

# “A support framework for survivalist entrepreneurs – Free State province case study”

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## A support framework for survivalist entrepreneurs – Free State province case study

### Abstract

The White Paper on the development and promotion of small, medium and micro enterprises (SMMEs) in South Africa emphasizes the existence of the survivalist entrepreneurs as a segment within the South African SMMEs, as well as their urgent need for assistance in order to become viable business entities. However, existing assistance has been channelled towards the profit-orientated SMMEs, thus disregarding the survivalist entrepreneurs who depend on their business for survival. With increasing unemployment and poverty rates, there exists a growth in numbers of survivalist businesses. The study highlights the impact of government policy particularly apartheid, recognized as part of history, as well as Black Economic Empowerment, which is currently being practiced, on the formation of the survivalist businesses. It also emphasizes how the declining socio-economic conditions (particularly poverty and unemployment) are linked to the formation of survivalist businesses. Using a non-probability method of sampling, 100 survivalist entrepreneurs from the five districts of the Free State province of South Africa, were studied in order to understand the obstacles they experienced in their businesses. Motivational factors into commencing these enterprises were also investigated. A conceptual framework was developed from the empirical data. In concluding the study, the empirical and reviewed data were utilized to formulate a support framework aimed at assisting the survivalist businesses to become viable business entities.

**Keywords:** survivalist entrepreneurs, Black Economic Empowerment, framework, poverty, unemployment, Free State province, South Africa.

**JEL Classification:** O1.

### Introduction

South Africa is fast becoming a breeding zone for survivalist entrepreneurs, who are stigmatized as individuals who turn to informal business activities in an attempt to survive from the negative effects of poverty and unemployment due to the declining socio-economic conditions. Concurrently, the government continues to view them as a plague that will disappear with time. The positive impact of these enterprises which include employment and income generating capabilities, as well as the possible contribution towards South Africa's gross domestic product (GDP) are not considered and are concealed by the clustered unhygienic trading areas, which are perceived to have a negative impact on the surrounding environment.

This paper focuses on revealing the issues surrounding the contemporary survivalist businesses within the Free State province, South Africa. The impact of history, as well as current legislation will be discussed, so as to understand how they impact on the contemporary survivalist businesses of the Free State province. Motivational factors that either push and/or pull the owner into starting the business will also be discussed. Obstacles to such businesses will also be scrutinized. The paper will conclude with a developed framework to be used in assisting the survivalist businesses to become viable in their business activities.

### 1. Literature review

#### 1.1. The impact of the apartheid regime on the formation of survivalist enterprises in South Africa.

"The apartheid policy denied the black South Africans the extensive exposure to businesses" (Mensah and Benedict, 2010). South African historical political systems denied the then oppressed groups an opportunity to become successful business owners, while creating dependency on government for assistance. Post apartheid error is this group continues to depend on the government for support, with very limited entrepreneurial outlook.

A modified version of the simple disadvantage theory of entrepreneurship, the resource constraint version, 'suggests that the members of such groups tend to respond to joblessness and to limited employment options by becoming petty entrepreneurs rather than by starting small businesses'. In other words, the resource constraint group becomes small, unrecognized entrepreneurs that could be described as survivalist entrepreneurs in South Africa.

Furthermore, their need to find sources of non-wage income will cause their over-representation in the entrepreneurial pursuits of this peripheral sector. In other words, the disadvantage of blacks in the labor market will be unrelated to black entrepreneurship in mainstream businesses but positively associated with black entrepreneurship in marginal enterprises (Boyd, 2000). A scenario very common in South Africa whereby the black population is prominent in the lower spectrums of the SMMEs, namely micro-enterprises and survivalist businesses, when compared to the small and medium spectrums.

It can be deduced that apartheid led to economic disempowerment for the average black South African by creating low levels of per capita earnings in this particular group of people. This created a web of poorer people who were unable to start a better business, thus trapping them into survivalist enterprises during their attempt to improve their socio-economic status.

**1.2. The role of the Black Economic Empowerment (BEE) policy on the formation of survivalist entrepreneurs.** In an attempt to create opportunities for the black majority in the economic mainstream, a strategy termed Black Economic Empowerment (BEE) was introduced in South Africa.

BEE was a strategy created and driven by the elite government and white business, which led to the widening of the structural gap between the elites and the outsiders (Meintjies, 2004). As a consequence, this led to increased empowerment at the top of the economy and increased disempowerment at the bottom of the economy, made evident by the widening income gap within the black population.

In Namibia, BEE became controversial amongst the presently disadvantaged Namibians with regard to its implementation, which resulted in the self-enrichment of a small black elite as opposed to empowering the poor (Teek, 2009). This controversy around BEE is also evident within the South African society.

It can be deduced that to some extent BEE has become a form of oppression in the business world, as it benefited only certain groups of the South African society, mainly the elite, while oppressing those at the lower spectrum of business, especially the survivalist entrepreneurs. BEE is not a policy that was planned with the intention of attending to the needs of the survivalist entrepreneurs of South Africa, as it aims to uplift the already established businesses and has proven to further isolate the survivalist entrepreneurs even after its amendments.

**1.3. The impact of poverty and unemployment on the formation of survivalist enterprises.** For the South African government, eradication of poverty still remains a challenge. The poverty line is one of the indicators used by the South African government to measure the poverty level within the country, and it is defined as the minimum income an individual needs for survival, expressed in monetary terms. Presently, South Africa does not seem to have a standard definition of poverty that is appropriate for the South African situation and utilizes the inflation-adjusted poverty lines created by Statistics South Africa (Stats SA), which change on a yearly basis. Concurrently, the Stats SA report of 2011 revealed that 70.4% of South Africans are living below the

poverty line of R620.00 per capita per month (Stats SA, 2011). This suggests high poverty rates in a country associated with a growing and strong GDP.

In support of the above-presented statistics, the Afro barometer survey (2012) highlighted that South Africa is amongst the African countries in which GDP growth does not lead to a systematic reduction in living poverty rates. This suggests that the growth in GDP exists; however, it fails to trickle down to the poor people of South Africa.

The Global Entrepreneurship Monitor (GEM) 2011, report has established a consistent association between GDP per capita and the level and nature of entrepreneurial activity in an economy. In economies with a low GDP per capita, the total entrepreneurial activity (TEA) rates are reported to be high, with a relatively high proportion of survivalist entrepreneurs. On the contrary, South Africa, which has a strong GDP per capita, presents an increasing rate of TEA percentage amongst the survivalist entrepreneurs according to the World Bank report of 2010.

In developing countries, a high rate of unemployment is highlighted as the single most significant impediment to poverty reduction (Minford & Mahambane, 2005). This is the main reason why considerable emphasis is placed on the contribution that the SMME sector can make towards relieving the high levels of unemployment. One of the major reasons for unemployment in South Africa is the disproportional dependence of labor market entrants on formal sector employment, whose capacity to offer jobs has continued to shrink.

Therefore, a consequence of the formal sector's inability to accommodate new entrants is the establishment of survivalist businesses, often set up to escape the plight of unemployment rather than to exploit a promising business opportunity. This situation in the informal sector leads to high business mortality rates and peculiar business developmental problems that require very specific targeted policy approaches and measures to ensure higher levels of business survival and formalization (Ligthelm, 2008). Therefore, it is imperative for the government to study and understand these survivalist businesses in order to be able to develop appropriate policies that will assist the businesses to become viable entities, and thus contribute positively towards the GDP of the country while reducing unemployment rates.

**1.4. Motivating factors into starting own business.** When analyzing the literature on factors that motivate people to start a business and become entrepreneurs, a variety of reasons are identified. The reason that stands out from the rest is autonomy (independence and/or freedom). An exploratory research by Van Gelderen and Jansen (2006), which

investigated autonomy as a start-up motive, revealed that many small business starters like autonomy for the sake of decisional freedoms.

The Global Entrepreneurship Monitor (2011) proposes two categories of entrepreneurs according to their motivations: the “opportunity entrepreneurs”, who start a business based on finding a good opportunity on the market, and the “necessity entrepreneurs”, who start a business rather because they have no better choice or to avoid unemployment, also categorized as the survivalist entrepreneur. Most of the reviewed literature on motivation for starting a business defines more the opportunity entrepreneur than the necessity entrepreneur. This also serves as evidence that a majority of studies on entrepreneurship are focused on the profit-making opportunity entrepreneurs, while disregarding the dominant survivalist entrepreneur, who depend on their business for daily survival.

Literature highlights the following push factors as the main motivations for the formation of survivalist businesses:

- ◆ lack of other or better alternatives to unemployment (Badulescu, 2010);
- ◆ lack of other income options in the case of unemployed persons facing the end of their unemployment benefits (Badulescu, 2010);
- ◆ advice from other unemployed people to try self-employment as an alternative option to wage-employment and unemployment (Badulescu, 2010);
- ◆ in addition to the above, the need to survive and poverty reduction should also be added as direct push factors, as poverty rates are increasing worldwide.

The striking differences between an opportunity entrepreneur and a survivalist entrepreneur are created mainly by the different socio-economic status of these two categories, which either pull or push them into business. Although both are categorized as micro-enterprises, the survivalist entrepreneurs are mainly associated with poverty and unemployment, which pushes them into a means of survival, which cushions and/or frees them from their poor socio-economic surroundings.

In both the opportunity entrepreneurs, who have a choice as to start a business, and the survivalist entrepreneurs, who are pushed into a business in an attempt to survive, autonomy seems to be the main reason of starting up a business. Although reviewed literature only supports the preceding statement in the case of the opportunity entrepreneur, necessity which is identified as a push factor into business for the survivalist entrepreneur, can also be classified as an underlying source of the autonomy motive.

### **1.5. Obstacles faced by survivalist entrepreneurs.**

According to the New Partnership for Africa's Development (NEPAD) (2008), SMMEs in general have a role to play in increasing employment opportunities, reducing poverty and increasing utilization of Africa's productive and intellectual resources. This is made evident in Ghana, where the small-scale agriculture was able to employ 60% of those in the rural Ghana (Agbeibor, 2006).

Despite their potential contribution to developmental objectives as mentioned above, survivalist entrepreneurs face various obstacles that prevent them from growing their businesses and prevent them from surviving as a business at times. The primary reason for the obstacles faced by survivalist entrepreneurs is reported to be their informality, which contradicts the regulations and laws of various governments.

Lerner and Schoar (2010) state that regulations and laws that allow established entrepreneurs to succeed and grow faster, such as financial and labor market deregulations, tend to have an opposite effect of reducing the chances of success for survivalist entrepreneurs. Laws and regulations created by government reduce the chances of survivalist enterprises to penetrate into a particular market, thus serving as a barrier to entry for the survivalist businesses. An example being the cost of registering the company into a legal entity – a process that is unaffordable for the informal businesses. This forces the survivalist entrepreneurs to operate illegally outside government regulatory reach, thus compromising their access to human and financial resources.

According to Berner et al. (2008), existing policies for micro-entrepreneurs focus on the few entrepreneurs that have growth-oriented potential. In other words, the policies exclude survivalist entrepreneurs. Furthermore, institutions that offer assistance to businesses focus on profit-orientated businesses as outcome indicators for their interventions, thus leading to a bias in the “income and employment generation” dimension for survivalist enterprises (Rogerson, 2001). Instead, these programs should focus on contributing to poverty alleviation interventions by supporting the role of survivalist enterprises as a way of reducing both poverty and dependency on government support.

Wood (2003) highlights that policies formulated with the aim of supporting survivalist entrepreneurs have to recognize the “destructive uncertainty” under which they operate, and primarily aim at increasing security in many dimensions. Put differently, such policies have to be structured in a way that is suitable for the survivalist entrepreneur so as to be able to bring practical, positive results for the survivalist segment within SMMEs. This will be accomplished through consideration of the unique needs and characteristics

of the survivalist enterprises during the structuring of policies aimed at assisting these businesses to become opportunity-driven, profit-orientated businesses.

In support of the previous paragraph, different studies have revealed how regulations and laws in various countries are perceived as obstacles by the participants in the studies. A study conducted by Singh and Belwal (2008) in Ethiopia revealed that eighty-four per cent of the study participants were unhappy with the method used by the government to roll out assistance focused on them. Of this 84%, 69% mentioned a gap between government's policy and its implementation. Another issue that was highlighted was the government's failure to involve the women entrepreneurs during the development of policies aimed at assisting this group.

In the case of South Africa, one can insinuate that the government's regulations and laws could be a contributing factor towards the formation of survivalist enterprises. With the changing economic climate, as well as the neo-liberal practices that have led to privatization of public enterprises – which have further contributed towards the reduction in formal employment rates – many South Africans who practice as survivalist entrepreneurs had to opt for this type of business as a survival mechanism. This is because procedures to follow during registration and start up of a business become too cumbersome and costly for the survivalist entrepreneurs.

## 2. Methodology

The study comprised of three phases. Phase one comprised of case studies conducted in the five districts within the Free State province. A non-probability method of sampling, heterogeneity sampling, was utilized as there was no sampling frame. Face to face interviews were conducted with the 100 owners of survivalist businesses who were found on sight on the day of the visit.

The second phase of the study entailed a review of the secondary documentation (policies and procedures) provided by the finance development institutions (FDIs). This procedure further guided the researcher as to how to structure the interview for the individual FDIs.

The third phase of the study entailed interviews with the FDIs which are prominent in the province. The aim was to investigate the role they are playing in assisting the survivalist entrepreneurs within the province. Their understanding and awareness of the existence of survivalist entrepreneurs was also investigated during the interviews.

The three phases were concluded by the compilation of the support framework for the survivalist entrepreneurs within the Free State province, which will assist them to become viable in their business activities. This framework was based on data gathered during the different phases of the study.

## 3. Results

The characteristics of survivalist entrepreneurs have evolved with time into characteristics that were particularly associated with opportunity-driven businesses in the past. From the researcher's perspective, this can serve as proof that the characteristics associated with survivalist businesses have improved with time and also that they have been under-reported over the years, thus suggesting insufficiency of research in this segment of the SMMEs.

Figure 1, a formulated conceptual framework for the survivalist entrepreneurs is based on the findings from the study. It highlights the major issues and how they have an effect on one another, thus influencing the survivalist entrepreneur and their activities.

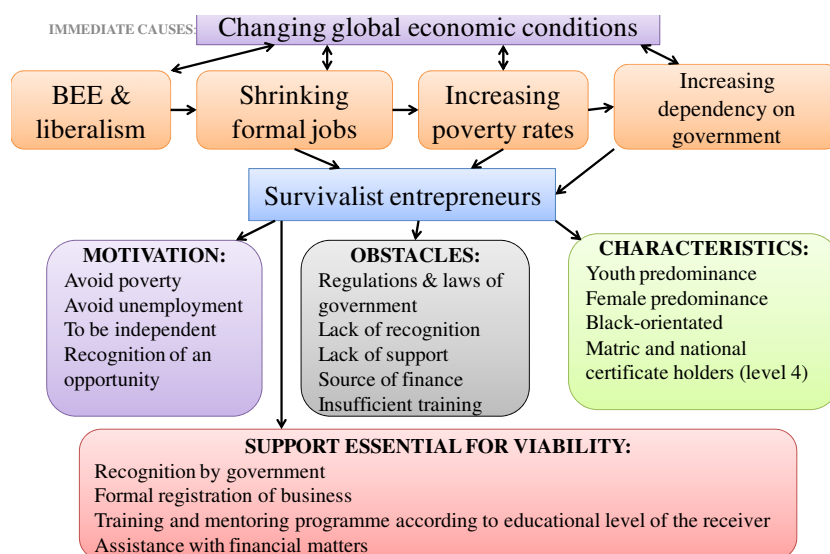


Fig. 1. Conceptual framework for survivalist enterprises

The changing global economic conditions are the underlying causes which lead to various factors that directly or indirectly lead to the development of survivalist enterprises. These include the shrinking formal economy due to policies such as the BEE which goes hand in hand with liberalism; increasing poverty rates that directly increase dependency by the people on their government for support in order to survive.

Literature has indicated informal sector growth of 12.8% against formal sector growth of only 0.2%, particularly in the Free State province (Stats SA, 2011). This indicates the vast growth of informal business against the weakening formal employment in the province under study.

The Free State unemployment rate has increased over the past years and is at 39% according to Free State Treasury report of 2013. Furthermore, more than 50% of people in the province rely on government grants (Free State Treasury report, 2013).

The study also highlighted that the characteristics of the survivalist entrepreneurs as indicated by reviewed literature have evolved with time. This is proved by the fairly educated youth predominance in this type of business (53% with matric, 18% with a national certificate and only 29% of school dropouts).

Reviewed literature highlighted the uneducated masses as the predominant group in this form of business; however, the study revealed that the educated (level 4 as per the South African Qualifications Authority) have also with time become survivalist entrepreneurs, mainly pushed by the lack of formal employment, 71% of the study participants. Youth predominance in this type of business is another factor that is on the vast increase due to lack of formal employment. Of the study participants, 82% was made up of those less than 30 years of age.

Being majority black owned (70% of the study participants) and female run (60% of the study participants) are characteristics that are found to be common with the reviewed literature. This is an indication of the need by majority females to support their families and to cushion them from the effects of increasing poverty rates.

The study supported the reviewed literature in terms of motivation. It indicated the common motivational factors amongst the survivalist entrepreneurs to be avoidance of poverty, avoidance of unemployment, and the need to survive. These three factors are seen as push factors that are similar to the immediate causes that push an individual into survivalist entrepreneurship. Contrary to the reviewed literature, the need for independence and the

recognition of an opportunity were also regarded by participants to be push factors.

Regulations and laws by the government remained a common identified obstacle. The study highlighted the registration into a formal business to be time-consuming and expensive. However, lack of recognition and lack of support by the government were found to be of greater concern by the survivalist entrepreneurs.

Source of finance and inadequate training were also mentioned. However, the source of finance was not prioritized as a main obstacle, as the businesses required little capital.

Support that was perceived by the survivalist entrepreneurs as essential for their business viability included assistance with the formal registration of the business, which was reported to be expensive and time-consuming. Knowledge of the market in which one is trading was considered vital in becoming a viable business and eliminating competition. Product differentiation was also mentioned as an important aspect to reduce competition by some of the participants; it was however not regarded as essential by the majority of the participants.

The number of years in business, i.e. years of experience, were also rated imperative in becoming a viable business. This is because it meant knowledge of the environment as well as of clients.

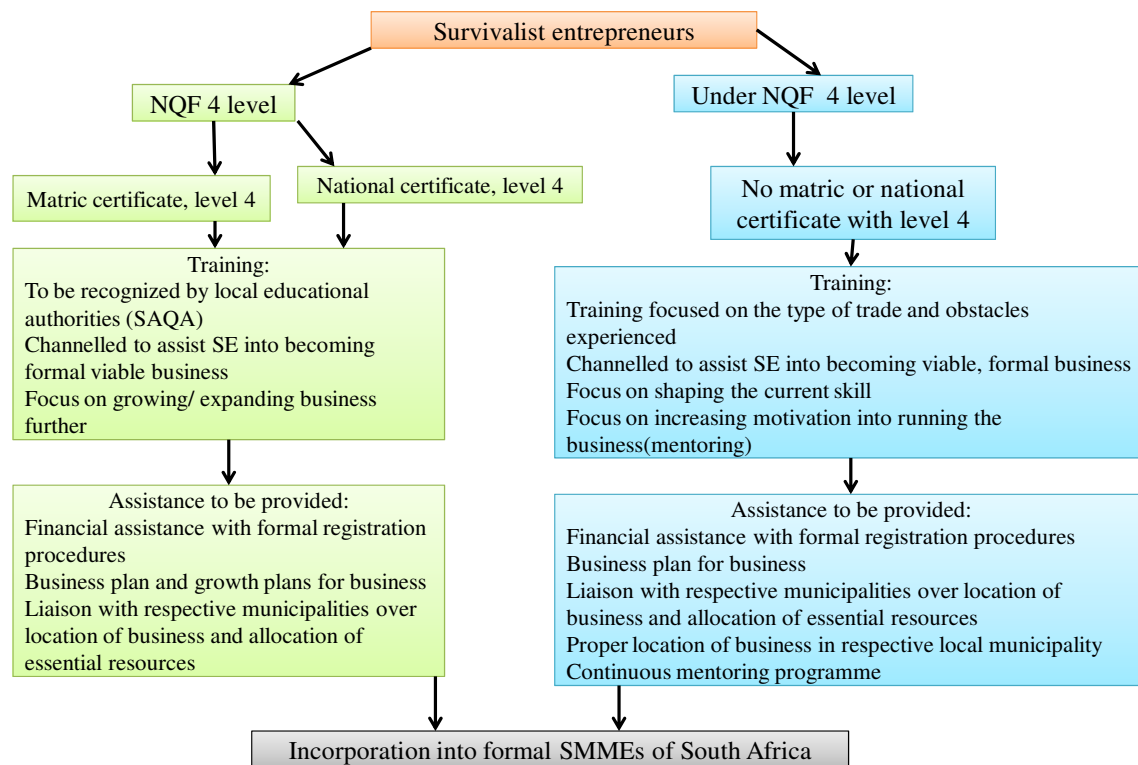
The level of education was also seen as an important aspect towards viability by the survivalist entrepreneurs who participated in the study.

## Conclusion

Survivalist enterprises are increasing in numbers due to the shrinking formal economy as well as the low barriers to entry into this type of business which operates in an unregulated economy. These businesses must be recognized for their role in generating income and employment, thus reducing poverty rates and dependency on government grants for support.

It is vital that their existence be accepted and assistance be provided to assist them to grow into profit orientated businesses. This is possible if proper channels are put into place, so as to understand the need of the survivalist business and to further assist them in a manner that will address their uniqueness from the rest of the SMMEs.

In conclusion a support framework to assist the survivalist entrepreneurs to become viable in their business activities was designed, based on both the empirical results as well as reviewed literature.



**Fig. 2. Support framework to assist the survivalist enterprises within the Free State province to become viable in their business activities**

The support framework is a developed guideline that can be used in order to assist the survivalist enterprises within the Free State province to become viable in their business activities. It was developed based on the results of the study and is the final step in meeting the main objective of the study.

The study indicated that survivalist entrepreneurs have varying needs according to their age groups and educational background. Therefore, they should be assisted independently from the rest of the SMMEs of South Africa.

The formulated support framework needs to address the needs of these groups separately in order to assist them to become viable businesses. Moreover, the survivalist entrepreneurs are subdivided into two groups based on their educational backgrounds.

The subdivided groups would include the group with matric and national certificates or above, weighing level 4 and beyond, according to South African Qualifications authority (SAQA) and the group with less than level 4 qualifications. Further segmentation according to educational background is vital as it will allow for training to be developed according to the level of understanding in order to have a positive, valuable impact. Furthermore, the training provided to the group with level 4 qualifications should be recognized by the local educational authorities as part of further training.

Training provided to the group without level 4 and above qualifications should focus on their current training needs. In other words, they can focus on improving on the particular type of trade. However, the training should be structured in a way that will enable them to run a formal business.

The government should also provide financial assistance with the registration procedure of these businesses. Furthermore, a well-structured and comprehensive business plan should be compiled. The compilation of this business plan should mainly be the responsibility of the owner of the business. The owner should be able to understand the procedures as set out in the business plan and most importantly own the business ideas and plan.

The group with level 4 and above qualifications should also compile a growth plan, a plan of how they plan to grow their businesses. Once again, this plan should be fully owned and understood by the owner of the business. Once both the business and growth plan have been compiled by the youth segment, the government should assist them financially to bring their plan to live. Concurrently, continuous monitoring should be put into place even after the business is up and running.

Collaboration with local municipalities is essential in order to place the various businesses in different locations within their respective districts so as to reduce competition and to ensure availability of resources such as clean water and sanitation in the



area of trade. This will spread trade in one product and prevent increased competition in one area, while allowing the owner to benefit from the business.

These proposed improvements will allow the newly registered entrepreneur to be recognized as an opportunity entrepreneur within the SMME sector of South Africa, thus increasing the number of survivalist entrepreneurs who mature into legally registered business. The benefit of this is that this

entrepreneur will contribute to the GDP of his/her respective municipalities and South Africa.

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