

# What does being an entrepreneur entail



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Over the last ten years the SA GEM report has painted a dim picture of entrepreneurship in SA. Despite substantial investment by both the public sector and private, SA languishes behind other developing countries in terms of Total Entrepreneurial Activity. What are the reasons for this situation and what can be learned from other developing countries to assist SA and radically increase its overall entrepreneurial activity.

What does being an entrepreneur entail? There are a few well known and accepted definitions the world over. The main points to consider are creating or realizing opportunities to change and improve, to think, reason and act and one who organises, manages and assumes the risk of a business enterprise. You will need to convince at least one person that the idea will work and that there is a need for the opportunity. Entrepreneurs need to have some form of backing whether it be personal savings, a loan from an institution or an investment from the relative party. Without the basic funding, the venture will not be able to grow. Entrepreneurial activity can be defined as “ is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets” (Seymour, 2006).

What are the reasons for low levels of entrepreneurial activity in South Africa?

South Africa is not on the same page as other developing countries when it comes to entrepreneurial activity. The public sector as well as the private sector has invested substantial amounts in an attempt to boost the activity within the country. This however has not made a significant impact and thus

there must be other reasons which can be linked to the low rate of entrepreneurial activity within the nation. Many of the factors have knock on effects to one another and thus a vicious circle of declining activity can be developed leading to a deteriorating rate of activity.

In South Africa, the entrepreneurial activity continues to be hindered by a poor skills base as well as severe environmental limitations including the vast amount poverty, a lack of active markets and poor access to resources. This is then not surprising that many South Africans do not regard entrepreneurship as a positive and viable career choice. Many are afraid to approach the big wide corporate world with more uncertainty than it already offers. According to the GEM report (Africa, 2009), there is only 6% of the South African population that views entrepreneurship as a possible and potential career path. Many individuals assume that it is much safer to work in a business which has already been developed than to attempt a new venture. Something that does not help the activity of entrepreneurs is the rising rate of unemployment. This can directly be translated to the developed corporates not creating enough jobs.

The South African Global Entrepreneurship Monitor (GEM) report has not exactly depicted a great picture for the entrepreneurs in the country. There was a 40% fall in the number of start-ups in 2009 compared to 2008 and existing entrepreneurs are struggling to survive (News, 2010). The GEM reports' primary measure of entrepreneurial activity is the Total Entrepreneurial Activity rate (TEA). It is measured by the percentage of people between the ages of 18 and 64 who are involved in developing or running a business. Another GEM report “ demonstrates that in 2008, South

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Africa ranked 23rd out of 43 countries with a Total Entrepreneurship Activity (TEA) rate of 7.8%. This is significantly below the average for all middle to low income countries (13.2%) the findings are consistent with South Africa's performance in previous years" (Africa, 2009).

The global recession has caused a drastic decrease in the number of individuals prepared to take a risk and attempt a new venture. The decline in entrepreneurial activity is aligned with the global trends. Access to finances became much harder to obtain and therefore much harder to get the start-up capital someone would require. It is not very easy to get funding for Small and Medium Sizes Enterprises (SME's) in South Africa. The fact that consumer spending has taken such a huge downturn did not help the cause. It showed its sharpest decline in 24 years (News, 2010). A big portion of entrepreneurial activity in SA is in the consumer services sector; this would have a significantly negative effect on the opportunities for new ventures and entrepreneurial activity.

An important factor to consider when looking at why South Africa is in this low level entrepreneurial activity bracket is, the fact that South Africans generally have a very low level of saving and personal capital. This is the main source of funding when starting a new business (Smit, 2008). Financial institutions will generally only issue loans to entrepreneurs and individuals with a savings record and the reverse is also true. To lend, they need more people to save. What is needed is a shift in the South African mind-set, from a culture of high consumption and debt to a saving culture (Bonds, 2004).

A recent pattern is that more and more emerging entrepreneurs expect to start business solely with borrowed money (Bonds, 2004). Entrepreneurs should be encouraged to save because even if opportunities exist, there is no money to launch new business and support the economy and ultimately no employment will be created. This is problematic, as much reliance is being placed on empowering small and medium enterprises to create jobs. With a greater amount of saving, one will not need to entirely depend on borrowing money from investors or banks and will reduce the owners' amount of interest they would need to earn back.

A huge pitfall in the rate of South African entrepreneurial activity is the lack of understanding of finances. Financial literacy and understanding is a necessity for entrepreneurial advancement in South Africa, and the high levels of debt, and subsequent low levels of savings, has hampered the development of entrepreneurial activity in South Africa. The low level of literacy has a direct impact on the number of entrepreneurs who are willing to take the risk and education remains a major hurdle for South Africa in both the formal and entrepreneur sectors (Fin24, 2010).

The above issues I believe are the causes to blame for South Africa to seem so far behind other developing countries in terms of level of entrepreneurial activity and the picture which is painted in the GEM report.

So how can we improve the levels of activity and what can be learned from other developing countries?

A starting point where I feel is the crux of the issue is the lack of financial literacy of individuals on South Africa.

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Figure – Table Showing Various Rates Relating to South Africa (Report, 2009) A review of South Africa's performance in the 2003 Trends in International Mathematics and Science Study (TIMSS) survey is of particular significance with respect to the quality of maths and science education in South Africa. It assesses the maths and science knowledge skills for grade 4 and grade 8 learners. South Africa was first compared to Morocco and Tunisia and then an additional 2 developing countries, namely Botswana and Ghana. All 4 of these countries out performed South Africa and the figures shown below can be related to the outcome of the TIMSS. In the table below, it can be seen that Tunisia and Morocco have substantially higher new and established business rates in comparison to South Africa.

The primary and tertiary educational institutions should start in to bring in more subjects relating to the literacy of finances and in particular the importance of saving. I feel people do not realise the effect that saving has on job creation and if they were more thoroughly taught or shown what the knock on effect is before they start to earn money, then there will be an increase in overall saving in the country. The benefit to this is the fact that the increased savings will decrease pressure on the banks and allow them to provide funding to up and coming entrepreneurs. Children should be taught the importance of saving at an early age. Such financial literacy can be achieved through the cooperation of financial institutions, the government and community organisations (Bonds, 2004). Countries such as

An important aspect which is known to be used by other developing countries such as Kenya, India and Bangladesh is funding for small start-ups and entrepreneurial activity. South Africa has a particular need for micro-

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finance initiatives, along the lines of those as mentioned above (Report, 2009). South Africa does have a number of these initiatives however they are not marketed very well and few people know about them. All the recognised banks in South Africa have some sort of advice and assistance for entrepreneurs and there are many other channels one can access such as Small Enterprise Development Agency (SEDA).

A key part of reversing this negative trend will include linking funding to mentoring and basic training, which will contribute significantly to minimising business risk. Partnerships should be formed between universities, private enterprise and government to establish such support. South Africa does have something similar in place such as Entrepreneur. co. za. This is project started by Brian Walsh and their mission statement “ create the largest proactive community of entrepreneurs in South Africa and Africa and maximize the learning opportunities, experience exchange and business networking within those communities” is a fine example of someone stepping up and providing the necessary grounding and initiative for a up and coming entrepreneur (Walsh, 2006).

The perceived attitudes regarding entrepreneurship of individuals in a country are of significant importance. If someone sees the risks involved being too high or not for them, they will generally have an impact on people around them with regards to entrepreneurship. From the GEM report, it can be seen that Brazil perceives the entrepreneurship much more highly than that of South Africa sitting 17 places below them. Brazil has a 17% higher attitude with regards to entrepreneurship being a good career choice. This would undoubtedly have a direct impact on the TEA as the GEM report states <https://assignbuster.com/what-does-being-an-entrepreneur-entail/>

that “ individuals confident that they possessed the skills to start a business were four to six times more likely to engage in entrepreneurial activity” (Report, 2009).

Although the picture for entrepreneurial activity in South Africa is pretty dim at the moment, I do believe that we are on the up. With the necessary incentives and initiatives being put in place and the economy coming out of the big dip, there will be more and more individuals who will feel the urge to take on a challenge and develop a new venture. These entrepreneurs will help bring South Africa up to the rest of the developing nations in the GEM report and hopefully continue to rise.