

# The development of youth entrepreneurship



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Although South Africa recorded positive economic growth rates since the introduction of democracy in the mid 90's, The South African Development Indicators show that in 2009, 47.8 per cent of unemployed people were 15-24 years of age with a further 27.6 per cent in the 25-34 years of age bracket. That makes up a total of just over 75 per cent of the unemployed people (Development Indicators, 2009). In the South African context, individuals that are in the 15-34 age group are regarded as the youth of the country, and persons within this age bracket are the ones that are most likely to become the leaders and major wealth producers of the future in the South African economy.

These youth to adult unemployment rate statistics clearly point out the substantial difficulties of youth participation in the labour market. On the one hand, youth unemployment is a demand side problem as the number of jobs created in the economy is too small. On the other hand, youth unemployment is a supply side problem because many of young South Africans lack the appropriate skills, work related capabilities and higher education qualifications required for a high skills economy.

It is evident that this unemployment rate may be decreased by the young individuals who are creative and are able to apply their skills together with careful risk taking that's associated with starting up and running a new business. The objectives of this assignment are to measure the hidden entrepreneurship of youths in South Africa and to investigate the factors that affect the development of youth entrepreneurship in South Africa. The rest of the study is organised as follows.

### **1. 3 Research problem statement**

Economic growth and job creation is still one of South Africa's biggest challenges. The South African educational system as such is unable to equip students with the combination of skills and practical experience necessary to start and run a business successfully. People in the business community and those associated with entrepreneurship development and training are concerned about the relevance and quality of students' entrepreneurial learning experiences (Kroon et. al 2003). Effective ways need to be found to facilitate learners' transitions from school to productive career-orientated employment and eventually to an entrepreneurial career.

The gap between employers' requirements for skilled workers and the skills the youth bring to the labour market has been widening (Kroon et. al 2003). The transition from the education system to the world of work needs serious attention. Education for equipping entrepreneurial learners with the much needed economic/entrepreneurial skills should be supplemented with practical experience.

### **2. 0 Rationale for research**

Transforming young job-seekers into job-makers is considered to be an important strategy to prevent or alleviate poverty. Youth often lack the start-up capital and experience to start their own businesses, not least because commercial banks are reluctant to provide the relatively small amounts of credit they need, without collateral or other forms of security.

According to Sarasvathy, most of the research that is done on the entrepreneurship mainly focuses on how to raise entrepreneurship at the

level of the individual and the economy. In addition to that the majority of studies have been done on the differences between entrepreneurs and non-entrepreneurs rather than on questions relating to why the development of the entrepreneurship is so important or worth doing. Few important questions then emerge about, what the barriers to entrepreneurship are to those who would want to be entrepreneurial but are not, and how entrepreneurial individuals can be better supported in the startup and the better running of their businesses (Sarasvathy 2004). So the purpose of this assignment is to build upon the premise and seek to gain a better understanding of the factors that influence the development of entrepreneurship, specifically among youths, in South Africa and what can be done to increase the level of new business startups as a solution to the problem of high youth unemployment.

### **3. 0 LITERATURE REVIEW**

#### **3. 1 What is entrepreneurship?**

Entrepreneurship has attracted a lot of attention over the last decade and there can be little doubt about the importance of the entrepreneurial activity and its role in modern society. Since there are many definitions of this concept it may be useful to state a definition that includes the most common elements found in the literature. According to Stones (2001) entrepreneurship can be seen as “ a planned, long term process independently creating something, associated with a specific individual or individuals, which add a substantial value, by means of continual creative, innovative, and dynamic acquisition as well as a novel combination and

recombination of resources to utilize achievement opportunities while accepting the financial, social and psychic risks involved”.

When concept ‘ entrepreneurship’ is used for this social reality, topics like self-employment, small business management, stages of development models, and family business issues become aspects of entrepreneurship (Davidsson 2005, p. 3). In short, entrepreneurship is anything that concerns independently owned and often small firms and their owner-managers.

### **3. 2 Entrepreneurship and the youth**

The South African government admits that at both national and regional levels the small business sector is a key driver and contributor to economic growth. In acknowledgment of the sector’s potential to achieve these national objectives, the South African government has committed itself to its growth (Musengi-Ajulu 2009, p. 2). Various key players in the South African economy share the importance of investing in stimulating small business. The growing and widespread commitment to fostering entrepreneurship and promoting small enterprises goes beyond the Government and its institutions (DTI 2005). It extends to other actors in the economy, such as large corporations, the media, non-governmental organisations, chambers of commerce and commercial banks. This is evidenced by the growing number and range of support programmes, products and services initiated by the various players that have emerged both inside and outside the public sector. It has been suggested that creating an enabling culture through government policies, procedures and small business practices can facilitate a business environment that can be supportive to entrepreneurial activity and demand, thus encouraging more start-up business activity and regional economic

development (Musengi-Ajulu 2009, p. 2). To this end, the South African Department of Trade and Industry (DTI) has developed the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005). The strategy is supported by three strategic pillars: “ increasing the supply for financial and non-financial support services, creating demand for small enterprise products and services and reducing small enterprise regulatory constraints” (Musengi-Ajulu 2009, p. 2).

More recently the DTI has gone further and has developed a draft National Youth Economic Empowerment Strategy and Implementation Framework 2009-2019 (Musengi-Ajulu 2009, p. 2). The draft framework is based on broad youth-related economic empowerment issues. The draft framework shapes, as part of its mission, its aim of increasing human capital development with a distinctive focus on youth entrepreneurship, business management and technical skills (DTI, 2009). Research suggests that in South Africa, young people regard entrepreneurship as some form of self-employment; many view this as a temporary stop gap measure whilst seeking employment.

### **3. 3 Youth barriers to entrepreneurship**

#### **3. 3. 1 Lack of access to credit and markets**

New business initiatives and entrepreneurship by young people are hampered by their limited access to credit and support networks. Many credit institutions refuse access to credit for young people, because they cannot provide collateral (FMECD 2010). Furthermore, due to insufficient information and access to support networks young business people often have problems getting access to markets (FMECD 2010). The main reason

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for this is that they have not been yet involved with much economic activity due to studies and have not gotten any work experience. However according to Paulson and Townsend (2004) it has been said that over 60% of all small business start-ups, the initial investment has come from family, friends or other relatives. In this case what is considered to be a barrier can sometimes also be an encouraging incentive for the owner to succeed and do better

### **3. 3. 2. Lack of information on youth entrepreneurship support programmes**

Youth are not well informed about the on-going entrepreneurship support initiatives, and access to these programmes is not as easily accessible for the youth as it is to the adults. Most young people may just not know what organisations to approach. In other words the youth lack the social capital or the working network that older generation has accumulated with time.

### **3. 3. 3 Lack of work experience**

Due to a lack of work experience and an inability to compete with skilled and experienced workers as a consequence of inadequate education, first-time job seekers tend to encounter more barriers to employment (FMECD 2010). Particularly in times of economic recession young people are likely to fail as entrepreneurs before adult people, partly because the latter possess better negotiation power and more stable work contracts. Both aspects lead to the greater likelihood of young people entering informal and precarious working relationships, particularly in developing countries (temporary and part-time work, poorly paid, often high-risk jobs without insurance) (FMECD 2010).

### **3.3.4 Lack of training and education**

The current schooling system in South Africa places very little emphasis on preparation of youth to have the knowledge required to be a successful business owner. Good financial literacy, marketing and management skills are not being conveyed to the students. And on top of this a high failure rate means that very few students have access to tertiary education, and are prevented from essential training and education to be a good entrepreneur.

### **3.4 The future of entrepreneurship**

It is most likely that entrepreneurial activity will increase in South Africa, because all levels government are trying to create conditions that should encourage entrepreneurial development (Jesselyn et al 2007, p. 24). They are doing this by creating laws to protect and promote entrepreneurship in the economy; also they are setting up organisations such as NYDA, SEDA and others that support small businesses. Societies across the world are beginning to realize that entrepreneurship offers opportunities for people with wide range of abilities and backgrounds, not only for a few wealthy and particularly talented people.

#### **3.4.1 Access to finance**

The Department of Trade and Industry offers a wide range of products and services comprising loans, and incentive grants that play an important role in enabling access to finance for small enterprises through the institutions such as The National Empowerment Fund (NEF) that offers a range of start-up, business growth, and rural and community upliftment financing products with a focus on black economic empowerment (BEE) transactions (DTI 2005).



### **3. 4. 2 Business development services**

Small Enterprise Development Agency (SEDA) was established in order to spread its presence countrywide through branch offices and a network of independent partners, with a view to increase access to business-development services (DTI 2005).

### **3. 4. 3 Skills development processes**

As part of their regional skills development obligations, various sector education and training authorities (SETAs) have developed and are executing small business skills development programmes. Some of the SETAs are also implementing the New Venture Creation Learnership, with the aim of enabling the participating learners to learn the skills and receive the support necessary to start and successfully manage their own businesses (DTI 2005).

## **4. 0 Conclusion**

The development of youth entrepreneurship establishes an important strategy of youth employment promotion. Especially for disadvantaged youth, business creation offers a chance to escape from poverty. Young women can run an enterprise at home and so combine their housework with income generating activities.

To start and successfully run a business young people need entrepreneurial skills and backstopping as well as access to credit. Development projects and training courses to promote youth entrepreneurship should cover the development of business ideas, market analysis, the development of a business and finance plan, training in project and financial management, communication skills, constructive conflict resolution, marketing, and

monitoring and evaluation. A support team should be established with representatives of NGOs, the business sector and national or international development agencies to give the young people advice in implementing their business plans.