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FULL COLOUR THINKING

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## Is SA failing its entrepreneurs?

South Africa now sits alongside the Gaza Strip and Romania when it comes to getting new businesses past the 3½ year mark, the latest Global Entrepreneurship Monitor (GEM) survey has found. This alarming statistic speaks to the desperate need for Enterprise Development in this country, as developing entrepreneurial businesses is going to be the best way to create growth and improve our GDP, states Liz Zambonini, CEO of Enterprise Development Initiative, The Hope Factory.

It is important to remember however, that entrepreneurship does not impact an economy simply through higher numbers of entrepreneurs. Quality measures, such as growth, innovation and internationalisation, are key.

The GEM surveyed 59 geographically and economically diverse economies, which together covered over 52% of the world's population and 84% of the world's GDP. Of those analysed, some 110 million people between 18 and 64 years old were actively engaged in starting a business, while another 140 million were running new businesses which they had started less than 3½ years earlier.

Out of these 250 million 'early stage entrepreneurs', an estimated 63 million expected to hire at least five employees over the next five years, and 27 million anticipated hiring 20 or more employees in the same time frame. These figures drive home the importance of entrepreneurship to reducing unemployment across the world.

The participating economies were grouped into three levels: factor-driven, efficiency-driven (South Africa) and innovation-driven. These are based on the World Economic Forum's (WEF) Global Competitiveness Report, which identifies three phases of economic development based on GDP per capita and the share of exports comprising primary goods.

According to the WEF's classification, the factor-driven phase is dominated by subsistence agriculture and extraction businesses, with a heavy reliance on labour and natural resources. In the efficiency-driven phase, further development is accompanied by industrialisation and an increased reliance on economies of scale, with capital-intensive large organisations more dominant. As development advances into the innovation-driven phase, businesses are more knowledge intensive and the service sector expands.

Zambonini agrees with the GEM survey that entrepreneurship needs both dynamism and stability. Dynamism occurs through the creation of new businesses and the exit of non-viable ones. Stability comes from providing new businesses with the best chance to test and reach their potential. Entrepreneurship in a society should contain a variety of business phases and types led by different types of entrepreneurs, including women, which is where initiatives like The Hope Factory come in.

These enterprises which are aimed toward improving entrepreneurship should take into account the development level of the economy. With a strong set of basic requirements in place, efforts can turn toward reinforcing efficiency enhancers and then building entrepreneurship framework conditions. An entrepreneurial mindset is not just for entrepreneurs - it must include a variety of stakeholders that are willing to support and cooperate with these dynamic efforts. In addition, non-entrepreneurs with entrepreneurial mindsets may indirectly stimulate others to start businesses. This indicates the value of broader societal acceptance of entrepreneurship.

"Our concern is that the global average for new businesses reaching the 3 ½ year mark is 7.6%, while the success rate for South Africa is only 2.1%. As the government starts to think about investing in certain sectors, we find it troubling that they are mooting the idea that Enterprise Development initiatives should only invest in companies which employ more than three people. What about the huge number of unemployed people who might start off a business as an individual? What is needed is a multi-pronged approach, which could include the Department of Trade and Industry strategically investing in companies as opposed to arbitrarily selecting ED initiatives", believes Zambonini.

"This should include a focus on, and investment in, high growth small and medium sized businesses which have the potential for job creation. As South Africa has one of the highest failure rates of business start ups in the world, investment and support of these businesses is critical, such as through business incubator programmes or solid mentorship programmes. Lastly, as we also have one of the lowest new business start-up rates in the world, we need to focus on growing the base to get the volume we need," adds Zambonini.

**So why are South Africa businesses failing at such an alarming rate?**



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According to Zambonini, there are six areas which need to be scrutinised if we are to make headway on this issue.

1. Skills development
2. Entrepreneurship training – including at high school level
3. An improvement in general levels of education
4. Access to finance
5. The lack of self-confidence in our youth
6. Access to markets

“Until we can lift our game across these areas, we will not see the much-discussed growth we need to become globally competitive. We see young people who have attained their matric but who cannot measure 5cm on a ruler – how are they going to be able to manage their finances and calculate profit and loss if they are not even being taught as something as basic as measuring at school?”, demands Zambonini.

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