

Obstacles and Opportunities for Youth Entrepreneurship

A Co-ordinated Approach Critical to Promote Youth Entrepreneurship

By Jacqueline Kew



Jacqui Kew is an Associate Professor at the College of Accounting (UCT) and teaches on various Executive Short Courses at UCT's Graduate School of Business. She is the Principal author of Financial Accounting: An Introduction and is Project Director of <http://www.learnaccounting.uct.ac.za>, a free multi-lingual College of Accounting initiative offering short concept videos on accounting-based topics. She is also involved in entrepreneurial research and regularly co-authors the South African Global Entrepreneurship Monitor.

Abstract

In this article Jacqueline Kew argues that in South Africa, the formal and public sectors have not created enough employment, and as such focuses on the critical importance of promoting entrepreneurship, enterprising behaviour, and an enterprise culture that supports aspirations of self-employment. A common diagnostic Kew believes, by among others, the National Youth Development Agency (NYDA), has been that start-up finance is inadequate and should be supplemented. However, Kew also underscores the importance of inserting financial literacy and entrepreneurial training earlier on into the school system; the critical need for improvements in maths and science education; and skills development that allows young entrepreneurs to excel beyond merely establishing necessity or survival businesses.

Introduction

Over the past decade, sub-Saharan Africa has shown impressive growth rates, with gross domestic product (GDP) having increased by 4.9 per cent per year between 2001 and 2008— more than twice its pace in the 1980s and 1990s (McKinsey Co. 2012). However, the global crisis of 2009 slowed down growth for the region to approximately 3.0 per cent, and will limit the progress made in economic development and over-coming poverty (WEF 2009).

Although many African countries have experienced an impressive expansion in the size of their economies, the growth has not led to the creation of sufficient employment – a situation that has been further exacerbated by the current financial crisis. With rapidly growing and urbanising populations across Africa, ensuring that they are both healthy and able to find employment is a key challenge.

The formal sector in many countries, especially in sub-Saharan Africa, is stagnant and unlikely to offer traditional jobs to the increasing number of young people looking for employment. The burgeoning young population, coupled with a growing sense of economic exclusion, represents a potentially explosive situation, which, if not effectively dealt with, could once again destabilise a continent that in recent years has become increasingly peaceful. Unless alternative employment options are encouraged, the number of unemployed and underemployed youth will continue to put pressure on their respective states.

Youth unemployment, without doubt, is a pressing issue facing many African governments. The demographic profile of African countries has a significant youth bias, but due to the high and growing level of unemployment and underemployment amongst this section of the population, they are unable to fulfil these responsibilities in any meaningful manner. This has been emphasised by recent experiences in several North African countries such as Egypt and Tunisia. These developments, if left unchecked, can move into sub-Saharan Africa, and, if not correctly and timeously addressed, would have devastating effects on the social and economic spheres within the countries concerned (McKinsey Co. 2012).

Entrepreneurship, job-creation and the potential to address poverty

South Africans have traditionally relied upon the government and the corporate sector to provide jobs. However, the growing inability of the formal and public sectors to absorb the increasing number of job-seekers means that South Africa needs to create an environment that stimulates job creation and economic growth.

The 2011 Census further estimates that 33.7 per cent of young South Africans in the 25–29-year age group, and 27.4 per cent in the 30–34-year age group are unemployed. This further emphasises the need to seriously consider alternative modes of job-creation. Entrepreneurship provides such an avenue and positively affects economic growth.

Entrepreneurs create new businesses, drive and shape innovation, speed up structural changes in the economy and introduce new competition – thereby contributing to productivity. Such enterprises also drive job-creation; hence, it is a critical potential contributor to economic growth that is inclusive and reduces poverty. Especially in sub-Saharan African countries, it has the potential to bolster economic growth and increase productivity.

As traditional jobs-for-life career paths becomes increasingly rare, youth entrepreneurship should become a focus for allowing the youth into the labour market, and ultimately for alleviating poverty. While it is not necessarily an all-encompassing solution for youth unemployment, ensuring that South Africa has an enterprise culture that encourages, rather than discourages, entrepreneurial activity is important. An enterprise culture is a 'set of attitudes, values and beliefs operating within a particular community or environment that leads to both enterprising behaviour and aspiration towards self-employment' (White & Kenyon 2008: 18).

In order to encourage entrepreneurial behaviour, South Africa needs to develop and encourage an enterprise culture that leads to both enterprising behaviour and increasing aspirations towards self-employment. Several cultural traits that either encourage or inhibit entrepreneurial behaviour exist (Orford, Wood & Herrington 2004).

In those cultures where innovation and creativity are not encouraged, entrepreneurial enterprises are unlikely to flourish. Conversely, those that see failure as a learning process are more likely to encourage entrepreneurial enterprises. Willingness to accept the possibility of business failure is a good indicator of entrepreneurial capacity (Orford et al. 2004).

In South Africa, 40 per cent of young people indicated that fear of failure is a strong inhibiting factor in deciding to start their own business, with black African and coloured youths being more likely to be inhibited because of a fear that the business would fail (Herrington, Kew & Kew 2008b). At the outset there are, therefore, attitudinal obstacles to overcome before we can even think of addressing policy.

The importance of skills and education

While an enterprise culture enables entrepreneurship to flourish, the development of economies in the global knowledge environment is also intimately linked to education and, particularly, the development of mathematical skills. This is a South African weakness. The importance of developing mathematically based skills is further reinforced by the 2012 Global Competitiveness Report which ranks South Africa 138 out of 144 countries with respect to maths and science education.

There are also strong links between the level of formal education and entrepreneurial activity. Tertiary study in South Africa prepares young adults relatively well in terms of the knowledge and skills required to start a business, with over 60 per cent of young people with tertiary education indicating that they had the knowledge and skills to start a business. Only 40 per cent of young people with secondary education, and one-third of young people without matric, indicated that they had the knowledge and skills to start a business (Von Broemsen, Wood & Herrington 2005).

In the 2012 Global Competitiveness Report, South Africa is also ranked low on primary (127 out of 144) and secondary education (133 out of 144) and, given that only 15 per cent of young people advance to tertiary education, the quality of primary and secondary schooling is becoming increasingly important (WEF 2012).

Schooling is not only important for its effect on an individual's propensity for entrepreneurial behaviour, but it also improves an individual's ability to find employment and to be trainable. A high-quality general education serves to make people more trainable and, therefore, allows for greater flexibility and productivity in the labour market. Moreover, it also enhances the time and cost-effectiveness of training, as poorly educated entrepreneurs require more training at a greater cost and often with fewer demonstrable results.

Contextual factors that impact on entrepreneurship

A 2008 study done for the Western Cape Youth Commission found that two-thirds of young South Africans indicated an interest in starting a business (Herrington et al. 2008a). To determine whether such an interest could be interpreted as a predisposition towards entrepreneurial behaviour, the survey questioned their career option of choice.

Formal employment, namely working in a corporate or large business (46 per cent), or the government (25 per cent), was cited as the career option of choice. Less than 10 per cent of the respondents indicated starting their own businesses as the career option of choice. Young people, whether studying, currently in the work

force or unemployed, preferred the security of formal employment to the perceived risk of self-employment (Herrington et al. 2008a).

These findings concur with the 2010 Young Upstarts Report, which found that while 65 per cent of young people indicated an interest in starting a business, the percentage of young people actively planning to turn this indicated interest into a reality was less than 10 per cent, with 8.0 per cent of the respondents indicating that they planned to start their business within a year (Herrington et al. 2011; see also Virgin Unite 2011).

The Young Upstarts Report also showed that younger, poorer respondents preferred to become a professional above starting their own business. The report argues that the lack of role models or networks that include business owners encourages young people to choose the stability of employment rather than seeking the risk of starting their own businesses (Herrington et al. 2011).

The preference of previously disadvantaged young people for formal employment, particularly in a corporate setting, is also noted in the 2012 Endeavour Report (Endeavour 2012). In the past decade, there has been greater access to tertiary education for individuals who would have been denied it under apartheid, and, as a result, there has been an increase in the number of young black African and coloured individuals attending tertiary institutions. Equity targets for companies have led to growth in the demand for qualified black African applicants and, consequently, corporations have been willing to pay premium salaries to attract employees from designated categories.

From an entrepreneurship perspective, however, this increases the opportunity cost for these individuals, should they consider starting their own business. This could, in part, explain why the number of black African business owners, particularly those with tertiary qualifications, is lower than business owners with similar qualifications from other race groups (Herrington et al. 2008b). This is of concern as individuals with a tertiary education are more likely to start opportunity-motivated enterprises than they are to start a business due to a lack of other employment options.

Necessity businesses (i.e. businesses that are started because the owner has no alternative for employment) generally only provide sufficient income for survival and employ significantly fewer people. Increasing the number of opportunity-motivated businesses would, therefore, have a positive impact on both the financial resources of the owners and, arguably, the unemployment rates in South Africa.

Entrepreneurial learning occurs through problem-solving, failure and learning from mistakes (Deakins 1999). As a result, individuals with access to family members who are business owners are likely to have a greater network of business people from whom they could learn and with whom they could discuss the problems and difficulties experienced by their enterprises. Exposure to entrepreneurial activity through personal networks provides strong role models, and individuals with entrepreneurial family members are more likely to start a business (Von Broemsen et al. 2005).

The Global Entrepreneurship Monitor (GEM) is a worldwide study on entrepreneurial activity started by London Business School and Babson University in 1999. South Africa joined it in 2001. GEM South Africa has shown that black women in South Africa are more likely to start a necessity-based than an opportunity-based business.

More than half of the young women believe that businesses in South Africa are started because there is no other option to earn a livelihood, and this perception is compounded by the limited exposure that successful, opportunity-based female entrepreneurs enjoy in the media (Herrington et al. 2008b).

When asked to identify successful business people, young people almost exclusively pointed out male business owners, with Pam Golding being the only female entrepreneur identified. With the exception of Mark Shuttleworth and Mzoli Ngcawuzele, all of the business role models identified were mature adults (Herrington et al. 2008b).

The media, therefore, has an important role to play to ensure that both male and female business people, as well as young business people, are featured prominently in all forms of media. Together with school entrepreneurship programmes, young successful entrepreneurs need to be promoted and profiled, in order to dispel the notion that businesses are started only out of necessity and that becoming successful – as an entrepreneur – is only possible much later in life.

At present, however, many young people view businesses merely as temporary income generators until a better income option in the formal sector is found (Herrington et al. 2008b). This is unfortunate, given that in economically depressed times, such as the present, young people are often unable to find better opportunities in the formal sector. This means that the number of people leaving school who need to rely on starting a business in order to survive is likely to increase.

It is vital that the schooling system prepares students to see themselves as potential job-creators instead of merely job-seekers, and needs to provide subjects like entrepreneurship and financial literacy as core offerings for all pupils.

Since many young South Africans do not complete secondary schooling, it is imperative that entrepreneurial skills are taught at primary school. Given the importance of education in influencing individuals' belief in their own abilities to start and run a successful business, it is possible that the South African education system directly contributes to the low level of early-stage entrepreneurial activity in the country.

GEM South Africa has questioned the appropriateness of the kind of education offered at schools, and has noted that school-level training is failing a large proportion of the country's youth. Aside from the education system failing to prepare potential entrepreneurs for starting businesses, it has also done very little to address the massive skills shortage, which inevitably hampers economic growth (Herrington et al. 2011).

Access to technology is becoming an increasingly important requirement both for starting up a new business and for an existing business to remain competitive. It is, therefore, critical that young people become familiar with the necessary skills during their primary and early secondary schooling. Access to technology, particularly access to the Internet, remains limited for young South Africans, with 30 per cent never having used a computer and 55 per cent never having accessed the Internet or used email (Herrington et al. 2008b). This makes it difficult to obtain information about employment, as well as other business-related information.

Young white South African's are more than three times more likely to have access to a computer and more than seven times more likely to have access to the Internet and email than are their black African counterparts. Given these low levels of access, it is imperative that government agencies, mandated with

improving the entrepreneurial propensity of the youth, ensure that enough satellite offices have the required technology and sufficiently qualified people to assist them in efficiently using the technology.

Sustained government support is critical. With the higher than expected unemployment figures, reflected in the 2011 Census, job-creation will have to remain a key feature of government policy. A co-ordinated focus on small business development must be one of the core points of departure. However, the poor quality of education, a lack of appropriate business skills, and poor financial literacy hampers the growth and sustainability of this sector.

Steven Timm (2011) argues that South Africa can learn from Brazil in developing adequate support for small businesses. He shows that South Africa and Brazil, apart from being two of the most unequal societies, have other similar development challenges, such as a lack of quality education, a shortage of quality infrastructure and a low share of international trade. Despite these similarities, Brazil is ranked as the 12th most entrepreneurial country in the world, while SA is ranked 28th out of 56 countries (Herrington et al. 2011).

What is of greater concern is that with respect to the rate of established businesses (i.e. businesses that have been in existence for more than 3.5 years) South Africa fares far worse. Brazil is ranked 4th and South Africa is ranked 54th out of the 56 participating countries. It is important to note that established businesses have a significantly greater impact on job-creation than new businesses. What is also evident is that although South Africa has an increasing number of individuals who are starting businesses, the number of businesses that have been in operation for 3.5 years or more has not increased.

Focused business support, offered by well-qualified professionals, or retired business people, as well as clear policy directives, are desperately required in South Africa to enable more enterprises to become sustainable and to have a greater impact on job-creation and economic growth within the country. Setting clear, measurable goals, such as the number of loans provided, actual employment created by small businesses, the percentage of small businesses involved in the export sector, and ensuring that individuals in these organisations have the necessary skills, have been key in Brazil's success.

In South Africa, support structures, aimed at small business development are not effective, and awareness of many of the government support schemes remains extremely low. A further concern is that clear, measurable goals are not set for all agencies and, where goals are set, they are not monitored by external organisations.

Young people lack the skills, knowledge and experience to navigate the adult, business-oriented world. Although they may earn enough to survive, their ability to move into more sustainable enterprises is hampered by their inexperience and age-related constraints. Business advice centres and secondary schools have a particularly important role to play in equipping young people with the necessary skills to be able to move into sustainable business enterprises.

The quality of business services is largely dependent upon the quality of the business advisors employed. In order to be fully effective, business advisors need to be well-versed in the business environment, and preferably need to have practical experience in running a business. A core differentiator in the success of business advice offered is the ability of the advisor to develop a rapport with the entrepreneur. This is developed partly through communication in the individual's home language (De Waal 1997) and partly through the advisor's ability to understand the particular needs of the individual and not offer generic advice. It is

important, therefore, that youth-oriented business advice centres are staffed by people who have an understanding of the particular needs and developmental stages of young entrepreneurs.

The quantity and quality of financial support

Lack of finance and access to finance is often cited as the key constraint to entrepreneurial activity. This has led to academics and policy-makers questioning whether providing significantly more finance would increase the number of entrepreneurs.

The GEM research has shown that young people regard lack of customers, insufficient skills and too little support as the main factors contributing to their reluctance to start up their own business (Herrington et al. 2008b). This seems to caution against an approach that views finance on its own as the panacea for a shortage of aspiring entrepreneurs.

The Young Upstarts Report, conducted by the Branson Centre for Entrepreneurship in 2010, concurs and asserts that, for young people, access to finance and business skills have been the most significant obstacles to starting a new business. Significantly, most respondents recognised that providing funding, without the skills needed to run a successful business, would not help them to become successful entrepreneurs (Virgin Unite 2011). The infrastructure to support the efficient use of funding also needs to be in place. Yet, the GEM research reports that young people who have tried interacting with the various support institutions have found the service delivery to be poor, coupled with long lead times (Herrington et al. 2011).

In this regard, it needs to be asked how suited current government institutions are to provide the required services. The National Youth Development Agency (NYDA) is regarded as the government's primary vehicle for supporting young entrepreneurs. Thus far, its performance has not lived up to the requirements, with many questions being asked about the management of the resources at its disposal.

For the budget year 2010/11, it was allocated R405 million, and according to the medium-term expenditure framework for 2012–2015, the comparative figure for the 2012/13 financial year will be R376 million. This decrease has been questioned by the NYDA, but a review of its 2011/12 annual report has led the National Treasury to query irregular expenditure amounting to R133 million. The same report showed that almost R142 million was paid in salaries and allowances, while the businesses to which it extended loans received a total of only R14.2 million. This amount represents a mere 15 per cent of the funding that it allocated to hosting its highly controversial international youth conference in 2011 (McGluwa 2012).

The NYDA (2012) states that it created or sustained 15 810 jobs during 2010/11, and argued that these were a direct result of the micro-loans (totalling the R14.2 m) offered. No information was provided as to whether these loans were linked with mentorship or whether contributions were made to sustainable industries. There was, furthermore, a lack of clarity on the longevity of the businesses that were funded, and whether they were start-ups or established businesses.

This information raises a number of additional questions, namely, whether the salaries of both key and other personnel are justified, what the measurable and tangible goals linked to these salaries are, how data is being collected on the number of new or sustained jobs created, and whether any independent research has been done on the number of new or sustained jobs that were created, assuming verification of the 15 000+ jobs.

It also needs to be established what the cost per job created is and, if the NYDA aims to play a significant role in reducing unemployment, whether this is possible at the current cost-per-job rate. Arguably, more research needs to be done about the existence of other government-funded youth organisations in developing and emerging economies, and whether they have been more effective than the NYDA.

Conclusion

Entrepreneurship is not the sole solution to South African youth unemployment. It is important to remember that entrepreneurial ventures are risky and require a level of innovation, the ability to deal with adversity, the ability to work independently and a level of confidence that allows the business owner to believe that he or she has, or can acquire, the skills and knowledge necessary to be successful in business.

However, it is equally important to ensure that the environment in which young people operate enhances, rather than limits, entrepreneurial choices. It is also critical that all young people are afforded the opportunity of receiving a decent education. The low maths and science ranking, the lack of computer and other facilities in many schools, and the 2012 textbook debacle, raise questions about the seriousness with which the government views education. The lack of adequate education is compounded by the questionable value of business support agencies, such as the NYDA.

South Africa requires a co-ordinated approach to business support that is business-driven, not politically motivated, and staffed by people with personal business experience. Without this, unemployment, poverty and exclusion will constitute the only future South Africa can continue to offer many of its young people.

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