

Promoting New Venture Formation by the Unemployed

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i) Abstract

Excessive levels of unemployment exist in many South African communities (www.statssa.gov.za) alongside low levels of entrepreneurial behaviour (GEM Report, 2006). This is true even when South African figures are compared to figures from similar developing countries (GEM Report, 2006; Urban, 2006).

This thesis looks for reasons why this situation exists and examines possible solutions by considering the motivation to create new ventures alongside contemporary theories of work motivation. It considers those theories in light of the known depressing effects that unemployment has on an individual (Darity et al, 1996; Feather, 1992; McKee-Ryan et al, 2005; Rodriguez, 1997; Shamir, 1986; Vansteenkiste et al, 2004; Vansteenkiste et al, 2005) in order to gain a better understanding of why entrepreneurship is not flourishing in South Africa's unemployed communities.

The motivation to form a new venture is vital to new venture formation (Herron & Sapienza, 1992; Douglas et al, 1994; Wennekers and Thurik, 1999; Wiklund et al, 2003; Segal et al, 2005) but is under-considered in many programmes aimed at encouraging entrepreneurship. Where the psychologically depressing effects of unemployment have reduced an individual's intrinsic motivation to form a new venture, a structured environment should be created to facilitate the early stages of new venture formation. Individuals should be extrinsically motivated to achieve goals until the benefits of accumulated achievements have countered those depressive effects and traditional venture formation theories once again become valid.

ii) Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university.

Brendan le Grange.....

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1) Chapter One – Introduction to the Research Problem

1.1) Unemployment

Unemployment is a problem that impacts the lives of all South Africans and all South African businesses. South Africa's official unemployment rate of 25.5% (www.statssa.gov.za) is one of the highest in the world (Kingdon and Knight, 2001) and is well above even the unemployment rates found in other countries with a similar degree of development (Hirano, 2004). South Africa is also a country with a high degree of inequality (Leibbrandt and Woolard, 2001) and therefore, while some communities may experience relatively low levels of unemployment, many others experience levels well above the figure of 25.5% (Kingdon and Knight, 2001).

Unemployment has been shown to cause negative states of physical and mental well-being in individuals (Shamir, 1986; Feather, 1992; Darity et al, 1996; Rodriguez, 1997; Kokko et al, 2000; Vansteenkiste et al, 2004; McKee-Ryan et al, 2005; Vansteenkiste et al, 2005). It can be expected therefore that a country with levels of unemployment as high as those in South Africa will also have excessively high levels of psychological and even physical unease.

Reversing the negative psychological impacts of long-term unemployment should be sufficient encouragement for further study in this area; however, there are also negative economic and social consequences of unemployment (Freeman, 1996; Crutchfield & Pitchford, 1997; Raphael & Winter-Ebmer, 2001).

1.2) Economic Growth

Economic growth reduces unemployment in the long-term (Wong et al, 2005). However, excessive levels of unemployment are not merely a symptom of slow economic growth but also a potential cause of it (Darity and Goldsmith, 1996; Arulampalam et al, 2000; Arulampalam, 2001; Lupi and Ordine, 2002).

When a population is not gainfully employed it can lose its competitiveness by missing out on, among other things, on-the-job learning, skills development, work experience, etc. (Darity and Goldsmith, 1996; Arulampalam et al, 2000; Arulampalam, 2001; Lupi and Ordine, 2002). Excessive levels of unemployment have also been linked to elevated levels of crime and violence in society (Freeman, 1996; Crutchfield and Pitchford, 1997; Raphael and Winter-Ebmer, 2001) which in turn have been linked to lower levels of investment and slower economic growth (Barro, 2000; Whiteley, 2000).

1.3) Entrepreneurship

One of the main “engines” of employment growth in an economy is entrepreneurship (Wennekers and Thurik, 1999), especially entrepreneurship with high-growth potential (Wong et al, 2005). According to the 2006 Global Entrepreneurship Monitor Report (GEM Report), South Africa has a very low level of entrepreneurial behaviour, even when compared to other developing economies (GEM, 2006). When the levels of total early-stage entrepreneurial activity were calculated, South Africa’s rate was below average for upper-middle income countries and even lower when compared to the average for developing countries (GEM, 2006).

This is not a new scenario and, although it is difficult to calculate an accurate view of South Africa's relative position over time, it is clear that South Africa's performance has been consistently below average since 2001 when the report was first compiled (GEM, 2006).

The GEM Report goes on to distinguish between early-stage economic activity begun out of necessity (where no other work opportunities exist) and early-stage economic activity begun to exploit an identified opportunity (GEM, 2006). South Africa's early-stage economic activity, as small as it is, appears to be predominantly driven by necessity (GEM, 2006). New ventures formed out of necessity are unlikely to experience the same high levels of growth as new ventures formed to take advantage of an identified opportunity and are therefore not as likely to make a significant impact on unemployment and other poverty measures (Wong et al, 2005). After seeking input from a range of industry experts, the report concludes that the promotion of entrepreneurial behaviour in South Africa is below standard (GEM, 2006).

Although a short, unexpected period of unemployment might actually encourage entrepreneurship (Gilad & Levine, 1984; Segal et al, 2005) this thesis shows that long periods of unemployment have the opposite effect.

Unemployment negatively impacts the state of physical and mental well-being of individuals (Shamir, 1986; Feather, 1992; Darity and Goldsmith, 1996; Goldsmith et al, 1996; Rodriguez, 1997; Kokko et al, 2000; Clark et al, 2001; Vansteenkiste et al, 2004; McKee-Ryan et al, 2005; Vansteenkiste et al,

2005). Consistently unsuccessful job searches can lead to lower expectations for the future (Feather, 1992) and lower levels of self-efficacy (Darity and Goldsmith, 1996; Rodrigues, 1997) both of which are vital to the motivation to create new ventures (Gatewood et al, 2002; Krueger et al, 2002; Markman et al, 2002; Segal et al, 2005). In other words, long periods of unemployment are likely to reduce an individual's motivation to form a new venture, even where the goal of self-employment is, in its own right, an attractive option.

1.4) The Thesis

The purpose of this thesis is to validate these assumptions for unemployed individuals living in the greater Johannesburg area and to use contemporary work motivation theories to suggest a new way to encourage the formation of new ventures in these unemployed communities.

The suggested method uses a structured approach based on goal-setting theory to motivate the achievement of several small goals (Locke & Latham, 2002) before using learnings from The Investec Business Place – an initiative to assist unemployed individuals along the path of new venture creation (www.thebusinessplace.co.za) – to add a degree of practicality.

These proposals are based on literature suggesting that positive feedback and a series of successes can repair many of the same psychological traits (Locke & Latham, 1990; Locke & Latham, 2002; Meyer et al, 2005) damaged by long-term unemployment (Feather, 1992).

By leading a previously unemployed person through a series of small successes, while at the same time extrinsically motivating the steps needed to successfully form a new venture, it is suggested that many factors currently holding back new venture formation in South Africa could be overcome.

2) Chapter Two - Literature Review

The literature has been divided into three broad sections with this literature review structured accordingly. The first section examines literature discussing the motivation to form new ventures, the second section examines the impact that unemployment has on individuals and on the level of new venture formation in a region while the third section covers work motivation theories - particularly goal-setting theory, self-efficacy theory and self-determination theory.

This order is designed to take the reader through a logical chain of reasoning that first describes the widely-accepted requirements for entrepreneurship then shows how those requirements can be constrained by the impact of unemployment before finally discussing how the leading work-motivation theories suggest a structured environment where multiple achievements can rebuild much of what was broken down by unemployment.

The literature review then ends in a summary of these three sections which will also serve as a summary of the main arguments of this thesis as they will be taken forward into the research and the discussions of the research.

2.1) New Venture Formation

New venture formation can be defined as the “process of creating and organising a new business that develops, produces and markets products or services to satisfy unmet market needs for the purpose of profit and growth” (p. 5 Chrisman et al, 1998).

The decision to start a new venture is one of the most significant choices a person can make (Forbes, 1999) and requires motivation on the part of the would-be entrepreneur (Herron & Sapienza, 1992; Douglas et al, 1994; Wennekers and Thurik, 1999; Wiklund et al, 2003; Segal et al, 2005) as well as the opportunity the ability to act (Wennekers and Thurik, 1999).

The combined decisions of a nation's citizens to form new ventures is important for the economy of that nation as there is a positive relationship between the rate of entrepreneurship in an economy and the rate of GDP and employment growth (Wennekers and Thurik, 1999; Wong et al, 2005). The focus of this thesis is on the motivation to form a new venture.

2.1.1) Entrepreneurial Motivation

The literature in the field of entrepreneurial motivation has developed along similar lines to the more general motivational theories in organisational psychology (Segal et al, 2005) and indeed earlier research aimed at distilling the essence of leadership (Gatewood et al, 2002).

That is to say it has progressed from early models which focussed on personality traits of the entrepreneur (Gilad & Levine, 1984; Douglas et al, 1994; Gatewood et al, 2002; Segal et al, 2005) to models focussing on contextual factors (Segal et al, 2005) and now to cognitive models which focus on attitudes and beliefs (Gilad & Levine, 1984; Forbes, 1999; Gatewood et al, 2002; Segal et al, 2005).

These cognitive models evolved out of the expectancy theories popular in the 1960's (Segal et al, 2005). In simple terms, they state that people consider the likely outcomes of a pursuit, evaluate the desirability and feasibility of those outcomes and base their decision to act on those considerations, (Gatewood et al, 2002; Segal et al, 2005) avoiding undesirable options (Douglas et al, 1994) or options for which they feel incompetent (Eccles & Wigfield, 2002; Markman et al, 2002; Segal et al, 2005).

Put in terms of entrepreneurship, an individual would ask themselves two simple questions – ‘would I enjoy starting a business?’ and ‘would I be able to start a new business?’ (Segal et al, 2005).

2.1.2) Choosing Entrepreneurship

The individual's expectations will stem from beliefs which, in turn, flow from previous experiences (Gatewood et al, 2002). In the entrepreneurial context the relevant previous experiences would be those relating either to direct experiences of starting a business, indirect experiences of an acquaintance starting a business or from other related beliefs applicable to starting a business like job-seeking (Gatewood et al, 2002).

Experiences can affect not just the individual's expectations about the outcome of an event but also their perceptions about their own skills and abilities (Gatewood et al, 2002). This is important to note as individuals will persist longer, and with more effort, in tasks which they feel capable of achieving (Gatewood et al, 2002).

The belief that one can effectively execute the actions needed to achieve a given outcome is known as self-efficacy (Markman et al, 2002). Self-efficacy is an important concept that shapes an individual's perceived amount of control, stress levels during difficult tasks and ultimately, the nature and level of an individual's achievement (Krueger et al, 2002; Markman et al, 2002).

Other models use similar but different approaches, including a utility maximising approach (Douglas & Shepherd, 1999; Gatewood et al, 2002; Markman et al, 2002) that uses an economics-based trade-off between the expected net benefits of self-employment as compared to the expected net benefits of a wage income (Segal et al, 2005) and attitude or intentions based models (Busenitz, 1999; Segal et al, 2005).

Segal et al (2005) have proposed a model that encompasses all of the major theories. In this model, the decision between entrepreneurship and a career working for others is made in three stages (Segal et al, 2005):

- 1) An individual will compare the relative desirability of each career alternative
- 2) The individual will then assess the match between their skills and abilities and those demanded by each career alternative
- 3) Finally, the individual will decide if they are willing to accept the perceived level of risk involved in entrepreneurial activities (this will be impacted by both their risk tolerance (Busenitz, 1999; Segal et al, 2005) and the way that their biases and heuristics affect their perception of a situation as potentially risky (Busenitz, 1999)).

Other studies have highlighted the importance of feedback regarding entrepreneurial activities (Gatewood et al, 2002) - a concept that is similar to goal-setting theory (Locke & Latham, 1988; Locke & Latham, 1990; Locke & Latham, 2002; Meyer et al, 2005) that will be discussed later - and the importance of the interaction between the entrepreneur's individual characteristics and the influences of the environment (Gilad & Levine, 1984; Douglas et al, 1992; Herron & Sapienza, 1992).

2.1.3) Entrepreneurial Success

The success of a new venture is not only dependant on the founding entrepreneur or the venture's strategy, the industry structure and external environment in which it is founded is also important (Chrisman et al, 1998).

The environment can be said to apply one of two basic forces to potential entrepreneurs – a “push” or a “pull” (Gilad & Levine, 1984; Segal et al, 2005). A “push” force is a negative event such as unemployment that encourages, or even forces, an individual into entrepreneurship (Gilad & Levine, 1984; Segal et al, 2005) while a “pull” force is a positive event or environment that promotes entrepreneurial activities (Gilad & Levine, 1984; Segal et al, 2005).

As strong as the influence of the environment might be, the entrepreneur remains key (Herron & Sapienza, 1992; Douglas et al, 1994; Markman et al, 2002) and, even in cases where an external event such as unemployment, might be the immediate catalyst to forming a new business, there is often a prior long-term interest in self-employment (Krueger et al, 2000).

2.2) Impacts of Unemployment

Unemployment can affect new venture formation in two ways – either by acting as an environmental “push” (Gilad & Levine, 1984; Ritsila & Tervo, 2002; Segal et al, 2005) factor or by positively or negatively affecting the psychological make-up of the potential entrepreneur (Shamir, 1986; Feather, 1992; Darity et al, 1996; Rodriguez, 1997; Kokko et al, 2000; Vansteenkiste et al, 2004; McKee-Ryan et al, 2005; Vansteenkiste et al, 2005).

2.2.1) Environmental Impacts

The degree to which unemployment causes a “push” towards new venture formation is not clear (Gilad & Levine, 1984; Audretsch et al, 2002; Carree, 2002). Some studies have shown no relationship to exist between the two, suggesting by way of explanation that an economy with high unemployment is also an economy with few business opportunities and that the positive force of the “push” is countered by the negative force caused by the lack of a “pull” (Gilad & Levine, 1984; Carree, 2002). Other studies have found some relationship but this was only evident at an individual level with little evidence of a relationship between regional or national unemployment and new venture formation (Ritsila & Tervo, 2002).

It should be noted that many of the studies on the impact on unemployment have been conducted in developed North American (Carree, 2002) and European (Fritsch, 1996; Ritsila & Tervo, 2002; Audretsch et al, 2002) economies that have substantially lower levels of unemployment than seen in South Africa and therefore the findings might not be directly transferable.

2.2.2) Individual Impacts

With this in mind, it is worth considering the impact of unemployment on the individual. Previous studies have shown that a period of unemployment has negative effects on an individual's psychological well-being (Shamir, 1986; Feather, 1992; Darity and Goldsmith, 1996; Goldsmith et al, 1996; Rodriguez, 1997; Kokko et al, 2000; Clark et al, 2001; Vansteenkiste et al, 2004; McKee-Ryan et al, 2005; Vansteenkiste et al, 2005) which, in turn, can affect their unemployment experience, their job search behaviour (Darity & Goldsmith, 1996; Vansteenkiste et al, 2004; Vansteenkiste et al, 2005) and even their productivity in future jobs (Darity and Goldsmith, 1996; Arulampalam et al, 2000; Arulampalam, 2001; Lupi and Ordine, 2002).

Those individuals unemployed for long periods are more susceptible to these negative effects on productivity (Kokko et al, 2000; Arulampalam, 2001). The impact is strongest for the first incidence of unemployment (Arulampalam, 2001) but its affect is felt even by previously unemployed individuals who have since been re-employed (Clark et al, 2001). These negative impacts are not only felt by the individual directly impacted but can also be felt by co-workers who have seen their colleagues become unemployed (Darity and Goldsmith, 1996) and no doubt by their families and community members too.

Again, it should be noted that many of these studies were carried out in relatively low unemployment environments and that the psychological impact may be less in high unemployment environments (Clark et al, 2001) such as in South Africa.

The level of depression an unemployed individual will experience is also affected by the initial level of expectation they had about successfully finding work (Rodriguez, 1997). This leads to a downward spiral in motivation as consequent job search failures lead to depressive feelings which further reduce that individual's motivation for the job search process (Rodriguez, 1997). The previous section showed how direct and indirect experiences can lead to expectations (Gatewood et al, 2002) and so, multiple unsuccessful experiences should also lead to lower expectations about future successes (Feather, 1992) both as a job-seeker and as an entrepreneur. These negative job search expectations can remain even after key hurdles that had previously existed, have been removed (Goldsmith et al, 1996).

2.2.3) Internal and External Attributions

This relationship is moderated by the degree to which an individual attributes their failure to external factors (Darity & Goldsmith, 1996). Those showing the most depressive effect are also those most likely to attribute their failures to external factors (Feather, 1992; Darity & Goldsmith, 1996; Rodriguez, 1997). When an individual exerts effort and fails, it is difficult for them to attribute the failure to anything other than internal factors (Eccles & Wigfield, 2002). In order to avoid overtly recognising themselves as the cause of their failure, an individual can stop putting in the same amount of effort in future tasks and attribute any subsequent failures to a lack of effort rather than a lack of ability (Eccles & Wigfield, 2002).

Unfortunately the degree to which an individual attributes their own successes and failures to internal forces, rather than external forces, is a significant positive factor in the level of self-efficacy (Ryan & Deci, 2000; Eccles & Wigfield, 2002; Vansteenkiste et al, 2004).

The previous section showed how important self-efficacy is to the motivation of an individual to form a new venture (Darity et al, 1996; Krueger et al, 2002; Markman et al, 2002) and hence, if the depressive effects lead to an external attribution then the likelihood of new venture formation will decrease further. In fact, when an individual perceives a disconnect between their behaviours and the outcomes of those behaviours they can begin to suffer from “learned helplessness” (Rodrigues, 1997). In this situation, an individual will continue to expect the results of their actions to be uncontrollable even in situations within the individual’s control (Rodrigues, 1997).

A person suffering from learned helplessness will be deficient in cognitive, motivational, emotional and self-esteem areas (Darity and Goldsmith, 1996; Rodrigues, 1997). Beside the overtly negative impacts of unemployment discussed above, unemployed individuals also suffer by missing out on the positive psychological and career benefits of being employed (Darity & Goldsmith, 1996; Arulampalam et al, 2000; Arulampalam, 2001; Lupi and Ordine, 2002; McKee-Ryan et al, 2005).

2.2.4) Coping Resources

The longer an individual remains unemployed, the more they have to draw on what McKee-Ryan et al (2005) describe as their “coping resources”. These are the internal and external support networks that help individuals deal with the stresses of unemployment (McKee-Ryan et al, 2005). The degree to which an unemployed individual lives in a collective society may have a bearing on the degree to which the negative psychological effects of unemployment are felt due to the closer connections to social networks (Eaton & Louw, 2000; McKee-Ryan et al, 2005). As African cultures are generally more collective than Western cultures (Eaton & Louw, 2000) in which many of the previous studies of unemployment were conducted, the negative psychological impacts of unemployment in African communities may be somewhat muted.

2.2.5) Productivity Impacts

There are also more practical reasons that a spell of unemployment could have lasting negative affects on an individual. The job market is not a perfect information environment and it is possible that, in light of incomplete information about a job-seeker, potential bosses might use a history of unemployment as a screening devise to identify potentially low productivity candidates (Arulampalam et al, 2000; Arulampalam, 2001). In a high unemployment environment however, a history of unemployment is more likely to be viewed as “normal” and therefore less likely to be used as a conveyor of negative productivity information (Lupi and Ordine, 2002).

2.3) Work Motivation Theories

As mentioned in the first section of this literature review, there is much in common between the leading work motivation theories and those relating to the formation of new businesses (Segal et al, 2005). Perhaps the biggest difference between the motivation to form a new business and the motivation to perform within the confines of an organisation is that the motivation to form a new business resides within the self while the motivation to perform within an organisation can be directed and influenced by others.

There are two major types of work motivation theories, theories relating to the individual's motivation to pursue a goal and theories relating to the individual's commitment to those goals (Locke & Latham, 2002).

2.3.1) Goal-Setting Theory

Work motivation theories evolved from more general motivation theories (Meyer et al, 2004) and today, the leading theory in this field is arguably goal-setting theory (Locke et al, 1988; Meyer et al, 2004). Goal-setting theory works in conjunction with the more established expectancy theories because, when controlled for task difficulty, expectancy still plays a role in task performance (Locke & Latham, 1990; Locke & Latham, 2002).

Goal-setting theory holds at its core the belief that all consciously motivated behaviour is goal-orientated (Meyer et al, 2005). Individuals can choose goals of varying difficulty and, in conjunction with the concept of self-efficacy

(Eccles & Wigfield, 2002) discussed earlier, these goals help to direct behaviour and effort (Locke & Latham, 1990; Meyer et al, 2005).

The achievement of these goals is contingent upon four moderators – namely feedback, commitment, ability and task complexity (Locke & Latham, 1990; Locke & Latham, 2002; Meyer et al, 2005). Commitment leads to lower rates of voluntary deviance from a particular goal (Meyer et al, 2005) and, in the context of new venture formation, goal commitment would encourage a potential entrepreneur to continue towards the goal of self-employment despite any set-backs in the process.

Goals affect behaviour in four ways - they provide direction for effort, they generate energy for the task, they improve persistence and they lead to the discovery of task-relevant knowledge (Locke & Latham, 2002). An exciting aspect of goal-setting theory is that the more difficult the goal, the higher the level of performance (Locke & Latham, 1990; Locke & Latham, 2002). The level of performance drops only when the complexity of the goal exceeds the ability of the individual or when their commitment to the goal diminishes (Locke & Latham, 1990; Locke & Latham, 2002). This is however contingent on the goal being specific (Locke & Latham, 1990; Locke & Latham, 2002) and this is where work-motivation theories offer potential for reversing the downward spiral of entrepreneurial spirit in the chronically unemployed.

Goals set by an external agent can be as motivating - and can achieve as much commitment - as goals set autonomously by the individual (Locke & Latham, 1988; Locke & Latham, 1990; Meyer et al, 2005) assuming they are communicated in the right way (Locke & Latham, 1990; Locke & Latham, 2002), come from a legitimate source (Locke & Latham, 1988) and are internalised (Locke & Latham, 1990; Eccles & Wigfield, 2002; Locke & Latham, 2002; Meyer et al, 2005).

In this way an external agent could conceive and set specific, challenging goals for an unemployed individual which would be as motivating as if they had been set internally. This is a preferable state since the negative psychological impacts that unemployment has had on the individual would become irrelevant in the goal setting process. However, individuals with higher self-efficacy are still more committed to assigned goals, perform better and overcome more difficult obstacles than do individuals with low self-efficacy and tasks perceived as too difficult engender less commitment (Locke & Latham, 1988; Locke & Latham, 2002).

2.3.2) Self-Determination Theory

Self-determination theory states that the intention to act, or motivation, can be initiated from within an individual or from some external agent (Meyer et al, 2005). Two major types of motivations are described – intrinsic and extrinsic (Eccles & Wigfield, 2002; Meyer et al, 2005).

Intrinsically motivated actions are actions undertaken for the pleasure of the action itself while extrinsically motivated actions are those actions undertaken in order to attain some other, separate outcome which is desired (Eccles & Wigfield, 2002; Meyer et al, 2005).

Although autonomy is a primary human need (Meyer et al, 2005) it is not true that only intrinsically motivated actions will receive commitment (Locke & Latham, 2002; Meyer et al, 2005).

Extrinsically motivated behaviour comes in four categories of regulation or perceived control – external regulation, introjected regulation, identified regulation and integrated regulation (Meyer et al, 2005). As we move through this list the locus of causality moves from the external to the internal (Meyer et al, 2005).

Externally regulated actions are those actions undertaken purely to satisfy an external demand and actions with an introjected regulation are those actions undertaken in order to feel socially acceptable or to avoid guilt (Meyer et al, 2005). These actions are evaluated against an external standard and are therefore considered to be controlled externally and have a negative impact on performance (Eccles & Wigfield, 2002; Meyer et al, 2005).

On the other hand, actions that have identified regulation are those actions undertaken through a conscious evaluation of the value of that action and its expected outcomes while an action controlled by integrated regulation is

undertaken because it has been fully accepted and integrated with the other values that define an individual's view of self (Meyer et al, 2005). When motivation is internally regulated it leads to more goal commitment and the desire to go beyond the confines of the tasks specified in the goal (Meyer et al, 2005).

2.4) Literature Summary

The various models of motivation stem from the same root (Segal et al, 2005) and hence are similar in many ways. It is clear that the identified impacts of unemployment can have sufficient negative impacts on an individual's motivation to make spontaneous new venture formation unlikely amongst those with a history of unemployment and failed job-seeking attempts – according to these motivation theories. The structure encouraged by goal-setting theory, self-determination theory and self-efficacy theory all hold some promise in reversing this by suggesting that a structured environment controlled externally can still achieve goal commitment and success.

However, as the South African unemployment environment is unique there are some assumptions that need to be validated in environments of high and persistent unemployment in collectivist societies. The questionnaire, which will be discussed later, has been designed to do just this.

3) Chapter Three - Research Questions

A single line of logic runs through this thesis linking the various schools of thought discussed - entrepreneurial motivation, the psychological impacts of unemployment and contemporary work motivation theories.

The logic states that entrepreneurship relies on certain key psychological traits in the individual but that unemployment dampens those same characteristics leaving unemployed communities less likely to view new venture formation as an attractive or viable option. If this logic holds, then a more structured approach to new venture promotion is the natural conclusion to be drawn from work motivation theories.

The research questions are the chains that link those schools of thought together and were used to validate this logic in a high unemployment environment. There are three research questions in this thesis and they are set-out below:

- 1) How do the unemployed value self-employment relative to employment within an existing company?
- 2) How confident are the unemployed in their entrepreneurial abilities and what is the prevailing perception of the level of difficulty and risk involved in entrepreneurship?
- 3) To what degree do the unemployed prefer structured environments relative to unstructured ones?

The first question is designed to show whether or not the unemployed place value on self-employment and whether or not they value their current state of unemployment. This is a vital first step as, were the unemployed found to not value the state of self-employment, the observed lack of entrepreneurial behaviour could be attributed to multiple alternative sources.

Having established to what degree the unemployed desire a state of self-employment, the second question is designed to show whether the unemployed feel capable of pursuing each of a career employed by others and a career as an entrepreneur and the degree to which they perceive each of these options as difficult and/ or risky.

The third research question is designed to validate the assertion that a structured approach to encouraging entrepreneurship is preferable when dealing with the persistently unemployed. Such a structured environment could be created, while still fostering innovation, using goal-setting theory. The assumption is that successes in a structured environment would reverse the negative psychological effects of past unemployment leading to a state in which new venture formation could thrive naturally.

4) Chapter Four - Research Methodology

The research is deductive and descriptive. Deductive in that it uses deductive logic to derive a conclusion – in this case that a structured approach to encouraging new venture formation holds promise – based on pre-existing knowledge – in this case the established literature on entrepreneurship, unemployment and work-motivation (Zikmund, 2003). Descriptive in that it aims to describe the views and characteristics of the unemployed living in high unemployment environments in South Africa (Zikmund, 2003).

4.1) Research Tools

Research was performed using two tools – open-ended interviews with experts and a questionnaire conducted with a group of unemployed individuals.

The open-ended interviews were conducted with Marcel Newsome and Annie McWalter of The Investec Business Place, a South African non-governmental initiative that provides would-be entrepreneurs with guidance along the process of new venture formation. Although they do not fund new businesses themselves, they do currently act as an agent of the Department of Labour sponsored Umsobomvu Youth Fund and assist entrepreneurs with the creation of the business plans which are a requirement for funding. These interviews were kept open-ended in order to gain a deeper and broader understanding of the problem and the existing organisations currently working in the field and to identify some of the known problems and previous research findings.

A questionnaire containing both closed-ended and short open-ended questions was used to collect a broad primary data set for later analysis. In order to test my propositions, the survey was taken using a sample of unemployed individuals in Johannesburg.

4.2) Target Population

The target population was made up of unemployed individuals who had not yet formed their own business ventures and who live within reasonable reach of the city. A broad definition of unemployment was used although interviewing at a Labour Centre naturally resulted in interviewing only those unemployed individuals still actively looking for work. All interviewees were assumed to live “within reasonable reach of the city” due to the fact that they had already tacitly defined the journey into Johannesburg as being reasonable by the fact that they were found at the Johannesburg Labour Centre at the time of the interview.

4.3) Target Location

Johannesburg was chosen as the catchment area for this study for reasons of geographical convenience as well as for the fact that the general economic conditions in the city are suitable for new business formation. Johannesburg is the largest city in South Africa and is the financial and business hub of South Africa and sub-Saharan Africa as a whole (Bremmer, 2000). It is located in Gauteng, home to more entrepreneurs and small businesses than any other province (www.gep.co.za) which evidences the fact that it provides a suitable environment for new venture formation.

This fact removes some of the extraneous environmental factors that might otherwise be restricting new venture formation (i.e. there should be sufficient pull forces, functioning markets, suitable infrastructure, etc.).

The sample was sourced from the Johannesburg Labour Centre run by the Gauteng Department of Labour. Labour Centres were created as part of the government's strategy to reduce unemployment by acting as a resource for unemployed people to look for work and improve their job-seeking and general job skills. These centres are located across the country with the specific centre used in this study being located in the Johannesburg CBD (Annuity House, 18 Rissik Street).

4.4) Questionnaire Design

The design of the questionnaire is an important influencer of the quality of data generated by it (Sanchez, 1992) and hence great care was taken in designing the questionnaire used for this research. The questionnaire was designed based on the literature as well as the input from Marcel Newsome, an expert in the fields of unemployment and new venture creation.

The purpose of the questionnaire was to validate the chain of logic running through this thesis. If entrepreneurship relies on key psychological traits in the individual and these same characteristics are dampened by unemployment, then unemployed individuals are unlikely to view self-employment as a viable option. If this logic holds, then the literature of work-motivation suggests a more structured approach to new venture promotion.

Before writing the individual questions, the purpose of these questions was set-out according to Labaw's (1998) guiding principals. The questionnaire looks at three characteristics in the unemployed group, namely:

- 1) The value placed on self-employment relative to the value placed on employment and unemployment
- 2) The level of entrepreneurial-efficacy in the group and the perception of the level of risk involved in entrepreneurship
- 3) The degree to which structured environments are preferred to unstructured ones or vis versa

These are the three main constructs of the argument and the questionnaire was designed to validate them. However, the questionnaire design also allowed for the easy detection of unexpected findings and contradictory answers. Unexpected answers were catered for by the open-ended questions and by always providing options contradictory to the expected findings for the closed-ended questions. The questionnaire also had several questions covering the same key point from different angles to identify contradictory answers or confusion caused by a failure to understand the vocabulary used.

4.4.1) Questionnaire Structure

The questionnaire is made up of a mix of closed ended, scale-based questions and open ended questions focussed on past events in the respondents' lives and their conscious thoughts rather than their attitudes or opinions which Labaw (1998) argues should play only a minor role in

questionnaire design. This is because there is little evidence to show that attitudes are a good predictor of behaviours or indeed the direction of causation (Labaw, 1998).

Closed-ended questions are often considered preferable for reliable and valid measures (Labaw, 1998). However, research has also shown that there can be distinct disadvantages to closed-ended questions and that open-ended questions need not be as difficult as they were previously considered (Krosnick, 1999).

The closed-ended questions provided data in a format that is easy to analyse using standard statistical techniques and made the questionnaire easy to administer. As the reliability of scale based questions can be improved by labelling all points on the scale with words (Krosnick, 1999), the scale based and sequence based questions in this questionnaire were verbally labelled on a continuum of equally sized segments to further improve the validity of the data (Krosnick, 1999).

However, it has been found that when options are provided, people seldom volunteer an answer outside of those options even if the best answer is not provided (Krosnick, 1999).

Therefore, unless a fully comprehensive list of answers can be provided, open-ended questions are preferable (Krosnick, 1999).

The open-ended questions were added to provide more insight into the state-of-mind of the unemployed. Open-ended questions provide insight in situations where it is difficult to predict the likely answers or where biases are likely to be added by providing potentially leading options. These situations are most likely to occur where the researcher has no personal experience of situation as is the case in this thesis.

The questionnaire was structured as follows:

1) The first group of questions (questions one through three) asked respondents to prioritise between a number of competing activities, including employment and self-employment. The answers to these questions were used to answer the first research question, namely what value the unemployed place on self-employment relative to regular employment.

2) Question four asked respondents about the perceived level of difficulty and risk involved in entrepreneurship compared to standard employment and unemployment.

3) The third group of questions (questions five and six) asked respondents to evaluate their perceived level of skill in entrepreneurial endeavours as well as in standard job tasks. The second and third groups of questions were taken together to answer the second research question, namely what level of entrepreneurial efficacy is present among the unemployed and to what degree the pursuit of entrepreneurial activities is seen as risky.

4) In question six, respondents were also asked to evaluate their efficacy in environments of varying degrees of structure and control. This question addressed the third and final research question, namely whether the unemployed prefer structured or unstructured work environments.

5) The fourth group of questions (questions seven, eight and nine) asked respondents about their history of job-seeking activities and expectations for their current and future job-seeking activities. The impact that this history had on the individuals' self-efficacy was also determined. Although this does not relate directly to a research question, it is valuable in validating some of the literature discussed in chapter two and the assumptions based on it.

6) The final question, question ten, asked the respondents to describe in their own words their thoughts on self-employment and new venture formation. By being open-ended, this question allowed for a deeper insight into the thoughts of the unemployed and provided valuable knowledge about the perceptions of self-employment among this group.

4.5) Education and Language

In South Africa unemployment tends to affect the black population in a disproportionately large way (Kingdon and Knight, 2001; Banda, 2003). The target population of this research is therefore likely to be predominantly black. As South Africa's black population has historically been subjected to inferior education standards (Case and Yogo, 1999) it is also reasonable to assume that the respondents are likely to have received an inferior education.

English is widely spoken and understood but it is not the home language of the majority of black South Africans and hence the usable English vocabulary is likely to be limited (De Klerk, 1999; Banda, 2000; Desai, 2001; Banda, 2003). The interviews were all conducted in English however; as the interviewer is less proficient in African languages than the respondents were likely to be in English and some language difficulties were potentially caused by this. As such, the vocabulary used was kept simple and the interviews were delivered face-to-face.

4.6) Delivery Method

Questions which are difficult to interpret, or whose answers are difficult to recall, are likely to lead to an increase in satisficing behaviour (Krosnick, 1999) and thus sub-optimal results. Questions were kept directly relevant to the problems of the target population as this is likely to have increased the respondents' motivation to optimise their responses (Krosnick, 1999).

This was reinforced by the interviewer who described the purpose of the research before each questionnaire was delivered.

The value of asking direct questions on sensitive matters has been questioned and it is more common to use self-administered questionnaires for research into subjects like unemployment and job-seeking behaviour (van der Heijden et al, 2000).

However, self-administered questionnaires have a few important and relevant weaknesses - primarily the fact that they are only effective when they are relatively simple (van der Heijden et al, 2000).

This problem could potentially have been solved using computer-assisted self-interviewing which allows for more complex questionnaires to be delivered in simpler ways (van der Heijden et al, 2000). However, where the sample group is totally unfamiliar with computers – another characteristic of the likely respondents (Letseka, 2001; Banda, 2003) - a number of other problems can arise (van der Heijden et al, 2000) and for that reason this method was deemed unsuitable in this study.

Labaw (1998) says that “if there is a single fundamental principal of questionnaire design, it is that the respondent defines what you can do: the types of questions you can reasonably ask; the types of words you can reasonably use;... the methodology you can employ” (p. 29 Labaw, 1998). As a result the questionnaire was delivered face-to-face with points of confusion being explained in order to minimise errors due to language and educational barriers.

The traditional view of research was that each questionnaire should be administered in a completely identical fashion (Labaw, 1998; Krosnick, 1999). However, a more conversational approach to the questionnaire should not lead to any biases as studies have shown that explaining ambiguous questions can significantly increase the validity of findings (Krosnick, 1999).

This was backed-up by findings which showed that variations in questionnaire wording have little impact on the stability of survey results (Labaw, 1998) and that, in questionnaire design, it is important to avoid unfamiliar and difficult words (Labaw, 1998). It was felt that the risks of misinterpretation that would exist in the absence of these explanations outweighed the risk of potential biases introduced by the researcher.

4.7) Sample

The interview was conducted with thirty-seven unemployed individuals at the Johannesburg Labour Centre. Individuals were selected using a convenience sample, choosing individuals based on their availability at the time of the survey which was conducted on Friday 26, Monday 29 and Tuesday 30 October 2007. This sample made up the majority of unemployed individuals visiting the Labour Centre during the hours in which the interviewer was on the premises which totalled approximately eight hours or one working day at the Labour Centre.

5) Chapter Five - Results

The results below are based on the responses received from the two open-ended expert interviews and responses gained using the questionnaire discussed in the previous chapter to interview thirty-seven unemployed adults at the Johannesburg Labour Centre in October 2007. Each respondent was asked a total of twenty-six questions and sub-questions.

As the open-ended interviews were used as a preliminary investigation tool, they will be discussed first but only in brief detail covering just the key themes of this thesis.

The results obtained from the questionnaire will be discussed in two sections. The first of these will cover the responses to the closed-ended questions and will use a basic statistical analysis of the responses to answer the research questions. The second section will cover the results of the open-ended questions which were used to add depth to the analysis of the responses. The responses to the open-ended questions were analysed and classified according to the number of times key words or themes were mentioned.

5.1) Open-Ended Expert Interviews

Interviews were conducted with key role players in The Investec Business Place, a public-private initiative started in Johannesburg to encourage entrepreneurship in the city. These interviews were conducted in order to gain a broad understanding of unemployment in South Africa and the practicalities of entrepreneurship promotion in this environment.

5.1.1) The Business Place Model

The Business Place operates on the philosophy of showing an entrepreneur the path but not walking it for him. This is done by setting “next-step” milestones which followed-up with the client to determine if they have moved the business forward. However, the entrepreneur must take ownership of the process and achieve those milestones themselves. For this reason, staff at The Business Place are not called consultants or advisors but ‘navigators’.

The Business Place concept was based on a Canadian model initially designed to prevent a youth exodus from a small Nova Scotia town to the large cities. The Business Place took the concept and evolved it for the South African market where it has been extremely well-received. Since its Johannesburg beginnings, The Business Place has grown to cover cities and towns across South Africa and, more recently, greater Southern Africa too. The success of the concept proves the value entrepreneurs – and government - place on having access to guidance and information. In terms of this thesis, it also offers a practical example of a structured approach to promoting entrepreneurship.

5.1.2) Learnings from the Business Place

Access to information and business networks is a significant problem, especially among the previously disadvantaged that lacked access to these in the past. A key component aiding the success of The Business Place has therefore been the network of service providers that are housed in one central location and provided at significantly reduced prices.

The next step will be to include a list of business opportunities and to create a network of small, black suppliers capable of taking advantage of these.

5.2) Closed-Ended Questions

For analysis purposes, the close-ended questions from the questionnaire were given a scale of between zero and three, depending on the number of options provided. Table 1 below shows each of the questions with the available options and their associated values.

Table 1: Responses and Values

	0	1	2	3
Question 1	Job	Own Business	Other	N/A
Question 2	Unemployed	Employed	Self-Employed	N/A
Question 3.1	Employed	Unemployed	N/A	N/A
Question 3.2	Self-Employed	Unemployed	N/A	N/A
Question 3.3	Self-Employed	Employed	N/A	N/A
Question 4	Unemployment	Employment	Self-Employment	N/A
Question 5	Yes	No	N/A	N/A
Question 6	Yes	No	N/A	N/A
Question 7	Always Unsuccessful	Usually Unsuccessful	Usually Successful	Always Successful
Question 8	Definitely Unsuccessful	Probably Unsuccessful	Probably Successful	Definitely Successful
Question 9.1	Better	Worse	No Change	N/A
Question 9.2	Less	More	No Change	N/A
Question 9.3	Want to Start a Business	Not Want to Start a Business	No Change	N/A

The graphs that follow in this section will also include the value assigned to each option in brackets along the horizontal axis. The graphs all follow a similar pattern. The horizontal axis is used for each of the question responses and the left-hand vertical axis to show the number of respondents opting for each as represented by the bars. Where appropriate, the right-hand vertical axis is used to show the data in percentage form as represented by the line.

The most common response from each of the closed-ended questions is shown in Table 2 with the percentage of respondents choosing that option.

Table 2: Summarised Response Statistics

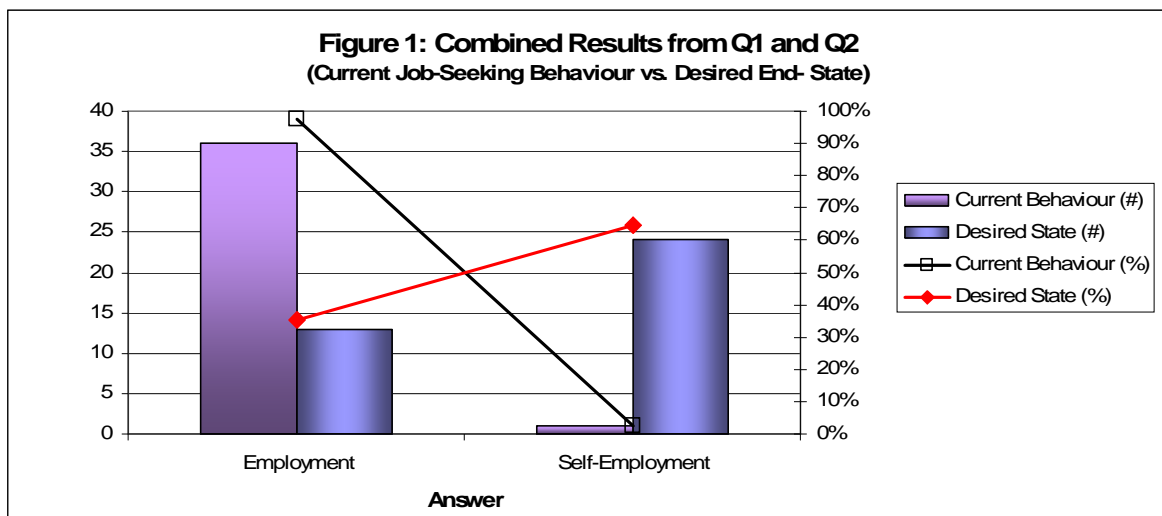
	1	2	3.1	3.2	3.3	4.1	4.2	5.1	5.2	5.3	5.4	5.5
Favoured Response	0	2	0	0	0	2	2	0	0	0	0	1
% of Respondents	97%	65%	100%	100%	65%	49%	76%	100%	70%	100%	57%	100%

	6.1	6.2	6.3	6.4	6.5	6.6	6.7	6.8	6.9	7	8	9.1	9.2	9.3
Mean	0	0	1	1	1	0	0	1	0	1	2	1	0	2
Median	81%	100%	51%	81%	59%	65%	100%	54%	97%	42%	53%	69%	44%	58%
Mode														

The questions will not be discussed in the order in which they were asked; rather they will be discussed in groups according to the research questions.

5.2.1) Do the Unemployed Value Self-Employment?

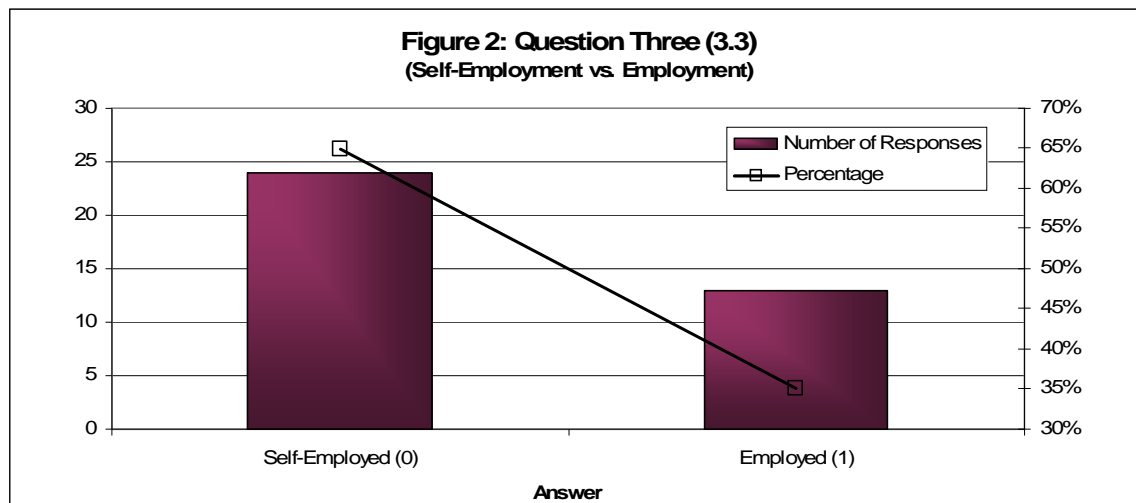
The first question was used to determine the respondents' current job-seeking behaviour which overwhelmingly favoured job-seeking. As the respondents were interviewed at the Johannesburg Labour Centre which is designed to find jobs for individuals rather than to build new businesses, this is to be expected. Figure 1 shows these responses along with the responses to the second question in order to show the existing discrepancy between current job-seeking behaviour and the desired end-goal of self-employment.



This graph shows that while thirty-six respondents (representing 97% of the total) are currently seeking employment, only thirteen of them (35%) choose employment as their ideal state of employment.

Twenty-four respondents have a stated desire to own their own business one day although this is not their short-term aim. The reasons given for the disconnect between this stated desire and the current job-seeking behaviour in Question 1 include a lack of capital and a lack of skills but these will be discussed in more detail in the next section of this chapter. Although it was an option, no respondents chose unemployment as an ideal state of employment which, in itself, offers valuable information.

Question three was made up of three sub-questions that each asked respondents to prioritise between two of the three possible states of employment and provide a short description of their reasons. In all cases and all variations, unemployment was seen as an inferior alternative to the other two possibilities. When those two possibilities were compared against each other, the results were as shown in the Figure 2.

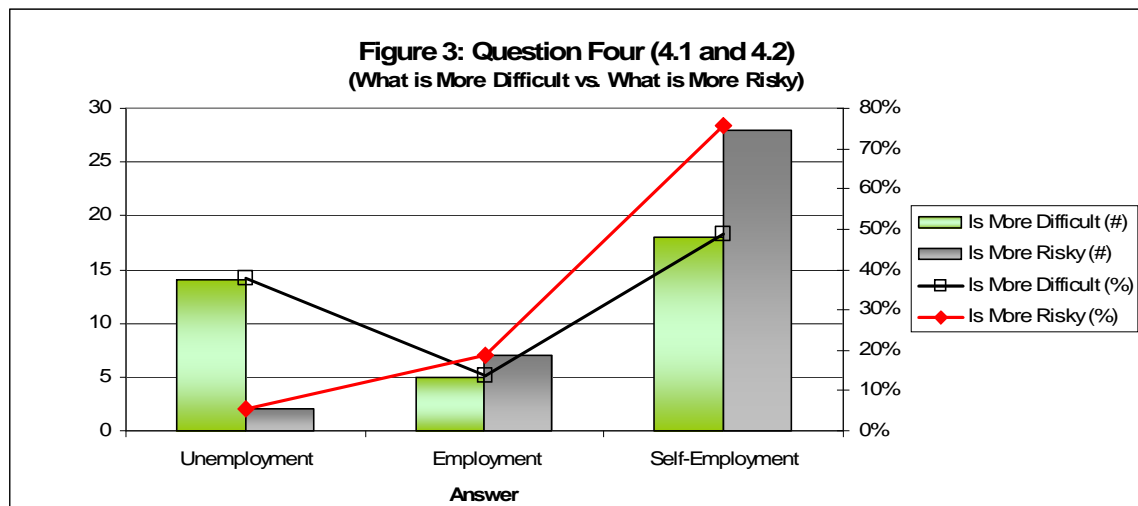


Twenty-four respondents preferred self-employment to employment in what is effectively a repeat of the previous graph. The average response was 0.4 while the mode was 0. In other words the responses tended to favour self-employment on average and the most popular choice was also self-employment.

5.2.2) Are the Unemployed Confident in their Abilities?

The questions in this section address the second research question and examine issues regarding the unemployed’s perception of their own entrepreneurial abilities and the perceived level of difficulty and risk involved in pursuing an entrepreneurial career.

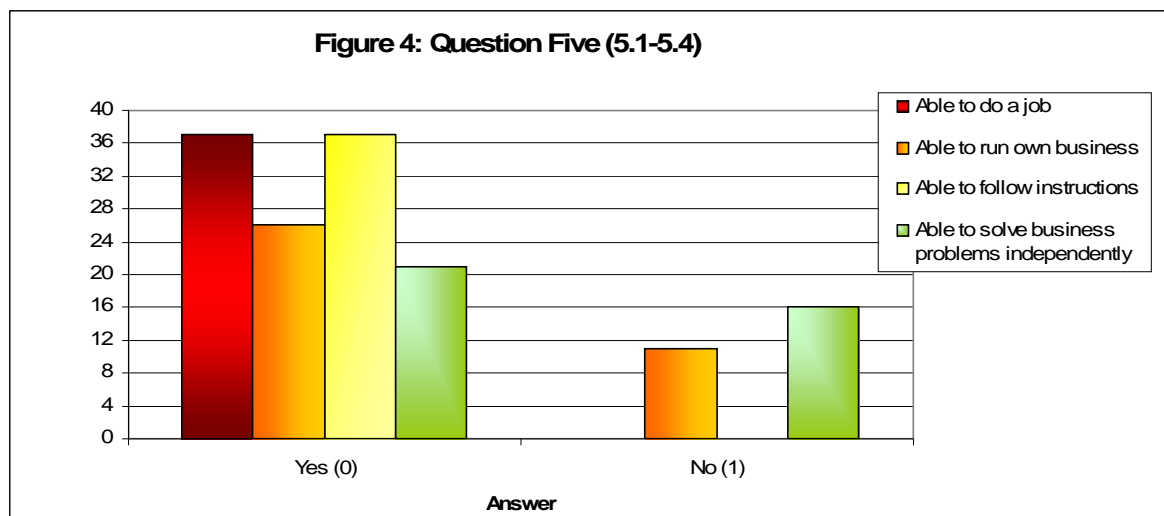
Question four was divided into two sub-questions. The first sub-question asked respondents to identify what they believed to be the more difficult state of employment. The second sub-question asked respondents to choose from the same options, this time identifying the one they believed to carry the highest risk. Figure 3 below compares the responses for each of these.



There was a spread of opinion with eighteen respondents (49%) believing self-employment to be the most difficult while fourteen (38%) and five (14%) respondents believed it was unemployment and regular employment respectively. When asked what was more risky however, the responses were more concentrated with only two respondents (5%) believing unemployment was the riskiest while 28 respondents (76%) felt it was self-employment. In neither case was employment seen as the most difficult or the most risky.

The fifth question comprised five sub-questions and was designed to determine the degree to which respondents felt themselves competent in achieving certain tasks - both tasks assigned by others as could be expected within an organisation and less ordered tasks as could be expected in the process of starting or running a small business.

Figure 4 summarises the first four of these sub-questions and shows the degree to which respondents felt capable of each set of tasks.



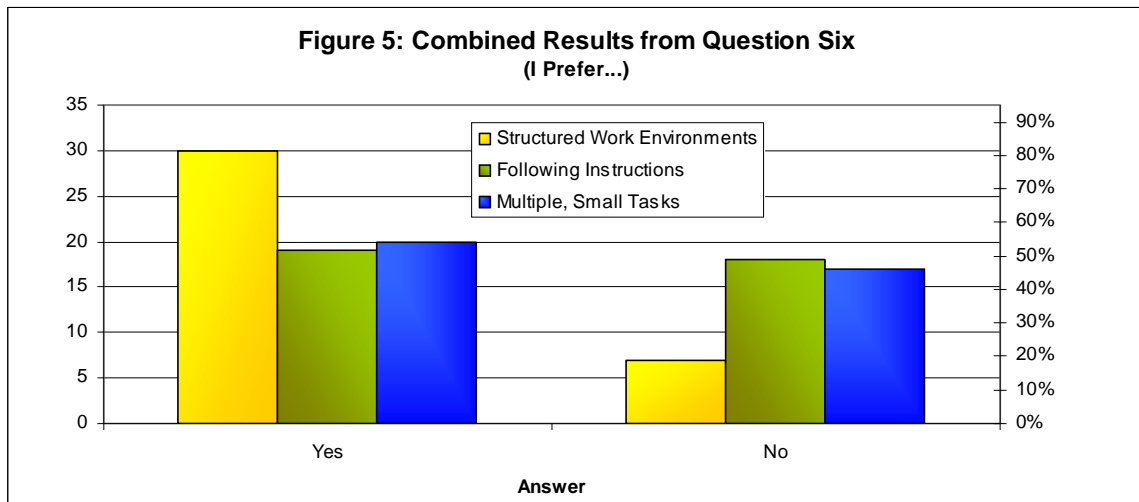
Two questions received a positive response from all respondents, namely questions 5.1 and 5.3. These two questions asked respondents if they felt that they were capable of performing in a job and following instructions respectively.

When asked about their ability to run their own business (5.2) the responses were more varied with twenty-six respondents (70%) answering in the affirmative and an average response of 0.3 and mode of 0. When asked whether they felt able to solve business problems independently, twenty-one respondents (57%) felt that they could - giving an average response of 0.4 and mode of 0. In other words, the most common response was still that individuals felt capable of running their own businesses and solving business problems unassisted but the responses were not unanimous.

5.2.3) Do the Unemployed Prefer Structure?

This thesis sets out firstly to determine whether or not the literature regarding entrepreneurship and unemployment is applicable to a high unemployment environment such as is found in South Africa. From there it aims to suggest a more structured approach to the promotion of entrepreneurship. The questions in this section will provide insight into the merit of these proposals.

The question that addresses the issue of structure is question six which does so through three pairs of sub-questions. Figure 5 shows the degree to which each of these situations was preferred.



When directly asked about their preference between structured and unstructured work environments, thirty respondents (81%) said that they preferred environments that offered structure.

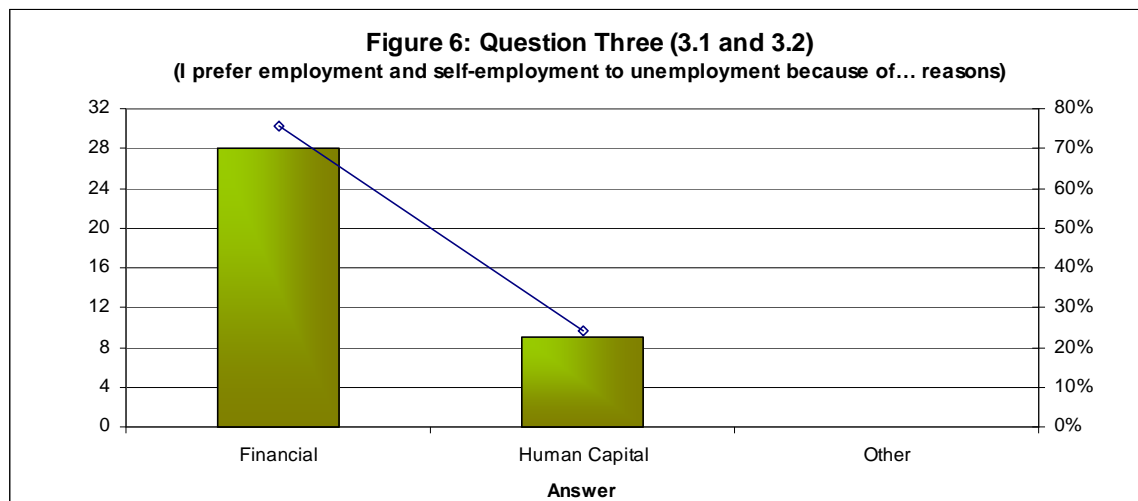
The other questions were less direct but, in both situations, the responses were fairly evenly distributed with nineteen respondents (51%) preferring to follow instructions rather than make their own decisions and twenty respondents (54%) preferring to attempt multiple small tasks rather than a single large and difficult one.

5.3) Open-Ended Questions

There were two open-ended questions which were included to provide further insight into the mind of the unemployed. The first of these open-ended questions was question three which also featured in the previous section discussing the closed-ended questions. The three sub-questions each asked the respondents to choose between unemployment, employment and self-employment with reasons for why each decision was made.

5.3.1) Employment is Preferred to Unemployment

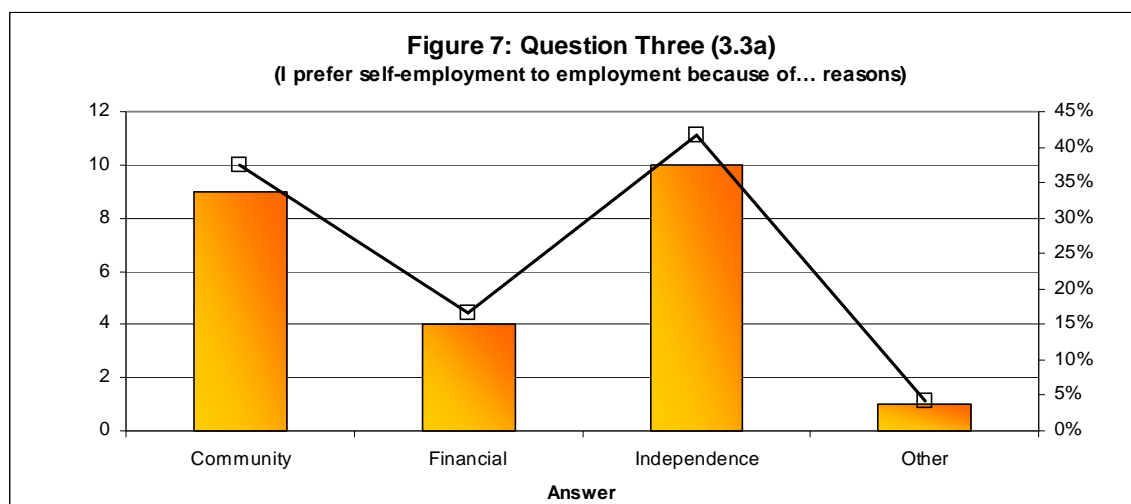
In both cases where unemployment was compared to employment and self-employment, one of the latter was always chosen as preferable. The reasons given for preferring a form of employment to unemployment were also the same whether the preferred state of employment was self-employment or a traditional job. These responses have been divided into three categories, namely reasons relating to income generation, human capital development and other reasons with the distribution shown in the graph below:



The most common reasons given for preferring a state of employment over unemployment were financial reasons. Responses included “money”, “income” and “[to] support [my] family”. South Africa’s Unemployment Insurance Act of 2001 governs the Unemployment Insurance Fund which currently only pays out benefits to those who have been previously employed and have previously contributed to the fund. In these cases, the duration of the unemployment benefit is a maximum of six months. In other words those unemployed for a long duration will earn no income.

5.3.2) Self-Employment is Preferred to Employment

The third sub-question in this section asked respondents to choose between self-employment and employment and to provide their reasons for the choice. Twenty-four respondents favoured the former over the latter and the major reasons given have been summarised in the Figure 7 below. Community reasons include comments like “to create jobs” and to “build my community”, financial reasons include comments like “profits you gain”, independence reasons include “be my own boss” while ‘other’ is catch-all category.



The most common reason for a self-employment preference was independence. Respondents with this view gave responses such as “I want to be my own boss”, “I don’t believe in depending on someone else like a supervisor”, “no conflict” and “if you’re the boss, you know you have a job”.

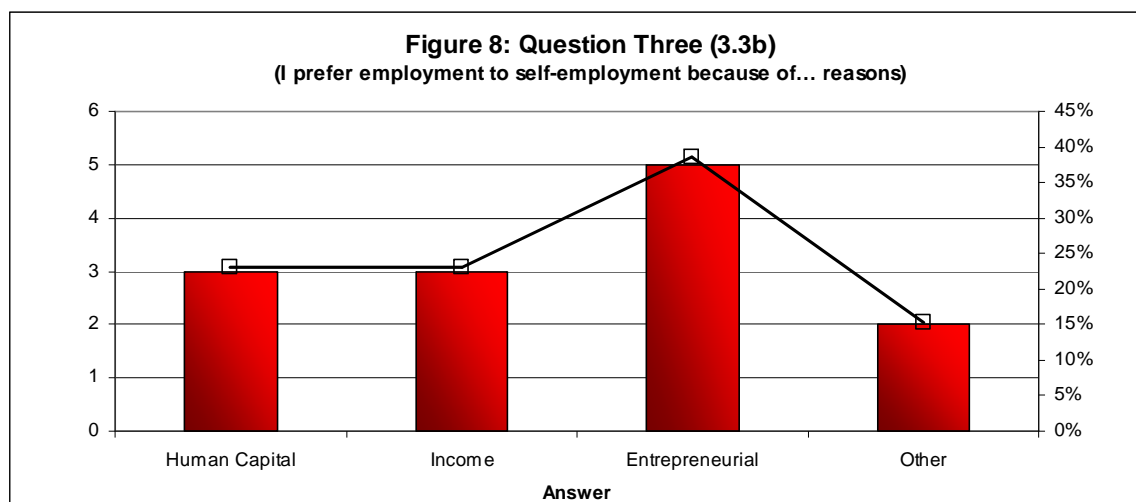
A strong feeling of community was evident, in-line with the more collectivist nature of African societies (Eaton & Louw, 2000). Respondents choosing this option gave reasons like “create jobs”, “maintain myself and make a job for

others”, “helps to build the community”, “when I see South Africa there is a high rate of unemployment and my own business will create jobs” and “it is difficult for people like me to get a job so I want to help [by creating jobs]”.

5.3.3) Employment is Preferred to Self-Employment

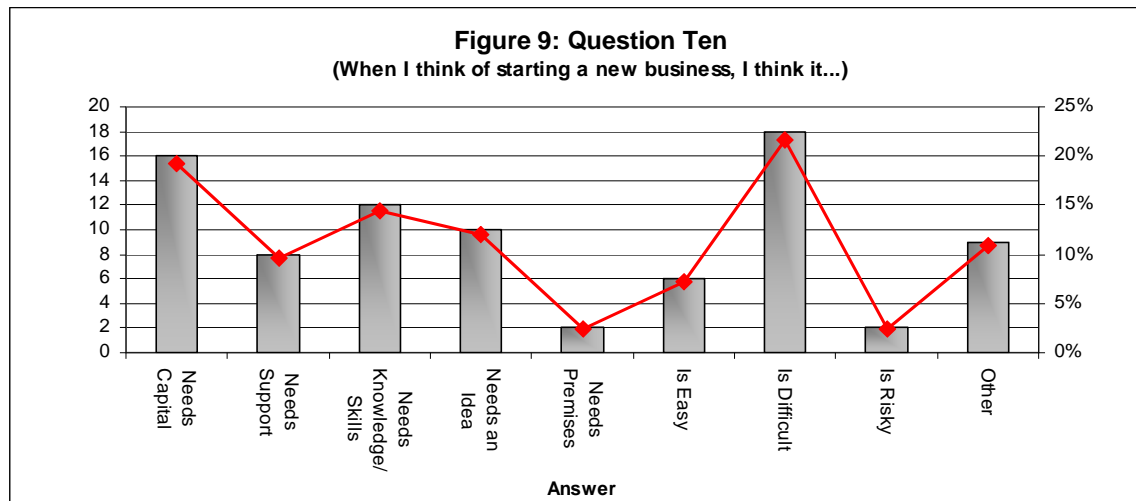
The remaining thirteen respondents favoured employment over self-employment and their responses are shown in Figure 8 below. Human capital reasons include reasons like “I don’t have enough experience”, “[I need to] get experience” and “focus on my education/ qualifications”, entrepreneurial reasons include “I am not a business minded person” and “I don’t have a business idea”, income reasons include responses like “earn income quicker”, “profits go to the owner” and “profits you gain” while once again ‘other’ serves as a catch-all category.

The three most common reasons given for preferring employment to self-employment were due to a lack of an entrepreneurial leaning (38%), a lack of human capital (23%) and due to income considerations (23%).



5.3.4) General Opinions

The final question was the most open-ended, asking respondents to describe their feelings when they thought of starting a new business.



Responses to this question were expectably diverse but some key themes did emerge. The strongest of the recurring themes was that creating a new business was a difficult process. However, opinions on relative difficulty or ease of the entrepreneurial process were somewhat divided. The majority of respondent (23%) mentioned that starting a new business was a difficult task but there was also a smaller, but still significant, group (8%) that thought it would be an easy thing to do.

Some of the responses to this question ranged from “it is not easy for someone like me with no qualifications or experience”, “[it is] not easy, you need heart, patience and understanding” to “it is quite easy”, “it is not too difficult” and “starting [a business] is easy, running [it] is difficult”.

The next most common point raised was that starting a business required capital with comments like “money is the only thing, [you need to] get this first and then think about the business [idea]” and “you need capital, you need assets”. Not only was capital mentioned as a requirement, it was also mentioned that capital would be difficult to raise due the fact that “banks won’t lend” money to entrepreneurs.

The next commonly recurring theme, which in many ways is connected to the opinion that entrepreneurship is a difficult pursuit, is that starting a new business requires certain pre-existing knowledge and/ or skills. This accounted for 14% of responses and, if you include in this category all responses relating to the need for support and advice this figure goes up to 24%. The skills and knowledge mentioned included business qualifications, management skills, people skills, sales and marketing skills and the skills and knowledge to draw up a business plan or proposal for finance.

These skills closely match the support services required except that in this category moral support from family and friends was also included. Some of the responses included “[I] will need a mentorship”, “[I] need business knowledge” and “[I] need a learnership first”.

The final notable category of responses was the fact that creating a new business would require an idea. If new venture formation is to drive innovation, it needs to focus on new and different ideas.

Only ten of the respondents mentioned that a new business required an idea – one of the ones to mention this fact did so as a reason why self-employment was not seen as their ideal state of employment – and only five respondents already had an idea for their own business. The ideas mentioned included a drinks company, a restaurant and graphic design company.

Chapter Six – Discussion of Results

This chapter discusses the results of the research and the implications of such for the research questions. Once again the chapter will follow the structure implied by the research questions.

6.1) Validating the Literature

Although the questions covered in this section do not directly relate to any of the research questions, they are important in so much as they validate key aspects of the literature for a high unemployment environment.

6.1.1) Psychological Impacts of Unemployment

The first major assertion to be examined was that unemployment would have negative psychological effects on those affected (Shamir, 1986; Feather, 1992; Darity et al, 1996; Rodriguez, 1997; Kokko et al, 2000; Vansteenkiste et al, 2004; McKee-Ryan et al, 2005; Vansteenkiste et al, 2005).

The final sub-question of question five was somewhat different to the others and hence was not discussed earlier. It asked respondents about their relative confidence today while unemployed compared to a previous time in their histories when they had been employed.

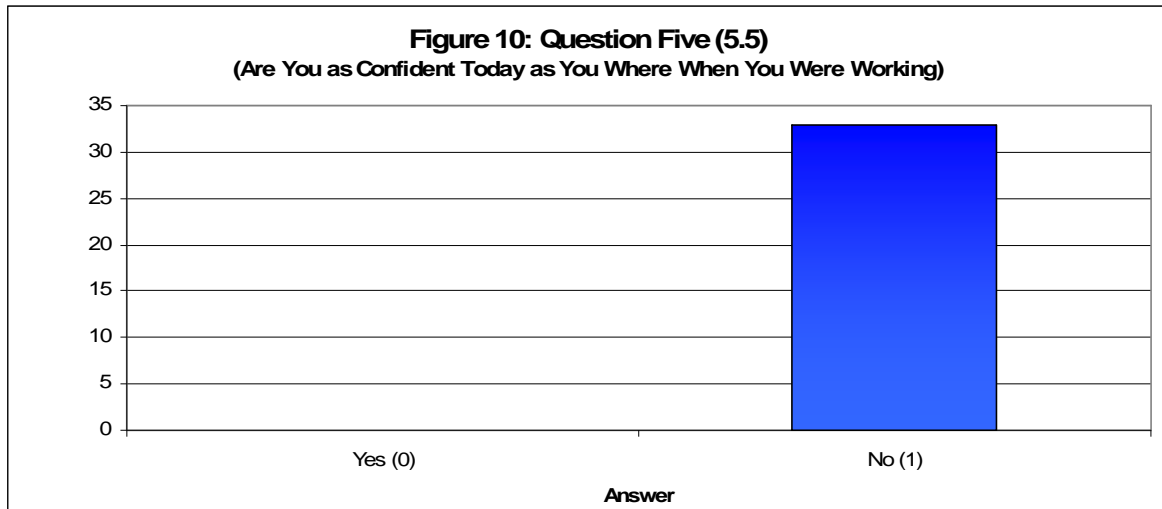
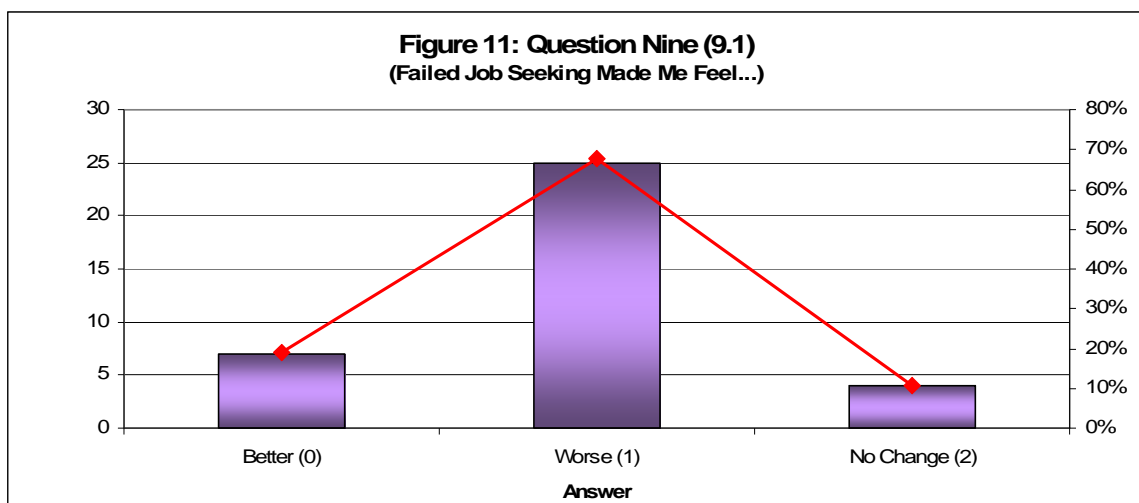


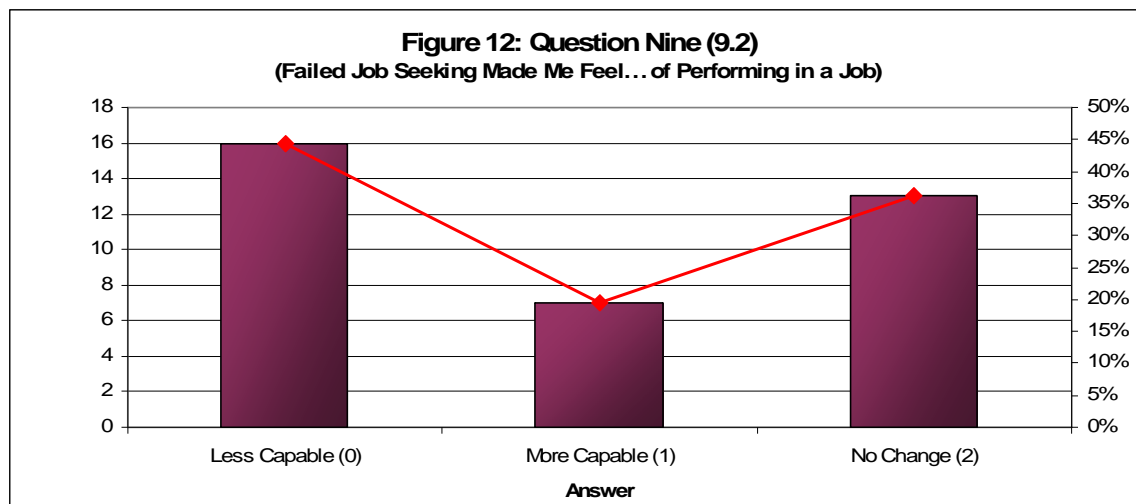
Figure 10 shows how the collected data backs-up the literature with all thirty-three respondents saying that their confidence today was not as high as it had been at a time in their past when they were employed. The only exceptions were four respondents who had never worked and therefore could not provide an answer.

Figure 11 tells a similar story with twenty-five respondents (76%) saying that they felt worse after unsuccessfully searching for a job.



6.1.2) Self-Efficacy and Future Expectations

The literature also suggests that a history of unemployment and failed job-seeking attempts will lead to lower self-efficacy and a pessimistic outlook about future job-seeking. Figure 12 confirms the negative impacts on self-efficacy, although not overwhelmingly so, while Figure 13 shows that a history of failed job-seeking need not necessarily lead to lower expectations regarding future job-seeking efforts.

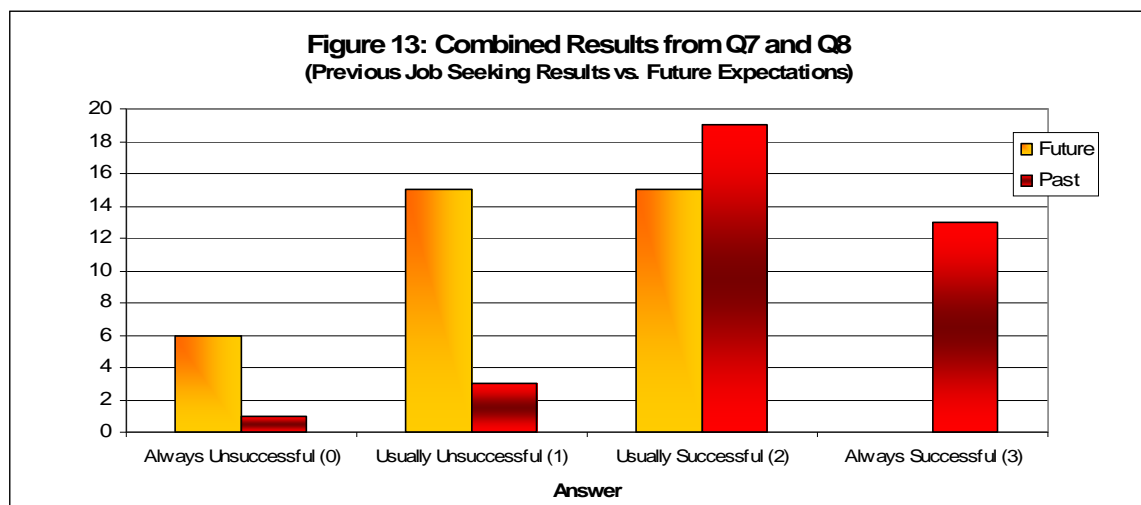


In Figure 12 the most common response was that failed job searches made individuals feel less capable of performing a job, as suggested by the literature. However 20 respondents (56%) either felt more competent or no different.

Figure 13 shows that, contrary to what the literature suggests about the negative impact that failed job-seeking would have on expectations for future job-searches, (Feather, 1992; Darity & Goldsmith, 1996; Goldsmith et al,

1996; Vansteenkiste et al, 2004; Vansteenkiste et al, 2005), expectations for the future are more positive than past experiences have been.

In fact, twenty-three respondents (62%) felt more positive about their future than their past and only one respondent (3%) felt worse.



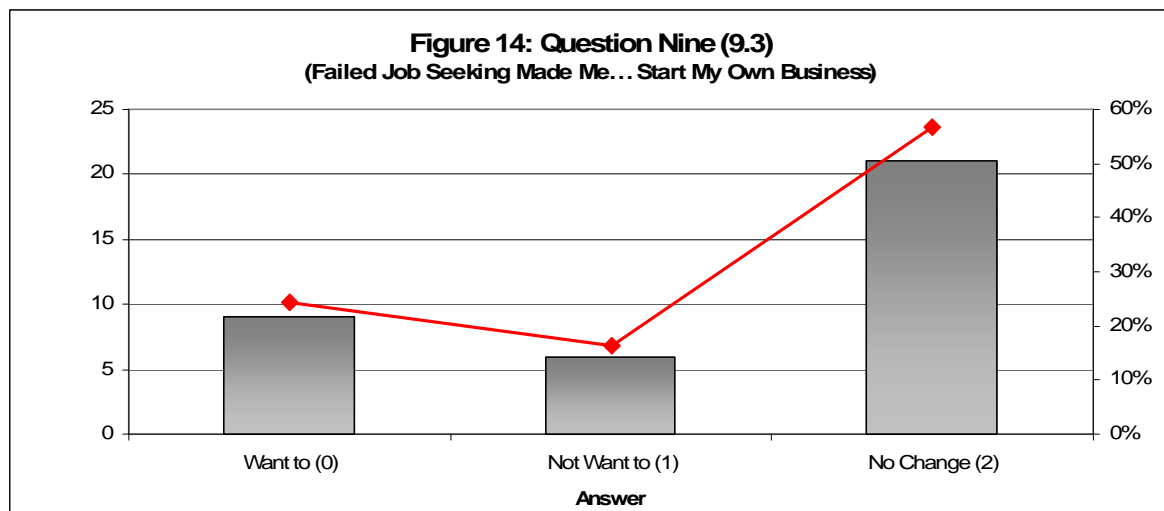
Although contrary to the literature quoted in the literature review, other research has shown that people tend to overestimate the probability of themselves attaining a positive future event and underestimate the probability of themselves attaining a negative future event (Benabou and Tirole, 2002).

This could explain why, despite a history of failed job-seeking attempts and an average duration of unemployment of nearly two years (median duration of eight months), respondents remained positive about the likelihood of future success.

6.1.3) Environmental Impacts

The final assumption to be studied was the nature of the environmental impact that a forced period of unemployed would have in a high unemployment environment. The literature was divided with either no evidence of a positive “push” force (Gilad & Levine, 1984; Carree, 2002) or only a minimal impact being found (Ritsila & Tervo, 2002).

Figure 14 shows that the results of this research also find little evidence of “push” forces. The majority of respondents reported no change to their entrepreneurial plans and there was little difference between those who responded that a failed job search had encouraged entrepreneurship and those who responded that a failed job search had discouraged entrepreneurship, with the latter being slightly more predominant.



6.2) Do the Unemployed Value Self-Employment

The first research questions asked whether the unemployed placed a value on self-employment and, if so, how they valued it compared to other more structured or traditional employment options.

6.2.1) The Value Placed on Unemployment

The first thing worth considering is whether or not the unemployed value their current state of unemployment. If there was evidence that the current state was desirable then that could explain the lack of entrepreneurship. However, evidence from question three shows that in all cases where unemployment was prioritised against employment and self-employment respondents chose one of the latter two options. That no respondents listed unemployment as an ideal state of employment is to be expected based on where the interviews were conducted - if someone did prefer unemployment they would be unlikely to make the effort to visit the Labour Centre in search of work. However, it does show that even though 35% of respondents stated that they would prefer employment over self-employment, all 100% stated that they would still prefer self-employment over unemployment saying things like “[when you are unemployed] you can’t pay your accounts”.

In other words, there is strong evidence that the unemployed don’t value unemployment and the fact that it persists must therefore be due to reasons other than a preference for it.

6.2.2) Employment vs. Self-Employment

At first glance the fact that all respondents, when answering question one, stated that they were currently looking for employment and not to start a new business might seem to suggest that the unemployed placed little value on self-employment.

However, this can also be explained by the fact that interviews were conducted at the Johannesburg Labour Centre. Labour Centres are designed to find jobs for individuals rather than to build new businesses. It is therefore not a surprise that thirty-six of the thirty-seven respondents were currently seeking jobs rather than assistance with a new business start-up. According to Dries Olwagen at the Labour Centre it does happen that people arrive looking for information about Umsobomvu, the Department of Labour sponsored entrepreneurship fund. In those cases they are provided with the basic information and referred to the Umsobomvu offices.

Question one was not the only question dealing with this issue however and a number of other questions provided more insight into the issue. Question two asked respondents to consider their ideal state of employment with none of the current constraints that they might be facing. The results to this question were revealing. Although 97% of respondents were currently looking for employment, 65% listed self-employment as their ideal employment state. That is to say that the majority of the unemployed people interviewed placed significant value on self-employment saying things like “it is better to the owner than an employee”.

Not all respondents preferred self-employment. Some were simply not entrepreneurial in nature, saying that they were either lacking a good idea or simply “not a business-minded person”. A few also gave reasons relating income or a desire to use their educational background. This is not unexpected and goes to show that in any population, not everyone will be entrepreneurially motivated.

6.2.3) Employment State Disconnects

The question that presents itself now is why, if the unemployed do not value their current state of unemployment but do value the state of self-employment, is the priority currently to look for work? This is particularly vexing in a country where unemployment levels are very high and therefore one can assume that the probability of success at job-seeking is also very low - as confirmed by a sample average duration of unemployment of twenty-two months.

The reasons for the disconnect are largely the constraints that the unemployed face, or perceive themselves to face, in their daily lives which make employment the desirable short-term state of employment. Many of the respondents had logical reasons for not currently pursuing their stated end-goal of self-employment. The most common of these was that, in order to successfully run a small business, both human and financial capital were needed and the respondent was either short of the required work skills or short of the required start-up capital. Some of the comments on this theme included “[I] need experience [and to] learn more] and “to get experience and money”.

In most cases therefore the current pursuit of employment over self-employment was not an indication of a higher value being placed on the former but simply down to the fact that the latter appeared impossible.

6.2.4) Independence

Of the reasons given for a self-employment preference, the most common related to independence and included responses like “[I want to] be my own boss”, “I am not the sort of person who works well under authority and so I want to be my own boss” and “I don’t believe in depending on someone else”.

6.2.5) Community Reasons

But the second most common reason given was not one that was predicted by the literature except perhaps by the statement that African cultures tended to be more collectivist than European cultures (Eaton & Louw, 2000). 35% of those preferring self-employment to employment said they did so in order to create jobs for others like themselves, to build their communities or to grow the economy of the country. Responses ranged from the simple like “employing others”, “make a job for others”, “provide for the community”, “fighting poverty in the community” to the more complete like “[I am] looking for a business to assist the poor, create jobs and grow the economy” and “when I see South Africa, there is a high level of unemployment and my own business will create jobs”.

6.2.6) Economic Reasons

The third reason given was an economic one, namely that there were larger expected profits to be had from owning a business than from working in one. Respondents that took this route included “profits you gain”, “more profit”, “more profitable than working for someone else” and “If I am self-employed I will get anything I want”.

6.2.7) Innovation and Growth

Only five respondents (13.5%) mentioned an idea that they already had for a business and only two spoke of self-employment in passionate terms, calling it “a dream” and saying that they have had “entrepreneurial thoughts from young”.

Even those who spoke about creating jobs for others were not referring to rapid growth businesses but rather to small self-sustaining business likely to only create a few jobs – with ideas including a restaurant, a design company and an equipment hiring company.

This will limit the benefit that these ventures can have on the economy (Wong et al, 2005). The worrying implication of these answers was the lack of opportunity entrepreneurship as defined in the GEM report. Those respondents who preferred self-employment to employment therefore seemed to do so for necessity reasons and not because they had identified a good profit opportunity.

6.2.8) Summary

In summary therefore, there is clear evidence that even though few unemployed individuals are actively starting entrepreneurial ventures, there is a large value placed on these activities.

South Africa's low levels of TEA (GEM, 2006) confirm the first part of this while the difference between these low levels of entrepreneurial activity and the stated ideal can be explained by the unemployed's perceptions of certain hurdles on the route to self-employment. The fact that there is a high value placed on self-employment however, shows that a well-designed programme to encourage and enable entrepreneurship should be well received.

6.3) Are the Unemployed Confident In their Abilities?

Having established that the unemployed do not value their current state of unemployment and a significant portion of them do value self-employment, it is worth considering in more detail the reasons for the lack of entrepreneurial behaviour in the group who have a stated entrepreneurial desire. The group that does not value self-employment is clearly unlikely to pursue such activities even where programmes exist to promote entrepreneurship.

The literature suggests that individuals will choose to avoid those options which are not desirable or for which they feel incompetent (Douglas et al, 1994; Eccles & Wigfield, 2002; Markman et al, 2002; Segal et al, 2005). As we have established that the outcomes are desirable, the lack of TEA might be due to the unemployed feeling incapable of pursuing self-employment.

The feeling of incompetence could stem from two sources, either the individual could feel that they themselves are not competent or the individual could feel that the environment is not conducive for new businesses.

6.3.1) Environmental Factors

Figure 3 (page 45) shows that individuals feel that self-employment is both the most difficult and the most risky of the three possible employment states. This is particularly true of the respondents' view of the risks involved. These questions did not ask whether the individual felt capable of pursuing the difficult task and so, although this can not be entirely removed from the equation, can talk to the individual's perception of the external environment more than their own internal abilities. The risks perceived included "risk of no income", "customers may not repay credit", "might not be able to pay your rent" and "[the competition] drives costs down so you can't be successful". Interestingly, a significant number of people felt employment was more risky due to the lack of job-security experienced by this group. Comments included "[I can be] fired anytime" and "[I can] lose [my] job anytime"

The perceived difficulty and risk presented by the environment does not seem to be the main constrainer of entrepreneurial activity. Of the twenty-three respondents who have a stated desire to be self-employed but are currently seeking a job, only 30% felt that self-employment was the most difficult compared to the non-entrepreneurial group where 77% felt the same way.

In the would-be entrepreneur group, 65% felt that self-employment was the most risky pursuit while for the rest this figure was 92%. Of the eighteen respondents who said that self-employment was the most difficult of the three career options, eleven (61%) still felt they could run their own business.

In other words, while the perceived level of difficulty and risk involved in starting a new business might be a reason some people don't desire self-employment as an employment state, it is not the reason why people who do desire self-employment are not actively pursuing it.

6.3.2) Internal Factors

The external environment does not lead to a sense of incompetence which, if it does exist, must therefore reside within the individual's sense of self. This is in-line with the literature which suggests that unemployment can reduce self-confidence, self-efficacy and productivity in the unemployed (Shamir, 1986; Feather, 1992; Darity and Goldsmith, 1996; Goldsmith et al, 1996; Rodriguez, 1997; Arulampalam et al, 2000; Kokko et al, 2000; Arulampalam, 2001; Clark et al, 2001; Lupi and Ordine, 2002; Vansteenkiste et al, 2004; McKee-Ryan et al, 2005; Vansteenkiste et al, 2005).

Evidence of all three of these negative impacts can be seen in Figure 10 which shows that all respondents have had their self-confidence negatively impacted by unemployment, Figure 12 which shows the most common reaction to a failed job search was to feel less competent and from the fact that 25% of respondents are looking for a job to boost their human capital.

Looking at each of these in more detail it is clear that although the direct impact on self-efficacy might not be proven in Figure 10, Figure 4 shows clearly that all respondents felt confident about doing a job and following instructions but only 70% felt confident about running their own businesses and only 57% felt confident about solving business problems unaided. Again, when we look only at the group who desire self-employment but are not pursuing it actively, only 22% felt incapable of running their own businesses which increased to 30% who felt incapable of solving business problems on their own. In the non-entrepreneurial group these rates were 46% and 69% respectively.

6.3.3) Summary

Therefore, although there is evidence that self-confidence, self-efficacy and even job skills have been reduced, these are not the reason that would-be entrepreneurs are not engaging in entrepreneurial activity. Respondents made statements like “[it is] difficult but [I] can do it”, “[it is] easy if you’re prepared” and “it might be difficult but you must be strong”.

6.4) Do the Unemployed Prefer Structure?

If there is a significant portion of the unemployed who value self-employment and the majority of this group feels competent of running a business and solving business problems, then why is there a low level of entrepreneurial activity?

6.4.1) Capital Constraints

The group who desire self-employment but are not actively pursuing it seem to understand that new businesses require start-up capital with 47% mentioning this fact. This is a practical constraint which could be leading to respondents favouring job-seeking over self-employment.

However, only three respondents mentioned that they were looking for a job to build capital and only one of the respondents had been actively seeking funding from Umsobomvu or other funding sources. Umsobomvu was formed in 2001 to provide funding of up to R8 000 000, either by means of a loan or through equity, for small businesses particularly businesses that are significantly black owned and that benefit black youth in South Africa (www.youthportal.org.za).

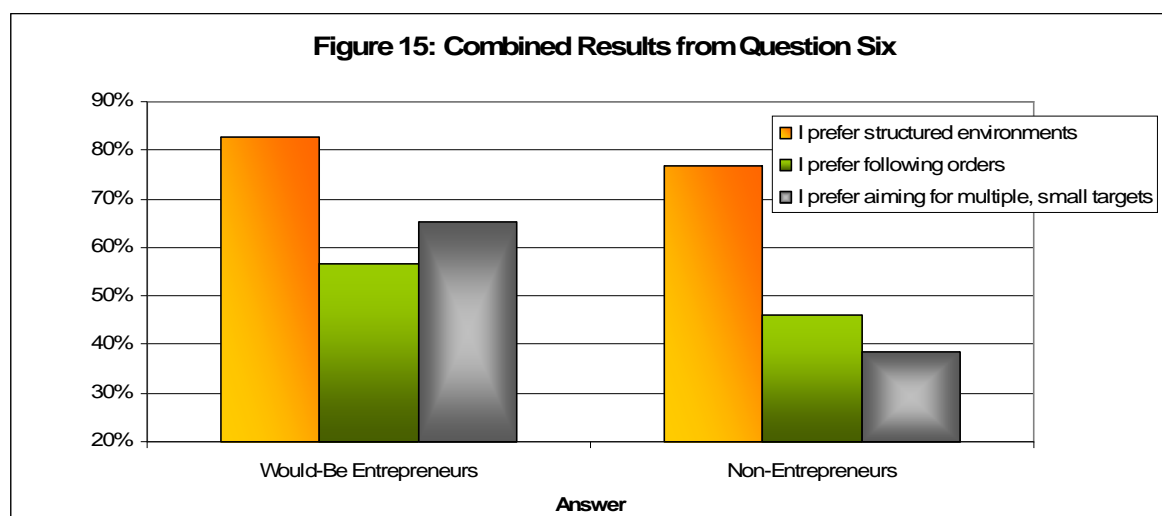
Thus, although funding is a valid potential constraint, it does not seem to be the reason keeping would-be entrepreneurs from pursuing their dreams (if this had have been the case one would expect to hear more stories of start-up attempts that failed due to a lack of funds but there was no evidence of any attempts at all).

6.4.2) Structure

There must therefore be another reason why unemployed individuals will continue to search for jobs rather than taking their preferred route of entrepreneurship.

We have seen evidence that the periods of unemployment have negatively impacted both the respondents' self-confidence and self-efficacy but the literature tells us that these characteristics can be built up by following a more structured approach (Locke & Latham, 1990; Locke & Latham, 2002).

This assertion is backed-up by the evidence from the questionnaire. Figure 5 and Figure 15 show how 81% of respondents prefer structured work environments (including 82% of the would-be entrepreneurs), 51% prefer following instructions (including 57% of would-be entrepreneurs) and 54% prefer aiming for multiple small challenges rather than single, large challenges (including 65% of the would-be entrepreneurs).



This is the first set of results that shows a bigger impact for the portion of the group that desires self-employment than the group that doesn't and should therefore be considered carefully.

6.4.3) Summary

A group has been identified that values self-employment over employment but chooses to pursue employment due in part to a feeling of incompetence relating to entrepreneurship but more so to a preference for structured environments that would allow for the achievement of multiple, small goals.

The success of The Business Place validates this finding in as much as it provides would-be entrepreneurs with structure through guidance and a series of milestones which must be met before progressing to the next stage. Where the model employed by The Business Place differs from this study however is that it considers mainly would-be entrepreneurs who are actively pursuing self-employment whereas the focus of this study is on would-be entrepreneurs currently pursuing employment.

The suggested solution, expanded upon in the next chapter, will propose a variation to The Business Place model aimed at creating a structured environment to encourage would-be entrepreneurs to actively pursue self-employment rather than the often unsuccessful job-searches.

Chapter Seven – Conclusions

Unemployment is clearly a problem for South Africa (Kingdon and Knight, 2001), undermining both the economic (Darity and Goldsmith, 1996; Arulampalam et al, 2000; Arulampalam, 2001; Lupi and Ordine, 2002) and socio-economic stability of the country (Freeman, 1996; Crutchfield and Pitchford, 1997; Raphael and Winter-Ebmer, 2001). The promotion of entrepreneurship has been identified as a way to create jobs. This thesis aims to further the understanding of unemployment and entrepreneurship and, in so doing, hopes to point the way for further research and future programmes addressing these issues.

7.1) Entrepreneurial Motivation

The literature tells us that when an individual chooses to pursue self-employment they ask themselves three major questions (Segal et al, 2005).

These questions are:

- 1) What is the relative desirability of self-employment compared to employment in a company?
- 2) To what degree is there a match between my own skills and abilities and those demanded by each career alternative?
- 3) Am I willing to accept the level of risk I perceive to be involved in entrepreneurial activities?

The research questions in this thesis were structured along similar lines.

The first question gained insight into the value placed on self-employment by the unemployed. The second question gained insight into the degree to which the unemployed perceive self-employment as the more risky and/ or more difficult alternative and the degree to which they felt themselves to be willing and able to pursue such a task.

The final research question added a new dimension to the Segal model by establishing the degree to which the unemployed prefer structured environments over the unstructured environments presented by entrepreneurship (Teoh & Foo, 1997). It is largely from the learnings gained in this final question that suggestions have been made for a new way to design programmes aimed at encouraging more unemployed individuals to choose the pursuit of self-employment before searching for a job. I will also discuss how this varies from programmes aimed at supporting entrepreneurs who have already started their own businesses.

7.2) Do the Unemployed Value Self-Employment?

The results of the questionnaire were clear, although a portion of the respondents prefer a career within the employ of an established business, 60% of the respondents said that they would ideally be self-employed.

The answer to Segal's et al (2005) first question is therefore easily answered. A significant portion of the unemployed population view self-employment as relatively more desirable than employment.

As in any population, this is not universally true for reasons of personal preference and reasons relating to perceived entrepreneurial capability. However, it is the portion of the population that have a desire to be self-employed yet are seeking employment that will be the focus of this thesis. The reasons for the disconnect between desired and actual behaviour is particularly pertinent when one considers that members of this group have been unsuccessfully seeking employment for an average of two years each.

One reason for this is not due to a preference for self-employment but rather a perception that employment is easier. Gatewood et al (2002) show that individuals will pursue longer, and with more effort, in tasks for which they feel more capable of achieving.

7.3) Are the Unemployed Confident in their Abilities?

The literature suggests that a period of unemployment would have two important impacts on an individual – a reduction in self-confidence and self-efficacy (Shamir, 1986; Feather, 1992; Darity and Goldsmith, 1996; Goldsmith et al, 1996; Rodriguez, 1997; Kokko et al, 2000; Clark et al, 2001; Vansteenkiste et al, 2004; McKee-Ryan et al, 2005; Vansteenkiste et al, 2005). Both of these were proven to be the case in this research with an overwhelming response to the question regarding self-confidence and significant evidence that the unemployed were feeling less confident about their ability to perform in a job after unsuccessful job searches.

However, when asked more directly about their abilities to successfully run a small business and to solve business problems single-handedly, the responses were favourable on average. This is especially true among the target group of potential entrepreneurs where eight in ten respondents believed themselves to be capable of running a business and just less than that felt confident solving business problems unaided.

In other words although there is evidence that unemployment has negative impacts on the respondents, there is even more evidence to suggest that despite this, the unemployed perceive themselves to be possessed of the requisite skills for self-employment.

7.4) The Perceived Risks of Self-Employment

Staying within the framework of Segal et al (2005) it is important to also address the question of risk. The responses were clear that self-employment is viewed as a risky pursuit with just under three-quarters of the respondents answering to this effect. However, it is again worth going a step further and reviewing the unemployed's willingness to take on the perceived risks.

Despite two-thirds of the group perceiving self-employment as more risky than both unemployment and employment, the would-be entrepreneurs still prefer self-employment as an ideal employment state. This would suggest that, although there is an appreciation for the risks involved in self-employment, this risk involved is perceived to be worth taking.

7.5) Do the Unemployed Prefer Structure?

The literature suggests that, as well as the ability and opportunity to follow entrepreneurial pursuits, there is also a need for the motivation to do so (Herron & Sapienza, 1992; Douglas et al, 1994; Wennekers & Thurik, 1999; Wiklund et al, 2003; Segal et al, 2005).

This thesis focuses on entrepreneurial motivation, assuming that the opportunities and abilities exist due to the nature of the population visiting the Johannesburg Labour Centre (who all have at least a high-school education) and due to the existence of large funds aimed at encouraging entrepreneurship at this level - such as Umsobomvu.

Segal et al (2005) would suggest that entrepreneurship should be thriving in South African communities – there is a desire to be self-employed, there is a belief that they possess the requisite skills and there is a willingness to take on the perceived risks inherent in the process. However, it is patently not the case (GEM, 2006).

One reason proposed in this thesis is that a history of unemployment has left individuals preferring structured environments to unstructured environments. This hypothesis was validated by the research which showed over eighty percent of would-be entrepreneurs preferred structured work environments. This was, in fact, higher than the percentage of non-entrepreneurs feeling the same way.

Entrepreneurial activities are traditionally seen to be unstructured and ambiguous (Teoh & Foo, 1997) which might be the reason that would-be entrepreneurs continue to pursue structured jobs over the desired, but unstructured, state of self-employment.

The intrinsic motivation to act is therefore what seems to be lacking for the group of potential entrepreneurs. It is for this reason that this thesis considers work motivation theories as a possible means of using extrinsic motivation as an alternative.

7.5.1) Work Motivation Theories

Work motivation theories offer some hope because they deal with motivation in environments with more structure and more external control than usually associated with entrepreneurship.

Self-determination theory states that an action can be initiated from within an individual - intrinsically motivated - or from an external agent -extrinsically motivated (Eccles & Wigfield, 2002; Meyer et al, 2005). Therefore, where intrinsic motivation for an action is lacking, it can be extrinsically motivated instead.

Even though autonomy is a primary human need (confirmed by the fact that it was the single largest reason for individuals preferring self-employment over employment) extrinsically motivated actions can receive as much commitment as intrinsically motivated ones (Locke & Latham, 2002; Meyer et al, 2005).

In a structured, work-like environment an external agent could therefore set goals for a would-be entrepreneur and these goals could receive as much commitment as if they had been set internally. This is true where the goal is communicated in the correct way (Locke & Latham, 1990; Locke & Latham, 2002), comes from a legitimate source (Locke & Latham, 1988) and is internalised by the individual (Locke & Latham, 1990; Eccles & Wigfield, 2002; Locke & Latham, 2002; Meyer et al, 2005).

This is important because goal-setting theory says that goals affect behaviour by giving a direction for effort, by generating energy for the task, by improving persistence and by leading to the discovery of task-relevant knowledge (Locke & Latham, 2002). Goal-setting theory also says that achievement of these goals is contingent upon four moderators – namely commitment, feedback, ability and task complexity (Locke & Latham, 1990; Locke & Latham, 2002; Meyer et al, 2005). All four of these moderators are possible - and in some cases easier - to provide in structured, work-like environments.

The most exciting aspect of goal-setting theory is that the more difficult the goal is, the higher the level of performance will be, provided the complexity of the goal does not exceed the ability of the individual (Locke & Latham, 1990; Locke & Latham, 2002). This can be directly related to the population of would-be entrepreneurs who see self-employment as a more difficult goal than employment but nevertheless within their abilities (30% of the group felt self-employment was the most difficult of the three employment states compared to 17% who felt it was employment yet 78% still felt that they were

capable of running their own business). A contingency on which this rests is that the goal must be specific (Locke & Latham, 1990; Locke & Latham, 2002) which also fits well with the would-be entrepreneurs' desire for structure.

7.6) Suggested Approach

The suggested approach for a programme aimed at encouraging growth in entrepreneurship in unemployed South African communities draws from the models discussed above, the results of the questionnaire and the input gained from expert interviews with The Business Place.

7.6.1) Structure

The Business Place is a good example of the successes that can be achieved when the ambiguous exercise of new venture formation is given some structure. The suggested approach in this thesis will differ from The Business Place's model in two structure-related ways.

Firstly, The Business Place focuses on entrepreneurs with new but existing businesses or would-be entrepreneurs who have already made the decision to start pursuing entrepreneurship. This focus will likely lead to a higher success rate among entrepreneurs but, as it relies on the product of the existing rate of entrepreneurship, will likely have a limited impact on the number of people pursuing entrepreneurial activities. That can only be achieved by encouraging potential but inactive entrepreneurs to pursue those entrepreneurial dreams rather than to continue to pursue employment within existing firms. To do this,

the suggested approach aims to provide a structured way to form a new venture rather than a structured way to grown an established one.

In this way the suggested solution will work well in conjunction with The Business Place and business incubators aimed at high growth enterprises to address all three of the stages of entrepreneurship identified by The Business Place – exploration, start-up and growth.

The second way in which in which it differs from The Business Place’s model is that it suggests a closer resemblance to an employment situation. The Business Place lays a number of milestones which must be achieved before the next stage can be started. However, it is up to the entrepreneur to ensure that they meet these milestones in their own way while working either at home or at their business’ premises. In the suggested model the entrepreneur would report daily to the office of the programme and would have tasks set by a manager and be regularly measured against these - as would be the case in a traditional job.

Accurate statistics have only recently begun to be collected but Annie McWalter believes that The Business Place has a significant drop-out rate when considering the number of entrepreneurs who initially approach them wanting to start a business and the number of those entrepreneurs who follow through each of the subsequent stages. By replacing low levels of intrinsic motivation with high levels of extrinsic motivation, the suggested solution aims to lower that drop-out rate.

7.6.2) Income

In the interview with Marcel Newsome of The Business Place, he identified the fact that often the entrepreneurs approaching his organisation are looking for an income over and above wanting to start a new business. Financial reasons were also the most commonly cited reasons for respondents in this research favouring employment over self-employment.

Marcel attributed this to a culture of short-term thinking and he called for an essential mindset change to an entrepreneurial culture of sacrificing today to gain tomorrow. A number of practical reasons no doubt also contribute to this as the populations most at risk of unemployment are also those less likely to have significant savings or assets. However, as nearly two-thirds of the respondents have been unemployed for more than six months they are unlikely to be generating any income currently and self-employment should therefore require little more sacrifice than long-term unemployment.

Regardless of the merits of each side of this argument, it is suggested that this desire for income be taken into account in future programmes by paying would-be entrepreneurs for their time spent developing new businesses provided certain targets are met. More research should be performed into the optimal way to link these payments to the correct actions in order to avoid unintentionally encouraging damaging behaviours. One possible way to do this might be by making the payments take the form of a loan drawn against the future profits of the business and to make this loan contingent on certain criteria being met - the failure to do so resulting in the foreclosure of that loan.

7.6.3) Weaknesses and Future Research

Before this suggestion can be turned into an actual programme however, some of the weaknesses of the current suggestion must be studied further.

The first major unknown is the degree to which encouraging job-seekers to pursue entrepreneurship might lower the standard of new firms formed. Currently the barriers that prevent all would-be entrepreneurs from becoming active entrepreneurs might be acting as a filter to ensure only sufficiently strong entrepreneurs attempt to form new ventures. As the success rate of new ventures is already low, actively encouraging people who might otherwise never have attempted to form a business to do so might merely result in a large number of costly business failures. Further research is proposed to first calculate whether businesses started pro-actively have a different success rate to businesses started after the intervention of a third party. If there is an inferior success rate for businesses started after an intervention, then the next step would be to better understand the costs and benefits associated with the formation of more new businesses when these new businesses had a higher than average chance of failure.

The second area that requires more research is the structuring of payments and incentives. That the structure of payments must encourage positive behaviours is self-evident, however more research should be undertaken to discover just how this might be achieved. A model must be found that encourages more individuals to begin entrepreneurial pursuits but does not reward them for ineffective, damaging or lazy behaviour.

7.7) Summary

This thesis answered three research questions in order to suggest a possible new method for encouraging entrepreneurship in chronically unemployed South African communities. In answering the first research question it was shown that the unemployed do value self-employment. The second research question determined that, although the unemployed do view self-employment as difficult and risky, they feel able and willing to pursue this career path. The final research question identified a preference among unemployed potential entrepreneurs for structured environments.

Together with practical insights learned from The Business Place, this information was used to suggest a possible new approach for promoting entrepreneurship by creating a structured, work-like environment where over time the psychological benefits of achieving multiple, small goals can overcome the psychological damage caused by previous periods of unemployment.

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