant coefficients for the 35-44 and 45-54 age groups decreased to 0,046 and 0, 07 respectively. A declining trend of the coefficient of the first three age groups is observed before the slight increase in the coefficient of the last age group.

The average coefficient of the 15-24 and 25-34 age groups amounted to 0,2, while the average for the 35-44 and 45-54 age groups fell to 0,06. The basic explanation for the higher average coefficient for the first two groups is that most people in this population group are still in the process of acquiring skills directly after completing their tertiary studies and some are simply less skilled due to a lack of education.

The characteristics of this group make them vulnerable to eagerly accept any job opportunity that comes along, even though it is unsatisfactory or misaligned to their career ambitions. As they acquire more skills and are exposed to ways of doing business they develop some sense of independence, become more mature and develop a vision of success through self-employment.

The idea of self-employment is also encouraged by the limited opportunities of rising up the conventional career ladder since companies can only afford to have a limited number of managers and specialists. While this makes competition for higher positions tougher, the situation is further exacerbated by the fact that most companies have recently started channeling their recruitment efforts to young talent.

As a result of these factors, ordinary job creation strategies to reduce unemployment in mainstream jobs become less effective as the employee gains more skills and as exposure in this older age group results in a lower impact on output. Hence the decrease in the average coefficient for the older groups to only 0,06 compared with 0,2 of the younger group. Different strategies are required to reduce unemployment for the population group between the 35 and 55 years and those who are really passionate about being self-employment to ultimately increase output more visibly. Notwithstanding that, there is a general increase in output when unemployment is reduced for all ages. Interestingly to note, however, is the fact that while the coefficient of change in unemployment to output has been declining as the people get older, this coefficient starts to increase for the group 45-54 years. This could be a sign that at this age people might begin to again to appreciate ordinary jobs created by government and the private sector.

Overall in South Africa, nearly 60 per cent of the economically active population forms part of the labour force. A significant proportion of this group is between the ages of 35 and 55, with skills and business exposure acquired overtime. This group seemed to respond less to ordinary job creation according to the estimated coefficient derived from Okun's law. The challenge for the government and the private sector lies in creating an environment and platform that would promote unique job opportunities for entrepreneurship and small business to raise the output of the country noticeably.

The findings reveal a negative relationship between unemployment and growth (output) using this simple regression model. Furthermore, the findings also indicate that the coefficient for younger people was higher than that of the older age groups, implying that creating ordinary jobs for young people who are still seeking to be skilled and matured in the workforce raises output visibly. The creation of ordinary jobs for the older group raises output to a lesser extent due to the fact that this group has an inclination to be independent and self-employed after having been in the official workforce for long with limited opportunities to advance further in their career ladders.

6.2.2 *SME performance indicators (see figure 5.1)*

The SME Growth index is constructed by tracking a sample of some 500 SMEs in the three sectors deemed to have high growth potential, namely manufacturing, business services and tourism.

The SME Growth Index stratifies the companies based on the age of the firms as well as the growth trajectory. Figure 5.1 indicates that 75 per cent of the SME panel are generally in the ageing phase. This data presented in figure 1 poses a real danger that there will be no rejuvenation in this component of the domestic economy as the age structure is starting to lean heavily towards the older generation SMEs.

This data could signal a warning call to the government and the private to speed up the momentum in support of young entrepreneurs to reduce unemployment and support economic growth.

6.2.3 *Growth trajectory of SME companies (see figure 5.2)*

The first rounds of the SME Growth Index were conducted in 2011 and 2012. These were challenging times for the SMEs with global growth faltering and the resultant impact being felt by sectors under scrutiny. The 2013 SBP SME Growth Index survey continues to indicate a challenging environment, although opportunities in Africa started to provide some growth avenues. The significant proportion of the growth reported was partly related to inflationary effects, with minimal jobs created.

An additional reality in the SME sector is the threat of survival to many of the firms with low profit margins, liquidity constraints, and hostile global and domestic economic conditions, among other factors.

6.2.4 *Threat of survival faced by SME companies (see Figure 5.3)*

The collected data indicates that several companies expressed a concern for their survival in 2013 (in both manufacturing and tourism) where the number exceeded 30 per cent. These are the sectors largely entered by black entrepreneurs both in the formal and informal sectors.

6.2.5 *Black owned and JSE listed companies (see Figure 5.4)*

The existence of black controlled institutions on the JSE and the development thereof serve as a useful tracker of economic activity of black entrepreneurs over time. The number of black-owned firms on the JSE as identified by Business Map in 1999 reached 35, with a combined market capitalistion of 5,5 per cent of total JSE capitalisation. In the past few years the JSE conducted studies for the purpose of presenting the facts about the ownership of blacks on the JSE amid debate around race-to-ownership ratios.

The top 100 companies listed on the JSE were studied and represented 88 per cent of the total market capitalisation of the exchange a comprehensive proxy for the total market. The study showed that there are basically two broad categories of black-controlled firms and corporations listed on the JSE. First, those that started out as black firms and on the basis of being BEE entities bought into established corporations.

The second category comprises those established corporations in which black firms have gained control. Measured at the end of 2012, black South Africans held at least 21 per cent of the top 100 companies listed on the JSE (JSE Research Publication December 2012). The 21 per cent includes 9 per cent directly held mostly through empowerment stakes, but the percentage ownership has not increased vigorously from the 5,5 per cent recorded in 1999.

The other 12 per cent of the remaining 21 per cent represented the ownership of equity of black people through mandated investment, such as pension funds and unit trusts. Despite amounting to only 21 per cent, this compared relatively closely to the 22 per cent white controlled ownership on the JSE during 2012. The 2013 assessment revealed that black South Africans held slightly over 8 per cent of the top 100 companies through direct investment – a stagnation compared to 2012.

The JSE research considered 15 million share ownership records to assess 75 per cent the shares owned through mandated investments. Applying the DTI's methodology to the calculation of black economic interest at the JSE lifts the original 21 per cent estimation to 33 per cent. This is principally due to the fact that listed companies who own businesses in multiple countries are allowed to exclude the value of these foreign business operations from the calculation of black economic interest.

Another important indicator of the activity of small enterprise is the Alternative Exchange Listings, (AltX), which is the division of the JSE that allows small firms that are not yet listed on the JSE to raise capital for expanding their business. From Figure 4 it is clear that there has been a significant uptake of this avenue of funding since its inception in 2003. From only 10 companies listed at the end of 2004, the height of capital raised by SMEs, the AltX reached a peak of R18,3 billion in 2008 with 77 companies.

Following the international financial crisis in 2008, the market capitalisation of the listed SMEs decreased to a post-recession low of R10,2 billion in 2010. Although the market capitalisation started increasing again in 2011, the number of listed companies has nonetheless been on the declining trend since the record 2008 number. A word of caution is again raised about the assumption made that in the absence of data specifically relating to black entrepreneurs, small business can be used as a broad guide for the development and performance of black entrepreneurs.

The data on the JSE and AltX naturally excludes the developments of micro-enterprises and the informal sector. However, the suggestion made by both JSE market capitalisation of black-owned businesses and capital raised by black business on AltX is in line with the moderated growth rate of credit extended by banks of small business and the decline in funding provided by the IDC (see impediments in chapter 3).

6.2.6 Turnover of industries by size

The first observation from this derivation is that the output of small business in the wholesale, retail and motor trade, catering and accommodation industries contribute relatively more than the output of medium business to the total output of the country. This is the largest contribution made by small businesses throughout the various industries and reflects the lower entry barriers in the wholesale, retail and motor trade, and catering and accommodation industries. This seems to be the easiest and simplest business activity that small business partners pursue without much bureaucracy.

The sustainability of these businesses has partly been driven by South Africa's successful bidding for and subsequent hosting of international sports tournaments and international conferences, which raised awareness of South Africa as an attractive tourist destination. On the other hand, increase in the wholesale and retail industry indicated the recent increase in the establishment of small trading outlets within the residential areas and outside the urban areas and shopping centres. Even within the shopping centres there has been an observation of increasing small businesses offering unique products and services. However, small business struggle to survive in such areas due to less diversification and higher costs of running business.

The contribution of small business in the construction sector also proved to be stronger than that of medium business. The increase in the participation of small business was in line with government enhancing programmes relating to infrastructure investment, including residential buildings, commercial buildings and roads. Barriers to entry into this industry were found to be high, making it slightly challenging for small business to raise their share.

Small businesses have recently penetrated the transportation industry through offering private chauffeuring services, tourist transportation, and the commuting of scholars and workers. Such transportation services are easy to pursue as a business venture due to lower operational requirements and less industry bureaucracy. The challenge for small business has been to penetrate the market for the transportation of goods from the site of production to the point of distribution.

The cost of capital for this market is found to be expensive, for example purchasing of trucks and trailers. Prospective entrepreneurs who have just left the official employment, typically find it risky to use retirement earnings for financing such equipment.

The outcome of this calculation with regard to the mining sector is not surprising, especially when contrasted with the funds approved for mining and beneficiation by the IDC. It suggests that small business, especially emerging black entrepreneurs, have had an insignificant contribution for the years 2010, 2011 and 2012. This is expected given the high entry barriers in the industry and most importantly that black entrepreneurs are more involved in beneficiation of mining products rather than actual mining.

Another observation from this industry is the lack of expertise by small businesses and the extent to which both the private sector and government can pull resources to lift the participation of the disadvantaged group. This is also supported by much publicised unemployment statistics which mainly indicate that the majority of the unemployed population are blacks from the youth age to mid-senior age. These, therefore, constitute the target age groups in terms of their strength and innovation.

6.3 Results pertaining to research question 2: governmental intervention to support entrepreneurship

6.3.1 Funding approvals for black-owned companies (see Figure 5.5)

It is very clear that the mining and beneficiation sector is the largest beneficiary of the funding (33 per cent) allocated by the IDC over the period investigated. The second beneficiaries of funding were companies in the transportation and communication sector (15 per cent), followed by financial and business services. The fourth largest beneficiary was the trade, catering and accommodation sector. The remaining sectors, ranging from chemical products to construction, received broadly the same amount of funding ranging from 4 to 10 per cent over the period 1994 to March 2014.

In order to put the above approvals into perspective, it would be useful to determine the contribution of small companies in the various sectors of the economy, namely mining, transportation, construction, and the wholesale and retail sectors.

6.4 Conclusion

This chapter undertook to consider the discussion of the data presented. This is a necessary consideration because there should be indications on what is the implication of the research to the country's interventions in addressing unemployment and increasing economic output. In this way, government support pertaining to entrepreneurship is also discussed. The next chapter provides conclusions and recommendations.

7. CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

The previous chapter considered a discussion of the study's research results. It stands to reason that, every research is required to ensure that the discussion of its results takes its initial study objectives into account. In this final chapter, conclusions and recommendations are made. This is because it follows that once the collected data and its implication or interpretation in relation to the research problem has been made, pertinent conclusions can be made.

7.2 Conclusions of the study

This study concludes that a reduction in unemployment is important for raising the domestic output of South Africa, and that the promotion of entrepreneurship and support of small business are crucial in this regard. While government and the private sector make a joint effort to promote growth through enhanced entrepreneurial programmes, these programmes must be structured, simple and easy to access by those in need of support. In addition, there must be measures in place to assess the success of these programmes and amendments to be effected based upon the recommendations of the review process.

The data on the development performance of entrepreneurs and small business must be made available to the public for assessment and analysis. This would in turn make those responsible for the transformation of the economy more accountable.

In order for unemployment and poverty to be reduced extensively in South Africa, an innovative and unorthodox strategy for small business development has to be developed, reviewed and implemented.

The strategy should be around existing small businesses and encouraging the unemployed to come up with ways to create sustainable businesses. Labour or employment is one of the critical factors of production which, when well stimulated, can increase the output of the country. The creation of, or reduction in, unemployment according to Okun's law raises output. In other words there is a negative relationship between unemployment and growth (output). This negative relationship was also found in South Africa by running a simple regression model based on Okun's law for the economically active population aged 15-24, 25-34, 35-44 and 45-54 years respectively (see section 2.3. in chapter two). The finding of this study concurs with the literature concerning the changes in economic growth and unemployment which suggests that there is indeed a negative relationship between growth and unemployment.

Further, the findings in this study show that the coefficient for younger people is higher than that of the older age groups, implying that creating ordinary jobs for young people who are still seeking to be skilled and matured in the workforce raises output visibly. The creation of ordinary jobs for the older group raises output to a lesser extent due to the fact that this group has an inclination to be independent and self-employed after having been in the official workforce for an extended period of time with limited opportunities to advance further in their respective career ladders.

However, a lack of financing, regulations and entrepreneurial support becomes a challenge for these people to pursue dreams of owning a business. Thus the government needs some specialised programmes to enhance output from the older group of citizens. Government has made strides to develop systems and structures for financing and the general support of small businesses. However, in most cases as highlighted in section 2.5 in chapter two as well as chapter three of the study where impediments to black entrepreneurship development are discussed, these strategies have tended to become less effective due to their complexities and the fact that there are almost too many of these strategies.

Such strategies essentially do not provide sufficient structure for young businesses to get assistance without following a cumbersome and administratively intensive process.

South Africa still faces some impediments that prevent it from enhancing growth through entrepreneurship. These impediments, among others, were highlighted as a lack of education, poor development of an entrepreneurial culture across the country and a lack of the establishment of good governance systems.

7.3 Recommendations

As highlighted throughout this study, some of the most important social issues facing South Africans concern high unemployment and poverty among blacks. Also crucial is the raising of the standard of living for previously disadvantaged communities so that they too can look after themselves financially. It is apparent that the formal economy in South Africa is unable to absorb all new job-seekers and that it will be difficult to achieve social stability without a concerted effort to create employment by other means rather than the formal way.

The South African economy has recorded a low growth rate of 2, 5 per cent and 1,9 per cent in 2012 and 2013 respectively due to the unfavourable international and domestic macroeconomic environment. The poor domestic growth was partly reflected in the high unemployment rate and business liquidations. Any programmes designed to deal with challenges faced by small business must recognise the fact that there exists a pool of unskilled and uneducated small black business owners. How those small businesses are managed is crucial to their future growth and prosperity.

The need to focus attention on small black business enterprises is supported by the following reasons:

- Black or small businesses have the potential to lift the output of South Africa as evidenced by the potential contribution to output by various industries;
- Small black business enterprises are currently unable to compete effectively;
- Unemployment is the highest among blacks;
- Poverty is endemic among blacks; and
- It will contribute to social stability.

The material quoted in this study has made reference to the state of the small business sector in South Africa. Various programmes have been put in place to stimulate its growth without achieving much in terms of intended objectives. Institutions were formed to try to streamline the activities of the government and other stakeholders towards meeting the needs of the small business sector.

A notable question in need of answering is why have all the programmes put in place for the benefit of the small business sector been unable to revitalise the small business sector in South Africa? The most crucial aspect of the small business sector's concerns is sustainable growth so that it contributes to South Africa's overall domestic economic growth. How the government assists small business enterprises in South Africa so that they become formal business is therefore very important. Given that small black businesses are not homogeneous, each sector of black businesses should be treated differently because they all have different needs. The strategy of intervention to assist small businesses can therefore be effective when businesses are viewed separately as micro-enterprises and black-owned and black-managed SMEs.

7.3.1 Micro-enterprises

As discussed earlier in the study, most small black business enterprises fall within the category of micro-enterprises. This could mean that, overall, businesses in this category are informal, and are brought into existence with the main objective of earning a living. They are not necessarily registered and therefore lack financial back-up and managerial skills. Because they lack fundamental ingredients of a healthy business, they are unlikely to expand and grow. There are several recommendations in which government and other stakeholders can contribute to the development of micro-enterprises.

7.3.1.1 The formation of the Ministry of Small Business Development

The formation of the Ministry of Small Business Development (the Ministry), as recently announced, serves as an indicator of the seriousness with which government intends to tackle the challenges faced by small business and ultimately reducing poverty and unemployment. Although this new Ministry will serve small businesses in general, it will have a bias towards the servicing of small black business for reasons already discussed in this study. The ministry of small business development ought to have offices in all major townships and should work in conjunction with municipalities. The Ministry ought to design small business policies and entrust the implementation of the policies to the municipalities.

7.3.1.2 Training of small business counsellors

Business counsellors are people who have received training concerning small business. The training of small business counsellors must be the prerogative of the Ministry. After receiving the necessary training at the Ministry, counsellors would then be deployed at municipal level. This approach is currently practiced in some of the international economies and has proven to be successful. Countries currently using this approach include India and China.

7.3.1.3 Awareness campaign

Creating awareness is necessary for the successful development of black businesses. Small business plan and operate much more efficiently when there is awareness about services that are earmarked to assist them from government and even the private sector. The best way to conduct the campaign would be at the municipal level as this increases the scope of outreach. The communication strategy between the small black business community and the municipal should encourage the establishment of two-way communication between the parties.

The awareness campaign should be directed at both micro-enterprises and those who are unemployed but with the necessary skills. Typically, these include:

- *Existing small black businesses*

The existing small black business enterprise faces numerous challenges ranging from a lack of education to a lack of business know-how. It is likely that the majority of these businesses are unaware of the services that are earmarked for them from government. A structured campaign designed to empower the small black business sector is likely to lead to positive spin-offs in future.

- *Unemployed but skilled individuals*

Among people who are unemployed are auto-mechanics, plumbers and accountants, among others. Such people who are unemployed are not necessarily lacking in education and do not always only possess low-level skills.

A number of unemployed people with common technical skills, such as auto-mechanics or panel beaters, can be grouped to form a company with the financial assistance from the Ministry and be under the supervision and monitoring from the Ministry's small business councilor. In this case the initiative is coming from the unemployed in response to the awareness campaign. The financial assistance from the Ministry should be backed in the form of the group receiving some business training skills.

- *Identification of small businesses with growth potential*

The identification of small black businesses with growth potential and the registration of those businesses are necessary. The purpose behind the registration of small black businesses is to monitor and follow up on the development of those businesses. Some criteria need to be established to help in the identification of those small black business enterprises with growth potential. The whole process of identification and the criteria set should be as transparent as possible. It is important to mention that the entire process of identification should be done at the municipal level. One country that has adopted this approach of supporting small business and entrepreneurship is the UK, with the "10 000 Small Businesses UK" initiative being one of several programmes designed to foster growth in potential small businesses and eventually contribute to sustainable domestic economic growth. A similar programme was also rolled out in the USA in 2009 and in some other emerging economies in the form of the "10 000 Women" initiative. These initiatives yielded positive results with the majority of the participating enterprises reporting increased net creation of new jobs and net employment growth rate, as well as relatively higher revenues. Educating the small business enterprise in business skills is important for the future growth potential of the enterprise to be realised. Other forms of assistance will also be necessary.

- *Ongoing support for micro-enterprises*

After a promising small black business enterprise has been identified and the necessary assistance has been provided, it is important that ongoing support be offered to the small enterprises by the Ministry's small business counsellors. Lack of providing ongoing support may result in the new venture dying a preventable slow death.

7.3.2 Black-owned and black-managed small and medium enterprises

The small black business sector is above the entry level (that is, slightly larger than micro-enterprises) and is populated by somewhat educated individuals whose businesses are mostly registered. In South Africa's integrated Small Business Development Strategy 2004-2014, the DTI (2003) indicated that this sector is considered crucial for job creation through business expansion strategies. The small black business sector is probably endowed with some business skills and some of its participants might have been employed somewhere else in higher positions.

Some of these black businesses might have benefited handsomely from the proceeds of BEE. Owners of the black-owned and black-managed SMEs that are conducting their businesses through acquiring stakes in existing and well-established businesses should be encouraged to diversify their funds through new business ventures. Others who lack sufficient funds for the expansion of their businesses should be assisted by the relevant government department.

7.3.2.1 Encouraging franchising

Encouraging franchising has over time proved to have offered real opportunities to black small business entrepreneurs. It has become an easier way into the market with a concept that has already been tested under the franchisor's name and goodwill. The products and services of the franchise are already established, thus the business poses a limited risk of failure. The training of running the franchise is usually adequate with follow-up training maintained throughout the lifetime of the franchise.

The marketing of the franchise, especially for known brands, eases the burden of advertising for new clients for the franchisee. Franchises owned by black entrepreneurs accounted for only 8 per cent of the industry in 1998 (Jenny Cargill and BusinessMap SA, 1999.) This representation should have escalated visibly as investment in the fast food arena blossomed. The growth in the franchise ownership among blacks was also supported by the establishment of a variety of franchises in other sectors, such as optometry, plumbing and paving.

7.3.2.2 Improving public sector procurement

To be complementary to the purpose of inclusive and broad participation of all the communities in the economy, the government's procurement policies have to be accommodative of and sensitive to small businesses. Thus far the government has been endeavouring to follow its set guidelines to:

- have preference for small business owned by blacks and women;
- unbundle large tenders into small packages;
- strive for early payment cycles to avoid reducing the working capital of young firms;
- waive security and surety for certain projects below specified amounts per sector;
- simplify the procurement process;
- promote and acquire more local products; and
- empower small business in rural areas.

In the final analysis and thorough consideration of the above recommendation, this study further recommends closer and more innovative collaborations with the private sector. In this regard, it is imperative that the government and the private sector must increase their collaborated effort to enhance the economic participation of the older and skilled workers through entrepreneurship.

This could also be done while continuing to expand programmes that allow the absorption of newly qualified candidates into the workforce. The programmes must be structured, simple and easy to access by those in need. In addition, there must be measures in place to access the success of these programmes and amendments must be effected upon the recommendations of the review process. Lastly, the data on the development performance of entrepreneurs and small business must be made available to the public for assessment and analysis. This would in turn make those responsible for the transformation of the economy more accountable.

Annexure1: The difference version of Okun's law

Chart 1: The difference version of Okun's law, age group 15-64 using equation 2

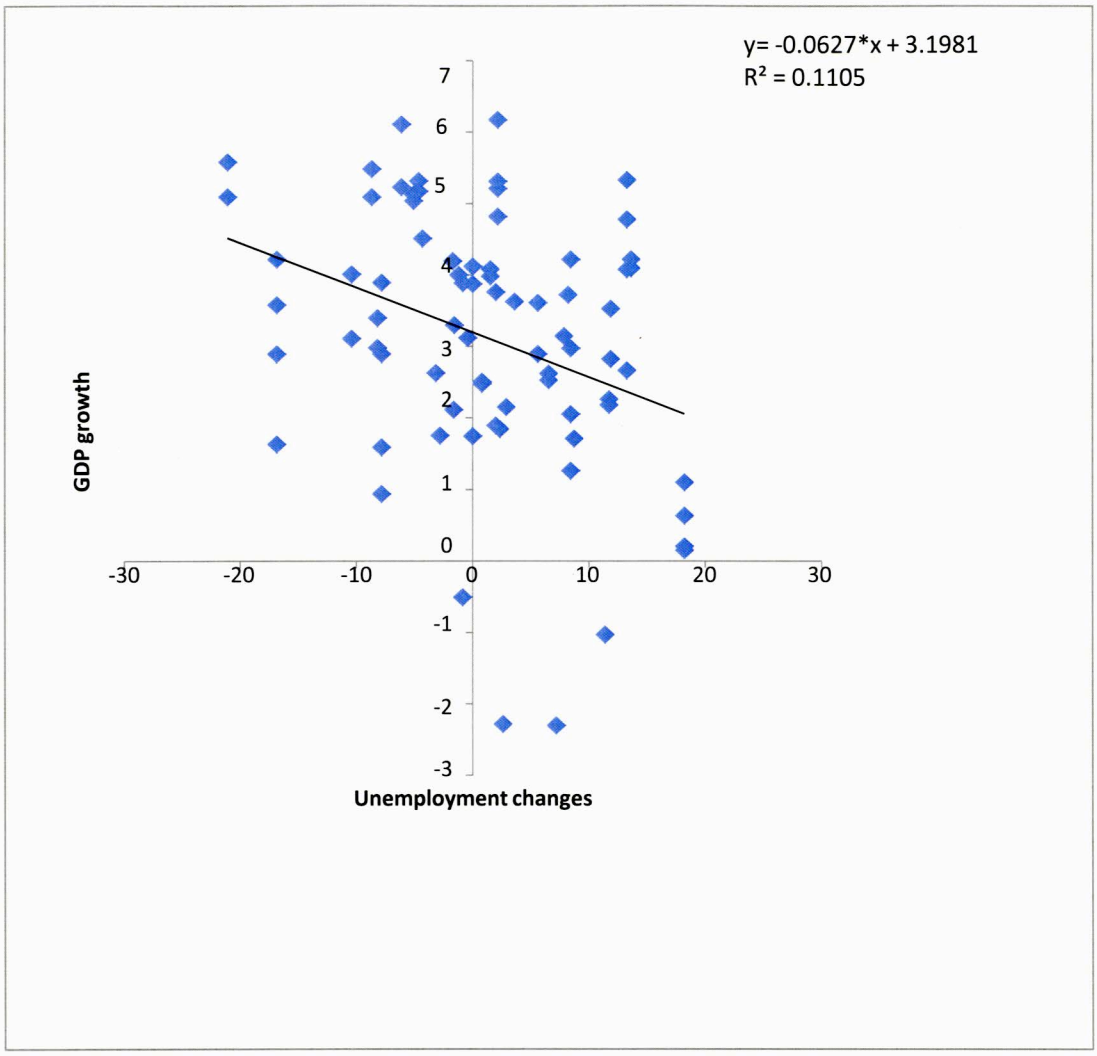


Chart 2: The difference version of Okun's law, age group 15-24

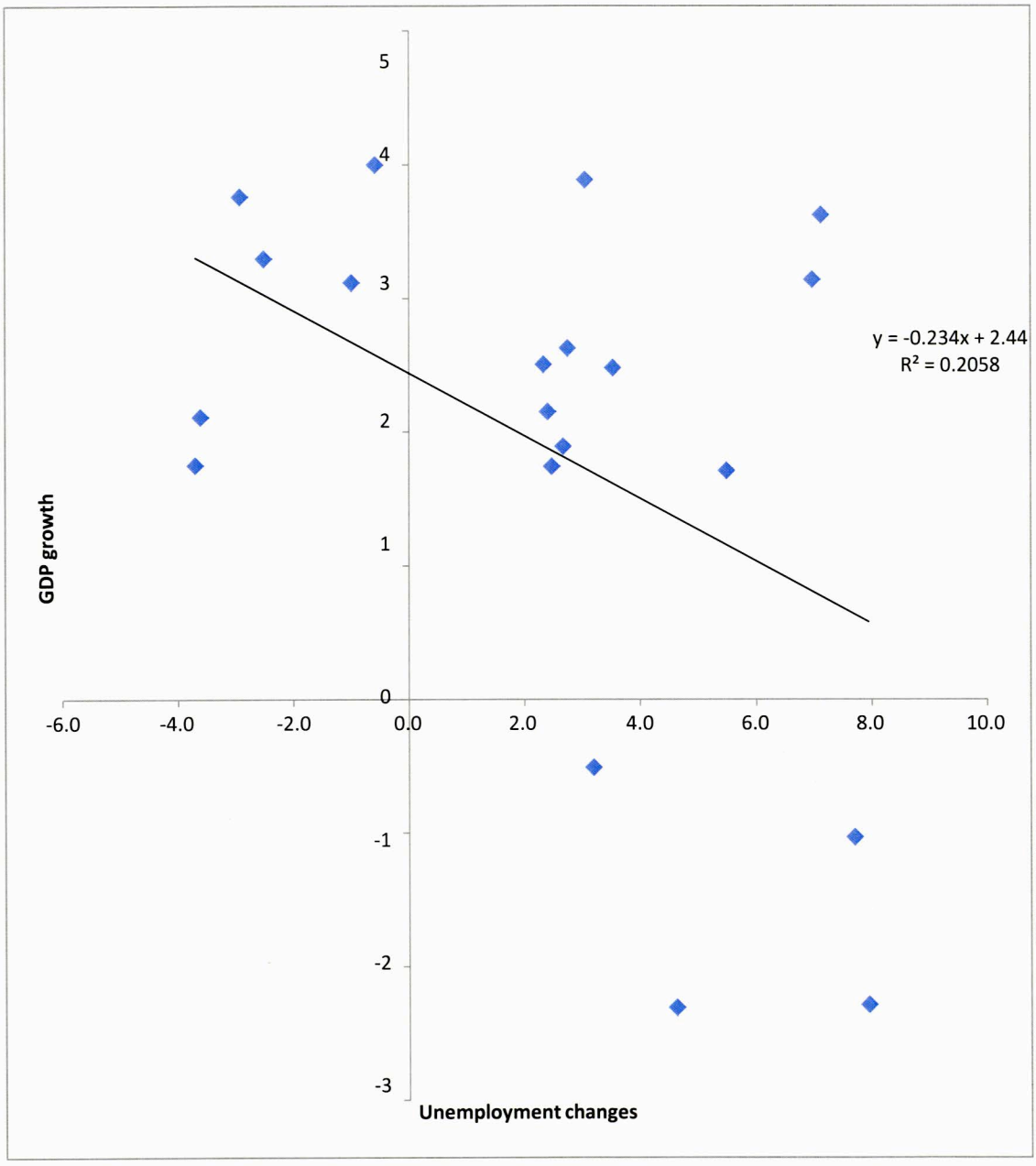


Chart 3: The difference version of Okun's law, age group 25-34

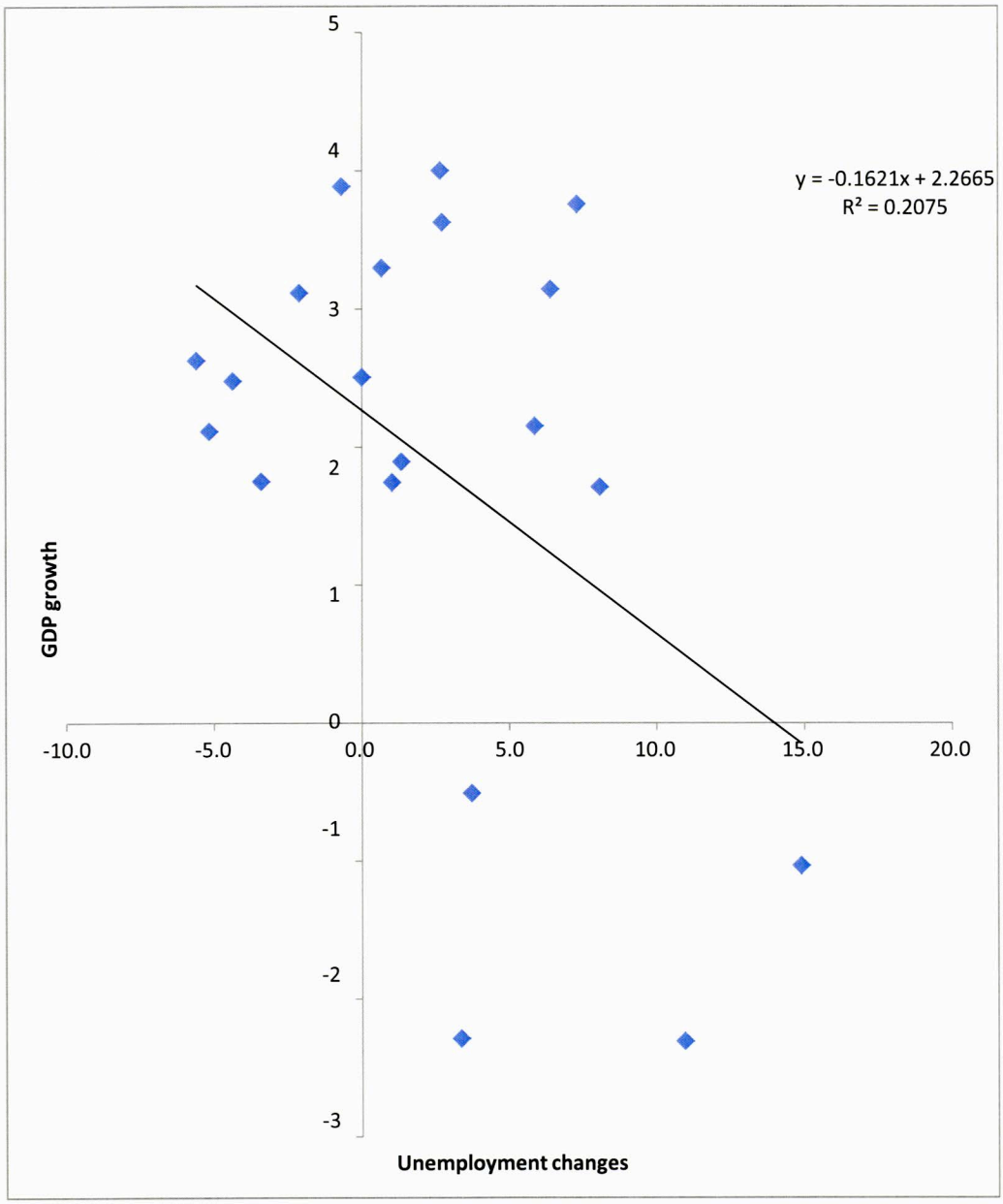


Chart 4: The difference version of Okun's law, age group 35-44

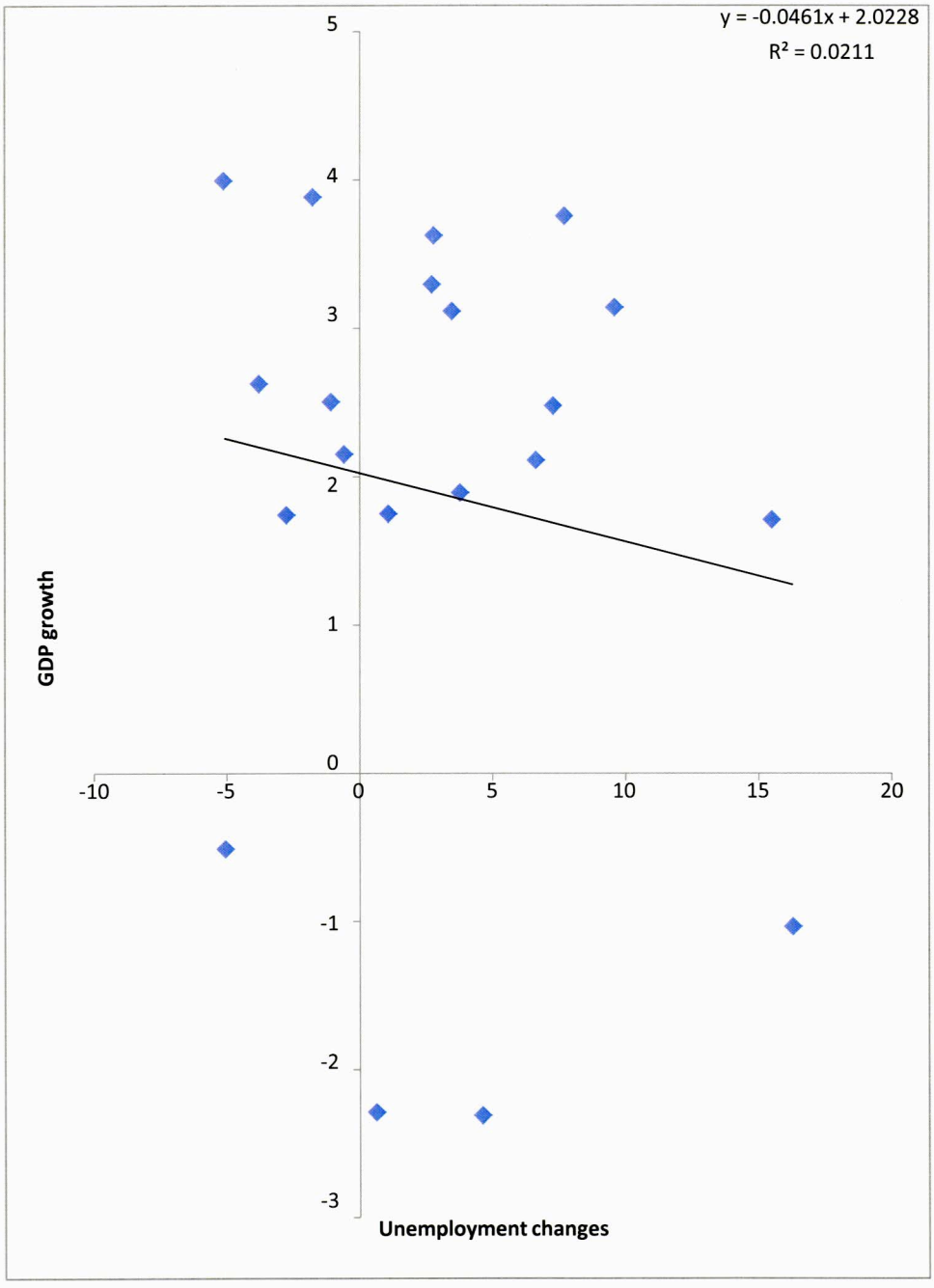
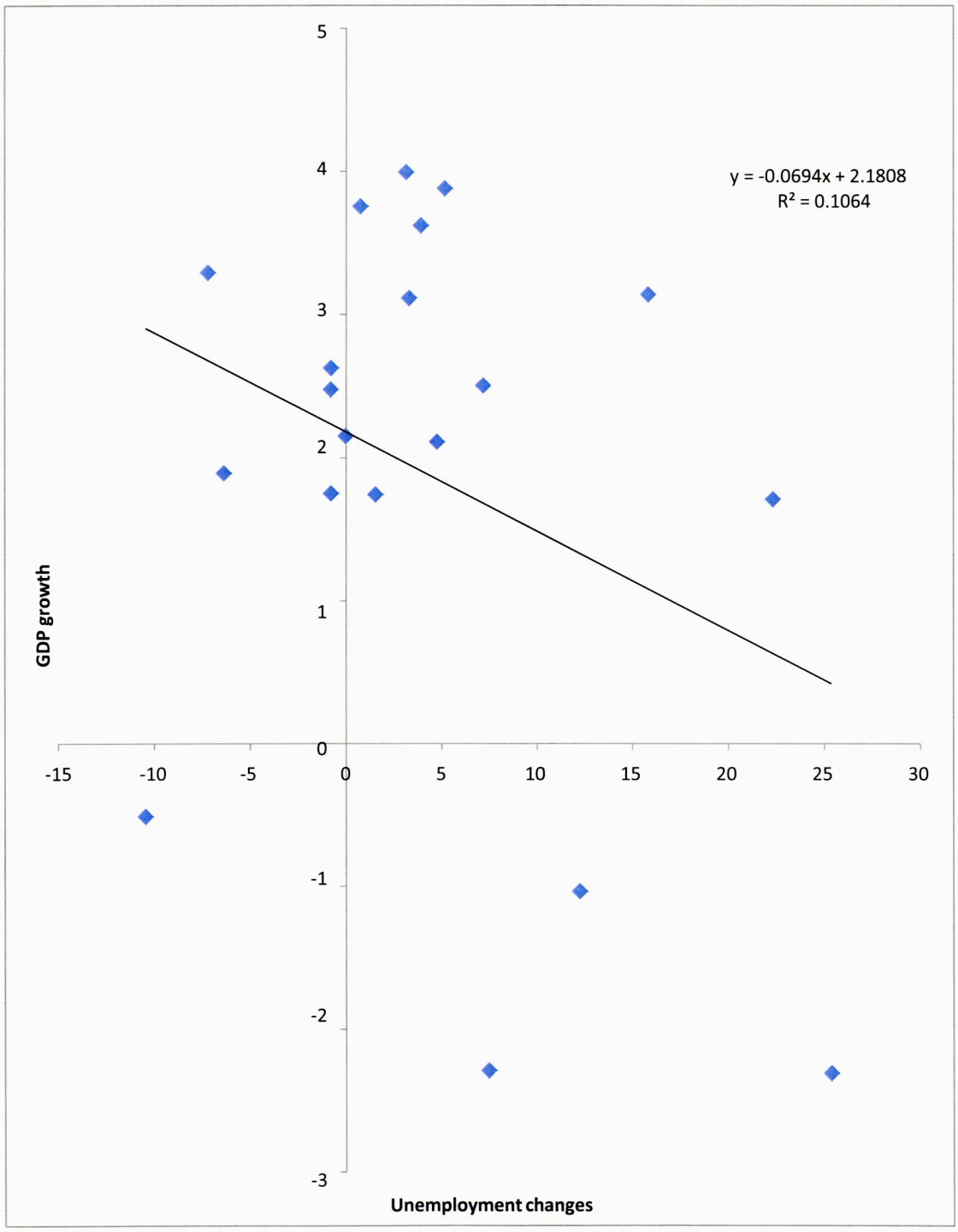


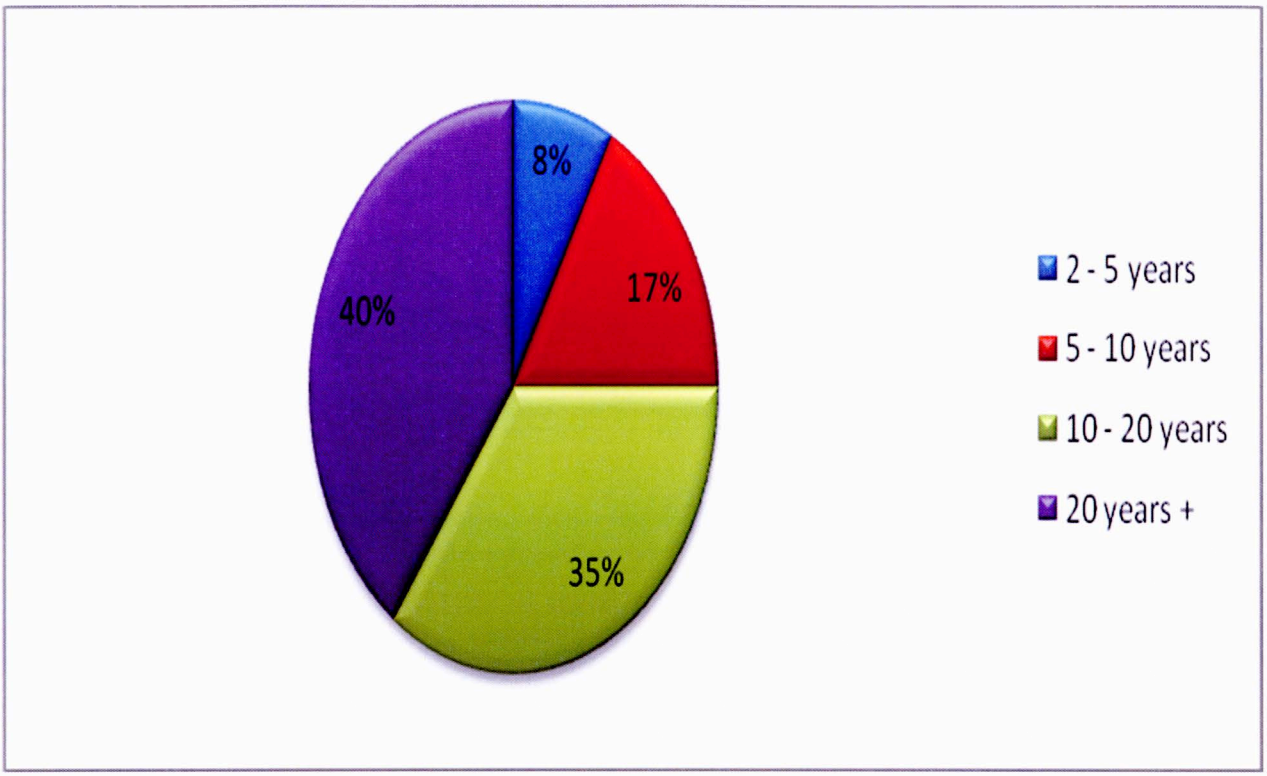
Chart 5: The difference version of Okun's law, age group 45-54



Y= output, x= unemployment

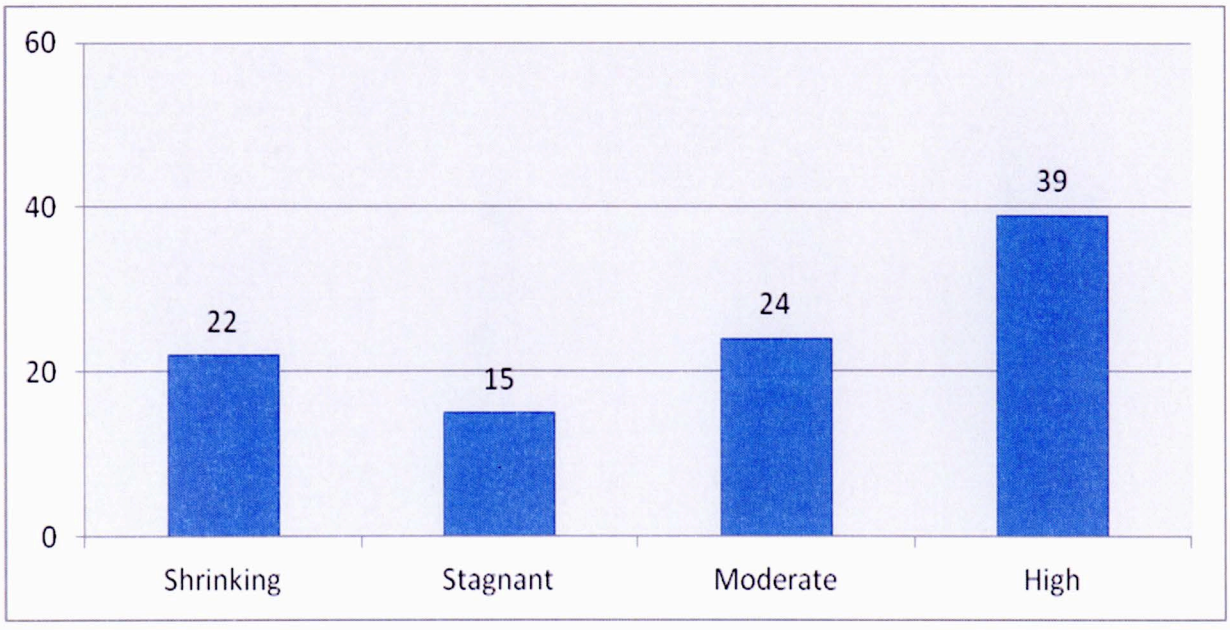
Annexure 2: Selected performance indicators

Figure 1: Age distribution of SME panel firms (per cent)



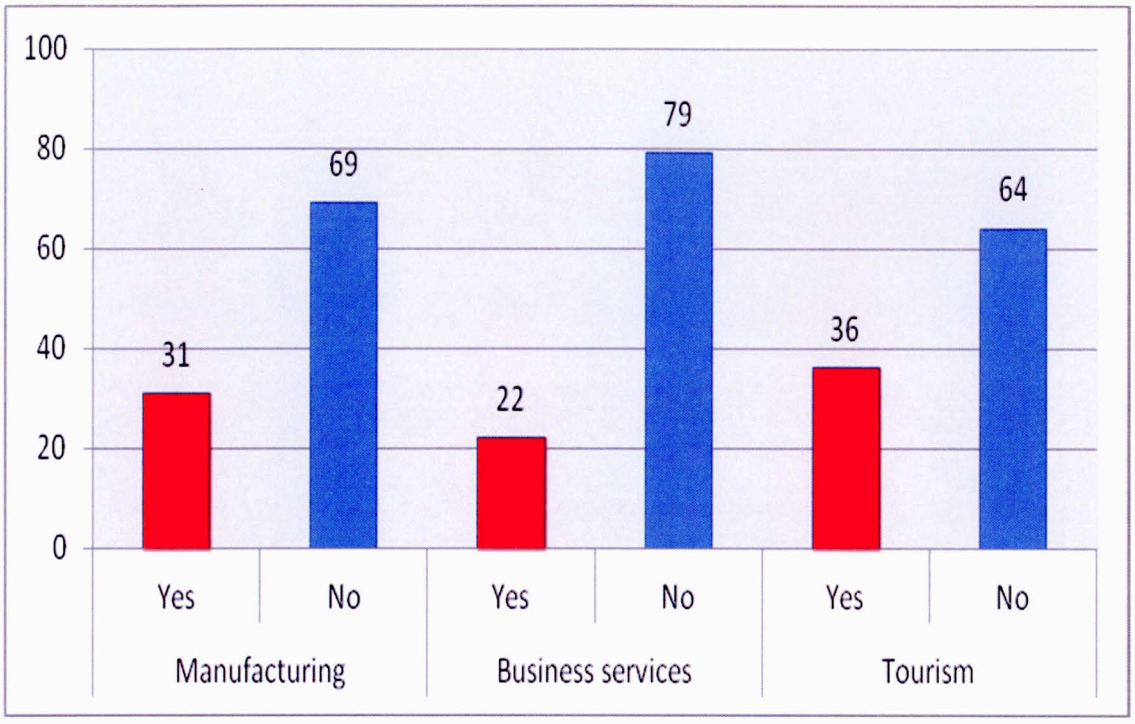
Source: SBP SME growth index

Figure 2: Growth trajectory of SME panel firms (per cent)



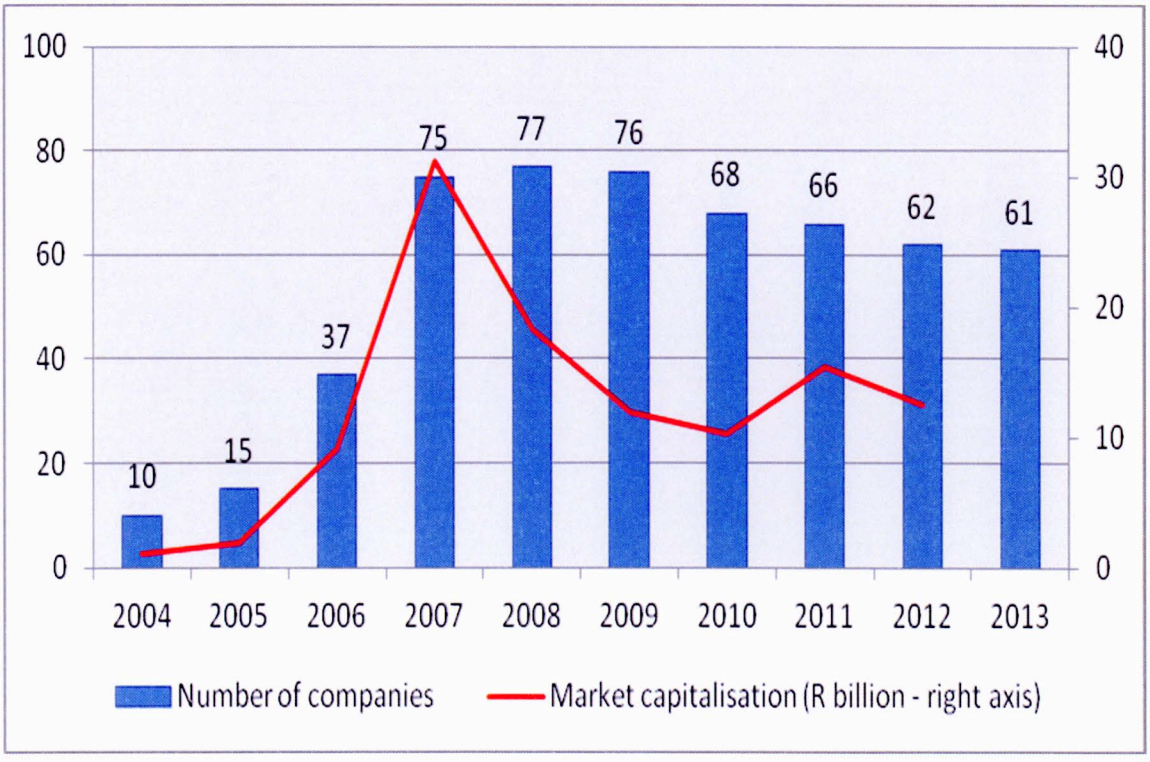
Source: Source: SBP SME growth index

Figure 3: Threat of survival faced by SME panel firms during 2013 (per cent)



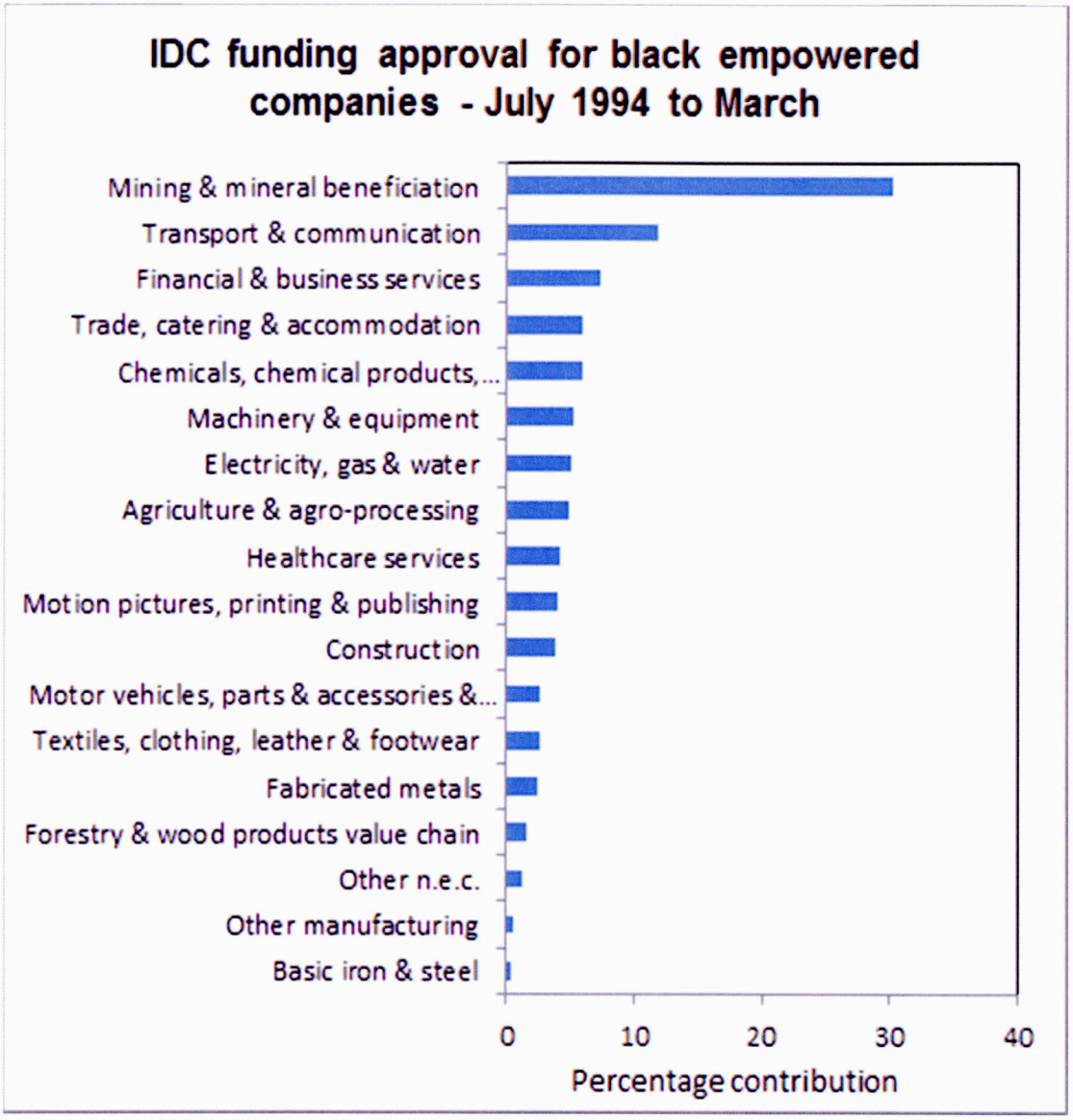
Source: Source: SBP SME growth index

Figure 4: Alternative exchange listings (AltX)



Source: JSE (AltX)

Figure 5: IDC funding approval for black empowered companies



Annexure 3: Contribution of small businesses to turnover

Table 1: Turnover of industries by business size – R millions

		Range for classification of small, medium & large enterprises based on			
Mining and quarrying	Small	≤ R15 million	6,996	3,768	3,973
	Mediu	> R15 million ≤ R58,5 million	8,684	7,172	8,332
	m	> R58,5 million	326,561	415,859	457,870
Manufacturing	Small	≤ R19,5 million	173,148	139,290	148,267
	Mediu	> R19,5 million ≤ R76,5 million	199,846	157,032	160,209
	m	> R76,5 million	1,249,650	1,316,183	1,465,815
Construction	Small	≤ R9 million	49,403	49,093	51,560
	Mediu	> R9 million ≤ R39 million	38,449	60,905	51,039
	m	>R39 million	186,313	149,152	187,504
Trade*	Small		432,175	420,358	504,150
	Mediu		197,279	263,310	247,196
	m		1,247,141	1,315,207	1,543,154
Transport, storage and	Small	≤ R19,5 million	34,872	33,886	38,658
comminication	Mediu	> R19,5 million ≤ R39 million	20,024	22,698	23,493
	m	> R39 million	456,268	495,036	549,053

***Trade industry DTI cut-off points**

Industry	Small enterprises	Medium enterprises	arge enterprise s
Wholesale trade	Turnover ≤ R48 million	Turnover > R48 million, Turnover ≤ R96 million	Turnover > R96 million
Retail and motor trade	Turnover ≤ R28,5 million	Turnover > R28,5 million, Turnover ≤ R58,5 million	Turnover > R58,5 million
Accommodation and catering trade	Turnover ≤ R9 million	Turnover > R9 million, Turnover ≤ R19,5 million	Turnover > R19,5 million

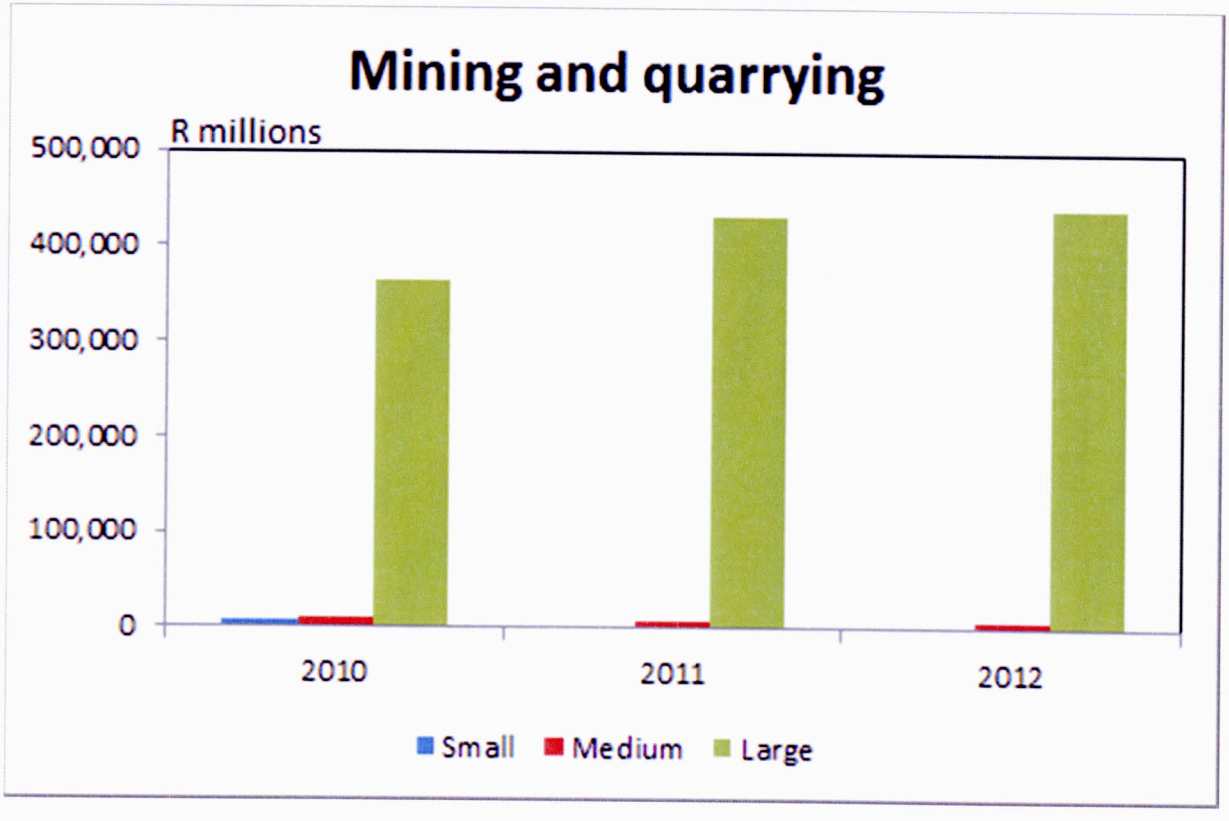
Source: Statistics South Africa

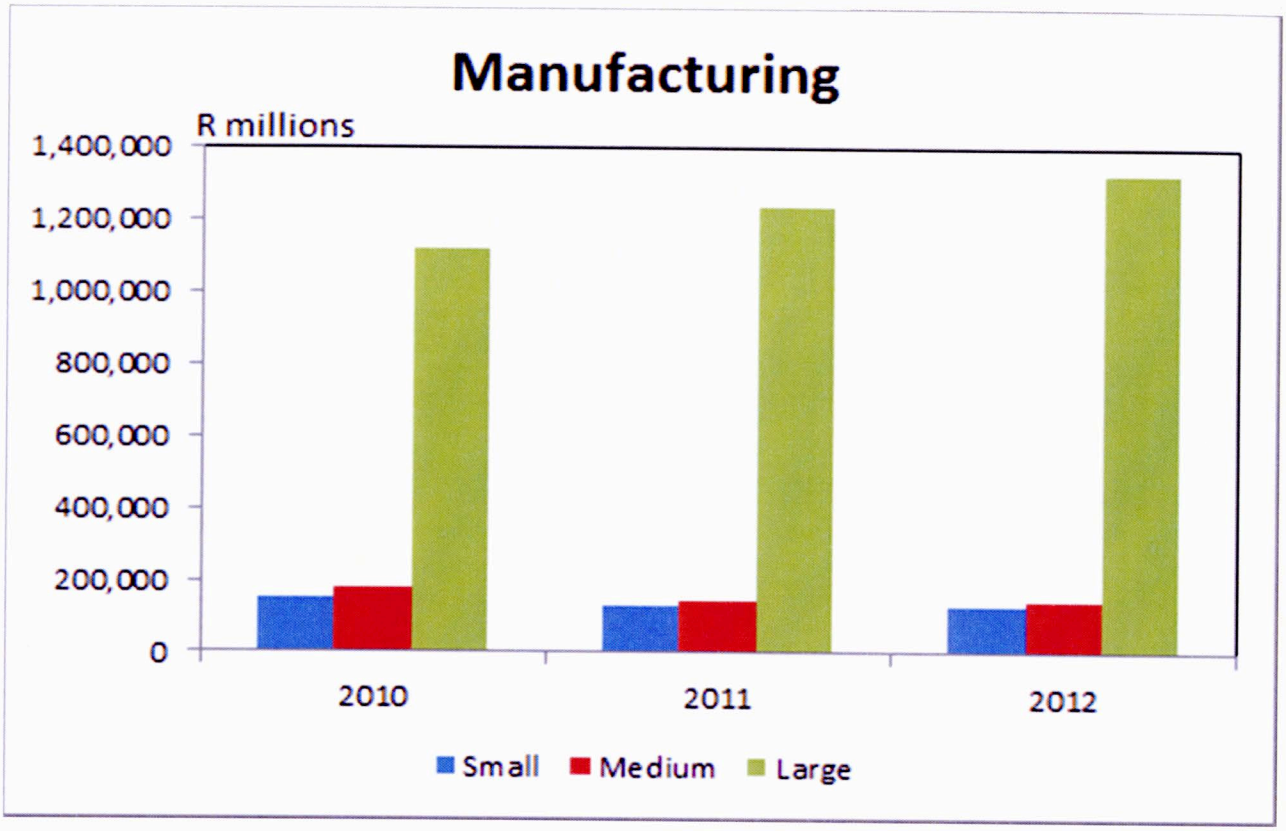
Table 2: Annual production accounts by industry at current prices (R millions)

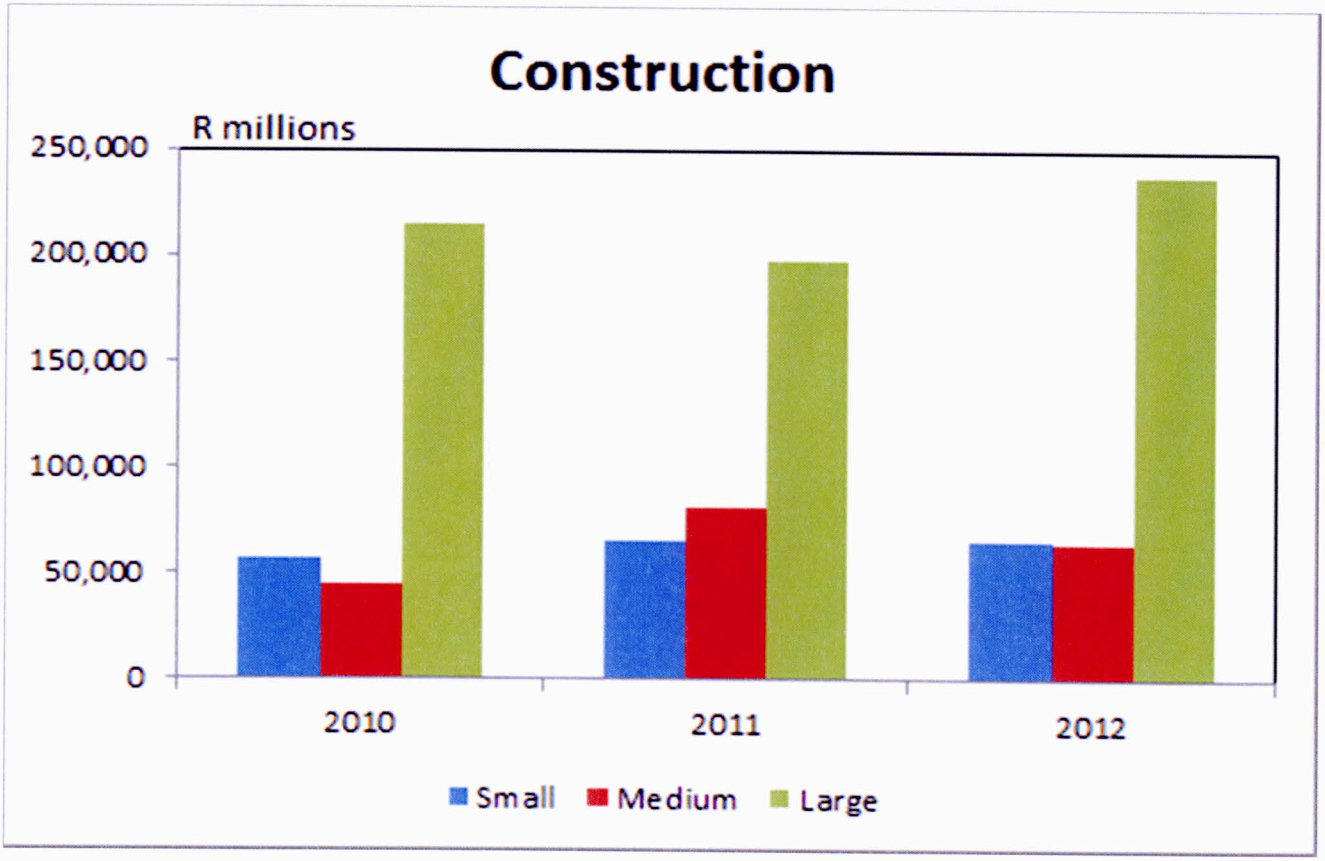
	2010	2011	2012
Mining and quarrying	381,849	443,880	453,166
Manufacturing	1,452,623	1,517,319	1,602,402
Construction	316,422	343,697	367,899
Wholesale, retail and motor trade; catering and accommodation			

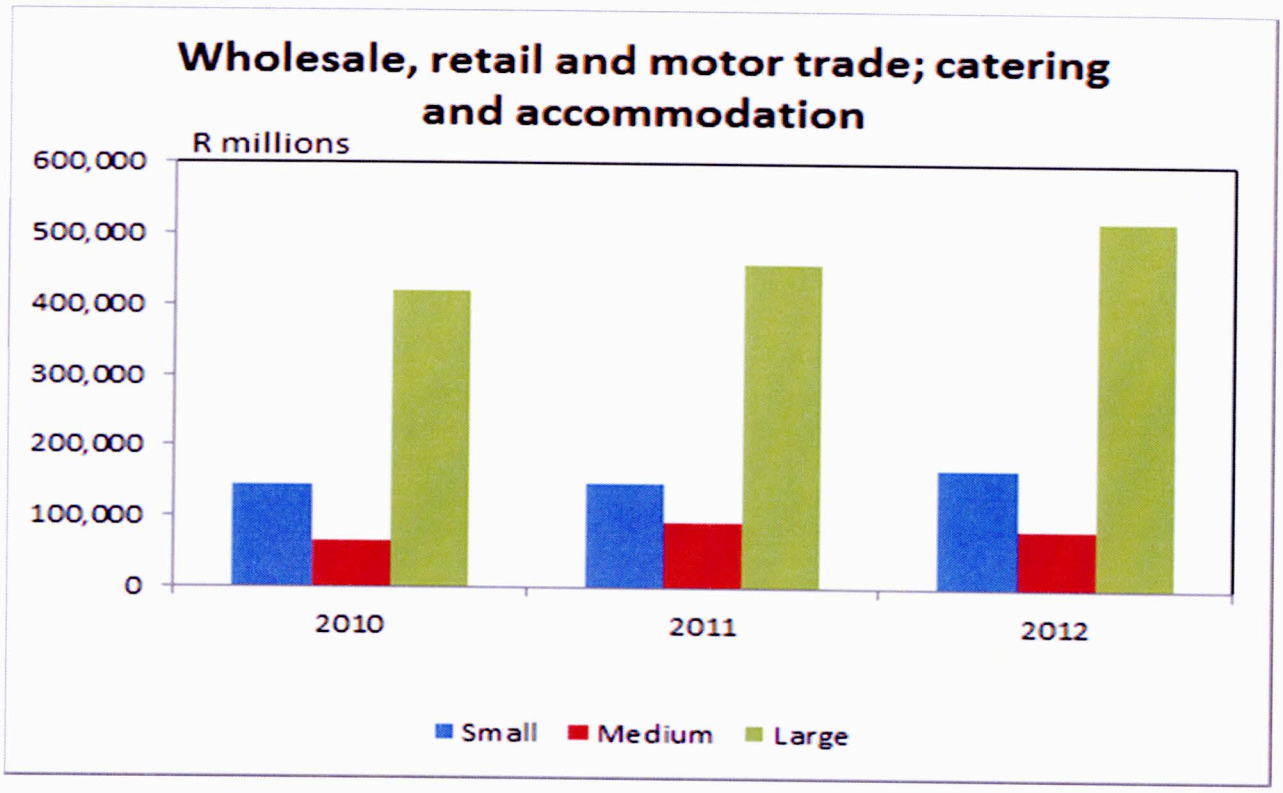
Source: South African Reserve Bank

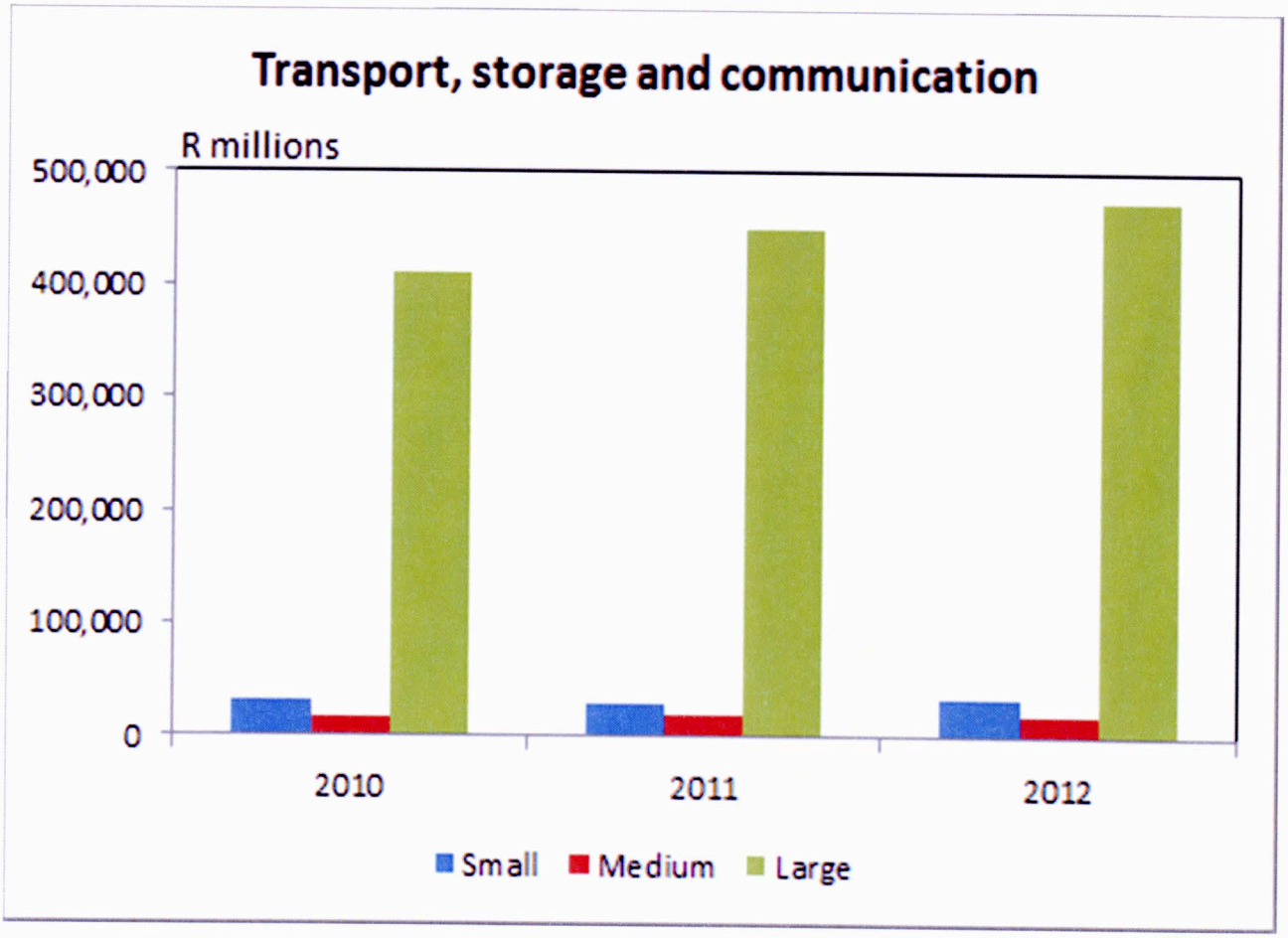
Graph 1: Contribution to industries' output by business size




Manufacturing
R millions
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
2010
2011
2012
Small
Medium
Large


Construction
R millions
250,000
200,000
150,000
100,000
50,000
0
2010
2011
2012
Small
Medium
Large

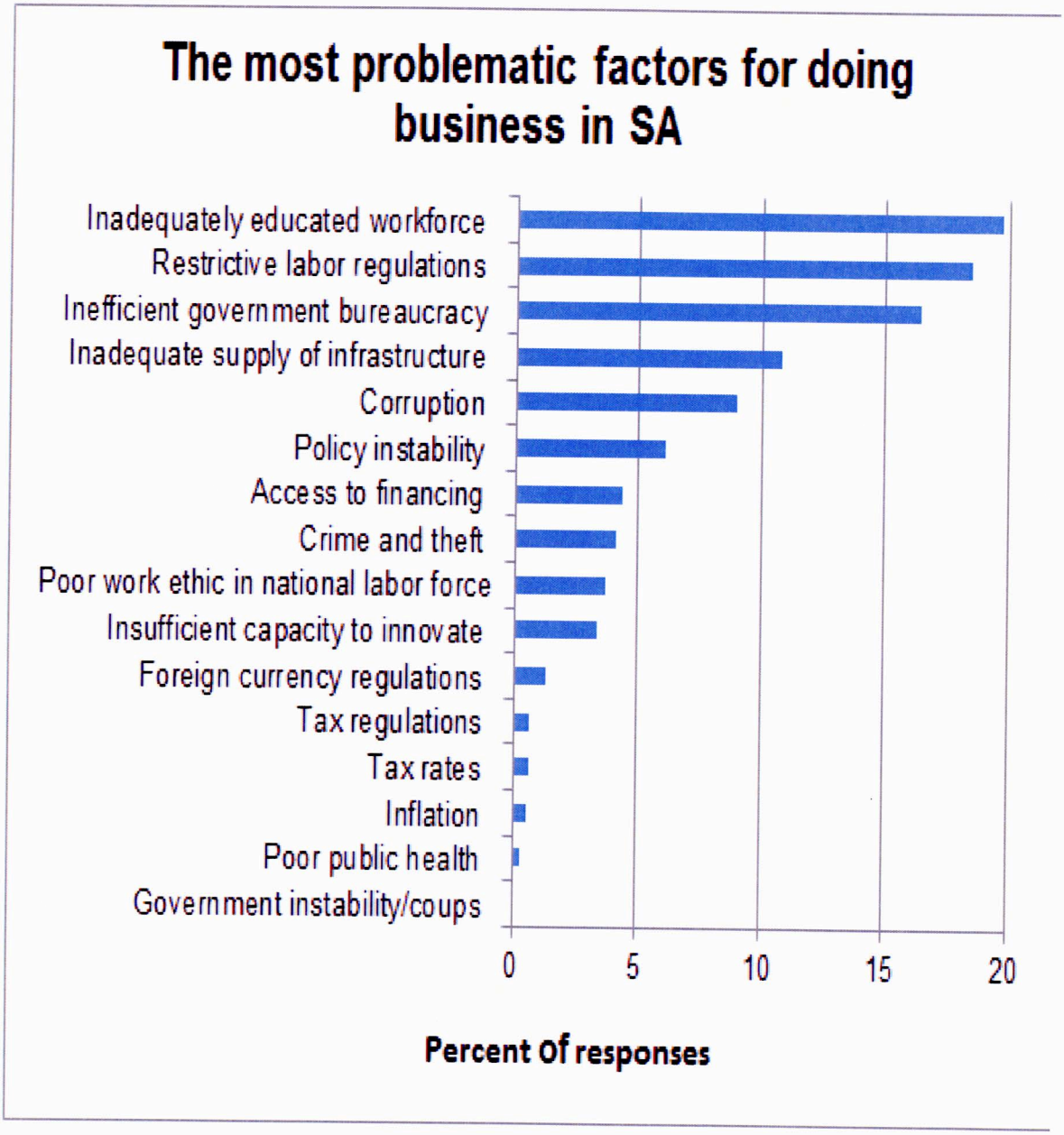




Source: South Africa Reserve Bank and Stats SA

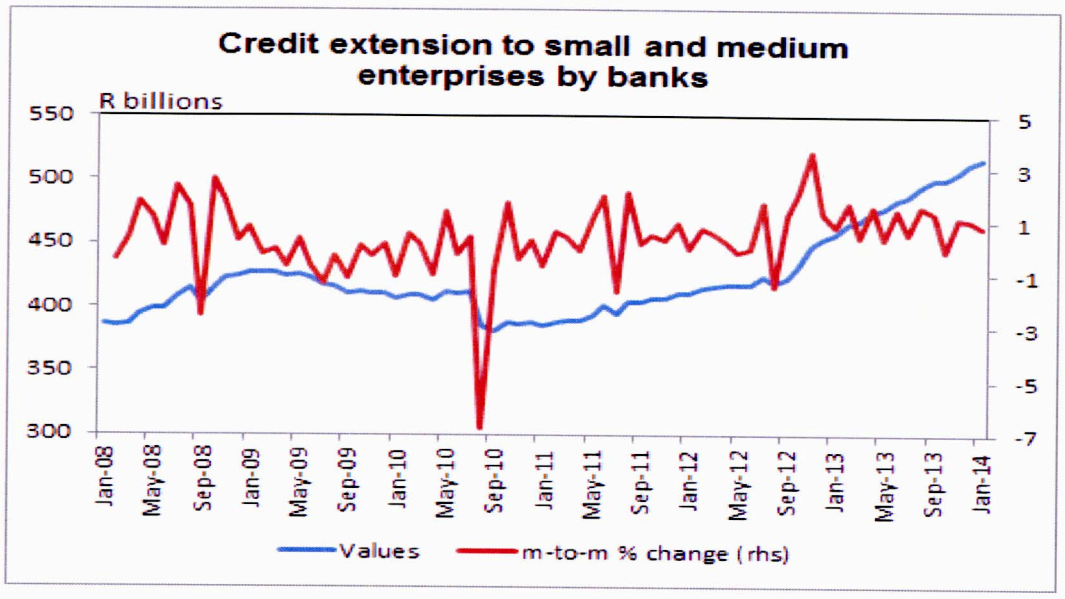
Annexure 4: Impediments in facilitating small business in South Africa

Graph 1: The most problematic factors for doing business in South Africa



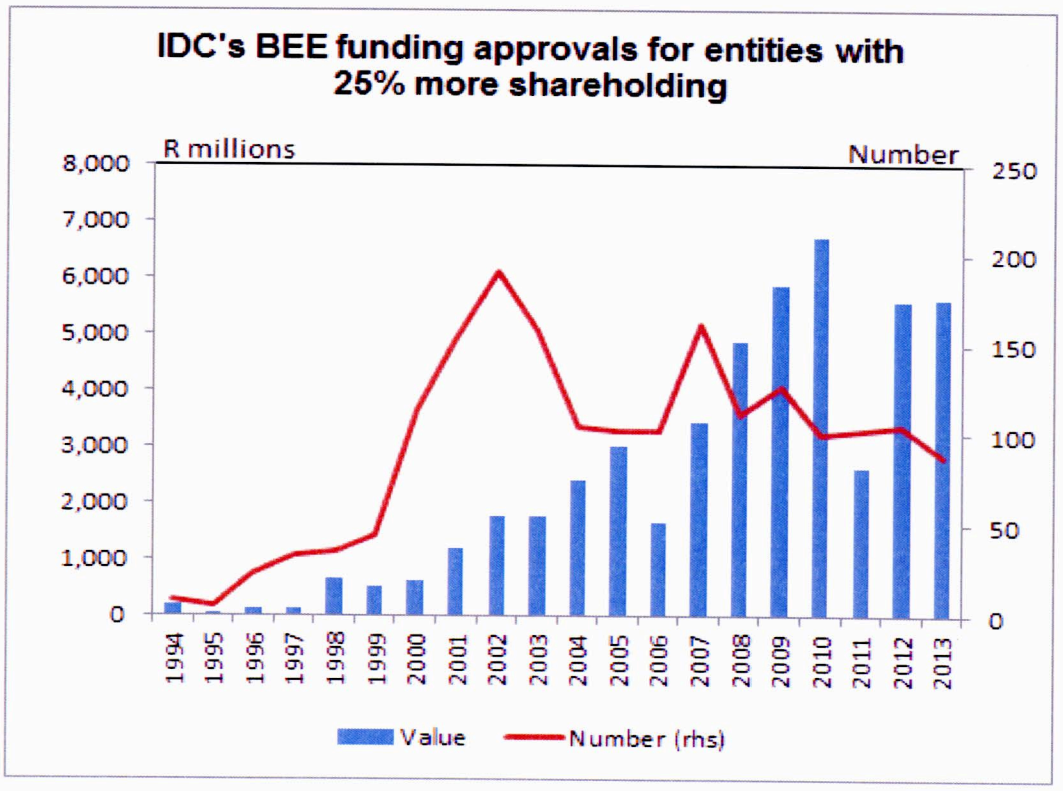
Source: The African Competitiveness Report 2013

Graph 2: Credit extension to small en medium enterprises by banks



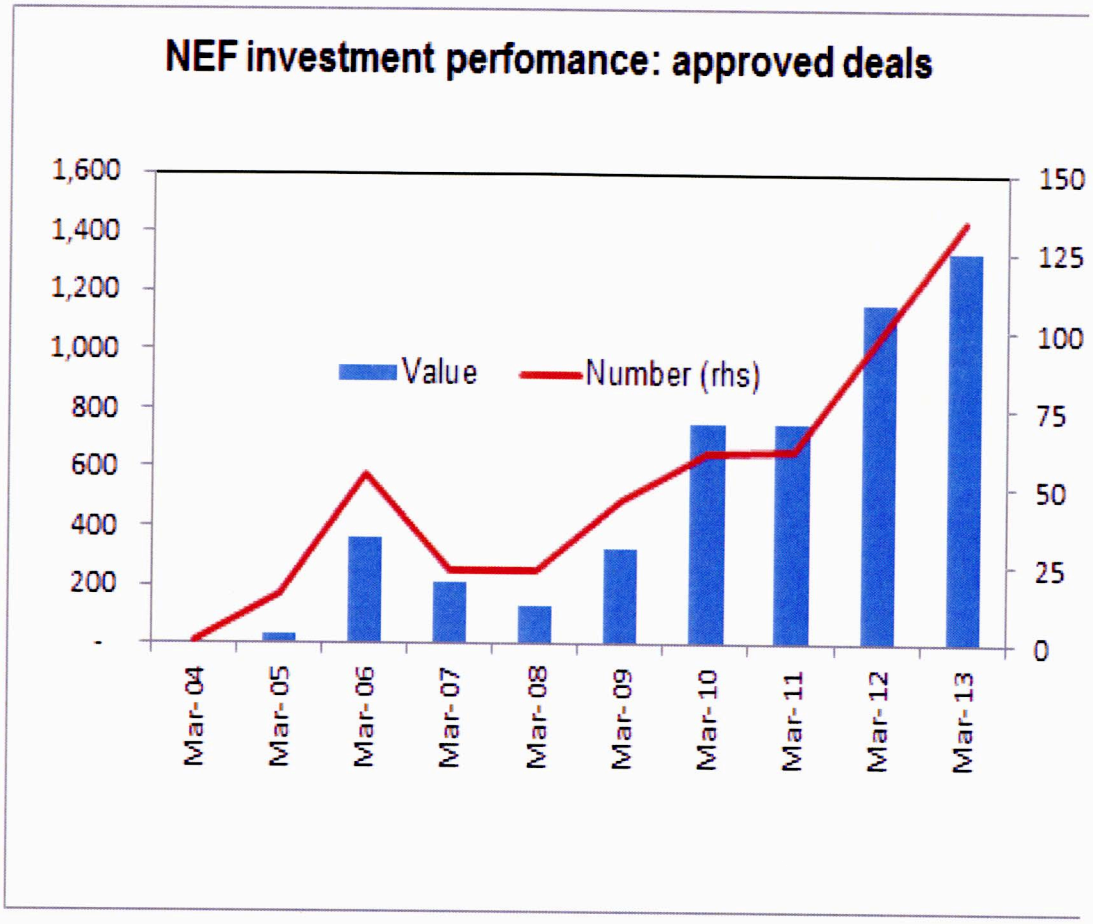
Source: South African Reserve Bank

Graph 3: IDC's BEE funding approvals for entities with 25% or more shareholding



Source: IDC

Graph 4: NEF investment performance of approved deals



Source: NEF Annual Report 2013

Annexure 5: EY G20 Entrepreneurship Barometer 2013

Rankings table

	Access to funding	Score	Entrepreneurship culture	Score	Tax & regulation	Score	Education & training	Score	Coordinated support	Score
	United States	7,12	United States	7,67	Saudi Arabia	6,40	France	6,58	Russia	6,23
2	United Kingdom	6,86	South Korea	7,53	Canada	6,34	Australia	6,53	Mexico	5,89
3	China	6,75	Canada	7,45	South Korea	6,34	United States	6,50	Brazil	5,87
4	Canada	6,62	Japan	7,28	United Kingdom	6,19	South Korea	6,40	Indonesia	5,84
5	Australia	6,48	Australia	7,18	South Africa	6,10	EU	6,25	India	5,76
6	South Africa	5,95	United Kingdom	7,00	Japan	6,07	United Kingdom	5,98	China	5,75
7	Japan	5,81	Germany	6,88	Germany	5,84	Germany	5,89	Turkey	5,66
8	South Korea	5,75	EU	6,07	Australia	5,75	Argentina	5,85	South Africa	5,65
9	Brazil	5,67	France	5,68	Russia	5,65	Canada	5,81	Argentina	5,64
10	Indonesia	5,53	Russia	5,05	EU	5,48	Brazil	5,78	Germany	5,53
11	India	5,48	India	4,95	Turkey	5,45	South Africa	5,67	France	5,41
12	EU	5,41	Brazil	4,88	Indonesia	5,38	Saudi Arabia	5,66	Saudi Arabia	5,39
13	Saudi Arabia	5,25	Italy	4,67	United States	5,33	Italy	5,47	EU	5,37
14	Germany	5,23	South Africa	4,33	Mexico	5,21	Russia	5,46	South Korea	5,36
15	Russia	5,04	Turkey	4,30	France	5,12	Mexico	5,32	Australia	5,31
16	France	4,74	Argentina	4,06	China	5,07	Japan	4,72	Canada	5,29
17	Turkey	4,57	Mexico	3,96	Brazil	4,83	Turkey	4,39	United Kingdom	5,19
18	Mexico	4,42	China	3,88	Italy	4,76	China	4,35	Japan	5,04
19	Italy	4,03	Indonesia	3,80	India	4,39	Indonesia	3,88	Italy	4,97
20	Argentina	3,27	Saudi Arabia	3,38	Argentina	4,31	India	3,49	United States	4,85

About the EY Entrepreneurship Barometer model

The EY G20 Entrepreneurship Barometer 2013 introduces a model for scoring countries across the five pillars of entrepreneurship.[1] The purpose of this model is to help identify areas of relative strength by country and where opportunities for improvement lie. The model comprises qualitative information (from a survey of more than 1 500 entrepreneurs) and quantitative data based upon entrepreneurial conditions across the G20 economies. For each pillar, excluding co-ordinated support, this information is weighted 50-50 between qualitative and quantitative inputs. For co-ordinated support, given a lack of quantitative indicators, this is based solely upon the survey responses.

The advantage of integrating both the survey results and quantitative data is the ability to provide an assessment of the current level and the trends in a G20 entrepreneurial ecosystem based upon local sentiment. To this end, official statistics (for example, the average time taken to start a business or the tax burden) provide a baseline for each member country. Survey information is an important complement to the baseline picture these statistics provide. Entrepreneurs' feedback on the pace of improvement or deterioration in conditions in their country's entrepreneurial ecosystem is incorporated in the model alongside the hard statistics.

Full details of the EY G20 Entrepreneurship Barometer's methodology can be found on page 66 in the main *EY G20 Entrepreneurship Barometer 2013 Report*.

[1] **Note: As per G20 membership**, this list comprises 19 individual countries and also the European Union (EU), as an additional member. The ranking shows the performance of each country, along with an aggregate performance for the 27 EU member states.

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