

Success and Failure of Government funded Businesses:

Evidence from Selected Entity, Kwazulu – Natal

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Abstract

This paper reports on the findings relating to factors leading to the success of businesses. The experience and management skills remain vital in the entrepreneurial intentions. A qualitative approach was followed in this specific study. Data were obtained through purposive sampling by way of semi-structured interview with the managing director of the selected business. Empirical evidence shows that a relevant experience is essential when setting up business particularly with farming which requires high level of specialized skills. It is notable that the business should be operated on the basis of economic principle and this would assist in the sustainability of business. It further articulated that mentoring plays a major role in the success of the business. The findings indicate that the project as it is likely to benefit the community in the long run, taking into account the number of workers employed and basic agricultural skills provided. With the expertise the management possesses, it is hoped that they would drive the company to greater strides.

Introduction

The Apartheid system created a situation where most of the communities remained vulnerable and marginalized in terms of opportunities to make strides in life and many instance communities were forcefully removed from their ancestral lands. This marginalization and ignorance has resulted in lack of access to education and employment which ended up with widespread poverty and unemployment. The extent of the marginalization of poor people from formal mainstream economy and opportunities for income generation is of a level that requires serious national interventions and this could include issues of distribution of resources in the country, hence communities are coming forward to claim their ancestral lands. Unemployment is fundamentally a matter of serious concern that is taking into account its effects on economic welfare, erosion of human capital, social exclusion, crime and social instability.

Based on the articulations above, Small, medium and micro-enterprise (SMME) development was identified by the Government as a priority in creating jobs with the intention of addressing unemployment in the country. The Government recognizes the importance of developing SMME hence the strong support mechanisms that are provided by various government agencies. These support mechanisms are under the Department of Trade and Industry, namely Khula financial Limited and Small Enterprise Development Agency (SEDA).

There are other support agencies such as National Empowerment Fund and Industrial Development Corporation (IDC). These two agencies' core priority is to provide funding for business development. These support structures are briefly discussed below.

Small Enterprise Development Agencies (SEDA);

In 2004, the National Small Business Act, 1996(Act 102 of 1996) was amended with the view of merging Ntsika Enterprise Development Agency and the Manufacturing advisory Centre to form the integrated Small Enterprise Development Agency (SEDA) (Nieman and Niewenhuizen, 2009). The entity aims:

- to improve geographic outreach
- provide single access point for small enterprises
- achieve the impact on small enterprises
- optimize resource usage

Khula Enterprise Financial Limited

Khula is a wholesale agency which provides financial support for small businesses through intermediaries. This agency is responsible for providing financial support to financial intermediaries as retail distribution networks by granting them loans, offering guarantees and seed funding. In context, it is notable that Khula does not offer funding as such, but play a major role as a credit guarantor towards the banks that they have arrangements with (Nieman and Niewenhuizen, 2009).

National Empowerment Fund (NEF)

National Empowerment fund was established and mandated through National Empowerment Act, no. 105 of 1998, is a driver and thought-leader in promoting and facilitating Black economic participation through the provision of financial and non-financial support to black empowerment businesses and also promoting a culture of savings and investment among black people (Buthelezi, 2010: p.28).

The Enterprise Information Centre (EIC) previously known as Local Business Service Centres.

According to SEDA the information centre programme was established under the directive of SEDA with the view of increasing the accessibility of SEDA initiatives by formulating

partnership and outsourcing activities to private organisations so that they could provide small business with the support services (Ladzani and Netswera, 2009: p.226). The EIC serves as the vehicle to provide services at the peripheries and this however, is in line with the one of the aims of SEDA, namely, improve geographic outreach. In many instances, business owners far from the metropolitan areas tend to be unaware of this type of service points.

This exploratory study reports on the success or failure of businesses that received funding from government sources in Charlestown, KwaZulu-Natal. In 1963, the community in the area were forcefully removed the apartheid government and resettled in various areas. As a result of this, the community of Charlestown was beset with extreme poverty, unemployment and social dislocation.

In 1998, the community lodged a land claim for restitution and the application was acceded to in 2004. As a result of this, the community started relocating back to Charlestown. The area consists of 8 054 hectares (ha) with twelve farms and 1100 beneficiaries who are all black. The land is situated in an area which is by large a veld-grazing while irrigation system was non – existent. The government and other role players normally observe with keen interest what will happen to the land after restoration, which includes infighting among the claimants and even starting projects that do not sustain themselves. Importantly, with the community of Charles is different. They accepted the fact that they do not have capacity to start the farming enterprise and as such they were assisted by the funders to be the main shareholder. Since the return to the ancestral land and, they can proudly boost on the number of projects that are running in the claimed land such as breeding beef cattle, commercial timber, dairy farm project, and Amajuba berries.

This study reports on one project, namely Amajuba berries due to the fact that it is a highly specialized project. This is a registered private company which has a lease agreement with Charlestown community trust for 25 years. The rationale for entering into collaboration with this private company is to build capacity and the community could take the farm after the lease period.

Amajuba berries received funding from two sources of agencies; namely, NEF the sum of R 19.4 million plus R 14.8 million from Industrial Development Corporation during 2007 fiscal year. The reason for choosing berries as an ideal crop was because it is quick return crop. During 2008/2009 farming season, which was Amajuba berries' first harvesting season, 180 tons were produced with the total turnover of R 8 500 000 .00. The company aims to produce 170 tons during 2009/2010 season (Kubeka, 2010: p.31). Through its marketing component, the company has realised that there is a great market for the berries particularly in Europe, the UK and the United States of America.

It noted that the success of Amajuba berries project is due to NEF's mentor system. According to Kubeka (2010: p.31) the system enabled the community to receive guidance from the early stage of the projects, when soil tests were conducted and climate condition was done to assess the suitability for specific crops and berries were regarded as most suitable crop. The mentoring continued throughout the project to cover the creation of farm management structures,

marketing, distribution system and ongoing monitoring systems to ensure that the project runs as planned.

Since it is an option for one could choose to be either an entrepreneur or an employee in a corporate environment, but knowing that one has opportunity to leave legacy in business that people admire to associate with and this is probably the most fascinating aspect of being an entrepreneur. The environment in South Africa is more conducive for prospective entrepreneurs and even for the businesses that are in operation. This is however as a result of number of agencies that are available to support the development of businesses in the country as articulated in the previous section.

Business owners admit that indeed, there are opportunities for entrepreneurs as the historic dominance in certain sectors weakens, as a result of the Competition Commission which has aggressively work on breaking the carte-type behavior and allowed new entrants into the market. In terms of the entry into other markets there are barriers and only those with deepest pockets are allowed entry (Ashton, 2010: p.2). Despite restricted markets, there are further barriers such as education which remains a hurdle for South African in both formal and informal sector. According to studies, it is not an accident that best entrepreneurial success stories such as Mark Shuttleworth, Adrian Gore of Discovery or international rocket scientist guru Elon Musk are highly skilled and educated individuals. Business owners who have invested in education are more likely to have growth and run profitable businesses. It is however, imperative to employ experienced and qualified workers who will not compromise economic principle.

Management skills as well as experience are the most important elements to ensure sustainability in the business (Mahadea and Pillay, 2008: p.434). This aspect is line with what Van Aart *et al* (2009) that indeed of all problems that the business experiences, 80% of such problems are caused by management and only 20% by workers. In many instances, the owners of the businesses come from outside the business profession and this make it difficult for them to perform.

Problem statement

Two of the major challenges facing South Africa are unemployment and poverty especially in the rural areas. As a result of poverty issues in these areas, the government is always encouraging people in such areas to start the businesses or projects and the government will fund the initiatives particular projects that could improve the living standards of the communities. Research has shown that some of the projects or businesses are started and ultimately perish. This paper argues that a lack of appropriate experience and support is said to be the main rationale for the business to fail in their endeavors.

Based on the above articulations, the following questions are worth asking about the businesses support particular those that are initiated as a result of land restitution:

- Are there support mechanisms for small business in the rural areas?
- What benefits does the project provide for the community?

- What perceptions do business owners have on the support?
- Does experience have impact on the success of the businesses?
- Does education and training has an effect of the success of the business?

Based on the discussion above, this paper aims to determine factors contributing to the success or failure of businesses particularly those established through land restitution claims. The study attempts to determine factors that contribute to the success or failure.

Research Design and Methodology

The research approach used in this study is secondary analysis involving document analysis. According to McMillan and Schumacher, (2006: p.406) secondary research involves the analysis of data that has already being collected. There are reasons for utilising this type of research namely: it saves on time, cost effectiveness, data quality and increased sample size. According to Gillham (2000) and Henning, Rensburg and Smit (2007) this methodology is used when the researcher intends to study documents, records, reports and policies pertaining to the subject under investigation. In order to explore the aspect under investigation further, a qualitative approach was conducted among businesses in Charlestown, KwaZulu-Natal.

Population and sampling

The population for the study consisted of business funded by National Empowerment Fund (NEF) and was purposely selected to take part. The researcher opted for this sampling due to the fact the researcher was of the view that adequate and relevant information will be gathered.

Research procedure

Data were collected, on site, over a period of 1 day from the selected sample. A semi –structured interviews were conducted with the managing director of Amajuba berries. Prior to data collection, permission was requested from managing director of the company to conduct the study.

Discussion

In order to test the reasons discussed in the preceding section regarding the support mechanism for rural businesses. One of case study was conducted on the selected business and had received grants from various government agencies. The selection of one case is due to the fact that this a pilot study of the broader research project aimed to cover projects funded by NEF in South Africa. The selected case is thus examined.

Case Study: Berry farm enterprise

This farm is located in mountainous area of Charlestown in Kwazulu-Natal and it is major producer of berries in South Africa. It has three entities as shareholders, *inter alia* with NEF, IDC and prosperity with a shareholding of 10%. It is a registered private company and had in its

employ managing director; 6 managers and 115 permanent employees. In 2007, it applied for and received a grant of R19.4 and R 14.8,000 respectively from the NEF and IDC.

During an interview with the managing director, the following issues emerged:

The money received from NEF and IDC respectively were used for the following activities:

- The environmental scanning such soil tests and assessment of the climate;
- Set up the infrastructure in the farm in this include establishing a dam for irrigation system preparation of 20 ha start up area in 2008
- Building of tunnels for the berries since this type of crop does not require a hot or cold climate.
- Establishment of pack house and the equipment
- Some money were used for the payment of salaries of workers
- Marketing and distribution system
- The rest of the money was kept as working capital.

When asked which factors are important for the success of the farm and the following emerged:

- Applying economic principle – this suggests that the limited resources should be used for the best advantage of the farm.
- Experience – without relevant experience, it could very difficult to guide workers in the farm. With the previous berry farming experience the managing director has brought wide experience to drive the farm to the greater strides. He is also having a qualification in agricultural engineering. Another imperative on experience is that all six managers have experience in their respective functions.
- Project management – without project management knowledge, it would be difficult for the managers to monitor the project.
- Mentoring system from NEF assisted in terms of measuring strides as well as the guidance provided.

In terms of market, what market does your farm supply and your possible market? The following issues emerged:

- Supply the local market in particular Woolworths, Pick n' Pay, Shoprite and Spar as well export market. There is an intention of increasing export market in 2010.
- The market share for Amajuba berries is standing at 60%.

When asked about the benefits for the community and the following were indicated:

- They employ people from Charlestown, more especially with unskilled and semi-skilled employees.
- Training on basic agricultural skills.
- Opportunity for self employment.

In concluding the interview, the managing director highlighted the following future challenges: economic climate, exchange rate on their exports, lack of skills and experience among the employees since it is taking time to train new workers.

Limitations

It is important to note that this study is based on predetermined population comprising of the successful business and focusing on one case investigated. This however may limit the commonalities of the findings to other settings and population more especially with different sectors. Thus, further research becomes eminent in attempt to replicate and extend these findings to particularly samples in similar sectors in other areas or rather include sample from other provinces to establish any commonalities.

Conclusion and Recommendations

The primary objective of this research was to determine factors contributing to the success or failure of businesses particularly those established through land restitution claims. This study has empirically demonstrated that relevant experience played a role in the success of the business taking into account the number of experienced managers in the company. From the interview it clearly emerged that the project as such is contributing tremendously to joblessness taking into account the number of permanent workers employed in the farm. This number is likely to increase as soon as the expansion of the operation is fully completed and the seasonal workers to be employed during the peak period of berries.

Research has further shown that most of the businesses of this nature are most instance going - concerns and after take-over struggle to make profit. Therefore most of such businesses can learn from the case investigated. It is recommended that the funders of such initiatives should provide mentoring and training programmes to assist the beneficiaries to succeed. Furthermore, since entrepreneurs are supposed to make a positive difference in the economy, South African entrepreneurs should be taught how to identify viable opportunities in the market that will be beneficial to the community in which they operate. Thus there is a great need for appropriate entrepreneurship education and training, as well as mentorship programmes and other emerging farm owners can learn from best practices at Amajuba berries particularly those who were acquired through land restitution initiatives.

In conclusion, the above discussion provides substantive evidence on how to succeed in the business endeavors and other people can learn from the best practices as indicated in the research. It is hoped that this paper would triggers debate among businesses about how they might make strides in businesses established as a result of land restitution. Once funding is

provided by various agencies, it is imperative to provide mentoring programme to assist the business and ensure that they work in accordance with the business plan.

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