Small Business Incubation and the Entrepreneurial Business Environment in South Africa: A Theoretical Perspective

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Abstract

Small business entreprises and entrepreneurs face numerous challenges that include lack of managerial skills, financial challenges, lack of credit, lack of access to markets, usable technology, low production, lack of interest by employees, and inadequate institutional support. The paper presents various literary perspectives on small business incubation in South Africa, the state of innovation-oriented business environment and the significance of small business incubators for developing and promoting SMEs and entrepreneurship in South Africa. Business incubators provide a good platform for the convergence mechanisms for supporting knowledge-based enterprises, both before and after their incubation. Overall, it is worth noting that business incubators do not replace entrepreneurial initiatives, but create better conditions for entrepreneurship. Furthermore, the increasing number of business incubators in South Africa shows that the right kind of business environment is increasingly being acknowledged as an important factor contributing to the success of SMEs, entrepreneurship and the local economy. Conclusions and future studies are proposed.

Keywords: *Entrepreneurship; Business incubation; Small business; SMEs; South Africa;*

1. Introduction

Small businesses face numerous challenges that include lack of managerial skills, financial challenges, lack of credit, lack of access to markets, usable technology, low production, lack of interest by employees, and inadequate institutional support (Kongolo, 2010). Small business incubation comes in as an innovative and dynamic process of enterprise development designed to accelerate the growth and success of small businesses through an array of professional and resources support and services (United Nations Economic Commission for Europe-UNECE, 1999). With small businesses increasingly becoming a major feature of economic development policy in both developed and developing countries due to their labour-absorptive capacity and their contribution to poverty alleviation and employment creation (King & McGrath, 1999), business incubation is now regarded as dynamic hybridised economic development facilities that combine features of entrepreneurship, business facilitation and business support mechanisms (Rice & Matthews, 1995) for economic growth world-wide. As a relatively recent and innovative entrepreneurial system (Tambunan, 2008), business incubation is derived from earlier SMEs support programmes; bearing its own distinctive characteristics stated by the United Nations Industrial Development Organization (UNIDO, 1997). In other words, incubators are recognised as inventive instruments that are increasingly becoming important in developing economies (Hanadi & Busler, 2010), fostering the promotion of competitive small to medium enterprises (SMEs). The development and sustainability of SMEs is of critical importance for both developing and developed economies (Hanadi & Busler, 2010).

The value and importance of SMEs lies in their significant contribution to economic development, to production, competitiveness, employment creation, industrial growth, organisational decentralisation (Hackett & Dilts, 2004) and to social coherence (Kongolo, 2010). SMEs function as the source of new enterprises, new innovative products, dynamic applications and flexible business forms (Tambunan, 2011). In the process, they help meet the socio-economic needs; and form the zoning plans for the distribution of employment and income within the economy (Hackett & Dilts, 2004) thereby increase the citizenry spending power and propping economic growth (Dubihlela & Dhurup, 2013). SMEs add to the variety of goods and service offerings for customers to choose from, some of which may not be provided by the large businesses (Jackson, 2004). SMEs also act as a catalyst for economic growth as well as the development of diverse industries such as the arts, human resources, education and sport (Cronje, Du Toit & Motlatla, 2004). At household level,

South Africa's SMEs are acknowledged as having a significant role to play in achieving a variety of objectives such as poverty alleviation, employment creation, increased incomes, economic growth, and economic empowerment (Ghobakhloo, Arias-aranda & Benitez-amado, 2011).

For this purpose, this paper explores literature on small business incubation in South Africa, the state of innovation-oriented business environment and the significance of small business incubators for developing and promoting SMEs and entrepreneurship in South Africa. The South African small businesses have a wide choice of business incubators to choose from in their endeavours to become successful. Government, the business sector and universities invest heavily in the establishment of business incubators (Tambunan, 2008). Many of the existing initiatives are also non-commercial and aimed at rendering a service to industry.

2. Brief History of Business Incubation

Over the past 55 years, small business incubators have evolved in various forms (Hackett & Dilts, 2004). The first form of incubation was established as early as in 1959 in the United States of America (USA); although it was not called a business incubator (Wiggins & Gibson, 2003). It consisted of the subdivision of the old Massey-Ferguson manufacturing plant in New York's Batavia, purchased by Joe Manuscoto and rented out to different kinds of small businesses (Nattrass, 2011). Nearly 25 years later, there were twelve business incubators established in the same format and operating in the same manner in USA. The United Kingdom (UK) was soon to follow and adopt the same small business nurturing strategy as the USA starting in the early 1970s. Ten years later in the early 1990s, China had about 85 small business incubators actively operating (Ndabeni, 2008).

South Africa only came on board in 1995 when the first form of a business incubator was developed by the Small Business Development Corporation (SBDC) to facilitate small business development in townships and contribute to SMEs sector growth (Buys & Mbewana, 2007). In the townships, these forms of business incubators were known as 'hives of industry', with the necessary infrastructure like telephones, electricity, office space and warehousing space (Kongolo, 2010). These early forms of incubators were mainly focused on new technologies, light manufacturing industries and services. However, because of the high adaptability of small business incubators (Tambunan, 2011), they are now found in all industry types, and were proving to be the future of innovation-oriented business ventures and entrepreneurship (Ndabeni, 2008).

Incubators come either as government financed entities or private entities financed by large corporates or civic society. Wiggins and Gibson (2003) identify them as non-profit making operations supported by local governments, academic institutions or institutions of higher learning. According to Buys and Mbewana (2007), business incubators in South Africa were initiatives mainly launched by the departments of Trade and Industry (DTI) and Science and Technology (DST) with the objectives of creating new businesses and new employment opportunities. It was through these departments that the Godisa incubators were established; the first success story of fiscal interventions to business incubation in South Africa, with twelve operational infrastructures operational as of year 2005.

3. Current State of Incubators in South Africa

The small business sector in South Africa has got the best chance to create employment and improve the unemployment situation in the country (Various) where sixty there percent of small businesses fail in the first two years (businesslive.co.za). In South Africa, the incubation process is a recent phenomenon and is still evolving. Nevertheless, the limited literature in South Africa provides important insights into the nature and workings of business incubators in the country. This section identifies some key elements of the business incubation movement in South Africa and highlights some insights from the available literature. Statistics also show that the majority of businesses who were assisted by business incubators during the initial phases have a better chance to become sustainable (Ghobakhloo *et al.,* 2011). According to Ensor (2013), incubation have been identified as a way of nurturing small businesses and linking them to more established enterprises. Further, Ensor (2013) states that thirty new applications for incubators were approved between January and September 2013 intending for 19646 jobs to be created during the ensuing 2014.

Universities also establish incubators to assist in the development of small businesses. According to Shalaby (2007), it is acknowledged that a nation's standard of living depends on the development of science and technology and that universities play a crucial role in the dissemination of scientific and technical knowledge. Research further postulates that the existing interaction between universities and business incubators has opened up new jobs through new enterprises that have been established and also through the development of existing enterprises (Robson, Helen & Obeng, 2008).

Table 1.1 University-based Business Incubators

Universities of Technology	**Focus Area**	**Province**
Durban University of Technology	Food services and hospitality management	KwaZulu Natal
Cape Peninsula University of Technology	Clothing and textiles technology	Western Cape
Nelson Mandela Metropolitan University	Automotive components	Eastern Cape
Vaal University of Technology	Composite materials, non-distructive metals	Gauteng
Mangosuthu University of Technology	Chemistry and chemical engineering	KwaZulu-Natal
Twshane University of Technology	Automotive	Gauteng
Conventional Universities		
University of the Free State	Various	Free State
University of Pretoria	Various	Gauteng
Stellenbosch university	Various	Western Cape
University of Cape Town (UCT)	Various	Western Cape
University of Johannesburg	Various	Gauteng
Northwest University	Various	North West
University of Kwazulu Natal	Various	Kwazulu-Natal

Source: *Adapted from Ndabeni (2008:43)*

Over and above the business incubators established by the various universities, the Department of Trade and Industry (DTI) launched the incubation programme late in 2011, from which fourteen applications were approved in 2012. By the end of 2013 a further sixteen applications were approved with nearly 20 000 jobs expected to be created by these small business incubators. Most the approvals have been in the manufacturing and agricultural fields sponsored by such large corporates as Lonmin, Eskom and Transnet. These have agreed to form a partnership with the DTI to sponsor a number of other incubators that were initiated by the government institutions (Abor & Quartey, 2010).

Private initiatives such as The Business Place initiated and funded by Investec (Ghobakhloo *et al*., 2011) are based on a Canadian model of local company development. Each branch is a private-public partnership but is not a supplier of funds. Sometimes people with good ideas are put into touch with other more suitable incubators like the ChemCity business incubator, part of the Sasol group – a multi-sectoral facility – in Sasolburg in 2013 (Ensor, 2013). Pick-n-Pay also assists small emerging companies through their Small Business Incubator (Makhaya, 2014).

Table 1.2 Industry-based Business Incubators

Name of Incubator	**Incubator Focus Area**	**Provincial Location**
Godisa Incubators (DST, DTI and EU initiative)	Independent trust, incubator centres that just support and offer advisory services	Various (12) - SA
Acorn Incubator	Life science technologies and small enterprise development	Western Cape
Brainworks Technology Incubator	ICT and Electronics; supports high-tech start-ups	Gauteng
eGoli Biotechnology Incubator	Life sciences research, products, services and technology platforms	Gauteng
SA Chemical Technology Incubator	Supports downstream chemical manufacturing SMMEs	Eastern Cape
Timbhale Incubator	Export-based cut flower and nutriceuticals	Mpumalanga
The Innovation Hub	Start-ups companies at the leading edge of new technology economy	Various (9) - SA
KwaZulu-Natal Innovation Support Centre	Technology commercialisation, skills development	KwaZulu-Natal
Zenzele Technology Demonstration Centre	Small-scale mining and agricultural initiatives	Gauteng
The Business Place (Investec)	Small, micro and medium enterprise development	Gauteng
Patel	Training to unemployed accounting graduates	Gauteng
PicknPay Small Business Incubator (SBI)	Assists emerging companies and SMEs	Westerb Cape
African Rose Enterprise Development	Support to oil farmers and agro-processing	KwaZulu Natal
Aurik Business Accelerator	Invests in entrepreneurs and builds small businesses	Various - SA
Chemin	Support SME's in the downstream chemical industry	Eastern Cape
Endeavour	Assist high-growth entrepreneurs in emerging markets	International
The Downstream Aluminium Centre for Technology	Incubation of small aluminium casting enterprises	KwaZulu-Natal
Egoli Bio	Assist entrepreneurial life sciences and biotechnology ventures	Gauteng
Furntech	Assist SMME's involved in furniture manufacture	Gauteng
Shanduka Black Umbrellas	Support emerging black entrepreneurs and small businesses	Various - SA
Mpumalanga agri-skills	Promotes sustainable agricultural empowerment	Mpumalanga
Mpumalanga Stainless Initiative (MSI)	Works with SME's in the manufacturing sector	Mpumalanga
The Nelson Mandela Bay Incubator	Contribute in the process of creating successful small ICT enterprises.	Eastern Cape

Raizecorp's Business Incubator	Provide full-service business support programmes to guide entrepreneurs	Various - SA
Seda(DTI) (Various initiatives)	Develop, support and promote small enterprises	Various - SA
Soft-Start Business and Technology Incubator	Real estate entrepreneurship start-up and growth	Western Cape
Soshanguwe manufacturing technology demonstration centre	Small-scale manufacturing machinery and equipment for entrepreneurs	Gauteng
Timbali Technology Incubator	Support emerging farmers in the cut flower market	Gauteng
Gauteng Software Incubator	Software technology development and small business	Gauteng
ChemCity	Support small business growth in chemical technology	Various - SA
Eskom	Enterprise technology development and capacity building	Various - SA

Source: Author compilation from various publications

4. Significance of Business Incubators in South Africa

In South Africa, the most advanced business incubator is the Innovation Hub, which focuses on high-technology entrepreneurs and start-up companies at the leading edge of the new economy (Buys & Mbewana, 2007). The Gauteng Provincial Government, through the Blue IQ initiative, announced in 2000 that the Innovation Hub would be developed as one of the major projects to stimulate economic growth in the province (Makhaya, 2014). The initiative was launched in February 2000 and the Innovation Hub started operating in December 2000. It is the first internationally accredited science park in Africa, a high-tech cluster that creates an environment where international businesses can access a regional centre of knowledge creation (International Labour Organization, 2000). Overall, it builds on best practice to create the essence of a science park while providing a gateway for local businesses to launch into the world of global interconnectivity successfully (Abor & Quartey, 2010). Further, the cooperation between industry and educational institutions enables universities to move from basic to applied research (Giesecke, 1999). Overall, the collaborative efforts between government, research institutions and universities of technology are encouraging. In particular, collaborative relationships are expected to promote economic development, job creation, technology transfer and innovation.

Overall, the increasing number of business incubators in South Africa shows that the right kind of business environment is increasingly being acknowledged as an important factor contributing to the success of SMMEs and the local economy. Likewise, the number of technology stations is evidence of the importance of know-how and technology transfer between the universities and SMMEs (Besser, 1996). In sum, these business development instruments are proving to be cost-effective ways of helping to start technology-based enterprises.

5. Potential Benefits of Incubation

Eleven potential success factors were identified for business incubators. In an analysis done a very strong correlation was found between incubator success and a conducive environment and a very weak relationship between incubator success and a proper business plan, stringent selection criteria and an experienced advisory board.

Eleven potential success factors for business incubators.

The set of eleven potential success factors for business incubation	
1	Access to science and technology expertise and facilities
2	Comprehensive business plan
3	Stringent selection criteria
4	Available funding
5	Quality of entrepreneurs
6	Stakeholder support
7	Supportive government policies
8	Competitive and motivated management
9	Financial sustainability
10	Experienced advisory board
11	Networking.

Source: Buys & Mbewana (2007:13)

Incubators in South Africa are established by Government, the private sector, higher education institutions and overseas initiatives such as the Branson Centre of Entrepreneurship (South Africa) that have taken hands with Nedbank to form a partnership to fund its local involvement with the small business sector (Nattrass, 2011). Unlike many business

assistance programs, business incubators do not serve all companies; instead, entrepreneurs who wish to enter a business incubation program must apply for admission. Acceptable criteria vary from program to program, but in general only those with feasible business ideas and a workable business plan are admitted (Hanadi & Busler, 2010). It is this factor that makes it difficult to compare the success rates of incubated companies against general business survival statistics (Buys & Mbewana, 2007).

More than half of incubation programs surveyed in 2006 by the National Business Incubation Association reported that they served as affiliates or virtual clients of other corporations. These companies do not reside in the incubator facility. Affiliate clients may be home-based businesses or early-stage companies that have their own premises but can benefit from incubator services offered by large corporations (Olawale & Garwe, 2010). Virtual clients may be too remote from an incubation facility to participate on site, and so receive counselling and other assistance electronically.

6. Some Models of Business Incubation

Their key objectives are economic growth, sustainable employment, technological innovation and technology transfer, and making South African SMMEs internationally competitive. The technology stations' activities include, inter alia, research, development and application of new technologies, technology transfer, troubleshooting, quality advisory service, product development, simulated production units, testing services and secondment of staff and students (Business Referral & Information Network, 2004).

7. Conclusions

The future growth of a modern small-business sector requires renewed efforts to improve production methods, to raise quality and to shift to value-added products and services through modern design and technological innovations. It also requires a special focus on support systems that provide integrated services for production, management, marketing and finance (International Labour Organization, 2008). The business incubators provide a good platform for the convergence mechanisms for supporting knowledge-based enterprises, both before and after their incubation (Olawale & Garwe, 2010). Incubator assessments carried out by the United Nations Development Programme in Brazil, the Czech Republic, the People's Republic of China, Mexico, Nigeria, Poland and Turkey point to the potential of incubators for creating innovative enterprises, greatly increasing their chances of survival and success, generating jobs directly while firms are still within the incubator and even larger employment when they graduate and grow, and at the same time promoting the commercialisation of research, fostering skills for entrepreneurship and influencing national policies for small enterprise development (UNIDO, 1997).

Finally, links between business incubators and universities are important. Incubators provide a proven economic development tool for their communities. In the last four decades, incubated companies are estimated to have created more than 0.25million jobs (Wiggins & Gibson, 2003), which potentially increased the tax base. The incubators operations have occupied additional commercial real estate space, contributed to the local business infrastructure, and lead to additional job creation in various business sectors (Buys & Mbewana, 2007). Likewise, the United Nations Industrial Development Organization (1997) states that the involvement of private-sector corporations has grown over the years and has significantly boosts small business incubation and SMEs development. Overall, it is worth noting that business incubators do not replace entrepreneurial initiatives, but create better conditions for entrepreneurship.

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