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Final Research Report

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Equity funding options available for black corporate professionals starting their own entrepreneurial venture.

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A research report submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

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ABSTRACT

New business creation is fundamental to the growth of the South African economy and to our future socio-political stability. Access to equity funding education and experience are key elements in successful venture creation. South Africa needs a growing pool of potential black entrepreneurs who have the motivation and ability to identify and to realise new business opportunities. South Africa, as is it true for most developing countries, there is a huge shortage of entrepreneurs. This is especially true for black entrepreneurs in the formal sector.

The purpose of this explorative research study aimed at diagnosing and seeking new ideas in our quest to get a better understand of equity funding options available to black corporate professionals transitioning to start new entrepreneurial ventures. For this purpose fifteen black entrepreneurs were interviewed in face-to-face personal interview, using an open ended and semi-structured incorporated in an interview guide schedule. The data was analysed using content analysis methodology; grounded theory method was preferred and was used to collect and analyse the data.

Key Insights were drawn from the study that was used to develop new ideas that were incorporated into the recommendations to three key stakeholders. Mostly important there were few opportunities that were identified for future research. Overall this research study succeeded in what it intended to prove.

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.

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LIST OF ABBREVIATIONS

ANC	African National Congress]
BEE	Black Economic Empowerment]
BBBEE	Broad-Based Black Economic Empowerment
CEO	Chief Executive Officer
CIO	Chief Information Officer
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
RSA	Republic of South Africa
NDR	National Democratic Revolution
SESE	Survey of Employers and Self Employed
SMME	Small to Medium Enterprise
VAT	Value Added Tax
TEA	Total Early-stage Activity

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1.0 INTRODUC ROBLEM

1.1 Introduction

One of the most important policy challenges facing South Africa today is to respond to the changes in the way in which the world economy works. These changes in the world economy are known as globalisation. Our own transition is taking place at a time where there are enormous changes in the international world system (Davies, 2002). Wolf, 2005 defines globalisation as the integration of economic activities, via markets. The driving forces are technological and policy changes, failing costs of transport, communications and greater reliance on market forces.

Understanding these changes is essential in defining economic development policy. The greater reliance on the market and the advancement of technology forces us to really look at the role played by entrepreneurs in the process of economic development. Entrepreneurship development is critical for South African economy if we are going to advance the economy in a way that realises the dream of a better life for all beyond political miracle rhetoric.

Macroeconomic data demonstrates that demographic growth is overtaking the rate of economic expansion and that informal employment and unemployment are growing rapidly. Continued slow growth of the economy is likely to test the patriotism of any bourgeoisie and working class and is likely to place class conflict at the centre of the political arena (Southall, 2004).

In realising the drea [illegible] portant that we grow the economy and eradic [illegible] New business creation is fundamental to the growth of the South African economy and to our future socio-political stability. Education and experience are key elements in successful venture creation. South Africa needs a growing pool of potential entrepreneurs who have the motivation and ability to identify and realise new business opportunities (GEM, 2005). The growth of the South African economy depends on the growth of the SME sector and the creation of entrepreneurs is vital for SMME growth.

This research explores the equity funding options available for black professionals as they transition from a corporate to an entrepreneurial venture. This introduction provides a background on the importance and growth of new entrepreneurial businesses in South Africa, given the socio-economic challenges facing the country. The focus would also explore the importance and encouragement of black entrepreneurship, which is vital in the context of the South African developmental and transformational government agenda.

Therefore, the importance of equity funding options availability for black entrepreneurs becomes extremely critical for the development of new black-owned businesses. This research would further explore this area and demonstrate the various equity funding options available, concluding with the options that are viable for South Africa in order to drive the development of entrepreneurial activity among black professionals. This would demonstrate the importance of this research topic.

1.2 Importance of e… an economy

Economic developme… e level of entrepreneurship activity in a country (Schumpeter, 1934; Bird, 1989). Entrepreneurial businesses ensure growth in the economy. Large corporations retrench, automate, downsize, unbundle, outsource, and inevitably become smaller. Entrepreneurs intend to grow their businesses and are responsible for growth and job creation in the economy (Nieman, G., Hough, J. and Nieuwenhuizen, C., 2003)

The success of other leading countries in the world, such as the United States of America, Japan, India and England, has proven that the only growth sector in the economy is the SMME sector driven by entrepreneurs. Once again entrepreneurs play an important role (Nieman, G., Hough, J. and Nieuwenhuizen, C., 2003). Entrepreneurship and enterprise development have been widely recognised as having a critical role to play in economic development and there are many reasons why this role is perceived to be even more important in the poorer nations of the world (Harper, M., 1991).

In the South African economy, entrepreneurs are seen as the primary creators and drivers of new businesses and therefore they are clearly distinguished as economic actors. Entrepreneurship plays a vital role in the survival and growth of any emerging economy. Due to low economic growth, high unemployment and an unsatisfactory level of poverty in South Africa, entrepreneurship becomes a critical solution (Nieman, G., Hough, J. and Nieuwenhuizen, C., 2003).

1.3 Growth of new

Most entrepreneurial [illegible] lium and micro-enterprises (SMME's). According to the Ntsika Annual Review, SMME's form 97, 5% of all businesses in South Africa. They generate 34,8% of the gross domestic product (GDP), contribute to 42,7% of the total value of salaries and wages paid in South Africa and employ 54,5% of all formal private sector employees (Diederichs, 2001: 64) (Nieman, G., Hough, J. and Nieuwenhuizen, C., 2003).

SMME registrations have grown over the past few years. This has been driven by the Department of Trade and Industry's (DTI's) Integrated Small-Enterprise Development Strategy. This strategy has a vision of South Africa as an entrepreneurial nation that rewards and recognises those who identify a business opportunity and pursue it, a South Africa with a vibrant and competitive small enterprise sector with ventures that grow in both size and success.

Those who were once excluded from full participation in the economy will have access to support and developmental services and will be fully integrated into the core of the South Africa economy, with access to local, national, African and international markets (Department of Trade and Industry (DTI, 2005)

1.4 The move from corporate to entrepreneurial life

Kuratko and Hodgetts (1995) believe that examining why people start businesses and how they differ from those who do not, may be useful in understanding the motivation that entrepreneurs exhibit during start up, as a link to the sustained behaviour exhibited later. The decision to become an entrepreneur is the result of the interaction of several factors.

Veciana (1999) state [illegible] the fact that the need for independence, need [illegible] inalised” are the dominant motivators for corporate professionals transitioning to entrepreneurial life (Mitchell, B., 2003)

Dubini (1998) examined motivation to start a business in different environmental settings in Italy, using a sample of 163 entrepreneurs. He sought to find out whether entrepreneurs have different motivations for starting a business and whether dissatisfaction with previous employment or perception of lack of opportunities would cause someone to start a business. His results showed that the dominant motivation factors are: a sense of individual achievement, contributions to the welfare of a group, recognition from others, material incentives, work flexibility and identification with role (Mitchell, B., 2003).

The move from corporate to entrepreneurial ventures in South Africa can be clearly defined as a combination of a need for survival, financial independence, security to escape a negative situation and to enable personal growth (GEM, 2005). Furthermore, there are more self actualisation traits which are demonstrated by the need for external approval, personal development, recognition, need for independence and deriving power to influence the community (Mitchell, B., 2003). Lastly, others do not wish to miss the opportunities offered by BEE and Affirmative Action initiatives.

1.5 The importanc[illegible] reneurship

The period since 19[illegible] conomy undergo profound restructuring. Ten years of consistent economic growth has been recorded. Macroeconomics stabilisation has largely been achieved, providing a platform for accelerating the growth rate (DTI, 2004). Whilst the economy has grown, our country requires an economy that can meet the needs of all our economic citizens.

This will only be possible if our economy builds on the full potential of all persons and communities across the length and breath of this country (DTI, 2004). The vision of an economy that meets the needs of the people in a more equitable manner was first conceptualised in the Freedom Charter of 1955. This was then further refined and developed in the contemporary context in the Reconstruction and Development Programme (1994). The need to affect redress in the interests of equity is also embodied in our Constitution (DTI, 2004).

The structured exclusion of black people from economic power began in the late 1800's with the first dispossession of land and continued throughout the 20th century with the first Mines and Works Act of 1911 and the land Act of 1913 (DTI, 2004). The impact of this systematic disempowerment not only resulted in a landless black majority with restricted access to skills development, but also deliberately prohibited black people from generating self-employment and entrepreneurship.

South Africans were systematically deprived of viable business opportunities in many ways. While other developing economies with endowments similar to those of South Africa were slowing down with further adverse effects on the ne economy (DTI, 2004).

The creation of new black-owned and black-controlled enterprises was seen as a key component of the strategy to deracialise the South Africa economy and lay the foundation for Broad-Based Black Economic Empowerment. The National Small Business Act was introduced in 1996 to provide an enabling environment for small, medium and micro-enterprises (SMME's) and to establish several institutions to provide financial and other support to black entrepreneurs. These institutions, Khula and Ntsika, have targeted substantial proportions of their programmes at black entrepreneurs (DTI, 2004).

1.6 The importance of equity funding in new venture creation process

How business start-ups are financed is one of the most fundamental questions of enterprise research. Financial capital is one of the necessary resources required for enterprises to form and subsequently operate.

The importance of the financing decision of new businesses inevitably has important implications for the economy, given the role that new enterprise plays in employment growth, competition, innovation and export potential (Cassar, G., 2004).

Additionally, capital decisions and the use of debt and equity at start-up have been shown to have important implications for the operations of the business, risk of failure, firm performance and the potential of business expansion in the future. Pali

Lehohla highlights tha [illegible] ho were owners of at least one non-VAT-register [illegible] 217 000) actually managed to borrow money. Among the 217 000 business owners that borrowed money to start the business, by far the common source was through relatives and friends (83, 4%). Only 5, 1% of those who obtained loans got them from commercial banks (Statistics South Africa, 2002).

Equity funding importance as a source of finance for entrepreneurial businesses, especially at start-up and early stage, is now widely recognized. Indeed, the informal venture capital market is the largest single source of risk capital for entrepreneurial companies, exceeding the institutional venture capital industry. Estimates for the UK suggest that small-and medium-sized businesses (SME's) have raised about £2 billion from the informal venture capital market (Harrison, R., and Mason, C., 1993).

To put the above figures into perspective, it has been estimated that the formal venture capital industry has invested some £1.25 billion in SME's in the UK (Bannock and Partners, 1991). This would suggest that the informal venture capital market is almost twice as important to the SME sector as formal venture capital. However, the potential scale of the informal and formal venture capital market is considerably greater than these figures suggest (Mason, C., and Harrison, R., 1996)

1.7 The problem statement

Zikmund (2003) argues that the purpose of explorative research is entwined with the need for a clear and precise statement of the recognised problem. There are three interrelated pu[illegible]: diagnosing a situation, screening alternatives [illegible] his study we will focus on diagnosing and seeking new ideas in our quest to understand the equity funding options available to black corporate professionals transitioning to start new entrepreneurial ventures.

1.8 The relevance of this research topic

In recent years, political economy considerations in South African economy have led to the perception of SMME development as a social imperative. The growth of the SMME sector depends heavily on the availability of entrepreneurs. Furthermore, SMME's potentially constitute the most dynamic firms in an emerging economy like South Africa.

SMME's are most likely to move into areas of comparative advantage and high value added services, though they often face economic, institutional and legal obstacles. Major obstacles include limited access to working capital and long-term credit, however the widespread belief is that lack of start-up finance is the main obstacle to the growth of entrepreneurial ventures. (Pissarides, 1999).

Therefore the research intends to explore the value derived from the equity funding options available to black professionals who are employed and are transitioning from employment to start their own new entrepreneurial venture.

2.0 LITERATURE REVIEW

The literature review includes theory analysis and review of the available literature, on all the aspects that relate to the value derived by equity funding options available for black professional transitioning from corporate employment to starting their own entrepreneurial venture in the new venture creation process. The review will incorporate all theoretical academic discussions, built around the subheadings that demonstrate the flow and evolution of the research topic and move from he abstract to the crux of the research topic.

The literature review will shape the structure and the content of the questionnaire. Where relevant, information from the theory base will be used to identify data to be collected and will be tested against the research findings in chapter 6.

2.1 Introduction

The literature review will be divided into four broad categories of theory base. The four areas of literature review begin each major area with the generic theory bases and ends with closely focused literature on the research topic. The first section is related to entrepreneurship; its role in driving the economy of the country and the importance of entrepreneurship in the creation of the SMME sector. It further investigates the South African entrepreneurial environment.

The second section focuses on the history and the development of black entrepreneurship in South Africa. This section objective is to provide detailed insight around the history, evolution and development of the current group of black entrepreneurs. It will further detail the key influencers amongst black professionals, for the movement from corporate to entrepreneurial ventures.

The third section will nding in the South African entrepreneurial envirc on is to consider what the major constraints around equity funding are, and why this is so important in the development of entrepreneurs in South Africa.

The fourth and last section will explore, in detail, each equity funding option available, looking at its pro's and cons and provide a detailed analysis of each. This will be followed by the conclusion of the literature review, in which the research will provide key themes emerging from the literature review.

2.2 Entrepreneurship

The Oxford English Dictionary defines the term 'entrepreneur' as a "person who sets up a business or businesses, taking on greater than normal financial risks in order to do so". Timmons (1994: 7-8) regards the process of entrepreneurship as follows: "Entrepreneurship is creating and building something of value from practically nothing. Fundamentally, entrepreneurship is a human creative act. It involves finding personal energy by initiating and building an enterprise or organization, rather than just watching, analysing, or describing one" (Van Aardt, I., Van Aardt, C., and Bezuidenhout, S., 2000).

Van Aardt states that entrepreneurship usually requires a vision, passion, commitment and motivation to transmit this vision to other stakeholders. It also requires a willingness to take calculated risks, both personal and financial, and then doing everything possible to influence the odds. Entrepreneurship also involves building a team of people with complementary skills and talents and sensing an opportunity where others see chaos.

The definition of ent[illegible] of growth, expansion and long-term financial se[illegible]ss that is only aimed at the survival of its owner cannot be seen as an entrepreneurial venture (Van Aardt, I., Van Aardt, C., and Bezuidenhout, S., 2000).Nieman defines entrepreneurship as the emergence and growth of new businesses. The motivation for entrepreneurial activities is to make profits (Nieman, G., Hough, J., and Nieuwenhuizen, C., 2003).

Entrepreneurship is also the process that causes change in the economic system, through innovations of individuals who respond to opportunities in the market. In the process, entrepreneurs create value for themselves and society (Nieman, G., Hough, J., and Nieuwenhuizen, C., 2003). Timmons (2000) believes entrepreneurship is the process of creating or seizing an opportunity and pursuing it, regardless of the resources currently controlled (Timmons, J., 2000).

Timmons insists that, at the heart of the entrepreneurial process, is the founder, the opportunity seeker, the creator and initiator, the leader, problem solver and motivator, the strategizer and the guardian of the mission, values and culture of the venture. He argues that without this human energy, drive and vitality, the greatest ideas, even when they are backed by an overabundance of resources and staff, will fail or grossly underperform, or simply never get off the ground (Timmons, J. and Spinelli, S., 2007).

Entrepreneurship is not something that is limited to the SMME organisations, but is also an element of larger organisations. Entrepreneurship in reality, is an approach to general management that begins with opportunity recognition and culminates with the exploitation of the opportunity (Sexton et al., 1991:12)

2.3 The South Afric

In the South African economy, entrepreneurs are seen as the primary creators and drivers of new businesses and therefore are clearly distinguished as economic actors. Entrepreneurship plays a vital role in the survival and growth of any emerging economy. Due to low economic growth, high unemployment and an unsatisfactory level of poverty in South Africa, entrepreneurship becomes a critical solution (Nieman, G., Hough, J., and Nieuwenhuizen, C., 2003).

In South Africa, as is true for most developing countries, there is a huge shortage of entrepreneurs. This is especially true for entrepreneurs in the formal sector. Pahn (1993;8) expresses the view that South Africa has too few people with entrepreneurial qualities, leading to a situation where the South African economy performs poorly because only a very limited number of people succeed as entrepreneurs (Van Aardt, I., Van Aardt, C., and Bezuidenhout, S., 2000).

Van Aardt argues that, in general, South Africans are not socialised or educated to become entrepreneurs, but to enter the labour market as employees. In becoming employees, they become consumers of existing jobs instead of creators of new jobs. This is still the trend, despite the very low labour absorption capacity of the South Africa labour market and large pool of unemployment and underemployed people in the economically active population (people between the ages of 18-64) (Van Aardt, I., Van Aardt, C., and Bezuidenhout, S., 2000)..

The trend of people b[illegible]ecome employees appears to be especially true [illegible] (Van Aardt, I., Van Aardt, C., and Bezuidenhout, S., 2000). The Global Entrepreneurship Monitor (GEM), South African Executive report of 2003, found that, by international standards, developing countries have much higher total entrepreneurial activity rates.

The report notes, with disappointment, that in South Africa, total entrepreneurial activity rates are nearly 50% lower on average than in other developing countries included in GEM over the period 2001 to 2002. GEM 2003 found that the lower entrepreneurial activity in South Africa, relative to other GEM developing countries, was independent of firm type (Orford, J., Wood, E., Fischer, C., Herrington, M., and Segal, N, 2003)

Orford (2003) believes that compared, to other developing countries, South Africa is losing out on substantial employment and growth opportunities as a result of lower entrepreneurship activity rates. He further argues that the lower entrepreneurship activity rates in South Africa, relative to other GEM developing countries, is due mainly to lower entrepreneurial activity rates amongst young South African men (Orford, J., Wood, E., Fischer, C., Herrington, M., and Segal, N, 2003).

Broembsen, Wood and Herrington's (2005) t GEM 2005 report indicates that South Africa's Total early–stage Activity (TEA) rate in 2005 was 5.1%. This means that for every 100 adults in South Africa, between the ages of 18 and 64, approximately five own and manage a start-up business (a business that has not paid salaries for three months or more) or a new business (a business that has paid salaries for between three and 42 ... emselves (Broembsen, M., Wood, E., and Herring...

Broembsen et al (2005) indicate that while a slightly higher figure of 5.4% was recorded for South Africa in 2004, the difference is not significant. However she notes that South Africa's position in the GEM rankings has dropped from 20th position out of 34 in 2004, to 25th position out 35 in 2005. Comparison with other developing countries that participated in GEM 2005 demonstrates that South Africa has the lowest entrepreneurship activity rate of all the developing countries (Broembsen, M., Wood, E., and Herrington, M., 2005).

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Broembsen et al (2005) further indicate that South Africa's low TEA rate is attributed not only our low rate of necessity entrepreneurship (2.05%), but more importantly, to our low opportunity entrepreneurship activity rate (2.95%), which is the lowest of all the developing countries. The establishment firm rate (i.e. the percentage of adults who are owner-managers of businesses that have paid wages for more that 3.5 years) is 1.3%. This figure is the lowest of all the developing countries, and one of the four lowest of the GEM countries sampled in 2005 (Broembsen, M., Wood, E., and Herrington, M., 2005).

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Broembsen et al conclude by saying that, with the exception of Mexico, South Africa's start-up businesses are least likely of all the eight sampled developing countries to mature to the new firm stage. This indicates a lower success rate of new ventures in South Africa by comparison with most other developing countries (Broembsen, M., Wood, E., and Herrington, M., 2005).

Southall, 2004 argues ... the impact South Africa's past racial discrimina... pment of entrepreneurship in South Africa, especially in terms of black entrepreneurs who were prohibited to become 'real' entrepreneurs in the mainstream of the economy.

2.4 The development of black business class in South Africa

Southall (2004) argues that segregation and apartheid demanded that black capitalism be deliberately inhibited. Whilst this did not fully prevent the development of an Indian merchant class in Natal, it had crippling effects upon African capitalism more generally. Even after white appropriation of the vast majority of land had eliminated the competitive threat posed by African agriculture, there were Africans who survived under immensely difficult conditions by managing their own small businesses in both town and country (Southall, R, 2004).

Further, Southall (2004) indicates that significant capital accumulation was denied to Africans by restrictive legislation, job reservation and limited educational opportunity. Southall (2004) also states that after 1948, African capitalism was structured by 'separate development". Severe restrictions were imposed upon African businessmen in urban areas, albeit complemented by the official encouragement of African capitalism in the ethnic homelands (Southall, R. 2004)

This was achieved via the establishment of development corporations and the limitations imposed upon competition by white business in sectors of Bantustan economies, where only low levels of technology and finance were required.

In the townships, this African capitalism hovered at the edge of legal can capitalism became an adjunct of official policy and closely identified with the dependent petty state machineries that it established (Southall, R. , 2004).

Southall, (2004) states that after the 1976 Soweto uprising, the government cautiously enacted measures to promote African business as a buffer between the white minority and black masses. Alongside the more energetic efforts to expand African capitalism to buttress the dependent homeland regimes, it began a steady relaxation of restrictions upon African trade and business in the urban areas. The most significant repose came in the introduction of freehold ownership rights for Africans in urban areas (Hudson and Sarakinsky, 1986: 177-182) Even so, despite these improved conditions for black business, its development was to remain severely inhibited Southall, R., 2004).

At the end of the 1980s, under growing international pressure, white South African companies also began to pursue “black advancement” and “equal opportunity” programmes which enabled many blacks to enter into white corporate structures in both multinational and large South African companies. The tendency however, given the shortage of technical and financial training, was that blacks would be offered mostly non-operational, ‘soft positions’ in personnel, marketing, and public relations (Randall, 1996).

Since 1994, South Africa has seen the rapid growth of black senior managers in corporate employment and black corporations in depth, breath and credibility.

A few black-owned f [illegible] e players with some large corporations being bla [illegible] business has grabbed the headlines and initiatives in an unprecedented manner (Southall, 2004). This phenomenon has been driven by government legislations such as Employment Equity Act 55 of 1998 and Broad Based Black Economic Empowerment (BBBEE) Act 53 of 2003 (DOL, 2006).

2.5 Black entrepreneurship in South Africa

Orford, (2003) indicates that race and entrepreneurship activity are strongly associated in South Africa. Although necessity-based entrepreneurial activity rates for Black Africans are higher than for Coloureds and Whites, Black Africans have much lower opportunity based entrepreneurship activity rates than Coloureds, Indians and Whites. Consequently, total entrepreneurship activity rates for Black Africans are much lower than for Coloureds, Indians (Orford, J., Wood, E., Fischer, C., Herrington, M., and Segal, N, 2003).

2.5.1 Blacks exclusion in the economy

The DTI (1996) Strategy for transformation document argues that apartheid systematically and purposefully restricted the majority of South Africans from meaningful participation in the economy. The assets of millions of people were directly and indirectly destroyed and access to skills and self-employment was racially restricted. The accumulation process under apartheid confined the creation of wealth to a racial minority and imposed underdevelopment on black communities (Department of Trade and Industry, 2003a).

The DTI report indic… …toric systematic economic exclusion of the blac… …structure still excludes the vast majority of South Africans. It is crucial to understand the magnitude of what took place in our past, in order to understand why we need to act together as a nation to bring about an economic transformation in the interest of all (Department of Trade and Industry, 2003a).

Several authors (Begley, Tan, Larasati, Rab, Zamora and Nanayakkara, 1997) have stressed the potential importance of the socio-cultural variable in explaining the variations in entrepreneurship and economic development. According to Wilken (1979:2), entrepreneurship has been regarded by many as the singles and perhaps the most significant causal factor in the process of economic growth and development (Co, M., 2003).

Co, (2003) explains that in the case of South Africa, entrepreneurship during the apartheid was considered a legitimate and acceptable occupation and Black South Africans were deliberately inhibited from participating in it. Major laws such as Master and Servant Act (1911), Mine and Works Act (1911), Native's Land Act (1913), Native Urban Areas Act (1923), Group Areas Act (1950), Natives' Resettlement Act (1945) and Regulations Governing Black Business in Urban Areas Act (1962) were passed to hinder Black South Africans who wanted to become entrepreneurs (Co, M., 2003).

The DTI (1996) strate[illegible]oncludes by saying that the systematic disposses[illegible]k people which has defined South Africa for so long, requires an equally systematic response from government. This move is needed in order to achieve redress, particularly in the context of globalisation and the need for accelerated economic growth to eradicate poverty in our country (Department of Trade and Industry, 2003).

2.5.2 Change to democracy for black entrepreneurs

Rogerson, (2004) explains that since political transition in 1994, a suite of new government policy initiatives have been introduced to support the goals of economic transformation of the South African economy and for an expansion in the ownership of the economy by the black majority. Rogerson highlights the appearance of a comprehensive and focused strategy for broad based economic empowerment in 2003 as one of the most important policy statements for transformation, released by the South African's National Department of Trade and Industry (Rogerson, C., 2004).

Rogerson (2004), argues that the rationale for introducing such a 'transformation imperative' in South Africa was substantiated as follows: "Despite the economic successes and broad range of state policy, strategy and programme interventions aimed at overcoming economic disparities, entrenched inequalities continue to characterise the South African economy and act as a deterrent to growth, economic development, employment creation and poverty eradication" (Rogerson, C., 2004)

In addition, Rogersor ued that support for black economic empowern economic imperative, the deracialisation and engendering of our economy was a moral requirement in keeping with the values and principles of equity enshrined in the Constitution. He further argues that in line with these policy statements, government introduced a Broad Based Empowerment Bill in 2003 to promote economic transformation in order to increase the effective participation of black people in the economy (Rogerson, C., 2004).

2.5.3 ANC government transformational agenda and the need for BBBEE

Southall, (2004) explains the theory of the National Democratic Revolution (NDR) as a progressive forces project for total democratisation of South Africa. The NDR argues that South Africa was incorporated into world capitalism as a mineral producer, but this was based on institutions in which a white settler minority oppressed the majority of the people who were black. This allowed for the vast accumulation of wealth for the few, at the expense of the many, until by the late 1980s, growing mass resistance to national oppression paved the way for the negotiated political transition (Southall, R., 2004).

Southall, (2004), argues that democracy has set in motion a rapid mobility whereby propertied and professional sections of the black community gain from advancement. From this perspective, “the rising black bourgeoisie and middle strata are objectively important motive forces of transformation, whose interests coincide with, at least, the immediate interests of the majority’ (ANC, 1997, 10).

However, Southall, (2 t, arguing that the relative advantage of the ris ily render such elements antithetical to the interests of the poor. Vigilance is therefore needed to prevent them from becoming the tools of monopoly interests, or parasites that thrive on corruption (Southall, R., 2004).

Southall, (2004) states that according to Pallo Jordan (1997:12), this implies that the ANC's engagement with the emergent black bourgeoisie should involve the elaboration of certain standards of conduct that will speed the realisation of the postponed goals of the national liberation movement. Elements with such standards conduct are referred to as patriotic bourgeoisie (Southall, R., 2004)

Randall, (1996) argues that a striking feature of South Africa's black capitalists is the fact that they have not emerged from an independent capital or skills base. Few have owned or run enterprises which may have bolstered their financial capacity and expertise. The first thing to note is that although there have been black capitalists for decades who have managed their own businesses, the accumulation paths of those that operated under apartheid are different from those who have emerged in recent years (Randall, 1996).

Randall, (1996) explains that many of today's black capitalist or entrepreneurs emerged via black business organisations and gained valuable exposure in the process, making contacts with white South Africans who then recruited and joined them in entrepreneurial ventures (Randall, 1996). Visagie, (1997) argues that South Africa's SME's in particular needed to undergo a major process of transformation.

This is, in all probab ght-after benefits, such as optimal employment al distribution of economic activities will be attained on a local level (Visagie, J., 1997).

De Coning (1992, pp. 52-4), believes that businessmen in particular are talking, in almost euphoric terms, about new business opportunities and internal markets which can now be fully exploited (especially in terms of the previously relatively inaccessible black part of the South African community, and vice versa for black business people in terms of opportunities now to enter the traditional 'white sectional' of the South African market).

He concludes by saying that the politicians have now taken South Africa into a new and complete democracy and what is important for entrepreneurs and the business community is the need to for a revival in the economy (Visagie, J., 1997). Mitchell, (2003), believes in a country as socio-economically, culturally and politically heterogeneous as South Africa, the spread of the mass of entrepreneurs and their involvement in the economic process is a matter of great significance.

2.5.4 Why black professionals want to become entrepreneurs

Thomas (1994) argues that there are two closely related questions that are important in the present phase of South Africa's socio-political transition. These are: how black entrepreneurs can play a greater role in the stimulation of economic development and how the quantity and quality of black entrepreneurship can be enhanced (Mitchell, B., 2003).

Thomas (1994) believ ... ılly viewed as an important avenue towards emp ... rship is seen as a critical factor for the success of self-employment efforts, the mobilisation of African entrepreneurship becomes even more critical (Thomas, W., 1994). Kuratko and Hodgetts (1995) believe that examining why people start businesses and how they differ from those who do not, may be useful in understanding the motivation that entrepreneurs exhibit during start up, as a link to the sustained behaviour over a period of time (Kuratko, D. and Hodgetts, R., 1995).

Kuratko and Hodgetts (1995) believe that the decision to behave entrepreneurially is a result of the interaction of several factors. Veciana (1999) states that there is empirical support for the fact that the need for independence, the need for achievement and being marginalised, are dominant motivators for entrepreneurs (Veciana, J., 1999). Vijaya and Kamalanabhan (1998) found that a number of motivational characteristics have been recognised in entrepreneurs.

These include the values placed on innovativeness, independence, outstanding performance and respect for work (Vijaya, V. and Kamalanabhan, T., 1998). Shapero (1979) believes that many people entertain the idea of forming their own business, but it is difficult for them to enter into the process due to many reasons, not least of which is inertia of their ongoing lives. He argues that each individual tends to be held in place by variety of forces including job security, family needs, debts, obligations and the routine of everyday life (Shapero, A. (1979).

Shapiro (1979) states these, and other, forces to enable the individual position in socio-economic space. This displacement plays a large role in the initiation of most companies. Whereas many people may become displaced, only a relative small percentage of them react to displacement by forming a company. Mitchell (2003) argues that Collins and Moore state that negative factors such as prior work experience are significant in influencing the decision to start one's own business (Mitchell, B., 2003)

Mitchell (2003) , believes that the official dismantling of apartheid in 1990 and establishment of a democratically elected government on the 10th of May 1994, have resulted in unprecedented changes in the political, economic and social arenas in South Africa (Iheduru, 1998). One aspect of this change is the growing number of black entrepreneurs in various sectors of an economy from which they were previously excluded by law and social conventions (Mitchell, B., 2003).

Orford (2003) reports that approximately 63% of entrepreneurs in South Africa are claimed to be taking advantage of business opportunities (opportunity entrepreneurs). The remaining 37% were necessity entrepreneurs (Global Entrepreneurship Monitor Report, 2003). Orford (2003) believes that funding in general is one of the major, but not only, constrains in the development of black entrepreneurship in South Africa.

2.6 Equity funding ching an entrepreneurial venture

Manning and Mashigo (cited in Iheduru, 1998: 83) state that Black entrepreneurs face certain unique constraints, such as institutional bias in favour of the larger firms, distrust of carryover apartheid-institutions, too much reliance on non-governmental organisations and the racially exclusive character of the culture of business networks (Mitchell, B.,2003)

Orford (2003) believes that lack of access to financial support is widely viewed as the main problem facing entrepreneurs in South Africa. His report considered two counter-arguments. This belief was drawn on the evidence from GEM to suggest that access by entrepreneurs to institutional finance in South Africa does not appear to be significantly worse than in other developing countries. The second argument considered the role of financial administration and management and their impact on the probability of accessing finance (Orford, J., et al, 2003)

Orford (2003) states as part of the annual examination of the state of entrepreneurship, each national GEM team conducted interviews with a carefully selected sample of experts on entrepreneurship in their country. The experts are asked their opinions on a range of factors that GEM believes have a major impact on the environment for entrepreneurship. One of these factors is the role that the financial system plays in supporting or hindering entrepreneurship In South Africa. 18% of the national experts identified the lack of adequate financial support as a major weakness in the national environment for entrepreneurship activity (Orford, J., et al, 2003).

Orford et al (2003) f ... countries, 16% of experts identified financial s ... n the environment facing entrepreneurs, slightly below the 18% in South Africa. However, in OECD countries, 20% of experts identified financial support as a major weakness. Therefore, while national experts in South Africa clearly identify the lack of financial support as a major weakness, this is by no means exceptional by comparison with other developing countries or indeed countries in the OECD included in GEM report (Orford, J., et al, 2003)

Orford et al (2003) indicate that the national experts provide assessment of the degree to which financial system support entrepreneurs by making finance available in different forms, including equity and debt financing and government subsidies. On average South Africa's experts think that the statements regarding the availability of equity and debt finance and government subsidies are neither true nor false. This suggests that there is considerable room for making the financial system more supportive of new and growing firms. However, this assessment is not peculiar to South Africa (Orford, J., et al, 2003)

Statistics South Africa (2002), Pali indicates that among the 2, 3 million people who were owners of at least one non-VAT-registered business, more than six in every ten people (1, 4 million) said that they required money to start the business. Of these 1, 4 million people, only 15, 5% (217 000) actually managed to borrow money. Among the 217 000 business owners that borrowed money to start the business, by far the most common source was through relatives and friends (83, 4%). Only 5, 1% of those who obtained loans got them from commercial banks (statistics South Africa, 2002).

Chandler and Hanks ducted all over the world among entrepreneurs indicate that the lack of financing is an obstacle to business activity and company growth. Previous research suggests that the amount of initial financial capital invested is positively related to new venture survival and growth.

This is not a surprising conclusion, given that firms with greater financial resources can invest more in product/service development, production and marketing, and have a larger financial cushion to provide insulation against slow start-ups, market downturns or managerial mistakes (Chandler and Hanks, 1998).

2.7 Sources of equity funding for entrepreneurial venture

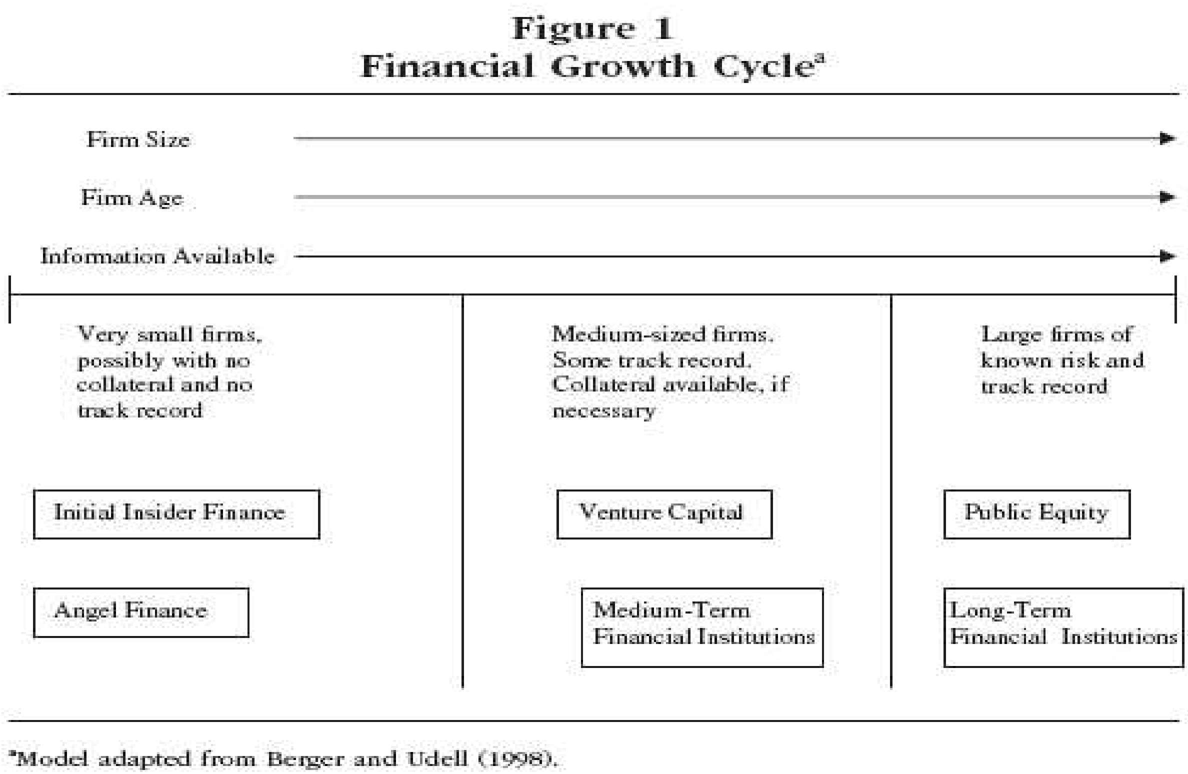

Figure: 1 Financial Growth Cycle

Gregory et al. (2005) [illegible] classify firms into financing groups, it is importar[illegible]s behind capital structure decisions. Much of today's research on capital structures stems from Modigliani and Miller's (1958) work on optimal capital structures. Gregory et al. (2005) argue that Modigliani and Miller examined the impact of different capital structures on the value of the firm in a perfectly competitive market.

Gregory et al (2005) argue that their paradigm assumes a market with perfect information available, no taxes, and no transaction costs. Under such conditions, a firm's capital structure cannot impact the value of the firm, but can only redirect the flow of the firm's earnings to different sets of stakeholders (Gregory, B., and et al., 2005).

Gregory et al (2005) believe that finally the pecking order theory, proposed by Myers (1984) and cited in Gregory et al. (2005), sheds additional light into the incentives that drive SME capital structure decision. This theory proposes that firms prefer to use internal sources of capital first and will use external sources only if internal sources are inadequate (Gregory, B., and et al., 2005).

Timmons and Spinelli (2007) consider the capital markets for equity as a 'food chain', whose participants have increasing appetites in terms of the deal size they want to acquire (Exhibited figure1).

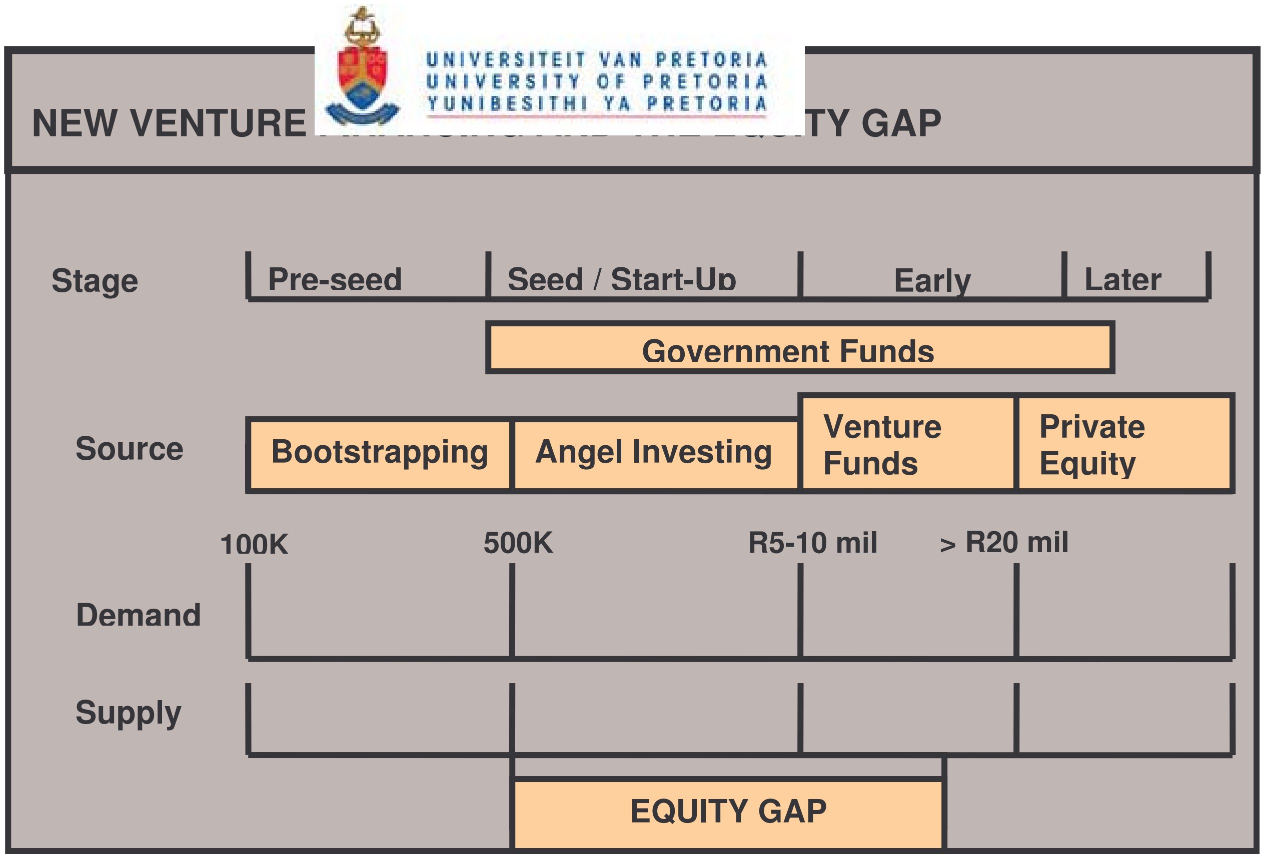

Figure: 2 NEW VENTURE FINANCING AND THE EQUITY GAP

This framework can help entrepreneurs identify and appreciate the various sources of equity capital at various stages of the venture's development, the amount of capital they typically provide, and the portion of the company and share price one might expect should the company eventually have an initial public offering (IPO) or trade sale (Timmons, J. and Spinelli, S., 2007).

Timmons and Spinelli (2007) indicate that one of the toughest trade-offs for any young company is to balance the need for start-up and growth capital with the preservation of equity. They argue that holding on to as much as you can, could be generally good advice for entrepreneurs.

Creative bootstrappin vers of equity, as long as such parsimony does much that the opportunity weakens or disappears (Timmons, J. and Spinelli, S., 2007).

Timmons and Spinelli (2007) believe that there are three central issues which should be considered when beginning to think about obtaining risk capital:

(1) Does the venture need outside equity capital?

(2) Do the founders want outside equity capital?

(3) Who should invest?

They argue that while these three issues are at the centre of the management team's thinking, it is also important to remember that a smaller percentage of a larger pie is preferred to a larger percentage of a smaller pie. Or, as one entrepreneur stated, I would rather have a piece of a watermelon than a whole raisin (Timmons, J. and Spinelli, S., 2007)

Sohl (2003) argues that at the inception or pre-seed stage, the venture is owner/inventor financed through a variety of bootstrapping methods. In this context, bootstrapping is defined as 'creative methods of acquiring the use of resources without raising equity from traditional sources'. Bootstrapping methods entail both a reduction in expenses and the acquisition of capital. Bootstrapping presents a viable growth strategy for the short term (Sohl, 2003). As the entrepreneurial venture grows, so does the appetite for cash. At this point, during the seed and start-up phase, private investors are the major source of external equity capital (Sohl, 2003).

Sohl (2003) believes apital' source is the oldest and largest segment made up of individuals that are self–made millionaires, typical with substantial business and entrepreneurial experience. The typical angel deal is an early-stage round (seed or start-up) in the \$100 000 to \$2 million range, raised from six or eight investors (Sohl, 2003).

Sohl (2003) believes that Institutional Venture Capital Funds become the primary source of funding primarily in later-stage business development and larger deals. A typical round of financing from a venture capital fund is a later-staged deal in the \$10 to \$15 million range. Furthermore, the bigger version of venture capital fund is the private equity fund, which participates in later-stage rounds and invests in larger deals of mature and stable businesses (Sohl, 2003).

2.7.1 Bootstrapping as a source of equity funding

Ebben and Johnson (2005) indicate that it has been well documented that small firms face constraints in obtaining financing from traditional outside parties due to information asymmetries and transaction costs. They argue that, from research and anecdotal evidence, we know that small firms respond to these constraints via bootstrapping or by finding creative ways to avoid the need for external financing through reducing overall cost of operation, improving cash flow or using financial sources internal to the company (Ebben, J. and Johnson, A, 2005).

Van Auken (2005) defines Bootstrap financing methods as commonly complementary traditional sources of financing, noting that bootstrapping can provide financing alternatives to small firms confronted with lack of access to traditional sources of capital. Van Auken explains a wide variety of bootstrap financing techniques ... se of credit cards, delaying of tax payments, sha... with other businesses and leasing (Van Auken and Neeley, 1996).

Freear, Sohl and Wetzel (1995), cited in Van Auken (2005), define bootstrap financing as “highly creative ways of acquiring the use of resources without borrowing money or raising equity financing from traditional sources”. Gibson (1992), cited in Van Auken (2005), stated that bootstrap financing methods can help fill a financing gap when traditional sources of capital are not available (Van Auken, A., 2005). Bhide (1992) believed that the true entrepreneurship spirit is often demonstrated in the business owner’s ability to creatively find and use bootstrap financing (Bhide, A., 2000).

Bhide (2000) argues bootstrapping in a start-up is similar to zero inventories in a just-in-time system: it reveals hidden problems and forces the company to solve them. He states an example of a start-up entrepreneur Tom Davis, of Modular Instruments Equipment. “If we had had money “said Tom, “we would have made more mistakes. This way, I wrote all the checks *(sic)*, I knew where the money was going” (Bhide, A., 2000).

Bhide (2005) believes that there can also be problems with raising too much money, as one founder noted, “It is often easier to raise $5 million than $1 million because venture capitalist would rather not have to worry about a lot of tiny investments. But then you have $4 million you didn’t need but spend anyway”. He argues that diminished flexibility is often another consequence of premature funding.

Start-ups entering su ing industries, follow many detours and unanticip have to be altered radically as events unfold. Failure to meet initial goals is a poor guide to future prospects (Bhide, A., 2000).

Cassar (2002) believes that growth opportunities and intention to grow should influence the agency costs associated with financing. Myers (1977) cited in Cassar, argues that conflicts between debt and equity holders are exacerbated for assets that provide the firm with the option to undertake growth opportunities in the future. Additionally, if some start-ups are more likely to experience future growth due to opportunity or intention, this should increase the potential for conflict between outside financiers and the entrepreneur (Cassar, G., 2002).

2.7.2 Angel investors as a source of equity funding

Timmons and Spinelli (2007), believes angel and informal investors in the form of wealthy individuals, are probably the single most important source of capital for start-up and emerging businesses in America. New Hampshire’s Bill Wetzel has found these ‘angels’ are mainly self made entrepreneurial millionaires. They have made it on their own, have substantial business and financial experience, and are likely to be in their 40’s or 50’s. They are also well educated and 95% percent hold college degrees (Timmons and Spinelli, 2007).

Timmons and Spinell ors may invest alone or in syndication with othe emand considerable equity for their interests, or may try to dominate ventures. They also can get very impatient when sales and profits do not grow as they expected. Timmons argues that usually, these ‘angel’ and informal investors will be knowledgeable and will have experience in the market and technology areas in which they invest. If the right ‘angel’ is found, he or she will add a lot more to a business than just money (Timmons, J., and Spinelli, S., 2007).

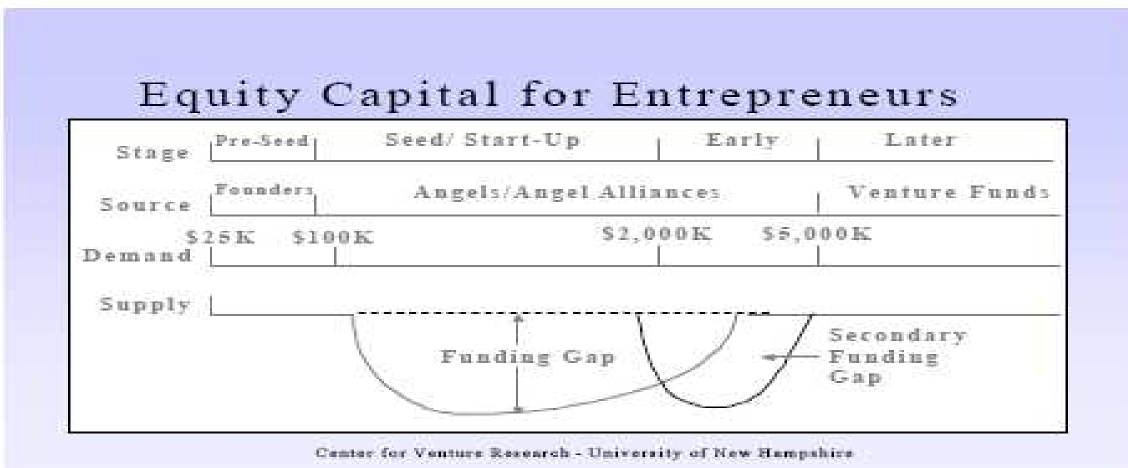

Figure: 3 Equity Capital for Entrepreneurs cited from Sohl and Rosenberg (2003)

Sohl and Rosenberg (2003) believe that as the entrepreneurial venture grows from pre-seed as a depleted in figure 3, so does the appetite for cash, even in the measured growth of the post 2001 market. At this point, the seed and start-up phase, private investors are the major source of external equity capital. They argue that this relatively invisible source is the oldest and largest segment of the venture capital industry and is made up of individuals that are self-made millionaires, typically with substantial business and entrepreneurial experience (Sohl, J., and Rosenberg, W., 2003).

Landstrom and Olofs [illegible] arrison (1993), defined and clearly established the importance of the informal venture capital market as a source of equity finance for entrepreneurial companies. The informal venture capital market comprises of private individuals commonly referred to informal or business angels. They argued that the importance of the informal venture capital market arises, firstly, from the nature of the investment made by business angels and secondly, from the overall size of the market (Mason, C., and Harrison, R. 1993).

Mason and Harrison (1993) argue that business angels invest precisely in those areas in which institutional venture capital providers are reluctant to invest. They typically make small investments, well below the minimum size of investment considered by most venture capital funds. In terms of overall size, the informal venture capital market is the largest single source of risk capital for entrepreneurial companies. They conclude by highlighting the importance of business angels as an important source of equity funding, especially for new and recent start-ups seeking small amounts of finance (Mason, C., and Harrison, R. 1993).

2.7.3 Governmental funds aimed black economic development as a source of equity funding

Department of Trade and Industry (2000) strategy for broad-based black economic empowerment document states that the State will facilitate access to capital and collateral - both structural problems for the black business community but it will not assume the commercial risk. It states that the risk must remain with the enterprises, the entrepreneurs and investors.

They argue that not o [illegible] view of the macroeconomic stability of the econ [illegible] will improve the quality of enterprise development and therefore the competitiveness of the economy (Department of Trade and Industry, 2000).

DTI (2000), strategy for Broad-Based BEE report states that the South African government has made a commitment to set aside finance to support the Broad-Based BEE process. A new mandate for the National Empowerment Fund and the review and set up of the roles of other development finance and support institutions will be developed by the DTI, to ensure that these resources are effectively and efficiently employed, . Furthermore, the National Treasury financing mechanism will be varied and will include guarantees, grants, incentive schemes, loan and equity financing (Department of Trade and Industry, 2000).

DTI (2000) Khula is a limited liability company with **the DTI** as a major shareholder. Khula's mandate is to facilitate loan and equity capital to small, medium and micro enterprise through the medium of Retail Financial Intermediaries, by offering a range of financial resources and information to the public. Khula's Operations are divided into two divisions: Loans and Credit Guarantees (Department of Trade and Industry, 2000).

The NEF was established by the National Empowerment Fund Act No. 105 of 1998, for the purposes of promoting and facilitating economic equality and transformation. The NEF operates under the umbrella of the Department of Trade and Industry (**the DTI**). The NEF's objectives are to redress the economic inequalities bequeathed by apartheid by Historically Disadvantaged Persons

(HDPs) with opportu restructured state-owned assets and private bu ıg a culture of savings and investment among HDPs and to foster entrepreneurship (Department of Trade and Industry, 2000).

DTI (2000) NEF aims to achieve its goals of sustainable empowerment and transformation by promoting and supporting business ventures pioneered and run by HDPs and to promote a better universal understanding of equity ownership. Each of its activities is calculated to redress the inequalities of the past and to promote a competitive and efficient economy capable of generating employment opportunities (Department of Trade and Industry, 2000).

DTI (2000) the IDC is a self -financing, state-owned development finance institution whose primary objectives are to contribute to the generation of balanced sustainable economic growth in Southern Africa and to further the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens. The IDC provides financing to entrepreneurs engaged in uncompetitive industries (Department of Trade and Industry, 2000).

2.7.4 Venture capital as a source of equity funding

Nieman et al (2003) define venture capital as the funding that is 'supplier to firm' during its earliest stages of development. The growth stage is where entrepreneurs can consider approaching venture capital firms for finance.

He argues that waiti us because using venture capital in the start-up nificant control of the new venture. The venture capital market focuses primarily on growth financing (Nieman, G., Hough, J., and Nieuwenhuizen, C., 2003).

Jeng and Wells (2003) believe that venture capital has been the driving force behind some of the most vibrant sectors of the US economy over the past two decades. Venture capitalists were instrumental in fostering the tremendous growth of firms such as Microsoft, Compaq, Oracle and Sun Microsystems, which were all founded less than 20 years ago, but have rapidly become dominant players in the high technology arena (Jeng, A., and Wells, P., 2003).

They argue that while the contributions that the venture capital makes to the economy overall are under explored, there exists a widespread belief that venture capital is instrumental in bringing innovations to the market at a rapid pace, thereby creating economic growth , jobs and opportunities for further technological innovation (Jeng, A., and Wells, P., 2003).

Jeng and Wells (2003) indicate that the risk faced by investors and venture capitalists is the risk of not getting their money back. Thus, a viable exit mechanism is extremely important to the development of a venture capital industry. Furthermore, an exit mechanism is essential to the entrepreneur for two reasons. Firstly, it provides a financial incentive for equity-compensated managers to expend effort; secondly, it gives the managers a call option on control of the firm. Venture capitalists relinquish control at the time of the Initial Public Offering or any exit mechanism (Jeng, A., and Wells, P., 2003).

Timmons and Spinel e capital industry supplies capital and other resources to entrepreneurs in business with high growth potential, in the hopes of achieving a high rate of return on invested funds. They argue that throughout the investing process, venture capital firms seek to add value in several ways: by identifying and evaluating business opportunities (including management, entry, or growth strategies) and through tracking and coaching the company by proving technical and management assistance (Timmons, J., and Spinelli, S., 2007).

Jeng and Wells (2003) highlight Israel as a venture capital success story. They indicate that between 1988 and 1992, Israel's venture capital industry was still in its infancy, with only one active venture capital fund of US$30 million. In 1995 a record number of Israeli firms had successfully gone public. Some recent examples are M-Systems, Gilat Satellite, Mercury Interactive and DSP Group. The TASE is by far the strongest Middle East capital market with 654 listed companies in 1995. (Jeng, L, and Wells, C., 2003).

Jeng and Wells (2003) indicate that the initial public offerings for Israeli companies were not limited to TASE. In 1996, approximately 50 Israeli companies raised US$1.5 billion on US exchanges. In addition, trade sales are a very popular exit mechanism for venture capital start-ups, e.g. America-on-line's acquisition of Ubique and Intel's acquisition of Shamy (Jeng, L, and Wells, C., 2003).

2.7.5 Private equity

KPMG and SAVCA P … s the term private equity as referring to shareholder capital invested in private companies, as distinguished from publicly listed companies. Private equity funds are generally investment vehicles that invest in enterprises, which are not listed on a public stock exchange. An enterprise or entrepreneur may seek private equity financing for variety of applications, from increasing its working capital base in times of business expansion, to developing new technologies and products in order to grow and remain competitive.

KPMG and SAVCA Private Equity Survey (2006), indicate that private equity investors have a considerable impact in terms of productivity, skills development, national competitiveness and job creation, as this includes the transfer and exchange of know-how and not only the flow of capital. Private equity fund managers play an active role in managing their investments into companies as they derive a return from the increased valuation of their investments (not just repayment and an associated interest rate) and hence they focus on business development for the companies they invest in.

KPMG and SAVCA Private Equity Survey (2006) believes that, in South Africa, the private equity industry represents a significant sector within the overall financial services industry, and an attractive asset class within the broader capital markets. As seen across a range of indicators, the profile of the local private equity industry is that of a productive contributor to the development of the South African economy, particularly in the encouragement of entrepreneurial initiatives that promote South Africa's global competitiveness.

Private equity category	St de	
Venture capital	Se St	tion and development of a concept or s starts trading. being set up or for the development of those which have been in business for a short time (one to three years).
Development capital	Expansion and development	Funding for growth and expansion of a company which is breaking even or trading profitability.
Buyout	Leveraged buyout or buy-in	Funding to enable a management team or empowerment partner, either existing or new, and their backers to acquire a business from the existing owners, whether a family, conglomerate or other. Unlike venture and development capital, the proceeds of a buyout generally go to the previous owners of the entity. Buyouts are often leveraged.
	Replacement capital	Funding for the purchase of existing shares in a company from other shareholders, whether individuals, other venture-backers or the public through the stock market. Unlike venture and development capital, the proceeds of replacement capital transactions are generally paid to the previous owners of the entity.

Figure: 4 Private equity investment stages (KPMG and SAVCA Private Equity Survey (2006)

- Initiative for Private Equity Investment Trust, (2007) believes that it is difficult to access: private equity Limited Partnership funds may only be marketed to institutions and very wealthy individuals.

- High costs: Private equity managers charge relatively high fees for managing capital committed by external investors (generally around 2%) and take a sizeable proportion (generally 20%) of realised returns in excess of investment hurdle rates.

2.8 Literature conclusion

The purpose of the literature was to build a foundation on the development of black entrepreneurship and to explore equity funding options available to black professional transitioning to start an entrepreneurial venture. Furthermore, the literature served to clarify all the factors influencing black entrepreneur equity funding options available. However there is a need for further research in exploring this area from a South African context.

3.0 RESEARC

3.1 Research prop

The initial problem was to try and get a better understanding of the value derived from the current equity funding options available for black professionals transitioning from formal employment to starting their own entrepreneurial ventures. The problem also seeks to gain a better understanding of the current equity gap and intends to offer a practical insight through detailed analysis of the pro's and cons of each equity funding option available and demonstrate the value derived from each option.

Welman & Kruger (2001) recommend that after the research areas have been identified, they should be delineated to identify one or more research propositions. The following propositions were identified as being relevant to the research problem:

3.2 Research proposition 1 – The availability of equity funding is critical in driving entrepreneurial activity among black entrepreneurs

- Do you believe that availability or non availability of equity funding has a major impact on the environment for entrepreneurship activity in South Africa among the black entrepreneurs? The aim of this question is to establish whether the availability or non availability equity funding poses a major constraint in the entrepreneurial development of black entrepreneurs

3.3 Research prop… tively expensive, but it is a necessary ev…

- What are the perceived financial and non-financial cost components of bootstrapping, angel finance, government funds, venture funds and private equity? This question explores the financial and non-financial costs of the associated equity funding option, clearly demonstrating the disadvantages of the chosen equity option.

3.4 Research proposition 3 – Equity funding is an attractive option for black entrepreneurs who do not have collateral or assets to act as security against debt finance

- What are the perceived financial and non-financial benefits of bootstrapping, angels finance, government funds, venture funds and private equity? This question explores both financial and non financial benefits of a chosen equity option from the entrepreneurs view.

3.5 Research proposition 4 – Accessing equity funding is difficult for Black entrepreneurs in South Africa

- How easily accessible are these sources of equity funding to black corporate professionals who are transitioning to start their own entrepreneurial venture? This question really focuses on the perceptions of entrepreneurs around the accessibility of equity funding in South Africa.

3.6 Research prop[illegible] most commonly used equity funding [illegible] rting an entrepreneurial venture

- Which is the most commonly used equity funding option and why is it preferred ahead of other funding options? This question explores the most frequently used equity funding option and investigates why that option is preferred ahead of the other options.

4.0 RESEARCH METHODOLOGY

4.1 Research design

A literature review was done to ensure a clear formulation of the research questions, as advised by Welman and Kruger (2001). Welman and Kruger (2001) define a research design as “the plan according to which we obtain research participants (subjects) and collect information from them”. In it we describe what we are going to do with the participants, with a view to reaching conclusions about the research problem.

This study aims to explore and gain a better understanding of equity funding options available to black corporate professional transitioning to start an entrepreneurial venture. The research will be exploratory in nature and aimed at establishing a deeper understanding, insights and clarity around the stated research questions. For the purposes of this study, exploratory research is “initial research conducted to clarify and define the nature of a problem” (Zikmund, 2003).

Zikmund (2003) argues that the purpose of explorative research is intertwined with the need for a clear and precise statement of the recognised problem. There are three interrelated purposes for exploratory research: diagnosing a situation, screening alternatives and discovering new ideas. In this study we will focus on diagnosing and seeking new ideas in our quest to understand the equity funding options available to black corporate professionals transitioning to entrepreneurial ventures.

The research methoc [illegible] ve research method. The focus would be to c [illegible] views. This is a relatively unstructured, extensive interview guided by an interview guide (Zikmund, 2003).

4.2 Population, sampling and unit of analysis

The population consisted of black South African male and females of between 25-45 years, who have transitioned from corporate roles to pursue an entrepreneurial venture of any type or size, in the past eight years. The population was limited to individuals residing in the Gauteng area. The size of the population was not determined.

Welman and Kruger (2001) define the population as the ‘study object’, which may be individuals, groups, organisations and/or the conditions to which they are exposed. The size of the population makes it impractical and uneconomical to involve all the members of the population in a research project. Consequently, we have to rely on the data obtained from a sample of the population. The process of sampling involves any procedure using a small number of items or parts of the whole population to draw conclusions regarding the whole population.

The purpose of sampling is to estimate some unknown characteristics of the population (Zikmund, 2003). The sample size would be 15 black entrepreneurs. The reason that motivated the researcher to choose sample size of 15, was to create a reasonable sample size which could provide useful data that the researcher could analyse and diagnose in order to derive value from the research study.

Consensus suggests ample size of above 10 is significant enough to

The sampling technique would be judgement (purposive) sampling, which is a nonprobability sampling technique in which the researcher selects the sample based upon some appropriate characteristics of the sample members (Zikmund, 2003). Welman and Kruger (2001) state that purposive sampling is the most important kind of non-probability sampling.

Furthermore, the researcher relies on their experience, ingenuity and previous research finding and deliberately obtains units of analysis in such a manner that the sample they obtain may be regarded as being representative of the relevant population. The list of entrepreneurs interviewed is shown in Appendix 3.

The population did *not* consist of individuals who had never worked in the corporate environment, or individuals who were not entrepreneurs at the point of interviewing. Further, individuals who have intentions of transitioning, but have not done so were excluded from the population.

Welman and Kruger (2001) mention that the problem with this kind of sampling is that different researchers may proceed in different ways to obtain such a sample and thus it is impossible to evaluate the extent to which the said sample is representative of the relevant population.

Therefore, for reasons [illegible] known population size, the non-probability samp[illegible] more appropriate sampling technique.

4.3 Questionnaire

The data was to be collected through 15 face-to-face interviews with black corporate professionals who have transitioned from corporate employment to start entrepreneurial ventures within the last eight years. The researcher used semi-structured questions. Refer to appendix 2 for the interview discussion guide. The researcher used a combination of open ended and closed questions, aimed at exploring the equity funding options available to the sample.

In using structured questionnaires, Welman & Kruger (2001) mention that the interviewer is limited to the questions and how they are asked, as well as the order in which they appear on the schedule. There is relatively little freedom to deviate from the schedule. Hence, the researcher utilized the semi-structured questions to allow for freedom and further exploration of the subject matter. The semi-structure question was used as a guide and provided structure for the interview.

The semi-structured questionnaire, as shown in Appendix 2, was split into 3 sections:

- Section A – Demographics of the entrepreneurs
- Section B – Business information of the entrepreneurs
- Section C – Interview guide – Equity funding options explored

The face-to-face interviews were held in various locations, which included sports bars, the researcher's home, the entrepreneur's place of business and the entrepreneur's home.

4.4 Interview process

The researcher sat with each entrepreneur and explained the purpose of the research and provided an outline of what data would be required. The questionnaire definitions were then explained before starting the interview. The approximate time for each interview was between 30 - 60 minutes. The interviews were held in open and frank discussion about the subject matter. In all the cases, the interview functioned as a data-collecting method.

Welman and Kruger (2001) indicate ease of application and cost as an advantage and a disadvantage respectively, of the face-to-face interview. They indicate that while they regard flexibility and adaptability as great advantages of a face-to-face interview, they agree its high costs, as far as its preparation and application are concerned, is regarded as its greatest drawback.

They add that control over responding as probably the biggest advantage of personal interviews, in that the interviewer is in complete control of the interview situation.

Welman and Kruger (in a face-to-face interview is in a position to not nding (in the case of semi-structured interviews, which was used in this research) on the part of the respondent, to explain any questions which may be unclear and to follow up on incomplete and vague responses. Consequently, the responses obtained are of a high quality. They argue that the response rate is great, because the interviewer physically confronts the respondent, and therefore there is less chance of the respondent eluding the interview.

4.5 Analysis of research

Miles and Huberman (1994) believe that qualitative data, usually in the form of words rather than numbers, has always been the staple of some fields in the social sciences. They argue that qualitative data is sexy; it is a source of well grounded, rich descriptions and explanations of processes in identifiable local contexts. They argue that with qualitative data one can preserve chronological flow, see precisely which events led to which consequences and derive fruitful explanations.

Miles and Huberman (1994) believe good qualitative data is more likely to lead to serendipitous findings and to new integrations that can help researchers get beyond initial conceptions and to generate or revise conceptual frameworks. They indicate that the findings from qualitative studies have a quality of 'undeniability'; words, especially organised into incidents or stories, have a concrete, vivid, meaningful flavour that often proves far more convincing to a reader or another researcher than page … analysis in this qualitative research was driven … cripts and field notes were based on an approach geared to identifying patterns in the data.

Data analysis in this qualitative research was a combination of content analysis on open ended questions to determine factors at play, as well as frequency analysis on closed-ended question to give proportions of weightings. These methods would be used concurrently to explore the research subject. Welman and Kruger (2001) define content analysis as a “special application of systematic observation which occurs in the content analysis of personal documents”.

Welman and Kruger (2001) further argue that content analysis may also be done with open-ended questions and contents of unstructured or semi-structured interviews in order to report in a quantitative way, in addition to qualitative analysis of the essence of the contents of such an interview. Welman and Kruger (2001) indicate that this process involves the contents of these sources being examined systematically to record the relative incidence (frequencies) of themes and of the ways in which these themes are portrayed.

4.6 Research assumptions

It was assumed that the entrepreneurs had some understanding of the equity funding options available to the entrepreneur, because the entrepreneur had a solid work experience and each entrepreneur had a degree as a minimum qualification. The entrepreneurs’ leadership and intellectual abilities were assumed to be on a similar or common level. It was also assumed that each entrepreneur had an equally chance of accessing equity funding.

4.7 Research limitations

The transition period from corporate employment to entrepreneurial venture could have occurred over a long period of time for some entrepreneurs and having to rely on memory to recall information from this period, may have introduced inaccuracies in the data. The sampling method (judgement /purposive sampling) might not be truly representative of the total population.

There may also be a biasness of the sample, as most of the interviewed entrepreneurs were all from the same age group and same educational background with an almost identical historical experience, similar work experience and probably shared the same network. As a result, their responses sometime tended to be very similar, which might result in the research being one sided.

The researcher was not trained to conduct interviews and as a result, this might have created some form of information biases and information collection accuracies. The other limitation was prevalent in the open ended interviews, where some of the points made during conversation did not seem to have same profound meaning when a transcribe of the notes was made.

5.0 RESULTS

5.1 Introduction

This chapter deals primarily with the results of the collected data which was collected during the face-to- face interview process. The collected data will be used to prove or disprove the stated propositions in chapter three. The focus was the documentation of the emerging themes from the primary data using the content analysis methodology as stated in Chapter three, and thereafter utilising the grounded theory to code the emerging themes from the interview transcripts.

5.2 Codes and Coding

Using the grounded theory methodology, codes were created based on the emerging themes through the interview process. These codes were used to transcribe the interview notes from the interviews and allocate the discussions threads to topics answering. The basic idea of the grounded theory approach is to read (and re-read) a textual database, in our case the interview notes, and "discover" or label variables called categories, concepts and properties and identify their interrelationships.

The ability to perceive variables and relationships is termed ‘theoretical sensitivity’ and is affected by a number of things, including one's reading of the literature and one's use of techniques designed to enhance sensitivity. Of course, the data does not have to be textual in nature - it could be observations of behaviour which were noted by the researcher.

For the purposes of t [illegible] of interview notes. Table: 1 below details a full l [illegible] transcribing the interview process.

Table: 1 Variables and Codes

Variable	Coding	NO.
Broad Based Black Economic Empowerment	**BBBEE**	01
BBBEE Objectives	BBBEE-OBJ	1.1
Black Capitalist Development	BBBEE-CAP-DEV	1.2
Black Entrepreneurship Development	BBBEE-ENT-DEV	1.3
Entrepreneurship Development	**ENT-DEV**	2.0
Funding constraint	ENT-DEV-FUN-CON	2.1
Strategy	ENT-DEV-STR	2.2
Funding	ENT-DEV-FUN	2.3
Education	ENT-DEV-EDU	2.4
Knowledge	ENT-DEV-KNO	2.5
Opportunity	ENT-DEV-OPP	2.6
Idea	ENT-DEV-IDE	2.7
Expertise	ENT-DEV-EXP	2.8
Institutional Organisations	ENT-DEV-INS-ORG	2.9
Funding	**FUN**	3.0
Equity	FUN-EQT	3.1
Debt	FUN-DET	3.2
Equity Funding	**EQT-FUN**	4.0
Equity funding availability	EQT-FUN-AVA	4.1

Equity funding choice	[illegible]	4.2
Equity funding perceiv[illegible]	[illegible]R-COS	4.3
Equity funding perceived benefits	EQT-FUN-PER-BEN	4.4
Preferred Equity funding option	EQT-FUN-PRE-OPT	4.5
Security and collateral	EQT-FUN-SEC-COL	4.6
Equity funding options	**EQT-FUN-OPT**	5.0
Bootstrapping	EQT-FUN-OPT-BTS	5.1
Angel Investment	EQT-FUN-OPT-ANG-INV	5.2
Government Institutional Funds	EQT-FUN-OPT-GOV-INS-FUN	5.3
Venture Capital	EQT-FUN-OPT-VEN-CAP	5.4
Private Equity	EQT-FUN-OPT-PRI-EQT	5.5
Ownership Structure	**OWN-STR**	6.0
Equity	OWN-STR-EQT	6.1
Shareholder	OWN-STR-EQT	6.2
Dilute equity	OWN-STR-DIL-EQT	6.3
Race	**RAC**	7.0
Blacks (Indian, coloured, African)	RAC-BLA	7.1
African	RAC-AFR	7.2
Indian	RAC-IND	7.3
White	RAC-WHT	7.4
Previously disadvantage persons	RAC-PDA	7.5

5.3 Interview schedule

The researcher prepared and designed an interview schedule which was sent out to the intended interviewees a few days before the scheduled interview. This enabled interviewees to prepare and bring more insight into the discussion. On the day of the interview, the researcher sat with each entrepreneur and explained the purpose of the research and provided an outline of what data would be required, as outlined in the interview scheduled.

Table: 2 Interview Schedule

NO	RESEARCH PROPOSITIONS	VARIABLES
1.	The availability of equity funding is critical in driving entrepreneurial activity among black entrepreneurs	ENT-DEV EQT-FUN-AVA
2.	Equity funding is relatively expensive, but it is a necessary evil for black entrepreneurs	EQT-FUN OWN-STR-DIL-EQT EQT-FUN-PER-COS
3.	Equity funding is an attractive option for black entrepreneurs who do not have collateral or assets to act as security against debt finance	EQT-FUN EQT-FUN-PER-BEN RAC-BLA EQT-FUN-SEC-COL

4.	Accessing equi[illegible] entrepreneurs i[illegible]	RAC-BLA EQT-FUN-AVA
5.	Bootstrapping is the commonly used equity funding option by black professional starting an entrepreneurial venture	EQT-FUN-OPT RAC-BLA EQT-FUN-OPT-BTS

5.4 Interviewee profiles

Table: 3 List of Interviewed People

NO.	EQUITY OPTION	NAME OF INTERVIEWEE	PROFILE
1.	GOV-INT-FUN	Khwezi Zondi	CEO of Izazi Fleet Management, which specialises in transportation and logistics management solutions. Izazi fleet management has a turnover of more than R20m per annum. Khwezi had previously worked at the Reserve Bank for seven years.
2.	BTS	Thabang Ramogase	MD of Brandswell, an integrated marketing agency that specialises in the below-the-line marketing. The Brandswell company has been in business for four years and has an annual turnover of R12m. Thabang has eight

		ience in the FCMG sector.	
3.	GOV-INT-FUN	Nyi Mabunda	B (PTY) Ltd, a joint venture between Nando's, Nyimpini and Nyimpini's partner. The business has five Nando's franchise outlets in the JHB CBD and is growing. Nando's JHB (PTY) Ltd has an annual turnover of R30m.
4.	BTS	Greg Maluka	Director of Instant Grass, an integrated research and insights company. Greg also holds interests in other businesses. He joined the company two years ago and today the company has annual turnover of more than R5m. He has worked in radio for more than ten years and launched YFM in South Africa.
5.	BTS	Carlo Mason	MD of a leading black owned design agency called Two Tone, which specialises in design and above-the-line work. Two Tone's list of clients is impressive, including Coca-Cola, SAA, SA Tourism and many more blue chip companies. It has an annual turnover over R60m. Carlo worked for three years in the creative agency environment.
6.	VEN-CAP	Abey Mogatshwane	MD of VWV, a black owned experiential and brand enhancement company that specialises in hosting large scale conferences and

			alignment and event VV has hosted the SABMILLER conferences in the USA and ABI, and Nando's conferences. They have an annual turnover of more than R5m. Abey worked in the FCMG industry for more than seven years.
7.	BTS	Sandile Ndzekeli	MD of EXP Sponsorship Company, that specialises in sponsorship management. The business manages all the sponsorship platforms for ABSA, MTN, TOYOTA and other blue chip companies and has an annual turnover of more than R100m. Sandile worked in the sport sponsorship industry for six years
8.	PRI-EQT	Sandile Koza	MD of Kealo Worldwide Media, a multimedia and sponsorship company. They manage all elements within the sponsorship mix, starting with property development to the broadcasting packaging of these sponsorship properties. Sandile has worked for three years in the sponsorship industry
9.	BTS	Siya Mbanjwa	Director at Crowie Projects, a black owned property development business. Crowie Projects is challenging the likes of Group Five and Old Mutual properties. The business has

			of more than R100m. Siya ... ne property development industry for more than nine years.
10.	BTS	Montsi Moseme	CEO of C2 Consumer Connectedness, a fully integrated marketing company. C2 was started four years ago and today it has an annual turnover of R100m. Their client list includes Standard Bank, SAB, Regional Tourism Authorities and Provincial Governments. Montsi has worked in the FCMG industry for over 10 years.
11.	BTS	Nonkululeko Africa	MD of TYS (Thuso Ya Sechaba), a fully Integrated HR solution company that specialises in training and development, payroll administration, recruitment and selection and HR material development. They have wide range of clients. TYS has an annual turnover of R3m.
12.	PRI-CAP	Donovan Chimhandamba	MD of Mhandas Trading (PTY) Ltd, a diversified manufacturing business with interests in the steel, mining and resources industries. The business was started in 2007 and it is projected to have an annual turnover of R180m in the first year of operation. Donovan has worked for various companies in

			ndustry.
13	BTS	Mal	Youth Fund, probably the most important government institution that was designed to stimulate entrepreneurial activity amongst the youth. Malosi is also an entrepreneur with numerous business ventures in a number of economic sectors including infrastructure development and financial services. Malosi has worked for many years in the financial sector.
14.	BTS	Zonke Hlongwane	MD of Uhuru Investment Holding (PTY) Ltd, a diversified investment group that specialises in property development, infrastructure development, consultancy businesses and aviation. The business was started in the mid 1990's after Zonke's successful career in the defence industry.
15.	BTS	Robert Mafuna	MD of Golf A2Z, an integrated golfing experience business that specialises in providing a holistic golfing experience business from hosting golf days to managing and running golf clinics. The business was started in 2007 and has an annual turnover of

			as worked for numerous ng field.

5.5 Responses to Research Propositions

5.5.1 Research proposition 1 – The availability of equity funding ((ENT-DEV) is critical in driving entrepreneurial activity development (EQT-FUN-AVA) among black entrepreneurs

Do you believe that availability or non availability of equity funding has a major impact on the environment for entrepreneurship activity in South Africa among the black entrepreneurs?

The aim of this question is to establish whether the availability or non availability of equity funding poses a major constraint in the entrepreneurial development of black entrepreneurs.

<u>The following comments and arguments were forwarded by interviewees on the above questions:</u>

Respondent comments, "Funding is definitely not that accessible to most black entrepreneurs more so than being unavailable. If funds or project financiers are not available, the project remains purely an academic opportunity. This is at an aggregated or generalised level. However, what's also important in putting forward such a notion is the funding requirement of the project.

For those projects tha I.T or software related, the project's success relie the product while financing is not a challenge. As the budget requirement for start-up increases, finance becomes a constraint and innovation becomes less of the competitive challenge with existing competitor's products.

With this view, the impact to the black entrepreneurial environment is that they are forced by circumstances to crowd into the bottom un-scalable opportunities that require as small enough capital but where there are 1000 other people are looking at and, in some cases, they have bigger "boots" to fund themselves more effectively. In a nutshell, most black entrepreneurs will remain "tuck-shop" entrepreneurs or "airtime- traders".

Another respondent agrees with the notion that availability of equity funding poses a major constraint in entrepreneurial development of black entrepreneurs. He states that "the funding criteria are too strict and there are too many requirements, which include security and collateral and some cases substantial equity stakes in your business. The funding institutions have a credit mindset rather than an equity creation mindset, they are obsessed with security and interest cover metrics".

A respondent states that "yes availability or non availability of equity capital is a major challenge for the development of black entrepreneurs, because when dealing with previously disadvantaged individuals, who do not command strong balance sheets and have limited assets, it becomes difficult to provide security and collateral demanded by funding institutions".

Another respondent c … ing “the problem is not the availability or non av … se there are a number of equity funding options available for black professional”.

He cites that “Umsobomvu Youth Fund has financed thousands of black entrepreneurs and states that 98% of their funding is unsecured, and the remaining 2% funding is secured to the tune of 5% per transaction. They offer relaxed interest and capital repayment conditions for the first six months of the business operations”. The problem he highlights is the low culture of entrepreneurship in South Africa especially amongst the black professionals. He also notes that “South Africans and the media in general do not tolerate the failure of entrepreneurial ventures”.

He points out that “the biggest constraint of entrepreneurial activity development is the lack of skills in building a solid business case and writing a business plan. The entrepreneur might have a great business idea, but lacks the skills of translating that idea into commercial viable business plan”.

Another respondent supports the notion that it is *not* availability or non availability of equity funding. He states “it is not funding, but it is lack of education and knowledge of preparing the required documents, such as the construction of a business plan. He also states that the quality of some business plans is “really poor”. He highlights the “lack of skills of commercialising a business idea”.

A respondent comments that “in most industries there is no shortage of equity funding, but funders are becoming very strict with their lending criteria, because of many business that have failed”.

He states that out [illegible]uld fail. Zondi continues, “Therefore funding in [illegible]t and focusing on funding entrepreneurs who have strong business plans with robust business models, plus proven knowledge and management experience in that particular industry”.

A respondent answered, “Entrepreneurship is not about equity funding alone”. He states, “It is about the entrepreneurial spirit that says - come what may, I will do it on my own”. He believes “if the black entrepreneur is passionate about a good business idea, he will always find way to make it work. Where there is a will, there is always a way”.

5.5.2 Research proposition 2 – Equity funding (EQT-FUN) is relatively expensive (OWN-STR-DIL-EQT), but it is a necessary evil (EQT-FUN-PER-COS) for black entrepreneurs (RAC-BLA)

What are the perceived financial and non-financial cost components of bootstrapping, angel finance, government funds, venture funds and private equity?

This question explores the financial and non-financial costs of the associated with the chosen equity funding option, clearly demonstrating the cons of the chosen equity option.

<u>The following comments and arguments were forwarded by interviewees on the above question:</u>

A respondent in pro [illegible] 'in property development, funding structure is [illegible] a R10 million property development deal one has to come up with R3m, which is the equity portion. Most black entrepreneurs do not have that type of money or a balance sheet to cover this amount, which means they have to give away the 30% equity in that deal to a funding institution, which means relinquishing or diluting their overall equity"

A respondent mentions that - "Bootstrapping when referring to the average black entrepreneur, is a non-starter option. Most Black entrepreneurs don't have excess cash or items that are liquid which they can use to finance their projects. If left with only bootstrapping, most would rather not, as the very little reserves are already thinly spread across". Angel Investors – I know people talk about angel investors in South Africa, but the angel network isn't that visible or accessible. This is even worse for a black entrepreneur as their network is more entrenched in other small black entrepreneurs.

The Black elite have played no role in closing the gap or bridging these black entrepreneurs with the angel network. I think realistically, this is a myth unless we are going to classify funding of R2000 or similar amounts as angel investment. However, if you manage to get one, the covenants usually choke the entrepreneur's business proposals".

The respondent continues, "Government Funding, when it does get approved, takes out up to two years to get full payout. It's the cheapest on paper but that's where it ends. Connections and political clout are also an imperative if you want to access these funds … uity – For the educated entrepreneur, these o… verage black entrepreneur, this is not an understood vehicle for financing. These options normally offer cheaper financing costs and also further access to debt as the private equity financier can use their own balance sheet underwrite debt. However, the entrepreneur usually loses 40-90% equity depending on the size of the project or financing gap”.

A respondent who was funded by a private equity company states that “the most obvious disadvantage is the significant level of debt typical associated with these transactions. This debt must be serviced monthly and therefore has large drain on the earnings of the business. Secondly, regardless of whether the equity investors make a majority or minority investment in the business, they will want board-seats to closely monitor their investment. This means that, for the first time, they will have had to share executive decision making with a third party. Losing independence to the equity shareholders means you lose part of your business and decision making powers”.

A respondent who has worked in a private equity environment states that “they normal take between 20% to 40% equity in all business they invest in and usually they get operational involvement in that business until the entrepreneur fully services the interest and capital repayments. After that period, they investigate opportunities of exiting that business, which might result in new partners for the entrepreneur.

5.5.3 Research pro [illegible] QT-FUN) is an attractive option (EQT-F [illegible] reneurs (RAC-BLA) who do not have collateral or assets to act as security against debt finance (EQT-FUN-SEC-COL)

What are the perceived financial and non-financial benefit components of bootstrapping, angel finance, government funds, venture funds and private equity?

This question is the same as the previous question, but the difference this question explores both financial and non financial benefits of a chosen equity option from the entrepreneurs view.

The following comments and arguments were forwarded by interviewees on the above question:

A respondent states that “many black entrepreneurs who start their business with their own resources or even debt financing, are continuously looking at eliminating the personal guarantees to the lending institutions and banks. In an equity funding transactions, all shareholder guarantees are eliminated and day-to-day- control remains with the management team. He concludes by saying you enjoy the best of both worlds you eliminate financial guarantees, whilst you retain management control of day-to-day”.

Another respondent b[illegible]tions are not only bringing financial strength to h[illegible] investors will participate in the business at the board level and some board members possess significant operational experience that could help benefit the business in more ways that the actual financial transaction". He mentions that Umsobomvu invests in more than one business; therefore they are able to provide market linkages, which might benefit the entrepreneur.

The respondent continues, "Umsobomvu help in the development of the entrepreneur by offering guidance through strong mentoring programmes. Also, entrepreneurs can use the good name of Umsobomvu to clients, which proves and projects a good image regarding financial stability and sound business entity".

A respondent who was funded by a private equity firm stated that "equity funding is an excellent way of starting a business with someone else's money and still manage to retain a substantial equity in that business to start creating wealth for yourself through the appreciation of your equity in the long-term. He argues that owning 100% equity of an R2m business is far less attractive than owning 30% equity of an R50m business. Even more attractive is that the debt burden is on the business and not you as individual.

A respondent highlights the key benefit as "if your investor is a shareholder in your business, it is in their best interests that you succeed, otherwise they will lose their original investment in your business. Therefore they structure the deal in such way that your interest and capital repayments do not choke the business.

You do not worry ab on growing your business and ensuring you are hortest space of time”. He states that if you have to leverage debt financing, you can borrow as one entity and the partner with the highest asset base can use their balance sheet to underwrite the loan, which leads to more favourable interest rates that you would not dream of if you were borrowing as an individual.

Another respondent states that “it is important that you choose an equity funding institution that would be aligned to your goals. You need investors that would understand your vision and support you along the way to financial independency. At the end of the day you need an investor who becomes a partner”. Khwezi states that “professionalism is more important at the higher levels of business and being black is no longer good enough and colour does not play a role, because all companies find ways to be BEE complaint.

Therefore you need investors that support and enhance your skill development process, by contribute in the operational management of the business and help you navigate the process of growth with strong caution”. He concludes by saying that “without the help of NEF, Scania and DM truck financing, their dream would not have been possible - today we have 60 trucks and a R250m three year contract with Mittal Steel”.

5.5.4 Research pro[illegible] nding (EQT-FUN-AVA) is difficult for Bl[illegible] South Africa

How easily accessible are these sources of equity funding to black corporate professionals who are transitioning to start their own entrepreneurial venture?

This question really focuses on the perceptions of entrepreneurs around the accessibility of equity funding in South Africa

<u>The following comments and arguments were forwarded by interviewees on the above question:</u>

A respondent states that “the challenge remains with average balance sheet that the black corporate professional possesses. The risk is usually high, hence most of the times they have to partner with an existing organisation which then underwrites their risk. The reality is that most venture capitalists will not finance unknown ambassadors. They are prepared to chip in once a large company, that has the operational or market experience with the project proposal, is part of the new company. Practically, I found access to finance being more of who you are and who is behind you rather than the product or service ones proposing”.

A respondent with a MBA states that “it took me a period of six weeks to secure funding. As a MBA graduate with solid corporate experience, a proper and solid business plan and a great Nando’s brand name and most importantly, the five Nando’s franchise outlets, I had a great trading history”.

He says this demons estors are becoming. The due diligence proces investors focusing on the skills set brought by the individual. This clearly demonstrate how long it can take to access equity funding, but it is suppose to be a relatively easy process if you have a solid or proven idea and a great business plan"

Respondent states that "the majority of black entrepreneurs do not have the knowledge of the available sources of equity funding; they always look to the banks as the only source of funding". He argues that this lack of knowledge becomes a barrier to start a business. He says that the recent BEE deals have brought fresh and innovative ways of structuring equity funding that is designed to finance new business ventures or buying into existing businesses.

He concedes that "it is a bit difficult in most normal circumstances to obtain equity funding, but this depends on the situation and industry you are in. It also depends on the nature of the required investment and the expected level of involvement of the investor in the business and the size of the business. The main determinant is capital intensity of the investment, whether this is backed by fixed assets or intellectual property. Investors tend to have an appetite for investments in sectors where their investment would be backed by assets of bricks and motor. These are safe investments for the investors".

Another respondent agrees that "in some areas, equity funding is not accessible for black entrepreneurs. For example, Umsobomvu does not have an office in Soweto and still have challenges of fast tracking its processing and approval of all applications. There is a huge need to remove the red tape. But this must be done in proper manner anc [illegible] st be followed. The culture of entitlement must n [illegible] hat the annual government funding grant of R400m can not service the unlimited demand for equity funding and hence there is always going to be equity funding constraint in the market place”.

A respondent with a lot experience in dealing with equity funders offers a different perspective in saying “equity funding is very accessible, you just need the knowledge to be able to package business plans in a way that you can start speaking the lender’s language”. He says that “all the equity funding institutions and banks in South Africa have a credit mentality vs. equity mentality, therefore their business plan processing process is designed for credit checking and serviceability metrics. It becomes important to meet them before you start the process in order to understand their requirements. Understand exactly what their key attributes they are looking for and build your business plan around those areas”.

Another respondent states, “Accessibility to equity funding is not a major factor, but it is a factor. Funding is still an issue for black professionals starting an entrepreneurial venture”. He states that “lack of equity funding to fund black entrepreneurial development is used by white capitalists as tool to pace the class and race struggle. Hence the rise of a few BEE moguls, who are used as assimilated symbols of success by white capital. This is a process of incorporation of a few black capitalists into an existing white capital class”. He states that “the process of entrepreneurship is about the fundamental process of the creation of new wealth, the cre[illegible] efore the available equity funding is channelled [illegible] se assimilated symbols of black business success that do not have any operational involvement or financial acumen rather to black professionals who are truly interested in creation of new wealth".

5.5.5 Research proposition 5 – Bootstrapping (EQT-FUN-OPT-BTS) is the most commonly used equity funding option (EQT-FUN-OPT) by black professional (RAC-BLA) starting an entrepreneurial venture

Which is the most commonly used equity funding option and why is it preferred ahead of other funding options?

This question explores the mostly used equity funding option and investigates why this option is preferred ahead of the other equity options.

<u>The following comments and arguments were forwarded by interviewees on the above question:</u>

A respondent says "almost 60% of black professional use bootstrapping methods and family and friends as a source of equity funding, because they do not have the collateral to act as security or guarantees on their loans. This is because of the apartheid regime".

One respondent states that "for the small entrepreneur, overdrafts are still used, but the problem with these is that they are expensive and usually not large amounts. Private equ ns. Government funds are definitely the least use

A respondent argues that he used his own funds” because it made sense at the time and in retrospect, he is glad that he did so because he has true ownership of his business. It also forced him to be more responsible and motivated him to work even harder because of the fear of losing his own money in the business”.

A respondent states, “I have to start small and grown my business from humble beginnings and it made sense to fund if myself and use my credit cards and overdrafts rather than utilising equity funding, which could have put more pressure on the business when it was not needed at the time. Now that my business has grown, I can be in a better position to decide how I am going to fund the next expansion phase, without compromising my ownership structure”.

Another respondent adds, “I had to use creative ways to bootstrap my business from the start, because I was clear that I wanted to retain 100% ownership and I had enough reserves to sustain myself for the first six months and I had a good network that could leverage business from it. I had planned my transition and knew what I needed to do to sustain the business in the first year”.

One respondent mentions, “definitely bootstrapping methods because I knew that I did not want to grow to soon, I wanted to be more in charge of my business and have clear view and understanding of my liabilities and income.

I was going to be mc ed risks and bootstrapping offered me an opport approach and manage the growth of the business gradually, rather expose myself to something that I have no control over".

A respondent who used a different equity funding option comments, "In retrospect, I would have used bootstrapping had I understood the equity funding landscape. I would have managed my growth and become more focused on managing the business step by step, with the aim of becoming operationally sustainable first, before seeking equity funding. I would have spent the last two years of my working career seeding a strong connection base, which is a critical success factor and an important source of deal flow. Bootstrapping would have offered my business a comfortable start, without choking my business with the debt burden in the first few years of existence".

One respondent concludes, "Equity funding comes with a lot of requirement and mostly importantly; you lose your independence very early in the process. I was clear from the start that I wanted to be in charge of my destiny and wanted to grow at my own pace and wanted to maintain my independence throughout the process".

A respondent reports, "I wanted peace of mind and therefore independence at an early stage was important for me. I did not need the pressure of a debt burden and interference of the equity funding investors in my business. I knew what my vision was and I was willing to find creative ways to fund it in way that ensured control.

6.0 DISCUSSI

6.1 Introduction

This chapter's aim is to discuss the results of the research, as outlined in chapter five. The research results will be discussed in terms of the research propositions outlined in chapter three and the literature review outlined in chapter two. This chapter will demonstrate insights on the research findings in terms of the context of the study and in light of the theory base. The most important aspect of this chapter is a clear demonstration that the researcher has met the research objectives set in chapter one.

6.2 Research proposition 1 – The availability of equity funding is critical in driving entrepreneurial activity development among black entrepreneurs

This intention of this proposition was to establish whether the availability or non-availability of equity funding poses a major constraint on the entrepreneurial development of black entrepreneurs in South Africa.

6.2.1 Research Findings

The most common view amongst the interviewees was that the availability of equity funding is critical in driving entrepreneurial activity development among black entrepreneurs; they stated that the non-availability of equity funding poses a major constraint on the development of black entrepreneurs in South Africa.

One respondent said t accessible to most black entrepreneurs; more so unavailable. If funders or project financiers are not available, the project remains purely an academic opportunity. This is at an aggregated or generalised level". This view was supported by another respondent who also indicated that non-availability of equity funding poses a major constraint on the development of black entrepreneurs.

He stated that "the funding criteria are too strict and there are too many requirements. These include security and collateral, and in some cases substantial equity stakes in your business. The funding institutions have a credit mindset rather than an equity creation mindset, they are obsessed with security and interest cover metrics."

Another respondent supported this notion and stated that "yes, availability or non-availability of equity capital is a major challenge for the development of black entrepreneurs, because it is difficult for previously disadvantaged individuals who do not command strong balance sheets and have limited assets to provide the security and collateral demanded by funding institutions. ".

6.2.2 Literature Review

Manning and Mashigo (cited in Iheduru, 1998: 83) state that black entrepreneurs face certain unique constraints, such as institutional bias in favour of larger firms, distrust of carryover apartheid-institutions, too much reliance on non-governmental organisations, and tl f the culture of business networks (Mitchell, B.

Pali (2000) indicates that among the 2, 3 million people who were owners of at least one non-VAT-registered business, more than six in every ten people (1, 4 million) said that they required money to start the business. Of these 1,4 million people, only 15, 5% (217 000) actually managed to borrow money. Among the 217 000 business owners who borrowed money to start a business, by far the most common source was through relatives and friends (83, 4%). Only 5, 1% of those who obtained loans, received them from commercial banks (Statistics South Africa, 2002).

Orford (2003) states that as part of its annual examination of the state of entrepreneurship, each national GEM team conducted interviews with a carefully selected sample of experts on entrepreneurship in their countries. The experts are asked their opinions on a range of factors that GEM believes have a major impact on the environment for entrepreneurship. One of these factors is the role that the financial system plays in supporting or hindering entrepreneurship. In South Africa, 18% of the national experts identified the lack of adequate financial support as a major weakness in the national environment for entrepreneurship activity (Orford, J., et al, 2003).

Chandler and Hanks (1998) argue that surveys conducted all over the world among entrepreneurs indicate that the lack of financing is an obstacle to doing business and to company growth.

Previous research su inancial capital invested is positively related to ne

However, Orford et al (2003) indicated that the national experts provided assessment of the degree to which financial systems support entrepreneurs by making finance available in different forms, including equity and debt financing, as well as government subsidies. On average, South Africa’s experts think that the statements regarding the availability of equity and debt finance and government subsidies are neither true nor false. This suggests that there is considerable room for making the financial system more supportive of new and growing firms. However, this assessment is not peculiar to South Africa (Orford, J., et al, 2003)

6.2.3 Discussion of Results

Although the research findings are very consistent with the literature review in that there is agreement that the availability or non-availability of equity funding is critical in driving entrepreneurial activity development among black entrepreneurs, and that the lack of availability of equity funding poses a major constraint on the development of entrepreneurial activity among black entrepreneurs; the work of Orford et al (2003) noted that on average South Africa’s experts think that the statements regarding the availability of equity, debt finance and government subsidies are neither true nor false.

They argued that this outh Africa. This point was also raised by few of stated that “the problem is not the availability or non-availability of equity funding, because there are a number of equity funding options available for black professionals or entrepreneurs.

He cited the Umsobomvu Youth Fund, which has financed thousands of black entrepreneurs and said that 98% of its funding is unsecured, while the remaining 2% funding is secured to the tune of 5% per transaction. He said the fund offers relaxed interest and capital repayment conditions for the first six months of the business operations.

This view was supported by another respondent who highlighted that it is not availability or non-availability of equity funding that poses a major constraint on the development of entrepreneurial activity development among black entrepreneurs. He stated that “it is not funding, but it is lack of education and knowledge of preparing the required documents, such as the construction of a business plan. The quality of some business plans is really poor”. But this, he said, is due to a lack of skills in commercialising a business idea.

The research findings offer interesting debate around whether the availability of equity funding is the major constraint on entrepreneurial activity development among black entrepreneurs, or whether there are other factors that are as important as the availability of equity funding in driving entrepreneurial activity development in South Africa.

This an area where f to ascertain the impact of education, knowledge of skills in the area of the business idea commercialisation process.

6.3 Research proposition 2 – Equity funding is relatively expensive, but it is a necessary evil for black entrepreneurs

This intention of this proposition is to establish whether the financial and non-financial costs associated with the chosen equity funding option are necessary – though not desirable – for black entrepreneurs who want to start a business without the necessary funding.

6.3.1 Research Findings

The most common view among the interviewees was that equity funding is undesirable because of the perceived financial and non-financial costs associated with equity funding transactions. Most respondents felt that it was a necessary evil, especially for black professional or entrepreneurs who have not developed enough cash reserves to finance their entrepreneurial ventures out of their own resources. They also mentioned that black professionals or entrepreneurs do not command strong balance sheets or have sufficient assets that could be utilised as collateral to secure loans.

One responded indicated that "in property development, the funding structure is 30% equity and 70% debt. In a R10 million-property development deal, for instance, one has to come up with R3 million.

This is the equity po… s do not have that type of money or a balance … means they have to give away the 30% equity in that deal to an equity funding investor, which further means relinquishing or diluting their overall equity in the project."

Another respondent noted that "the most obvious disadvantage is the significant level of debt typically associated with these transactions. This debt must be serviced monthly and is therefore a large drain on the earnings of the business. Secondly, regardless of whether the equity investors make a majority or minority investment in the business, they will want board seats to closely monitor their investment. This means that the entrepreneur will have to share executive decision making with a third party. Losing independence to the equity shareholders means you lose part of your business and decision making powers."

6.3.2 Literature Review

Timmons and Spinelli (2007) indicated that one of the toughest trades-offs for any young company is to balance the need for start-up and growth capital with preservation of equity. They argue that "holding on to as much as you can" would generally be good advice for entrepreneurs. Creative bootstrapping strategies can be great preservers of equity, as long as such parsimony does not slow the venture's progress so much that the opportunity weakens or disappears.

Cassar (2002), belie[illegible] intention to grow should influence the agency [illegible]yers (1977) cited in Cassar argues that conflicts between debt and equity holders are exacerbated by assets that provide the firm with the option to undertake growth opportunities in the future. Additionally, if some start-ups are more likely to experience future growth due to opportunity or intention, this should increase the potential for conflict between outside financiers and the entrepreneur.

Bhide (2005) believes there can also be problems with raising too much money, as one founder noted, “It is often easier to raise $5 million than $1 million because a venture capitalist would rather not have to worry about a lot of tiny investments. But then you have $4 million you didn’t need, but spend anyway. He argues that diminished flexibility is often another consequence of premature funding. Start-ups entering success, especially in new and growing industries, follow many detours and unanticipated setbacks, which means that strategies may have to be altered radically as events unfold. Failure to meet initial goals is a poor guide to future prospects.

6.3.3 Discussion of Results

The research findings are fairly consistent with the literature review in recognising the difficult trade-off faced by entrepreneurs in determining the start-up or growth capital equity funding requirements together with the preservation of equity.

This is a general worl[illegible]rs, because losing equity in your business in the [illegible] levelopment means losing control and your independence. Equity funding also comes with an increased debt burden in terms of interest and capital repayments, which could add unnecessary financial strain in the earnings of a young business.

An interesting aspect that the theory base does not address, and which is unique to South Africa, is our apartheid past and black majority economic exclusion. Black entrepreneurs do not have a choice; they do not have cash resources or solid balance sheets to underwrite debt financing.

Equity funding might be undesirable, but it represents the only option available. For many respondents it was the necessary evil that justifies the means to an end. Their choice could have been different if they had other options available, such as the availability of cash reserves or other avenues through which to raise capital to start their entrepreneurial ventures. Therefore the South African environment might be slightly different, especially for black entrepreneurs prejudiced by their past in a systematic process of economic exclusion.

6.4 Research proposition 3 – Equity funding is an attractive option for black entrepreneurs who do not have collateral or assets to act as security against debt finance.

The intention of this [illegible] her the financial and non-financial benefits of [illegible] n represent an attractive proposition. Is it very similar to the previous proposition? The difference is whether the financial and non-financial benefits of a chosen equity funding option represent an attractive option for them, taking into account the circumstances faced by black professional or entrepreneurs in South Africa.

6.4.1 Research Findings

The most common view among the interviewees was that equity funding might be an attractive option for black entrepreneurs who do not have significant collateral or assets to act as security against debt finance.

Their views were based on the benefits of equity funding, which reduced their personal financial exposure and liability in the form of guarantees against their assets. Secondly, it was mentioned that it might be attractive to utilise someone's capital to build a business, as without the capital burden, an entrepreneur can focus fully on building the business. The third point concerned the services and the role that equity funders can play in supporting the entrepreneur in building his or her business.

One respondent noted that "many black entrepreneurs who start their businesses with their own resources or even with debt financing, are continuously looking at eliminating the personal guarantees to the lending institutions and banks.

In equity funding tran[illegible]es are eliminated and day-to-day control remain[illegible]e concluded by saying that "you enjoy the best of both worlds. You eliminate personal financial guarantees, while retaining management control of day-to-day".

Another respondent stated that "equity funding is an excellent way to start a business with someone's money while still managing to retain a substantial equity in that business to start creating wealth for yourself through the appreciation of your equity in the long-term." He argued that owning 100% equity of a R2 million business is far less attractive than owning 30% equity of a R50 million business. Even more attractive is that the debt burden is on the business and not on you as individual.

One respondent offered an interesting view in that "equity funding institutions are not only bringing financial strength to help finance the business, but the investors will also participate in the business at the board level and some board members possess significant operational experience that could benefit the business in more ways than the actual financial transaction." He mentioned that as Umsobomvu invests in more than one business, they therefore are able to provide market linkages, which might be beneficial for the entrepreneur and the business as whole.

6.4.2 Literature Rev

KPMG and SAVCA Private Equity Survey (2006), indicates that private equity investors have a considerable impact in terms of productivity, skills development, national competitiveness and job creation, as it includes the transfer and exchange of know-how, and not only the flow of capital. Private equity fund managers play an active role in managing their investments in companies as they derive a return from the increased valuation of their investments (not just repayment and an associated interest rate) and hence they focus on business development for the companies they invest in.

Timmons and Spinelli (2007) indicated that these investors may invest alone or in syndication with other wealthy individuals, they may demand considerable equity for their interests, or they may try to dominate ventures. They can also get very impatient when sales and profits do not grow as they expected. Timmons argued that usually these angel and informal investors will be knowledgeable and experienced in the market and technology areas in which they invest. If the right angel is found, he or she will add a lot more to a business than just money.

Timmons and Spinelli (2007) cited three central issues that should be considered when considering risk capital:

(1) Does the venture need outside equity capital?

(2) Do the founders want outside equity capital?

(3) Who should invest?

They argue that whi centre of the management team's thinking, it is a smaller percentage of a larger pie is preferred to a larger percentage of a smaller pie. Or as one entrepreneur stated, "I would rather have a piece of a watermelon than a whole raisin." (Timmons, J. and Spinelli, S., 2007)

6.4.3 Discussion of Results

The research findings are fairly consistent with the literature review, in recognising that there are reasons why black professional or entrepreneurs can look at equity funding as an attractive option based on the benefits of equity funding, which have been highlighted as reduced personal financial exposure and liability. Secondly, it far more attractive to utilise someone's capital to build your business, without the capital burden as one can live with less equity of a bigger pie if it means not having to worry about raising capital.

Lastly, it concerns the value that equity funders bring in a business, which is more valuable than the capital injection. This includes transfer of skills, coaching and mentoring, and, most importantly, that it can create market linkages and provide great sales leads that can drive the business profitability in the long-term.

However, the sampl [...] ıal bias as most of the interviewed entrepren [...] roup and same educational background with a minimum education level of a three-year degree, and an almost an identical historical experience, with similar work experience in blue chip companies. They probably shared the same networks.

The respondents are also well travelled, they are financially sound, and they have a fairly solid knowledge of economics. They have been fully integrated into the first economy. They all reside in Gauteng, the economic powerhouse of South Africa. These research results would probably not have been consistent with the literature review if the sample had included people with different education background, and if the geographic spread was broadened and structured in such a way it incorporated people from outside the Gauteng region.

What will be interesting to explore is the response of black entrepreneurs who are far less fortunate in terms of geographic location, education level and work experience. This could be an interesting area of future research, because I suspect that their responses would be different, and that they would be happy with any form of funding – even if it is expensive – as long as they can fund their start-ups. Therefore the sample might be influenced by their financial knowledge and exposure to respond in a way that is consistent with the theory base.

6.5 Research prop… …ding is difficult for black entrepreneurs i…

This proposition establishes whether the perceptions of black professionals or entrepreneurs on the accessibility of equity funding in South Africa, are that equity funding is easily accessible.

6.5.1 Research Findings

The most common view among the interviewees was that equity-funding options are widely available. The key question is how accessible is equity funding for black entrepreneurs. The responses were a bit divided with some respondents indicating that it was not accessible and others disagreeing, indicating that it is all about understanding the financier's mindset and knowing the right channels to use to access funding.

One respondent stated that "the challenge remains with the average balance sheet that the black corporate professional possesses. The risk is usually high, which means that most of the time they have to partner with an existing organisation which then underwrites their risk. The reality is that most venture capitalists will not finance unknown ambassadors. They are prepared to chip in once a large company that has the operational or market experience with the project proposal is part of the new company. Practically, I found access to finance being more about who you are and who is behind you than about the product or service one is proposing".

A respondent noted t is not a major factor, but it is a factor. Fundin professionals starting an entrepreneurial venture. He stated that white capitalists use equity funding for black entrepreneurial development as a tool to pace the class and race struggle. Hence the rise of a few BEE moguls, who are used as assimilated symbols of success by white capital.

He argued that this is a process of incorporating a few black capitalists into an existing white capitalist class. He stated that the process of entrepreneurship is about the fundamental process of the creation of new wealth, rather than the creation of the new Randlords. But often the accessible equity funding is channelled into the BEE deals to create these assimilated symbols of black business success that do not have any operational involvement or financial acumen, rather than to black professionals who are truly interested in the creation of new wealth”.

Another respondent offered a different perspective. He said, “Equity funding is very accessible; you just need the knowledge to be able package business plans in a way that you can start speaking the lender’s language.” He says that all the equity funding institutions and banks in South Africa have a credit mentality vs. an equity mentality; therefore their business plan process is designed for credit checking and serviceability metrics. “It becomes important to meet them before you start the process in order to understand their requirements. Understand exactly what key attributes they are looking for and build your business plan around those areas.”

Another respondent a… that “the majority of black entrepreneurs do no… available sources of equity funding; they always look at the banks as the only source of funding.” He argued that this lack of knowledge becomes a barrier to start a business. He says that the recent BEE deals have brought fresh and innovative ways to structure equity funding that is designed to finance new business ventures or buy into existing businesses.

6.5.2 Literature Review

Orford et al (2003) found that overall in developing countries, 16% of experts identified financial support as the main weakness in the environment facing entrepreneurs, slightly below the 18% in South Africa. However, in OECD countries, 20% of experts identified financial support as a major weakness. Therefore, while national experts in South Africa clearly identify the lack of financial support as a major weakness, this is by no means exceptional compared with other developing countries, or indeed countries in the OECD included in GEM report.

Orford (2003) believes that the lack of access to financial support is widely viewed as the main problem facing entrepreneurs in South Africa. His report considered two counter-arguments. The first was drawn on the evidence from GEM to suggest that access by entrepreneurs to institutional finance in South Africa does not appear to be significantly worse than in other developing countries. The second argument considered the role of financial administration and management and their impact on the probability of accessing finance.

6.5.3 Discussion of

The most common v that accessibility of equity funding options to black professionals was limited and that the funding was in fact very inaccessible. This is inconsistent with the literature review, which might suggests that access to equity funding by black entrepreneurs to institutional finance in South Africa does not appear to be significantly worse than in other developing countries. Therefore, accessibility to equity funding cannot explain that the lower South Africa's Total Early–stage Activity (TEA) rate in 2005 was 5.1% declining from 5.4% in 2004.

Orford (2003) believes that compared to other developing countries, South Africa is losing out on substantial employment and growth opportunities as a result of lower entrepreneurship activity rates. He further argues that the lower entrepreneurship activity rates in South Africa relative to other developing countries are due mainly to lower entrepreneurial activity rates among young men in South Africa compared to other GEM developing countries.

This brings us to Orford second argument, which considered the role of financial administration and management and their impact on the probability of accessing finance. A point that was raised by a few respondents "that the majority of black entrepreneurs do not have the knowledge of how to access the sources of equity funding; and that they always look at the banks as the only source of funding". They argue that this lack of knowledge becomes a barrier to start a business.

Another respondent s[illegible] accessible, you just need the knowledge to be [illegible] a way that you can start speaking the lender's language. He said that all the equity funding institutions and banks in South Africa have a credit mentality vs. equity mentality; therefore their business plan process is designed for credit checking and serviceability metrics." He said because of this it is important to meet them before you start the process in order to understand their requirements. Understand exactly what the key attributes are that they are looking for and build your business plan around those areas.

Therefore, an interesting area of research in the future would be to investigate the real reasons why entrepreneurial activity rates among young men in South Africa are the lowest compared to other GEM developing countries, with special focus on knowledge and education and considering the role of financial administration and management and its impact on the probability of accessing finance by young black entrepreneurs in South Africa.

6.6 Research proposition 5 – Bootstrapping is the commonly used equity funding option by black professional starting an entrepreneurial venture.

The intention of this proposition was to establish whether bootstrapping was the commonly used equity funding option by black professionals starting an entrepreneurial venture, and investigates why this option is preferred ahead of the other equity options.

6.6.1 Research Fin

The most common view among the interviewees was that bootstrapping is the commonly used equity funding option with ten black entrepreneurs in the sample having funded their business through bootstrapping and the other five black entrepreneurs having used other equity funding options. They emerging theme was that most of the black entrepreneurs that used bootstrapping cited the need to be in control and to manage the speed of business growth gradually. They were also very clear on the point that they needed to retain 100% equity in their businesses.

They also stressed that bootstrapping their businesses helped them to understand their businesses much better. The most common reason for the bootstrapping preference was that the entrepreneur made a conscious not to choke the business at such an early stage with the debt burden. Their view was that they preferred bootstrapping because it offered them an opportunity to start small and grow the business to a reasonable size, at which point they could decide on how to finance the growth plan.

A respondent said, “Definitely the bootstrapping method, because I knew that I did not want to grow too soon, I wanted to be more in charge of my business and have a clear view and understanding of my liabilities and income. I was going to be more conservative and take calculated risks. Bootstrapping offered me an opportunity to be more cautious in my approach and manage the growth of the business gradually rather expose myself to something that I have no control over.”

Their view was supp stated that "I had to start small and grow my bu nd it made sense to fund if myself and use my credit cards and overdrafts rather than utilising equity funding, which could have put more pressure on the business, when it was not needed at the time. Now that my business has grown I am in a better position to decide how I am going to fund the next expansion phase, without compromising my ownership structure."

A respondent mentioned that he used his own funds "because it made sense at the time". In retrospect he is glad that he did so, because he has true ownership of his business. It also forced him to be more responsible and it motivated him to work even harder because of the fear of losing his own money in the business. Another respondent noted that "I had to use creative ways to bootstrap my business from the start, because I was clear that I wanted to retain 100% ownership. I had enough reserves to sustain myself for the first six months and I had a good network that could leverage business from it. I had planned my transition and knew what I needed to do to sustain the business in the first year."

6.6.2 Literature Review

Ebben and Johnson (2005), indicated that it has been well documented that small firms face constraints in obtaining finance from traditional outside parties due to information asymmetries and transaction costs.

They argued that fron e, we know that small firms respond to these con ding creative ways to avoid the need for external financing through reducing overall cost of operation, improving cash flow or using financial sources internal to the company (Ebben, J. and Johnson, A, 2005).

Freear, Sohl and Wetzel (1995) cited in Auken (2005), defined bootstrap financing as "highly creative ways of acquiring the use of resources without borrowing money or raising equity financing from traditional sources". Gibson (1992) cited in Auken (2005), stated that bootstrap financing methods can help fill a financing gap when traditional sources of capital are not available (Van Auken, A., 2005). Bhide (1992) believed that the true entrepreneurship spirit is often demonstrated in the business owner's ability to creatively find and use bootstrap financing (Bhide, A., 2000).

Cassar (2002), believes that growth opportunities and intention to grow should influence the agency costs associated with financing, Myers (1977) cited in Cassar argued that conflicts between debt and equity holders are exacerbated for assets that provide the firm with the option to undertake growth opportunities in the future. Additionally, if some start-ups are more likely to experience future growth due to opportunity or intention, this would increase the potential for conflict between outside financiers and the entrepreneur (Cassar, G., 2002).

6.6.3 Discussion of Results

The research results are fairly consistent with literature review in the way that black entrepreneurs have used creative ways of bootstrapping to fill the financing gap.

However, the researc erature review on the main reasons why these bl ng means.

The literature review indicated that entrepreneurs bootstrap their businesses because they cannot find alternative means to fund their entrepreneurial ventures. However, the research findings indicated that the respondents consciously chose bootstrapping motivated by pure independence and a need to be in control and to manage the speed of business growth gradually. They were very clear on the preservation of their equity.

Most black entrepreneurs interviewed wanted to retain and maintain their original equity stake. They were concerned about exposing their businesses to a debt in the early stages of business development. This indicated that even if other equity funding options were available they would have still chosen bootstrapping.

One respondent indicated that “in retrospect I would have used bootstrapping had I understood the equity funding landscape. I would have managed my growth and become more focused on managing the business step by step, with the aim of becoming operationally sustainable first, before seeking equity funding. I would have spent the last two years of my working career seeding a strong connection base, which is a critical success factor and an important source of deal flow. Bootstrapping would have offered my business a comfortable start, without choking my business with the debt burden in the first few years of existence.”

Out of the ten black ... rapping as their preferred equity funding option, ... ed businesses that require intellectual property and the owner's knowledge and skill, and the committing of the entrepreneur's time to the business. Most of them started their businesses working from home and grew it at their own pace. In most cases these individuals' businesses are in the same industries in which they developed their intellectual property skill base and work experience, as well as the network base.

This would have been difficult if they were in businesses that required capital-intensive input such as construction, manufacturing, trucking or logistics. These industries require huge capital investment upfront. Respondents who started these types of businesses have no other choice but to seek equity-funding options where they were will even dilute their equity in order to secure funding. An interesting area of future research would be to investigate the influence that the type of business chosen by a black entrepreneur on the choice of equity funding?

This would be interesting because it seems that the more the business is reliant on the entrepreneur's intellectual property and skills set, the smaller is the amount required to start the business as the biggest cost is the entrepreneur's own opportunity cost. Hence there is no need in the early stages of the business development to compromise equity.

7.0 CONCLUS

7.1 Conclusion

Since 1994 the South African economy has undergone a profound period of restructuring. Ten years of consistent economic growth has been recorded. Macroeconomic stabilisation has largely been achieved, providing a platform for accelerating the growth rate (DTI, 2004). While the economy has grown, our country requires an economy that can meet the needs of all our economic citizens.

Prior to 1994, South Africans were systematically deprived of viable business opportunities in many ways. While other developing economies with endowments similar to those of South Africa were growing, we were stagnating and slowing down with further adverse effects on the participation of black persons in the economy (DTI, 2004). Deracialising the South Africa economy and laying the foundation for Broad-Based Black Economic Empowerment with the creation of new black-owned and black-controlled enterprises was seen as a key component of the strategy.

The National Small Business Act was introduced in 1996 to provide an enabling environment for small, medium and micro-enterprises (SMMEs) and to establish several institutions to provide financial and other support to black entrepreneurs. These institutions, Khula and Ntsika, have targeted substantial proportions of their programmes at black entrepreneurs (DTI, 2004).

With all these interv Herrington (2005) in GEM 2005 report indicated tage Activity (TEA) rate in 2005 was 5.1%. This means that for every 100 adults in South Africa between the ages of 18 and 64, approximately five own and manage a start-up business (a business that has not paid salaries for three months or more) or a new business (a business that has paid salaries for between three and 42 months), either with others or themselves. While a slightly higher figure of 5.4% was recorded for South Africa in 2004, the difference is not significant.

However they noted that South Africa's position in the GEM rankings has dropped from 20th position out of 34 in 2004 to 25th position out 35 in 2005. Compared to other developing countries that participated in GEM 2005, this demonstrates that South Africa has the lowest entrepreneurship activity rate of all the developing countries. Orford (2003), believes that compared to other developing countries, South Africa is losing out on substantial employment and growth opportunities as a result of lower entrepreneurship activity rates.

Broembsen, Wood and Herrington (2005) further argued that the lower entrepreneurship activity rates in South Africa relative to other developing countries are due mainly to lower entrepreneurial activity rates among young men in South Africa compared to other GEM developing countries. The challenge facing black professionals leaving the corporate environment to become an entrepreneur can be a daunting and challenging task. Obtaining equity funding can be a daunting task. In this regard, black professionals who are about to start their own businesses need to really think hard about the implications of the chosen equity funding option.

In many cases these [illegible] ake serious decisions and make trade-offs between obtaining funding and preserving their equity. While the equity funding options available to black professionals wishing to start their own businesses are more widely available than ten years ago, the challenge remains in determining the black entrepreneur's business needs with regard to the nature of the business he or her is starting in terms of capital intensity

They need to retain or preserve equity at all costs and clarify their overall vision for starting a business. These factors have a major impact on the choice of equity funding that each individual black entrepreneur will opt for with clear advantages and disadvantages.

7.2 Research Methodology

Five research propositions were designed to explore the underlying views around the equity funding options available for black professionals starting a business. Zikmund (2003) argued that the purpose of explorative research is intertwined with the need for a clear and precise statement of the recognised problem. There are three interrelated purposes for exploratory research: diagnosing a situation, screening alternatives and discovering new ideas.

In this study we focused on diagnosing and seeking new ideas in our quest to understand the equity funding options available to black corporate professionals transitioning to entrepreneurial ventures.

The propositions we review as tabled in the consistency matrix in Appendix 2, which lists the propositions that were used in the interview questions and highlights underlying themes or variables relationship it was trying draw out of the open-ended questions.

7.2.1 Interview schedule and Objectives

The researcher sat with each entrepreneur and explained the purpose of the research and provided an outline of the data that would be required. The questionnaire definitions were then explained before starting the interview. The approximate time for each interview was between 30 - 60 minutes. The interviews were held in open and frank discussions about the subject matter. In all the case with the entrepreneur the interview functioned as a data-collecting method.

Welman and Kruger (2001) indicated cost and ease of application as a disadvantage to face-to-face interviews; they further indicated that while they regard flexibility and adaptability as great advantages of face-to-face interviews, they agreed that high costs, as far as preparation and application are concerned, are regarded as the greatest drawbacks. They argued that control over responding was probably the biggest advantage to personal interviews as the interviewers are in complete control of the interview situation.

Welman and Kruger (… r in a face-to-face interview is in a position to not … nding (in the case of semi-structured interviews, which was used in this research) on the part of the respondent, explain any questions which may be unclear, and to follow up on incomplete and vague responses. Consequently, the responses obtained are of a high quality. They argue that the response rate is great, because the interviewer physically confronts the respondent; which means there is less chance of the respondent eluding the interview.

7.2.2 Analysis of research

The researcher utilised qualitative explorative methodology. Miles and Huberman (1994) believe that qualitative data, usually in the form of words rather than numbers, have always been the staple in some fields in the social sciences. They argued that qualitative data are sexy; they are a source of well-grounded, rich descriptions and explanations of processes in identifiable local contexts. They argue that with qualitative data one can preserve chronological flow, see precisely which events led to which consequences, and derive fruitful explanations.

Data analysis in this qualitative research would be a combination of content analysis on open-ended questions to determine factors at play and frequency analysis on closed-ended question to give proportions of weightings. These methods would be used together to really explore the research subject. Welman and Kruger (2001) define content analysis as a special application of systematic observation that occurs in the content analysis of personal documents. The researcher used grounded theory as a tool to do the content analysis.

7.2.3 Research limi

The transition period from corporate employment to entrepreneurial venture could have been a bit long for some entrepreneurs, and having to rely on memory to recall information from this period may have introduced inaccuracies in the data. Sampling method (judgemental, purposive) sampling) might not be truly representative of the total population.

The bias of the sample is also to be taken into account as most of the interviewed entrepreneurs were from the same age group and same educational background with almost an identical historical experience, and similar work experience, and they probably shared the same network meant that their responses tended to be similar, which might result in the research being one sided.

The researcher was not trained to conduct face-to-face interviews and as a result, this might have resulted in some form of information bias and information collection accuracies. The other limitation was inherent in the open-ended interviews where some of the points made during conversation did not seem to have the same profound meaning when transcribing the notes.

7.3 Findings

The summary of the ach research proposition is outlined below:

7.3.1 Research proposition 1 – Availability of equity funding for black professionals

The most common view among the interviewees was that the availability of equity funding is critical in driving entrepreneurial development among black entrepreneurs; they stated that the non-availability of equity funding poses a major constraint in the development of black entrepreneurs in South Africa.

7.3.2 Research proposition 2 – Equity funding is relatively expensive, but it is a necessary evil for black entrepreneurs

The most common view among the interviewees was that equity funding is undesirable, because of the perceived financial and non-financial costs associated with the equity funding transactions. Most respondents felt that it was a necessary evil, especially for black professional or entrepreneurs who have not developed enough cash reserves to finance their entrepreneurial ventures out of their own resources. They also mentioned that black professionals or entrepreneurs do not command strong balance sheets or have sufficient assets that could be utilised as collateral to secure loans.

7.3.3 Research pro[illegible] an attractive option for black entrepr[illegible]eral or assets to act as security against debt finance

The most common view among the interviewees was that equity funding might be an attractive option for black entrepreneurs who do not have significant collateral or assets to act as security against debt finance. Their views were based on the benefits of equity funding, which reduced their personal financial exposure and liability in the form of guarantees against their assets. Secondly, their views indicated that it might be attractive to utilise someone else's capital to build a business, as without the capital burden one can focus fully on building the business. The third point concerned the services and the role that equity funders can play in supporting the entrepreneur in building his or her business.

7.3.4 Research proposition 4 – Accessing equity funding is difficult for black entrepreneurs in South Africa

The most common view among the interviewees was that equity-funding options are widely available. The key question is, how accessible is equity funding for black entrepreneurs? The responses were a bit divided with some respondents indicating that it was not accessible and others disagreeing and indicating that it is all about understanding the financier's mindset and knowing the right channels to go through to access the funding.

7.3.5 Research pro a commonly used equity funding optic rting an entrepreneurial venture

The most common view among the interviewees was that bootstrapping is a commonly used equity funding option with ten black entrepreneurs in the sample having funded their businesses by bootstrapping, and the remaining five black entrepreneurs having used other equity funding options. They emerging theme was that most of the black entrepreneurs who used bootstrapping cited the need to be in control and to manage the speed of business growth gradually. They were also very clear that they needed to retain 100% equity in their various businesses.

They also stressed that bootstrapping their business helped them to understand their businesses much better. The most common reason for the bootstrapping preference was that the entrepreneur made a conscious decision not to choke the business at such an early stage with a debt burden. Their view was that they preferred bootstrapping because it offered them an opportunity to start small and be able to grow the business to a reasonable size, at which point they could decide on how to finance the growth plan.

7.4 Recommendations

In summary, my recommendations are focused on three groups. The first is black professionals who are seeking equity funding options to start a business. Second is funding institutions. This industry still lacks innovation in structuring equity funding packages. Lastly, the ature on the plight of black entrepreneurs in Sout 000.

7.4.1 Recommendations to black professionals seeking equity funding options to start a business

Get professional advice on the various equity funding options. Do not rush in to making a decision; investigate the perceived benefits and costs of each equity funding option, then make up your mind based on your own circumstances and vision. True entrepreneurship is about surviving against all odds. If you have a good business idea and the will to succeed, you are almost there. It is important that you focus on the detail, get legal advice, and be extremely careful when dealing with equity funders.

If you want to grow your business faster and give it scalability, do not be afraid to be geared, even if it means losing part of your equity in the short-term. As one respondent stated, “Equity funding is an excellent way of starting a business with someone else’s money, while still retaining a substantial equity in that business to create wealth for yourself through the appreciation of your equity in the long-term.” He argued that owning 100% equity of a R2 million business is far less attractive than owning 30% equity in a R50 million business. Even more attractive is that the debt burden is on the business and not on you as individual.

If you have decided o especially if it incorporates dilution of equity, en vestor is, your investor is totally aligned to your vision and can add more value into your business than a financial contribution. Ensure that your new partnership comes with the right conditions and that you are protected in the long-term. Ensure that there is a legal agreement that governs the exit conditions and dispute resolution mechanism.

Do not rush into a decision or be greedy; understand the equity funding landscape, and do a proper due diligence on your investors as well.

Lastly, planning is very important. The most successful black entrepreneurs interviewed had spent a long time planning their transition from corporate to starting a business. They even downgraded their lifestyles in preparation for the move. They made sacrifices in building reserves to bootstrap their businesses. They also operated in industries that they were familiar with, and in which they had developed strong competencies and established networks.

7.4.2 Recommendations to equity funding institutions

There is a need for a paradigm shift in the way that equity funders approach the evaluation of black professional funding proposal and in the way that they structure these deals. These funders need to take their learnings from the way that most recent BEE deals have been structured.

They need to bring ir ility into their structuring of equity funding produc sirable because it is driven primarily by a credit lending mindset rather than an equity appreciation mindset. Their tick-list approach does not serve anyone; we have to build and develop our people so that they can make a positive contribution to the development of black entrepreneurs in South Africa.

Lastly, equity funders need to improve their presence, communication and marketing efforts as the perception in the market is that they are not accessible. This is a worry as there is too much money chasing fewer good ideas in the market place.

7.4.3 Recommendations to academic community

In the academic world there is a perception that there are only a few scholars who are contributing to the library of literature on the plight and development of black entrepreneurs in South Africa, post 2000. A lot of work has been developed in the field of BEE, which many hard-working black entrepreneurs do not recognise as contributing to the development of black entrepreneurship. In their view, entrepreneurship is about the creation of new wealth and BEE is just about the transferring of wealth from one class and race group to another. While conducting this research, I discovered certain areas that would make interesting areas of future research. This is covered in the next section.

7.5 Areas of Furthe

The research findings offer interesting debates on whether the availability of equity funding is the major constraint on entrepreneurial activity development among black entrepreneurs, or if there are other factors that are as important as the availability of equity funding in driving entrepreneurial activity development in South Africa. This area needs further research with a focus on ascertaining the impact of other factors such as education, knowledge, importance of business plan writing skills and the impact of lack of skills on the business idea commercialisation process in the development of young black entrepreneurs'.

The second area interesting of further research is in investigating the real reasons why entrepreneurial activity rates among young black South African men are the lowest compared to other GEM developing countries, with a special focus on knowledge and education, and on considering the role of financial administration and management and their impact on the probability of accessing finance by these black entrepreneurs in South Africa.

The third area of further research would be to explore whether black entrepreneurs who reside in areas outside Gauteng, who have a minimum education level of a diploma, and work experience in junior and middle management, believe that equity funding is an attractive option for black entrepreneurs who do not have collateral or assets to act as security against debt finance.

I suspect that their re[...] this research sample and that they would be ha[...]n if it is expensive, as long as they can fund their start-ups. This research sample might be influenced by their financial knowledge and exposure.

Lastly, out of the ten black entrepreneurs who chose bootstrapping as their preferred equity funding option, nine of these entrepreneurs started businesses that require intellectual property and the owner's knowledge, skill and the committing of the entrepreneur's time to the business. Most of them started their businesses working from home and grew them at their own pace. In most cases these individuals businesses were in the same industries where they developed their intellectual property skill base and work experience, as well as the network base.

This would have been very difficult if they were in businesses that required capital-intensive input such as construction, manufacturing, trucking, and logistics. These industries require huge capital investment upfront. Respondents who started these types of businesses have no choice but to seek equity funding options, in which they were prepared to dilute their equity in order to secure funding. An interesting area of future research would be a study investigating the influence of the type of business (capital intensiveness, requirement of tangible or non-tangible intellectual property and other factors) versus the type of equity funding chosen by a black entrepreneur.

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9.0 APPENDICES

APPENDIX 1: CONSISTENCY MATRIX

TITLE: Equity funding options available for black corporate professionals transitioning to start an entrepreneurial venture

QUESTIONS	LITERATURE REVIEW	DATA COLLECTION TOOL	ANALYSIS
1. Do you believe that availability or non availability of equity funding has a major impact on the environment for entrepreneurship activity in South Africa among the black entrepreneurs?	Chandler and hanks (1998), Orford et al. (2003), Mitchell (2003) and Pali (2002)	Question 1 and 2 in the interview guide	Content analysis on open ended questions to determine whether the availability or non availability of equity funding has a major impact on the development of entrepreneurial activity
2. What are the perceived financial and non-financial cost components of bootstrapping, angel finance, government funds, venture funds and	Sohl, 2003 Chandler and Hanks, 1998	Question 2 in the interview guide	Content analysis on open ended questions to determine the perceived cost components of the various funding

private equity?			options
3. What are the perceived financial and non-financial benefit components of bootstrapping, angel finance, government funds, venture funds, private equity?	Sohl, 2003 Chandler and Hanks, 1998	Question 3 in the interview guide	Content analysis on open ended questions to determine the perceived benefits components of the various funding options
4. How easily accessible are these sources of funding to black corporate professionals who are transitioning to start an entrepreneurial venture?	Little, 1987 Chandler and Hanks, 1998 Randall, 1996	Question 4 in the interview guide	Frequency analysis on closed-ended question to give proportions of weightings
5. Which is the most commonly used funding option and why is it preferred ahead of the other options?	Sohl, 2003	Question 5, 6 & 7 in the interview guide	Frequency analysis on closed-ended question to give proportions of weightings

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Background: I am a MBA student doing my final year research project. My research paper investigates the equity funding options available for black corporate employees transitioning to start an entrepreneurial venture. This interview is structured and designed to provide a better understanding of equity funding options available for black professionals to finance their entrepreneurial ventures. Secondly, what are the perceived costs and benefits, both financial and non-financial, of each available source of equity funding? The interview explores and tries to get a better understanding of all factors at play in the equity funding sector aimed at financing black professionals' start-ups in South Africa. The interview is confidential and results would be available to you if requested.

Section: A	**Demographics**				
Date of Interview					
Name of the entrepreneur					
Name of his or her business					
Race (Black)	African	Coloured	Indian	Other	
Gender of entrepreneur	Male		Female		
Qualification and education	Senior School	Degree	Post Grad	MBA	Other
Current age of entrepreneur	20–25	26-30	31-35	36-40	>40
What industry they had worked in?					
How long have they worked in that industry before exiting					

Section: B			n		
Have transitioned from corporate to entrepreneurial venture in the past three years?	Yes	No	How long ago		
What was the source of the business idea?					
What was the source of funding for the business?	BS	AI	GF	VC	PE
What was the capital invested in the business and what was the capital structure					
Annual turnover of your business?	R1m-R2m	R2m-R3m	R3m-R4m	R4m-R5m	>R5m
Did you get any advice in choosing source of funding?	Yes	No	Other		

BS = Bootstrapping, AI = Angel Investment, GF = Government Funds, VC = Venture Capital, PE = Private Equity

Section: C	Overview
Q. 1 Do you believe that availability or non availability of equity funding has a major impact on the environment for entrepreneurship activity in South Africa among the black entrepreneurs?	
Q.2 Why did you choose the source of funding you chose to finance your new business? Give a detailed account	
Q.3 What are the perceived financial, non-financial cost components of the source of funding your choose to finance your business? List at least five costs components for each category (Financial and non-financial)	
Q.4 What are the perceived financial, non-financial benefits components of the source of funding your choose to finance your business? List at least five benefits components for each category (financial and non-financial) Q.5 How difficult was it to access funding to start your business and did you have any knowledge of the different funding options that were available to you at the time?	

Q.6 Do you think that your ption available to you and why do you think it was?
Q.7 if you had to start all over again how would you finance your business, which funding option would you prefer and why would you prefer that option?
Q.8 What source of equity funding would you recommend to a fellow black corporate professional who is starting up an entrepreneurial venture?