

Full Length Research Paper

Success and failure of government-funded businesses: Evidence from a selected entrepreneurial entity in South Africa

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This paper reports on the findings relating to factors leading to the success of government-funded businesses. 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 interviews with the managing director and production manager of the selected business. Empirical evidence shows that relevant experience is essential when setting up a business, particularly in farming, which requires a high level of specialized skills. It is notable that the business should be operated on the basis of economic principles and this would assist in the sustainability of the business. Mentoring plays a major role in the success of the business. The findings indicate that the project reported on in this paper 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 heights.

Key words: Business successes, economic principles, management expertise, specialized skills.

INTRODUCTION

The apartheid system created a situation where most of the black rural communities remained vulnerable and marginalized in terms of opportunities to advance in life, and in many instances communities were forcefully removed from their ancestral land. This marginalization and ignorance has resulted in a lack of access to education and employment, causing widespread unemployment and abject poverty (Rankhumise and Rugimbana, 2010). The extent of the marginalization of poor people from the formal mainstream economy and opportunities for income generation is of a level that requires serious national intervention. This could include issues of distribution of resources in the country, and hence communities are coming forward to claim their ancestral land.

Unemployment is fundamentally a serious concern, taking into account its effects on economic welfare, erosion of human capital, social exclusion, crime and social instability. Based on the aforementioned, 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 SMMEs; hence the strong support mechanisms that are provided by various government agencies. These support mechanisms, namely Khula Enterprise Financial Limited and Small Enterprise Development Agency (SEDA), fall under the Department of Trade and Industry. There are other support agencies such as the National Empowerment Fund (NEF) and Industrial Development Corporation (IDC). The core priority of these two agencies is to provide funding for business development. These support structures are briefly discussed subsequently.

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SUPPORT MECHANISMS

Small enterprise development agency (SEDA)

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

- (1) Improve geographic outreach;
- (2) Provide a single access point for small enterprises;
- (3) Have an impact on small enterprises; and
- (4) Optimize resource usage.

Khula enterprise financial limited

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

National empowerment fund (NEF)

The NEF was established and mandated through the National Empowerment Fund Act (105 of 1998). It 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).

The enterprise information centre (EIC)

According to SEDA, the EIC programme, previously known as local business service centres, was established under the directive of SEDA with a view to increasing the accessibility of SEDA initiatives by formulating partnerships with and outsourcing activities to private organizations. This provides small businesses with support services (Netswera and Ladzani, 2009). The EIC serves as the vehicle to provide services at the peripheries and this is also in line with one of the aims of SEDA, namely to improve geographic outreach. In many instances, business owners far from the metropolitan areas tend to be unaware of this type of service point.

This exploratory study reports on the success or failure of businesses that have received funding from government sources in Charlestown, KwaZulu-Natal. In 1963, the community in the area were forcefully removed

by 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. The community started relocating back to Charlestown. The area consists of 8 054 ha with 12 farms and 1 100 beneficiaries, all of whom are black. The land is situated in an area which is used largely for veld grazing, and irrigation systems were non-existent. The government and other role players normally observe with keen interest what will happen to land after restoration.

This sometimes entails infighting among the claimants and even projects that do not sustain themselves. Importantly, with the community of Charlestown, all that is different. They accepted the fact that they do not have capacity to start a farming enterprise and as such they were assisted by the funders to be the main shareholder. Since their return to the ancestral land, they can proudly boast of the number of projects that are running on the claimed land, such as breeding beef cattle, commercial timber, a 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 was to build capacity, and the community could take the farm after the lease period. Amajuba Berries received funding from two sources, namely from the NEF the sum of R19.4 million and from the IDC R14.8 million during the 2007 fiscal year. The reason for choosing berries as an ideal crop was that it is a quick return crop. During the 2008/2009 farming season, which was Amajuba Berries's first harvesting season, 25 tons were produced with a total turnover of R8 500 000. The company aimed to produce 170 tons during the 2009/2010 season (Kubeka, 2010). Through its marketing component, the company has realized that there is a huge market for the berries, particularly in Europe, the UK and the United States of America (Long, 2004).

It is noted that the success of the Amajuba Berries project is due to the NEF's mentor system. According to Kubeka (2010), the system enabled the community to receive guidance right from the early stage of the projects, when soil tests were conducted and climate condition tests were done to assess the suitability for specific crops. Berries were regarded as the most suitable crop. The mentoring continued throughout the project to cover the creation of farm management structures, marketing, a distribution system and ongoing monitoring systems to ensure that the project runs as planned.

An individual can choose to be either an entrepreneur or an employee in a corporate environment, but knowing that they have the opportunity to leave a legacy in a

business that people admire and would like to be associated with, is probably the most fascinating aspect of being an entrepreneur. The environment in South Africa is more conducive for prospective entrepreneurs and even for existing entrepreneurial businesses. This is because of the number of agencies that are available to support the development of businesses in the country, as stated in the previously. Business owners admit that there are opportunities for entrepreneurs as the past dominance in certain sectors weakens. The Competition Commission has aggressively worked to break up cartel-type behaviour and allow new entrants into the market. There are barriers to entering other markets and only those with the deepest pockets are allowed entry (Ashton, 2010). Despite restricted markets, there are further barriers such as education which remains a hurdle for South Africans in both the formal and informal sectors. According to studies, it is not an accident that the 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 (Horwitz, 1996). It is, however, imperative to employ experienced and qualified workers who will not compromise economic principles.

Management skills as well as experience are the most important elements to ensure sustainability in the business (Mahadea and Pillay, 2008). This aspect is in line with what Van Aardt et al. (2009) found, that of all problems that the business experiences, 80% are caused by management and only 20% by workers. In many instances, the owners of the businesses come from outside the business sector and this makes it difficult for them to perform (Mmutlana, 2005; Hangana, 2007).

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, the government is always encouraging people in such areas to start businesses or projects and the government will fund the initiatives, particularly those that could improve the living standards of the communities. Research has shown that some of the projects or businesses that have started have ultimately perished (Davenport and Prusak, 2000; Bojović and Ivanović, 2010). This paper argues that a lack of appropriate experience and support is said to be the main reason for businesses failing in their endeavours.

Based on the problem stated in the foregoing, the following questions are worth asking about business support, particularly those initiated as a result of land restitution:

(1) Are there support mechanisms for small business in the rural areas?

(2) What benefits does the project provide for the community?

(3) What perceptions do business owners have of the support?

(4) Does experience have an impact on the success of the businesses?

(5) Do education and training have an effect on the success of the business?

Based on these questions, this paper aims to determine factors contributing to the success or failure of businesses, particularly those established through land restitution claims.

METHODOLOGY

The design employed for this specific research was exploratory in nature. The exploratory approach was seen as a way to provide an opportunity to unravel the nature of the business managers' experiences and views, of which little is known. The rationale for employing an exploratory design was to obtain a better understanding of the experiences managers have of the success and failure of government-funded entities. An inductive approach was used, which relies mainly on qualitative data collection methods in order to gain a deep understanding of the constructs and nature of major issues or research problems. Silverman (2004) attests that the researcher will start with a question, collect data, analyse the data collected, start to formulate theory, go back and reflect on it or even collect more data where necessary.

Population and purposive sampling

The population for the study consisted of one business case funded by the NEF and the IDC. The participants, who consisted of the managing director and the production manager, were purposively selected to take part. The researcher opted for this sampling, having the view that adequate and relevant information would be gathered, namely factors contributing to the success or failure of government-funded entities, especially those established through land restitution initiatives.

Ethical considerations

In addressing ethical issues, the following were considered: Firstly, informed consent was obtained from the participants by way of an informed leaflet explaining the purpose of the research and the procedure for the interviews. Secondly, participants were further informed of their rights in the research. Thirdly, they were informed of their anonymity since no personal identifiers were used. They were also informed that the data collected would be used solely for the research.

Data collection procedure

Prior to data collection, institutional permission was requested from the managing director of the company to conduct the study. Data were collected, on site, from the selected sample. An interview guide was developed to ensure consistency in the process of data collection. Semi-structured interviews were conducted with the

managing director and the production manager of Amajuba Berries. The researcher posed several questions on the success or failure of government-funded entities. Based on the questions posed, other questions emerged as the interviews continued. The researcher made use of field notes to capture the interviews as well as an audio tape recorder.

Trustworthiness

In order to ensure that trustworthiness was accomplished, the framework of Lincoln and Guba (1985) was followed. The framework consists of number of elements, namely transferability, credibility, dependability and confirmability. In this research, trustworthiness was achieved by triangulation, prolonged engagement with the participants as well as using the chief researcher to confirm the themes that emerged from the interviews (Babbie and Mouton, 2009).

Data analysis

The researcher independently analyzed data using Tesch's reduction protocol (Creswell, 2009) of open coding. According to Creswell (2009), Tesch's data reduction method is a manual analysis of data following eight steps: (i) get a sense of the whole by reading all the transcripts carefully; (ii) pick one interview sheet and go through it without thinking of the substance of the information but its underlying meaning; (iii) when all the interviews have been completed, make a list of all topics; (iv) take the list and go back to the data and abbreviate codes; (v) find the most descriptive wording for your topics as codes and turn them into codes; (vi) make a final decision on the abbreviation for each category and create alphabets for these codes; (vii) assemble the data material belonging to each category in one place and perform initial analysis and (viii) if necessary, recode the existing data. The rationale for using this method was to established commonalities in terms of themes that emerged from the interviews. As a starting point, the researcher read the field notes to comprehend the data and to get a sense of the whole (Creswell, 2009). Different topics were abbreviated as codes and they were written next to the related text. The related topics were grouped together to form themes. After the finalization of themes, the researcher and the chief researcher met to discuss the themes that emerged during analysis, and reached consensus on the themes that emerged.

FINDINGS AND DISCUSSION

In order to test the reasons discussed in the study's data analysis, regarding the support mechanism for rural businesses, one business case study was conducted on the selected business, which had received grants from various government agencies. The reason for selecting one case was that the entity received a huge grant from two government agencies.

Amajuba Berry farm enterprise

Amajuba Berries is located in the mountainous area of Charlestown in KwaZulu-Natal and is a major producer of berries in South Africa. It has three entities as shareholders, *inter alia*, with the NEF, IDC and a

shareholding of 10%. It is a registered private company and had in its employ 1 managing director, 6 managers and 115 permanent employees. In 2007, it applied for and received grants for R19.4 million and R14.8 million from the NEF and IDC, respectively.

The discussion in this article is based on the main themes that emerged during data analysis, namely funding, experience, economic principles, mentoring, labourers lacking skills, and job creation. The participants in the research provided valuable information regarding factors contributing to the success or failure of government-funded entities. These factors are discussed subsequently and they are substantiated by verbatim quotations by participants.

Funding

In many instances, funding is a challenge for emerging businesses. In the experience of those who manage to get funding, the owners use this funding for the wrong reasons, for example, owners buy assets for personal use rather than putting the money into the business. This situation has resulted in banks becoming sceptical about lending to emerging businesses.

"... of course we were fortunate that we received two grants from government agencies to start the business here. A grant of R32 million was received from NEF and IDC. This money help us a lot to start with the infrastructure in the farm. We managed to erect a road leading to the farm, built a dam and above all created tunnels. The rest of the money was used as working capital..."

This quotation is contrary to the notion that business owners use money for personal use. In Amajuba berries, the situation is totally different as they used the money mainly for business purposes. This is a good practice and other businesses can follow this practice as implemented by the entity under investigation.

Experience

It became evident from the interviews conducted that for any business owner to succeed, experience plays a pivotal role, especially in businesses that are more specialized. Lack of relevant experience could hamper the initiative of establishing businesses through land restitution.

"...Without relevant experience, it will be very difficult to guide workers in the farm. With the previous berry farming experience that I have, I will drive the farm to greater strides. Having a qualification in agricultural engineering it is a bonus for Amajuba Berries. Another

imperative on experience is that all other five managers as well have experience in their respective functions. We therefore anticipate a success of this company..."

The findings of this study confirm the findings of Van Wyk (2011) that without experience, government support and access to training, many black farmers have been forced to resell farmland given to them through land reform. It is imperative that capital and capacity support be in place before any land is handed over to emerging farmers.

Economic principles

There is a notion that most of the community businesses established through land restitution squander money by spending it on personal use and this could result in a situation where the coffers of the business run dry. These findings are in line with what Van Aardt et al. (2008) say: business owners and managers should avoid using the assets of the business for personal use at the expense of the business.

"...It is important to use the resources of the company only for the purpose of the business. It is a well-known fact that your funding should be used in the business interest and if not used properly, the business will not succeed if the money and other resources are directed for personal interest and use. This is how many businesses are failing. For instance, there was another project next to our farm there; you can only see burn infrastructure and the project did not take off because of conflicts. Remember R1, 2 million was allocated for that project"

The particular situation could be attributed by number of factors, for instance, it could be because of lack of experience or even financial management skills. If funds are misappropriated, it will result in business collapsing as result of (i) less revenue will be generated and inability to repay workers as well as repayment of loans, (ii) experiencing of cash flow problems and (iii) ultimately funds may be finished. Once this situation is reached, the common notion will then be seen that 'give them a well-running entity and within six months it will collapse'. This is how businesses that are taken over as going concern due to land restitution are known of.

Lack of skills among new recruits

It emerged that the local employees in Charlestown recruited by the company lack the basic skills relating to agricultural activities. This is further evident from the verbatim quotation given as follows:

"...it is a problem when we want to employ workers in the vicinity. People do not have skills and as soon as they

are appointed you train them for a period of three months which in fact take sometimes for them to understand the activities in the farm. It could have been much better if we had a choice it could be much better. Training is taking long..."

The previous findings suggest that training employees for a period may compromise productivity. There should therefore be a mixture of trained and untrained workers to complement to those that are still on the learning curve.

Mentoring

Mentoring was provided for Amajuba Berries in respect of financial management as well as project management. Entrepreneurial mentoring can support business growth and reduce business failure rates. This is very important for businesses that are emerging, particularly those who are embarking on specialized businesses such as farming. Entrepreneurial mentoring can be seen as business development based on the premise that there is a direct link between entrepreneurs' actions and capabilities and the performance of their respective businesses (Peel, 2004). In this case, Amajuba's mentorship programme has worked very well, as is evident from the turnover of R8 million in their first harvest.

Job creation

The farming sector has the capacity to create a great number of employment opportunities. Amajuba Berries has employed 115 workers and expect to employ 250 seasonal workers. This is in line with the government agenda that businesses should address issues such as unemployment and poverty alleviation.

Community support mechanism

From the interviews, it emerged that the company has assisted the Charlestown community by electrifying the township free of charge. This initiative was implemented with a view to attempting to uplift the well-being of the inhabitants.

Furthermore, they assist in granting bursaries to children of Charlestown in order to contribute to capacity building of the community so that in future these very children can be employed by Amajuba Berries.

Factors contributing to possible failure

From the interviews, the following issues emerged strongly as future challenges to the success of Amajuba Berries: (i) the economic climate could hamper the

success of the business, (ii) the export exchange rate could impact negatively on profitability, and (iii) lack of experience could also contribute to the failure of the business.

Conclusions

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 plays a role in the success of a business, taking into account the number of experienced managers in the company. From the interviews it clearly emerged that the Amajuba project as such is contributing tremendously to job creation when the number of permanent workers employed on the farm is considered. This number is likely to increase as soon as the expansion of the operation is fully completed and the seasonal workers are employed during the peak period. It was also found that the project is likely to benefit the community in the long run, taking into account the number of workers employed and basic agricultural skills acquired.

Research has shown that most businesses of this nature are going concerns and after take-over, they struggle immensely to make profit. However, Amajuba made a turnover of R8 million at their first harvest, which is a positive element of success of this entity. Therefore, other such businesses can learn from the case investigated. It is recommended that the funders of such initiatives 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. Other emerging farm owners can learn from best practices at Amajuba Berries. The following factors can contribute positively to the success of the entity:

- (1) Experience plays a pivotal role in the success of the business, as can be seen in Amajuba Berries. Notably, without the necessary experience and qualifications of the managers, the business is likely to fail.
- (2) Economic principles must be adhered to which relate to the utilization of business resources for the benefit of the business.
- (3) Mentoring should take place to ensure that business activities are guided by a more experienced person to eliminate pitfalls.
- (4) Funding is important, particularly at the initial stages of the business where there is a need to establish infrastructure for the business.

Finally, the previous discussion provided substantive evidence on how to succeed in business endeavours. Other people can learn from the best practices as indicated in the research. It is reasonably hoped that this paper will trigger debate among businesses about how they might make progress in their businesses established as a result of land restitution. Once funding is provided by various agencies, it is imperative to provide mentoring programmes to assist the business and ensure that they work in accordance with the business plan. On a final note, this study has identified reasons for the success and failure of government-funded entities based on a selected entrepreneurial entity in South Africa. It posits that experience and management skills are and always will be vital in entrepreneurial intentions. The expertise of the management can drive the company to greater heights.

LIMITATIONS

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

RECOMMENDATIONS AND FUTURE RESEARCH

Essentially, great strides have been made by government in assisting land restitution initiatives in the country. This is evident in the case of Amajuba Berries, which is currently the major supplier of berries in South Africa. Since the focus was only on Amajuba Berries, there is a need to conduct other research on a broader scale on other businesses established through the land restitution process, so that the findings can be generalized. It is suggested that agencies such as the NEF, SEDA and IDC extend their outreach programmes to the rural settings, which will make prospective entrepreneurs aware of the support they may get from government agencies. The final suggestion is that capital and government support should be in place before the beneficiaries are given an ongoing concern.

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