Use of entrepreneurial capital for new firm formation in SA

By

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Abstract

This research was aimed at determining the role of entrepreneurial capital in the transition of entrepreneurial businesses from the start-up to the new firm status. New firms are important in any given economy because they create jobs, and the South African economy requires many of them because of the high endemic levels of unemployment. Even though the South African government has policies in place to support entrepreneurs, global entrepreneurship reports have indicated that the rate of formation of new firms has always been lower, sometimes by up to 50%, than the rate of formation of start-up firms, indicating the high mortality rate of start-up firms.

We have taken the view that businesses fail because of the inability of the owners to address operational problems. The processes employed by entrepreneurs in South Africa in the early stages of the firm to solve these problems are not very well known. This project was exploratory and qualitative in nature and was aimed at documenting some of these processes. Entrepreneurial capital, a collection of the resources inherent in the business was used as the framework of analysis. We observe a strong effect of elements of the framework, especially work experience, in the solutions offered by the participants in this study. We provide suggestions to current and potential entrepreneurs on what problems to expect and how to solve them.
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. I further declare that I have obtained the necessary authorization and consent to carry out this research.

Name of Student: Christopher MACHIO

Signature of Student: _______________________________

Date: November 9, 2011
To

Evelyne,

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and Wendell
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Chapter 1. Introduction to the Research Problem

1.1 Introduction

The level of unemployment in South Africa is one of the highest in the world (Klasen & Woolard, 2009; Rodrik, 2008). Data from Statistics South Africa for the third quarter of 2010 showed the unemployment rate at 25% (Statistics South Africa, 2010) implying that 1 in 4 people of working age is unemployed.

Countries tackle unemployment using entrepreneurship. This is because entrepreneurship is associated with the formation of new businesses (firms) (Liao & Welsch, 2008; Newbert, Gopalakrishnan, & Kirchhoff, 2008), which in turn, create jobs (Henderson & Weiler, 2010; Stangler & Kedrosky, 2010).

New businesses are classified based on the length of time they have been in business. Global Entrepreneurship Monitoring (GEM) reports, which measure the level of entrepreneurship in countries around the world (Acs, Amorós, Bosma, & Levie, 2009) classify new businesses as start-up and new firms. Start-up firms have paid salaries for three months while new firms have paid salaries for between three and 42 months (Herrington, Kew, Kew, & Monitor, 2010) since inception. The potential for job creation is greater for new firms than for start-up firms (Stangler & Litan, 2009).

The South African government, like other countries, encourage entrepreneurship as a solution to unemployment (Blanchflower & Oswald, 1998;
Gries & Naudé, 2009). The government has since 1995, made it policy to support entrepreneurs and small, medium and micro-enterprises (SMMEs) (thedti, 1995). Unemployment is still high despite this policy. There is interest to know why this is the case, why unemployment should be so high despite government help to SMMEs. (Herrington et al., 2010) postulates that the government policy is not effective because of the existence of both personal and environmental issues. The personal issues (Herrington et al., 2010) refer to the skills set, entrepreneurial attitudes and culture, which are all poor. The environmental issue is related to the lack of an enabling environment (Herrington et al., 2010).

Entrepreneurs have still been able to initiate and run start-up and new businesses, as indicated in the GEM reports (Herrington et al., 2010) despite the personal and environmental issues raised above. The problem though still persists: in the 2001 to 2009, the level of new firm/business formation has been less than the level of start-up firms in the country (Table 1.1) (Herrington et al., 2010). This observation raises a second question as to why this should be the case. (Watson, 2009) ventured, that lack of business mentors could be the cause. But as Table 1.1 shows, the situation never changed following his work. Other prior research in South Africa has focused on “old” small businesses (cf (Bradford, 2007; Ligthelm, 2010).
Table 1-1 GEM rating of start-up and new firm activity South Africa (Herrington et al., 2010)

<table>
<thead>
<tr>
<th>Year</th>
<th>Start-up firms</th>
<th>New Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>3.2</td>
<td>1.2</td>
</tr>
<tr>
<td>2002</td>
<td>4.5</td>
<td>1.9</td>
</tr>
<tr>
<td>2003</td>
<td>2.7</td>
<td>1.9</td>
</tr>
<tr>
<td>2004</td>
<td>3.7</td>
<td>1.6</td>
</tr>
<tr>
<td>2005</td>
<td>3.5</td>
<td>1.6</td>
</tr>
<tr>
<td>2006</td>
<td>3.4</td>
<td>1.7</td>
</tr>
<tr>
<td>2008</td>
<td>5.7</td>
<td>2.1</td>
</tr>
<tr>
<td>2009</td>
<td>3.6</td>
<td>2.5</td>
</tr>
</tbody>
</table>

This study aims to contribute to answering the second question raised above, that is, why is the number of new firms in South Africa always less than the number of start-up firms? We will venture that the problem lies in the activities owners of start-up firms perform, and that there is a need to look at the activities new firm owners engage in that give them the power to stay in business-operation. To rephrase, the primary question to be answered by this study is: What activities are performed by owners of new firms that enable them to transit from start-up to new firm?

The activities entrepreneurs engage in are dictated by their resources. For example, as will be seen latter in Literature Review, an entrepreneur needs to discover an idea, a business opportunity, which can be exploited (Bhave, 1994; Liao & Welsch, 2008), a process that is easier if the entrepreneur is endowed with both a high human capital and social capital (P. Davidsson & Honig, 2003). The collection of resources inherent to an entrepreneur is termed
entrepreneurial capital (Firkin, 2003). A part from human and social capital, entrepreneurial capital also includes financial and cultural capital (Firkin, 2003).

The secondary question then to be answered is what is the link between entrepreneurial capital and the transition from start-up to new firm status? This link will be investigated by analysing the activities performed by owners of new firms and classifying them depending on which form of capital the activities fall under. Therefore, the fundamental question to be answered is: What problems did you face/are you facing in the running of your business?

1.2 Purpose of study

The primary purpose of this study is to help improve efforts of reducing unemployment in South Africa, and other third world countries with a similar profile to South Africa. The study will document the activities that facilitate the transition from a start-up to a new firm. It is hoped that owners of start-up firms will use these activities as a guide of how to run their firms as they navigate the transition to new firms.

The second purpose is to map the activities on the framework of entrepreneurial capital. The intention is to highlight the interplay of the various forms of entrepreneurial capital in the start-up – new firm transition process.

The third purpose is to inform policy makers in South Africa on how to fine-tune their current approach to assisting nascent entrepreneurs. This will be
accomplished through the documentation of the transition activities and their mapping on the framework of entrepreneurial capital. The policy makers and business incubators will have a better understanding of which resources they should emphasis to ensure a higher start-up – new firm transition rate than is currently the case.

The fourth purpose of the study is to contribute to the understanding of the phenomenon of firm formation. It is appreciated in literature that firm formation is still a “black box” that needs to be opened up. According to Reynolds and White, 1997 (in Reynolds & White, 1997; Tornikoski & Newbert, 2007)), “how individuals create firms is one of the least understood features of modern societies” (p. 313). Cooper, Woo, & Dunkelberg, 1989 says that "any progress in understanding the entrepreneurial process" will "enhance venture/firm performance" (p. 318).
Chapter 2. Literature Review

The Chapter begins with a short introduction to entrepreneurship and the entrepreneur because they are the creators of firms. It then addresses the creation of firms explaining how they are named and putting the research problem in context.

2.1. The founding of firms

Firms are founded to exploit an entrepreneurial opportunity, an "objective situation that entails the discovery of new means-ends relationships through which new goods, services, raw materials, and organizing methods can be introduced to produce economic value" (Shane & Venkataraman 2000 in (Companys & McMullen, 2007). Activities are performed to found firms. These are more or less known (Table 2.1), even if authors can't seem to agree how the activities are configured. Figures 2.1 and 2.2 represent the competing views of the configuration of the activities. Figure 2.1 shows a temporal sequence of activities (Liao & Welsch, 2008). Figure 2.2 shows firm creation as an entrepreneurial process with feedback loops (Bhave, 1994; Liao & Welsch, 2008).
Table 2-1 Categories of firm founding activities (Liao & Welsch, 2008)

<table>
<thead>
<tr>
<th>Category and some identifying activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Planning, e.g. Spent time on thinking about business idea, prepare business plan, etc</td>
</tr>
<tr>
<td>2. Resource combination, e.g. invest own money in business, establish credit with supplier</td>
</tr>
<tr>
<td>3. Establish legitimacy, e.g. open a bank account especially for business</td>
</tr>
<tr>
<td>4. Market behaviour, e.g. develop models and procedures, launch a marketing campaign</td>
</tr>
</tbody>
</table>

Figure 2-1 Firm founding as temporally sequenced activities (J. Liao, Welsch, & Tan, 2005).

Figure 2-2 Firm founding as an entrepreneurial process (Bhave 1994)
In contrast to firm founding, a list of activities describing the transition from start-up to new firm is rare, and is a problem that has been noted in literature. Bamford, Dean, & McDougall, 2000 in (Aspelund, Berg-Utby, & Skjevdal, 2005) note that the lack of decisions "at or very near the point of inception" hampers research on new ventures. This study aims to collect some of these decisions and related activities by interacting with entrepreneurs who have recently become new firm owners.

2.2 Types of firms

Firms are classified depending on whether they have interacted with their environments or not. An organization-in-creation or an emerging organization (Katz and Gartner 1988 in (Brush, Manolova, & Edelman, 2008) or a nascent firm is one that has not interacted with the environment in its own capacity. Such firms have four characteristics, namely: “intentionality – the purposeful effort involved in organization emergence; resources – the tangible building blocks of an organization; boundary – the creation of protected or formalized areas in which emergence occurs, and involves activities meant to separate the organization from the entrepreneurs, e.g. opening an account in the name of the organization (Brush et al., 2008); exchange – the crossing of boundaries to either secure inputs (e.g. resources) or outputs of the organization” (Katz and Gartner 1988 (in (Brush et al., 2008):548). These characteristics do not "affect the short and long term survival of new organizations/firms" ((Brush et al., 2008: 546).
Firms that have emerged, or new firms/organizations are those that have involved themselves in exchanges with their environment. According to Reynolds and Miller (1992) (in Newbert & Tornikoski, 2010), such firms are characterized by the fact that a nascent entrepreneur invests personal commitment in the firm, and the firm makes the first sale, hires employees and receives external financing. Firms that have emerged fit both the models of founding (Figure 2-1 and 2-2) (Section 2.1).

New firms are classified according to age: A start-up firm has age zero years, while a new firm has ages of one to five years (Kane, 2010). Global Entrepreneurship Monitoring reports, which cover the whole spectrum of firm formation (Figure 2.3), define start-ups as firms that have paid salaries for three months and new firms as those that have paid salaries for between three and 42 months (Herrington et al., 2010: 62). Dimov, 2010 has adopted a similar classification, but calls the new firms as infant businesses. Such businesses would have had sufficient cash flows to cover expenses and pay salaries for employers and the firm owner for more than three months (Dimov, 2010).

**Figure 2-3 GEM classification of firms** ((Herrington et al., 2010):10)

Firms can also be classified as young, adolescent and mature (Mazzarol, Reboud, & Volery, 2010), also depending on years in operation. However, this
study will use the definition in the GEM reports, and will be concerned with the transition from start-up to new firm. This distinction is important because most research on entrepreneurship in South Africa has a bias towards businesses that are not new firms (Bradford, 2007; Ligthelm, 2010; Roodt, 2005). The owners of new firms can differ from the owners of established firms. Longevity of business ownership has an effect on the orientation and therefore behaviour of a firm owner (Runyan, Droge, & Swinney, 2008).

2.3 Resource-based view of the firm and Firm Survival

Literature indicates that the activities of the entrepreneur are concerned with collecting assets and resources, making firms to be a collection of a set of resources. This is the resource-based view of the firm (Wernerfelt 1984 and Barney 1991 in (Lockett, Thompson, & Morgenstern, 2009)), and is a concept that straddles both strategic management and entrepreneurship research (Kraus & Kauranen, 2009). A typical firm consists of tangible and intangible resources, which encompass human and financial capital, property (real estate, equipment, raw materials), credit, organizational capital, brand names, (see e.g. Barney 1991 in (Huang, Ou, Chen, & Lin, 2006).

The resources of a firm determines the longevity of its operations (Stringfellow & Shaw, 2009). This study is interested in firm survival because only those firms that survive sustain the jobs they create and therefore lower unemployment levels. While many new firms are started, the reality is that more firms die than survive (Brixy & Hessels, 2010). There are a number of problems owners of
firms that have emerged face; financial, marketing, production, personnel and personal problems (Cromie, S. 1991 in (Politis & Gabrielsson, 2009) and it is the successful mitigation of these problems that enhances the survival probability of the firm.

Of all the resources in a firm, the human aspect vested in the entrepreneur is the most important (Kraus & Kauranen, 2009; Ligthelm, 2010). By their actions, entrepreneurs "determine, access, and employ the appropriate" tangible and non-tangible resources (Stringfellow & Shaw, 2009): 139) of the firm. Hence, the activities of successful entrepreneurs are important and should be documented and disseminated to other entrepreneurs. The human resource, has since the 2000s, been captured in a framework of entrepreneurial capital (Firkin, 2003 in (Stringfellow & Shaw, 2009).

2.4 Entrepreneurial Capital

The concept of entrepreneurial capital (Firkin 2003 in Stringfellow & Shaw, 2009) has been used to explain the activities required for improved performance in small professional service firms (Stringfellow & Shaw, 2009), service firm reputation (Shaw, Lam, & Carter, 2008) and business compliance (de Bruin-Judge, 2006). According to Firkin 2001 (in de Bruin-Judge, 2006), entrepreneurial capital is the summation of an entrepreneur's economic, social and personal capital (Figure 2.4). The sections below will provide a summary of each form of capital and how they have been applied in the emergency of firms
and in mature firms. As will be seen, the literature has used the capitals as explanatory factors for the various outcomes of the entrepreneurial process.

---

**Economic Capital**

+ **Social Capital**
  - Two Types
    - Network Oriented
    - Family Oriented
  - Cultural Capital**

+ **Personal Capital**
  - Cultural Capital**
  - Human Capital
    - General
    - Specific
      - Industry
      - Entrepreneurial
  - Personal attributes

** Aspects of Cultural Capital lie in both the personal and social categories

---

**Figure 2-4 Firkin’s Model of Entrepreneurial Capital (Firkin 2001 in (de Bruin-Judge, 2006)**

---

**2.4.1 Financial/economic capital**

Financial capital refers to the resources of an entrepreneur that can be easily transformed into money. All forms of firms require financial capital to set up and
to cater for operations. The main sources of financial capital for an entrepreneur are household wealth, household income, inheritance and loans (from banks and/or investors) (Kim, Aldrich, & Keister, 2006).

Financial capital is an explanatory factor for decisions to enter entrepreneurship and entrepreneurial success. The entrepreneurial literature from the developed world appears to indicate that financial capital does not correlate with entry to entrepreneurship (Kim et al., 2006). (Kim et al., 2006) studied a set of about 800 nascent entrepreneurs in the USA. This lack of relationship occurs when the financial capital required to set up ventures is low (Kim et al., 2006). In South Africa, financial capital inhibits entrepreneurship (Naude 2004 (in (Van Vuuren, 2007). According to (Kotze, 2008), start-up capital in South Africa comes from personal savings, which are low because of the poor savings culture in the country. While this information shows that start-up capital is important in the case of South Africa, it is not important in the current study because the firms being considered are already in operation, implying that the entrepreneurs in question had the wherewithal to cater for the initial capital required to set-up the ventures.

Businesses facing constrained financial capital fail ((Coleman, 2007; Huynh, Petrunia, & Voia, 2010; Musso & Schiavo, 2008; Saridakis, Mole, & Storey, 2008). (Saridakis et al., 2008) analysed the survival of around 600 firms in the UK a majority of which were less than 5 years of age. They showed that the possession of a bank loan was highly correlated with longer survival. Firms whose owners reported financial constraints at start-up were associated with
business exit (Saridakis et al., 2008). In a longitudinal study of a larger data set, (Musso & Schiavo, 2008) considered 16 000 French manufacturing firms of all ages, employing at least 20 employees and also determined that financial capital was critical for survival and growth, the latter being impacted positively by external financing.

Continued business operations and growth require external financing (Rahaman, 2011). However, because new firms suffer from liabilities of smallness and newness, (Stinchcombe 1965 in (J. Ebben & Johnson, 2006)), access to formal external financing is difficult. The situation in South Africa is no different: entrepreneurs generally find it difficult to access external finance (see e.g. Naude (2004) in (Van Vuuren, 2007). A study on small Swedish firms showed that owner-managers addressed this difficulty through bootstrap financing (Winborg and Landström 2001 in (Carter & Van Auken, 2005)).

There are various definitions of bootstrap financing: Winborg & Landstrom 200 in (Carter & Van Auken, 2005) define it as “the use of methods to meet the needs for resources, without relying on long-term external finance”. These methods “include a combination of techniques that reduce overall capital requirements, improve cash flow, and take advantage of personal sources of financing” (Winborg and Landstrom, 2001 in(J. J. Ebben, 2009)). Bootstrap financing is also the "highly creative ways of acquiring the use of external resources without borrowing money or raising equity finance from traditional sources" (Freear, Sohl, and Wentzel (1995) in (Howard, 2005), the manifestation of "the true entrepreneurial spirit" where a business owner
demonstrates an ability to creatively find and use bootstrap financing (Bhide 1992 in (Howard, 2005), and employing resources other than traditional financing to fund operations (Carter & Van Auken, 2005). Winborg, 2009 observes that these definitions are broad and all-encompassing and sees financial bootstrapping as "methods for securing the use of resources at relatively low or no cost".

The methods that constitute bootstrap financing are in literature attributed to Winborg and Landström, 2001 (Howard, 2005). They were obtained from a study of small but mature Swedish businesses. These methods have been categorized in various ways by different authors, as shown in Figures 2.5 and 2.6

1. Delaying payments, e.g. delay payments to suppliers
2. Minimizing accounts receivable, e.g. speed up invoicing
3. Minimize investments, e.g. buy used equipment
4. Private owner-financing, e.g. hire family members at lower rates
5. Sharing resources with other businesses, e.g. share office space

Figure 2-5 Categories of bootstrap financing techniques (Winborg and Landström 2001 (in (Howard, 2005))
It would be expected that owners of new firms would try to overcome the liabilities of newness by using bootstrap financing. Note here the change of name of the firm. New firms and small firms are not necessarily synonymous. However, small and new firms are expected to suffer the same problems because new firms are always small. Freear, Sohl, and Wetzel Jr. (1995) (in (Winborg, 2009)) have shown the use of bootstrap financing by new software businesses in the US.

South African entrepreneurs are already practicing bootstrap financing methods. (Pretorius, 2007), among others, has documented, through a quantitative study, some of the practices of 47 firms, which included 17 young firms, defined as businesses less than four years old. (Pretorius, 2007)7 did not provide the reasons behind the use of the bootstrapping techniques. Neither did they capture any changes, if any, in the bootstrapping activities involved in the

### Table 2-6 Different classification of bootstrap financing methods ((J. Ebben & Johnson, 2006))

<table>
<thead>
<tr>
<th>Customer-related</th>
<th>Owner-related</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer discounts on upfront payments</td>
<td>Withhold founder’s salary</td>
</tr>
<tr>
<td>Obtain advance payments</td>
<td>Use founder’s personal credit card</td>
</tr>
<tr>
<td>Use methods that speed up invoicing</td>
<td>Obtain capital from founder’s salary at another business</td>
</tr>
<tr>
<td>Use interest on overdue payments</td>
<td>Obtain loans from family and friends</td>
</tr>
<tr>
<td>Cease business with late payers</td>
<td>All owner-related methods</td>
</tr>
<tr>
<td>Choose customers who pay quickly</td>
<td></td>
</tr>
<tr>
<td>All customer-related methods</td>
<td></td>
</tr>
<tr>
<td><strong>Delaying payments</strong></td>
<td><strong>Joint-utilization</strong></td>
</tr>
<tr>
<td>Negotiate payment conditions</td>
<td>Borrow equipment from other businesses</td>
</tr>
<tr>
<td>Deliberately delay payments</td>
<td>Hire temporary employees</td>
</tr>
<tr>
<td>Use bartering for goods and services</td>
<td>Share business space with another firm</td>
</tr>
<tr>
<td>Lease equipment instead of buying</td>
<td>Share employees with another firm</td>
</tr>
<tr>
<td>Buy used instead of new equipment</td>
<td>Share equipment with another firm</td>
</tr>
<tr>
<td>All delaying-payments methods</td>
<td>All joint-utilization methods</td>
</tr>
</tbody>
</table>


transition between start-up and new firm as defined in GEM reports (Herrington, M. 2010). It has been noted in literature that the bootstrapping techniques change with time. (J. Ebben & Johnson, 2006) showed this change for 146 USA firms ranging in age from two to 37 years. While methods can change, the strategy to use bootstrap finance might not change, especially when it is used out of choice, and not as a last resort (Winborg, 2009), even though, empirical longitudinal research has indicated that the sources of financing change from internal to external loans (Rahaman, 2011).

2.4.2 Human Capital

Human capital refers is to the education, work experience, knowledge and skills (abilities and capabilities), cognitive and "non-cognitive proficiencies" (Ucbasaran, Westhead, & Wright, 2008; Unger, Rauch, Frese, & Rosenbusch, 2011) possessed by the entrepreneur or the entrepreneurial team running a new firm. It is either general or specific, depending on whether it can be transferred across situations or not (Becker 1993 in (Unger et al., 2011). Knowledge and skills are determined by the education and work experience of the entrepreneur (Shane 2000 in (Dahl & Reichstein, 2007). Education and work experience is general human capital, and serve the important role of opportunity recognition (DIOCHON, MENZIES, & GASSE, 2008).

Like financial capital, human capital in entrepreneurship literature is used as an explanatory factor to explain decisions to enter entrepreneurship, and for entrepreneurial success, both in gestation and operation. Analysing USA Panel
Study of Entrepreneurial Dynamics (PSED) data consisting of around 800 nascent entrepreneurs, (Kim et al., 2006) noted that most nascent entrepreneurs had a college education and prior managerial experience, and concluded that these two parameters aided the decision to become an entrepreneur. According to (P. Davidsson & Gordon, 2010), “PSED-type” research consists of longitudinal empirical studies of large probability samples.

The successful launching of ventures by nascent entrepreneurs is due to their human capital, and according to (Haber & Reichel, 2007):122 “human capital forms the core of venture creation”. (Brixy & Hessels, 2010) followed the venture creation of nascent entrepreneurs in Germany and the Netherlands over one year and determined that those who succeeded in starting up their ventures were specialists as opposed to generalists and also had recent employment experience as opposed to having been unemployed or out of the labour force.

Venture emergence in a given industry is favoured by experience in that industry. This is because prior knowledge facilitates the discovery of opportunities (Corbett, 2007). In a US PSED research consisting of around 800 nascent entrepreneurs, (Dimov, 2010) determined that those who initiated ventures in industries they had been working in had a higher success rate. This was attributed to an “information and relationship advantage” possessed by these nascent entrepreneurs, which enabled them to fine tune their business ideas to the point that they became “feasible and operable” (p. 1145).
Extensive literature indicates that human capital determines firm survival (Arribas & Vila, 2007; Dahl & Reichstein, 2007; Gimmon & Levie, 2010; Saridakis et al., 2008). Cressy 1996 (in (Arribas & Vila, 2007) contented that human capital is the true determinant of firm survival. (Arribas & Vila, 2007) analysed 237 service firms in Spain, founded between 2000 and 2004 by one or more entrepreneurs. They observed that survival time was longer for general and specific human capital in form of previous work experience in the same activity (sic) industry or previous experience as owner of a firm. The longer survival of small firms in England, a majority of which were less than 5 years, was also attributed to the education level of the founders (Saridakis et al., 2008).

(Dahl & Reichstein, 2007) analysed the survival of 2500 start-up firms in the Danish economy between 1980 and 2000. They observed a high survival rate for start-up firms in industries in which the entrepreneur worked before venturing. This was attributed to the possession of “experience-based capabilities and skills” by the founders (Dahl & Reichstein, 2007). In a similar vein, (Gimmon & Levie, 2010), studying 193 random high tech start-ups in an Israel incubator program observed that business management expertise and general technological expertise were more important for survival.

The effect of human capital appears to be aided by the presence of other supporting factors. In the Spanish work by (Arribas & Vila, 2007) the effect of the general human capital was observed in the presence of an entrepreneurial team, indicating that “human capital is additive” (Arribas & Vila, 2007): 309). In
the English work by (Saridakis et al., 2008), the longer survival due to general human capital was observed in the presence of financial capital in form of bank loans. In an Israeli study by (Gimmon & Levie, 2010), firm longer firm survival also occurred under external investment conditions, which was facilitated by the founder’s business management expertise and academic status, i.e. highest level of education.

Human capital determines firm profitability and growth. (Chandler & Jansen, 1992) analysed the characteristics of the owners of 80 manufacturing and 50 service firms in the state of Utah, USA, which were incorporated between 1985 and 1988. They determined that the combination of earnings and growth depended on specific human capital elements. The possession of managerial and technical experience by the founder was related with high earnings but low growth; holding a bachelors degree in business was correlated with high earnings and high growth, while setting up a business in an industry of prior experience was related with low earnings and high growth (Chandler & Jansen, 1992).

The profitability of women owned small businesses is higher when the founder has a college education and prior business experience. This was the conclusion of (Coleman, 2007) after analysing the performance of 2800 small businesses in the service and retail industries in the US. The firms, defined as having up to 500 employees, had an average age of around 12 years.
2.4.2.1 Evolution of human capital with firm status

It is expected that entrepreneurs improve their knowledge base when they launch their businesses. Usually, they do not have knowledge in all the functional departments of a new firm and these knowledge gaps need to be filled (Chandler & Lyon, 2009).

Human capital is augmented through attending business courses, partnering with other entrepreneurs to form entrepreneurial teams to run the new firms, using professional services (Cooper et al., 1989), hiring employees (Link & Siegel, 2007 in (Shrader & Siegel, 2007)), and entering a formal mentoring program or informal mentoring relationship (Wikholm et al. 2005 in (St-Jean & Audet, 2009)).

Forming entrepreneurial teams is in support of the finding that "human capital is additive" (Arribas & Vila, 2007). On the other hand, mentees learn by doing and gain knowledge on how to solve problems, manage the firm and deal with change from experienced mentor entrepreneurs (Deakins et al. 1998 in (St-Jean & Audet, 2009), (Sullivan & Marvel, 2011)).

While the current study will be aimed at the lone entrepreneur, there is nothing that stops him/her from choosing to team up with other people after his/her firm emerges.
2.4.2.2 Interchangeability of human capital and financial capital

The use of bootstrap financing raises the spectre of the possibility of interchanging human and financial capital. Bootstrap finance requires thought, creativity, and ingenuity from a business owner, which are attributes of human capital. Some authors in the literature of entrepreneurship e.g. Chandler and Hanks (1998) in (Carter & Van Auken, 2005)) have suggested that human and financial capital can substitute for each other. They found that "firms with high levels of founder human capital and low levels of initial financial capital perform similarly to firms that have low levels of founder human capital and high levels of financial capital". One possible reason for this substitutability is that having enough financial capital allows an entrepreneur to hire the best employees for the job.

2.4.3 Social Capital

Social capital refers to the resources that accrue to an entrepreneur by virtue of his social network. However, there is no single common definition of social capital in the literature of entrepreneurship. Some definitions, starting from the originator of the concept of the different forms of capital (Bourdieu (1986) (in Anderson, Park, & Jack, 2007) have been critiqued by (Anderson et al., 2007). For the purpose of this study, social capital will be as defined ... "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit" (Nahapiet and Ghophal (1998) (in (Anderson et al., 2007)). Unlike financial and
human capital that can be owned by an entrepreneur, social capital resides outside an entrepreneur and in the network of the entrepreneur.

**2.4.3.1 Social capital of start-up and young firms**

The social capital of start-up and new firms is determined by the social capital of the entrepreneur (Hite & Hesterly 2001 (in Stringfellow & Shaw, 2009)), and (Lechner, Dowling, & Welpe, 2006)), which is, in turn determined by the entrepreneur's personal social network (Anderson et al., 2007).

Figure 2.7 ((Lee, 2009)) shows the general appearance of the social network of an entrepreneur. The solid lines are strong ties, connections to spouse/life-partner, parents, friends, and relatives, while the dashed lines are weak ties, connections to business partners, acquaintances, former employers, former co-workers, and generally people not very well known to the entrepreneur (Jack, 2005; Siu & Bao, 2008).

Entrepreneurs need both strong and weak ties to because they each offer unique advantages (Slotte-Kock & Coviello, 2010). Strong ties offer "financial, technological, and information resources and emotional support" to an entrepreneur (Brüderl and Preisendörfer 1998 in (Jack, 2005: 80). However, they suffer from redundancy of information (Siu & Bao, 2008). Weak ties offer access to information about contacts with new customers, market information e.g. product trends, access to distribution channels, new contacts, advertising by word of mouth, general advice, product and service development, and

2.4.3.2 Social Capital and Firm Growth Stage

The social capital of a firm changes both with time and the stage of growth as its resource needs change (Anderson et al., 2007). Strong ties are important during firm emergency because they offer a ready access to available resources. However, the resources in dense networks are limited, and constrain firm growth. Weak ties provide access to the resources needed to facilitate growth and includes ties to customers, staff, and suppliers (Jack, Moul, Anderson, & Dodd, 2010; Smith & Lohrke, 2008).
Figure 2-8 shows the evolution with time of social capital for a firm (Hite, 2005). The social network of the entrepreneur evolves to become a network that supports the business. Strategic networks are for established businesses. For the purpose of this study, only the social and business networks are important because they are at the transition from nascent entrepreneurship to new business owner.

![Diagram of entrepreneurial networks](image)

**Figure 2-8 The evolution of entrepreneurial networks** (Butler and Hansen 1991 in Jack, Dodd, & Anderson, 2008:118).

### 2.4.3.3 Social capital and access to resources

Social networks provide access to human capital. (Roomi, 2009) analysed the hiring practices of two cohorts of firms, one with firms 2 – 3 years of age and the other 6 to 30 years of age, in Singapore, found that up to 76% of the total hires of the firms, both in the start-up and growth phase, were made through networks.
Social networks also link entrepreneurs to sources of financial capital. In their study of the role of ties to resource mobilization, (Schutjens & Stam, 2003) found that shopkeepers in the UK used their ties to family and friends to raise the initial financial capital for their businesses.

2.4.3.4 Social capital and entrepreneurial success

Social capital improves business survival and growth rates. In a study of 1,700 new business ventures in Upper Bavaria (Germany), (Schutjens & Stam, 2003) attributed this to the support an entrepreneur received from their personal network.

Businesses with weak ties have better revenues. (Leung, Zhang, Wong, & Foo, 2006), in a longitudinal study of 75 Russian entrepreneurs owning small, medium and large firms, attributed the better revenues to two reason: the ability of the entrepreneurs to negotiate better prices during buying and selling decisions; and, because the ties were "likely to reside in relatively distant or different network clusters", had the potential of increasing the likelihood of finding appropriate suppliers and customers" (p. 550).

2.4.3.5 Reputation and credibility of new firms

The future financial performance of new businesses depends on their reputation (and credibility) (Rindova, Williamson, Petkova & Sever, 2005 in (Petkova, Rindova, & Gupta, 2008:19, 20)). Reputation is, for the case of the current
study, the quality that "provides information about ability" (Brüderl & Preisendörfer, 1998). Reputation is based on past performance (Herbig & Milewicz 1993 in (Batjargal, 2003)). On the other hand, credibility is whether a company/entrepreneur can be relied on to do what it says it will do, and exists when one can confidently use past actions to predict future behavior" (Petkova, Rindova, & Gupta, 2008:19, 20)

Both reputation and credibility determine future financial performance because new firms need to create a market (customers) for their products/services ((Shane & Cable, 2002)). However, customers use, among other factors, reputation and credibility to judge the quality of the products/services they want to buy (Podolny, 2001 in (Kong & Farrell, 2010)). Reputation also supports premium pricing, which increases revenues for the firm ((Herbig & Milewicz, 1993)).

New firms do not have a reputation (and credibility) (Su, Xie, & Li, 2011), and like all social capital, assume the reputation (and credibility) of the entrepreneur ((Martinez & Aldrich, 2011)). It can be expected that their products/services can struggle to break in to their target market if the entrepreneur-owner has no reputation (and credibility). Conversely, reputation is important for sales/marketing, and therefore determines whether a start-up continues in operation or not.

2.4.3.6. Building Social Capital
According to McWilliams & Siegel, 2010, the accumulation of social capital is a pro-active endeavour on the part of the entrepreneur that starts with a purposeful search for a set of people who can add value to the firm. The set of persons is than courted through a process of networking that entails face-to-face interaction and that requires an ability to manage conversations. Face-to-face meetings can occur through informal, happenstance meetings or through formal meetings ((Su et al., 2011), and belonging to active trade, social and professional groups that organize formal group functions like exhibitions and other events related to business (Shaw et al., 2008). Entrepreneurs can also increase their social capital through the use of mentors (Roomi, 2009)), who can provide advice and emotional support.

2.4.4 Social and Human Capital

Jack et al., 2008) has argued, in a theoretical sense, that social capital facilitates the effect of human capital on entrepreneurial outcomes. This implies that social capital increases the productivity of human capital.

Some authors opine, in theoretical essays, that social capital leads to human capital (Coleman 1988 in Jack et al., 2010)) and ((Roomi, 2009)). This occurs through the selective acquisition of information from the social network of the entrepreneur, which leads to the ability to see business opportunities.

2.4.5 Cultural Capital
Cultural capital refers to the individual capital obtained through socialization in the family, formal education, and practice (having a parent business-owner) (Huang, Chou, & Sun, 2009). Slotte-Kock & Coviello, 2010, in their PSED study of USA nascent entrepreneurs noted that “entrepreneurial involvement among family had no association with being a nascent entrepreneur” (p. 17).

In general, cultural capital is difficult to change and rarely features in empirical research on entrepreneurship. In the current study, the fact that the unit of analysis, new firm owner, is already an entrepreneur means that the effect of cultural capital has already been felt, and it will not be considered going forward.

2.5. Conclusion: Literature Review

This literature review has provided a context for this study. It has situated the research problem by highlighting the evolution of firms. It has provided the review of the framework of analysis, entrepreneurial capital, and summarized the components of the framework, indicating how they (components) are expected to influence the research problem. The following chapter, Chapter 3, will deal with the research questions that have been posed following from the Literature Review, to help investigate the research problem.
Chapter 3. Research Questions

This study has two aims. The first is to determine the activities performed by firm owners as they transition from start-up to new firm status. These activities will be mapped on the framework of analysis. And the second is to determine how the elements of the framework change with type of firm, i.e. start-up and new firm. They will both be addressed using one main research question; "How does entrepreneurial capital aid/facilitate the successful transition from a start-up to a new firm?"

The activities that are performed during the transition will be captured using problems new firm owners face as a proxy. Therefore, to operationalize the main research question, the following questions will be posed to the interviewees:

**Question 1a)** Which of the problems/challenges highlighted in literature as faced by entrepreneurs (Carolis et al., 2009) did you face in the first three months of operation of your firm/business? (The start of operation is defined as the time when you started paying salaries).

**Question 1b)** How did you solve the problems?

**Question 1c)** What problems/challenges do you face now in your firm/business? (This question assumes that you are still paying salaries)

**Question 1d)** How do you solve the problems?
The problems and/or challenges faced by owners of new firms are generally known to be financial (obtaining external finance and managing internal finance), sales/marketing, product/service development, production/operation management, general management, personnel (human resource management) and personal problems (Cromie 1991 in Arroyo-Vázquez, van der Sijde, & Jiménez-Sáez, 2010; Eyal, 2008), Kim et al., 2006)) and these will be used to guide data collection.

The activities that will be mentioned by the participants or that will be inductively inferred from the interviews will be mapped back on the framework of analysis, entrepreneurial capital. The Literature Review indicated that entrepreneurial capital is made up of four forms, three of which have a realistic chance of influencing the transition from start-up to new firm. These are the financial, human and social capitals. Finally, and to answer the main research question, the study will establish how these three forms of capital change during the transition. The core questions to be answered then are:

**Question 2:** How and why do the sources of financial capital of firm owners change between start-up stage and new firm stage?

The Literature Review indicated that the availability of financial capital determines survival of new firms. New firms also face challenges raising financial capital. This question will seek to understand the choices firm owners make when transitioning from start-up to new firm status.
Question 3: How and why do the sources of human capital of firm owners change between start-up stage and new firm stage?

Human capital is important to the firm and either the human capital of the owner increases or the firm hires employees with the necessary skills. As noted in the Literature Review, there are various ways to augment human capital. Those performed during the transition from start-up to new firm status are not very well understood. For example, as already noted in the Literature Review, hiring decisions by owners of new firms are not very well understood (Huang & Brown, 1999). Also, new firms find it difficult to hire because they are perceived to be risky and without reputation, (Williamson, Cable, & Aldrich, 2002 in Politis & Gabrielsson, 2009). Hiring in South Africa is also problematic from the point of view of job-hopping by some employees (Huang & Brown, 1999). This question will seek to address these uncertainties as they are played out by new firm owners in South Africa.

Question 4: How and why do the sources of social capital of owners change between start up stage and new firm phase?

Social capital is determined by the behaviour and attitude of the new firm owner: the methods used to augment social capital will be captured by this question.
Chapter 4. Research Methodology

This chapter addresses the methods that were used to perform the research. It covers the sampling techniques, the sample characteristics, the data collection and analysis techniques and the limitations of the study. The timelines and consistency matrix that were followed are provided in Appendices 2 and 3.

4.1 Proposed Research Method and Design

This was an exploratory study aimed at the activities that mark the transition from start-up to new firm in South Africa. These are poorly understood and rarely communicated in the public domain. We employed a qualitative approach, for a number of reasons: One, entrepreneurship is a social phenomenon, which can only be understood through qualitative research (Dahl & Klepper, 2008); two, there is a call in entrepreneurship literature for more qualitative research (Hoang and Antoncic, 2003 in Cardon & Stevens, 2004). This is because qualitative research gives richer and more dynamic theories which can stimulate further work (Hoang and Antoncic, 2003 in (Vallabh & Donald, 2008)); and lastly, the intention was to provide meaning behind activities that drive the transition process and not to measure, a quality that can only be provided by a qualitative methodology (Oinas, 1999 in Jack et al., 2008)), Orhan, 2005 in Jack et al., 2008; Jack, 2005). However, some descriptive data like level of education, and past work experience was collected.
4.2 Proposed Population and Unit of Analysis

The population/sample frame was drawn from business founders in the formal sector whose companies had employees and had been paying salaries for a minimum of three months and a maximum of 42 months, as defined in GEM reports (Jack et al., 2008; Jack, 2005). The specified durations also controlled for the effect of time on the entrepreneurial orientation and therefore behaviour of the firm owners: new firm owners act differently from owners of mature firms (Jack et al., 2008).

The unit of analysis was the owner manager of a business in the formal sector. They were chosen because they possessed fixed business addresses and therefore were easier to contact, and were expected to be the most knowledgeable about the business, and therefore the most valid source of information (ROOMI, 2009). Participants were picked from Gauteng Province of South Africa which is "the hub of dynamic business activity" in South Africa (Herrington et al., 2010). Gauteng was also the residence of the researcher and was convenient in terms of time and expenses that were to be incurred on travelling for data collection. Limiting the sample to one region also helped control for "differential macro-environmental impacts" (Chandler & Jansen 1992 in (Runyan et al., 2008).
4.3 Size and Nature of the Sample

Nine participants were used. This was keeping in line with literature that considers a number between two and ten optimal (Hedges 1985, Perry 1998 and Eisenhardt 1989 in (Lechner et al., 2006)). They were a purposive sample because random sampling is not appropriate for qualitative research (Henderson & Weiler, 2010). The ideal sample was supposed to be judgmental, meaning that the participants had to confirm to a set of criteria (Chandler & Lyon, 2009): 253). The criteria for the idea participant were: owner-managers who were running new firms as defined in GEM reports. (Section 2.2)

The initial plan was to use two sources for recommendations of potential participants; Technology Innovation Agency (TIA), a of South Africa government agency tasked with assisting entrepreneurs and that maintains a database of entrepreneurs that have been helped; and business incubators in Gauteng. This was meant to get a sample representative of industry in Gauteng. However, most of the potential participants were either totally ineligible or confidentiality agreements kept them away, or they could only participate much later in the life of the research. Only one participant was identified using this method. A second participant was identified using the network of the researcher.

The dearth of participants and time constraints on the MBA programme led us to narrow the sample frame to delegates of the GIBS 2010-11 Fulltime MBA program. After an initial willing participant was identified, a snowballing sampling technique was used for other participants: the researcher requested
each participant to suggest any colleague who could be willing to participate (Siu & Bao, 2008). This ensured that the sample was still purposive. Seven participants were identified from this sample frame. Of the nine entrepreneurs who participated, two were omitted. One was a franchisee, and was omitted because he followed a predictable franchisee business model. The other was omitted because the theoretical saturation had been attained (Jack et al., 2008; Siu & Bao, 2008). Table 4.1 provides a brief description of those whose views were used. The participants were coded ENT followed by a numerical character to protect their privacy and the competitive advantage of their business. There was an element of eligibility for some of the participants, who could not satisfy all the set criteria for participation but participants validated each other and ineligibility was not considered to be a serious problem.
**Table 4-1 Shortened profiles of research participants**

<table>
<thead>
<tr>
<th>Participant Code</th>
<th>Education and experience</th>
<th>Industry</th>
<th>Year started</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENT1</td>
<td>Undergraduate in BCom (Fin); no corporate experience</td>
<td>Retail (Coffee shop cum kiosk)</td>
<td>2007</td>
</tr>
<tr>
<td>ENT2</td>
<td>CD: Graduate; 5 years corporate experience; experience as a sole proprietor</td>
<td>Business IT</td>
<td>2010</td>
</tr>
<tr>
<td>ENT3</td>
<td>Graduate, CA; Corporate experience; Lecturer of future CAs; Prior entrepreneurship experience</td>
<td>Financial services</td>
<td>Feb 2005</td>
</tr>
<tr>
<td>ENT4</td>
<td>Graduate; 5 years corporate experience; part-time entrepreneur (3 years)</td>
<td>Designer and retailer of a line of branded exclusive shoes</td>
<td>January 2011</td>
</tr>
<tr>
<td>ENT5</td>
<td>Graduate; (10+ years corporate experience</td>
<td>Financial services</td>
<td>June 2010</td>
</tr>
<tr>
<td>ENT6</td>
<td>Graduate; 5+ years corporate experience</td>
<td>CSI Services</td>
<td>2007*</td>
</tr>
<tr>
<td>ENT7</td>
<td>Graduate; 5+ years corporate experience</td>
<td>Energy</td>
<td>2008**</td>
</tr>
</tbody>
</table>

* Started in 2004 but said never made money in the first three years. According to her, she has managed to draw a salary every month only in the last three years. According to the definition of businesses in the GEM reports, ENT6 can be considered to have started her business only in 2009.

** Even though the business was launched in 2008, ENT7 "joined the business full time only at the beginning of 2010"
4.4 Data Collection and Analysis

Data was collected using semi-structured open-ended face-to-face interviews. Semi-structured interviews consist of specific areas to be investigated (Blumberg, Cooper, & Schindler, 2008). The original data collection instrument is given in Appendix 1. The instrument was tried on one participant to gauge its suitability and found to be too long. It was shortened accordingly and in an effort to get more participants. Entrepreneurs are really busy people.

Interviews were recorded for transcription. The transcribed data was closely examined to determine which of the types of capital they (data) closely related with, using the constant comparative method ((Alvesson and Sköldberg 2000 and Silverman 2000 in(Blumberg et al., 2008) and analytic induction (Glaser and Strauss 1967 in (Guest, Bunce, & Johnson, 2006)). "The constant comparative method analyzes data according to emergent categories and themes, which are developed inductively from the data" (Jack, 2005).

4.5 Limitations of the study

This study was limited by a number of biases. The first was the "success bias": the participants were in business at the time of the research (Jack, 2005). The second bias could be termed “MBA bias”: The sample list consisted mostly of entrepreneurs on the GIBS MBA program. Their educational level was well
above average, and they were highly informed. The last bias is the “sector biasness”: The entrepreneurs were predominantly from the services sector. Because of these biases, determining the effectiveness of the actions used by the entrepreneurs will be difficult because there is nothing to compare them to. The views of those who had failed, or who had been in the manufacturing sector, or less educated could have assisted remedy this situation. Also, the observations made cannot be generalized because the size of the sample is small. The ability to generalize observations in research is conferred only by large/bigger samples (Anderson et al., 2007).
Chapter 5. Results: What Participants Said

This chapter provides a collection of perspectives of entrepreneurs in the operation/running of their businesses.

5.1. Problems entrepreneurs/business owners face

This section covers the first research question about business problems and how they were solved. The problems in the start-up and new firm phases were similar. For example, in reply to a question whether the problems faced by entrepreneurs changed with time, ENT1 said "Not really you know it is the same script but a different cost". The activities and approaches used to solve the problems were also the same in the two phases. Two examples on sales and marketing illustrate this point. A question about marketing posed to the entrepreneurs was " ... when you look at yourselves and marketing – how was it evolved?" and the following typical responses were obtained:

ENT2: Our marketing really is dependant on Colin’s reputation... More than anything else because all our work comes through contacts that he has built up over the years ....

ENT 7: Like I said to you a lot of it is word of mouth and a lot of contacts within the business. We do advertise like in – we go to conferences and we will have a stand there ....
The following sections capture the finer details of the problems and how they were solved.

5.1.1 Obtaining external finance

Accessing external finance was a problem for some entrepreneurs (ENT1 and ENT4). The external finance was generally required to fund growth. ENT1 said "I (sic) would have a problem with funding if I wanted to grow", a sentiment that was shared by ENT4. Banks and government agencies set up to assist entrepreneurs would be obvious choices to turn to for funding. On banks, ENT4 was told she needed "to have started the business at least 12 months or two years ago, or have contracts" yet to get contracts, she needed funding. Some entrepreneurs just didn’t try them: ENT3 said "there is no bank that is going to give you money" while ENT7 said "I worked at a bank I know the thing is, you go to the bank and they want to know what security you have". Government agencies, e.g. KHULA were not approached because: "They are characterized by a lot of red tape" (ENT1 and ENT2); some of them charge interest (ENT1); and they have unreasonable expectations ("what want high growth companies that are going to create lots of jobs in a very short period of time" (ENT2) and "they want 35% of your business that doesn’t seem like you know…. " (ENT7)).

Three approaches were used to circumvent the difficulties in accessing external finance. The first was to use "cheap cash" in form of loans from family and friends (ENT1 and ENT3). The second was to use internal sources of finance, that is, profit from sales revenue (ENT7). This required prudent financial management that entailed separating company and personal finances; "paying"
the company paid from the profits being made (ENT3 paid half their profits to the company, e.g. on a profit of R1 million, "R500,000 goes to the company, the rest we split .... (sic) between the partners"); reducing expenses e.g. rent (situating offices in a cheaper suburb/street (ENT3), downgrading lifestyles (most entrepreneurs); and, avoiding external finance altogether using a strategy based on bootstrap finance (ENT2 said "we are boot strapping that was our strategy from the start. ... we don’t, we didn’t get any investment from anybody"). Table 5.1 summarizes the approach of entrepreneurs to obtaining external finance.

Table 5-1 Actions for solving problems associated with obtaining external finance

<table>
<thead>
<tr>
<th>Problem</th>
<th>Actions</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtaining external finance</td>
<td>Approach friends and family for loans</td>
<td>Banks are risk averse</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Government agencies are characterized by red tape</td>
</tr>
<tr>
<td></td>
<td>Choose to internalize sources of finance</td>
<td>Requires financial prudence: separate business and personal fiancé; pay business like another employee; reduce expenses.</td>
</tr>
<tr>
<td></td>
<td>Strategy to bootstrap finance company</td>
<td>Not applicable to all companies</td>
</tr>
</tbody>
</table>

5.1.2 Managing internal finance

The aim for managing internal finance was to ensure sufficient cash flow through controlling margins, setting prices, and collection of accounts receivable. Cash flow is important because it signifies a firm is involved in real time transactions and is at least making enough profit to pay for its expenses and for expansion (as noted in Section 5.1.1). All businesses in this study had
had cash flow problems both as start-ups and new firms. ENT3 for example, stated that "every month we were just battling and battling to make to (sic) the end of the month". ENT2 acknowledged that without adequate cash flow, "we would never have lasted … it would have been living from month to month …”.

The activities employed to manage internal finance were aimed at reducing expenses and improving cash flow. These were: (ENT3) injecting own cash, arranging for a 7 day (sic) credit facility at a (local) bank, borrowing from family, and downgrading office space to reduce expenses. ENT2 planned to fund their business entirely by boot-strap financing. Prior to launching their firm, they built up a reserve of funds (from personal savings) to fall back on during hard times, and after they launched the firm, one partner remained in full employment at his corporate job and worked at the firm only on a part time basis; and, they worked from home to avoid paying rent. ENT4 sold from home, over the internet, and from mobile stores (shoe parties) at hired venues to avoid fixed costs. Most entrepreneurs hired temporary employees (more on HR management (Section 5.1.7) and ENT5 (in the financial services) shared employees with his competitors.

Most entrepreneurs forfeited monthly salaries (and then relied on relatives for upkeep), and some changed their remuneration policy. ENT7 chose to take a commission on every contract she brought at a time her employees and business partner were taking a salary. ENT7 said "I don’t pay myself on a monthly basis, but when I bring in a deal, I pay myself commission". ENT7 also used credit cards (she called it "taking from Peter to pay Paul"), got her
customers "to pay 50% up front" and employed stakeholder management when she couldn’t pay immediately for services. The rental company was accommodating because the entrepreneur had established a reputation for paying up over the first two years: "We have built a relationship up with them (rental company) over the last two years because we had that capital we were really good at paying". Most entrepreneurs also cut expenses through downsizing their office location and taking a cut in lifestyles.

Incomes from second, part-time jobs, were used in some cases. ENT7, who was in energy found time to advice people on their business plans and on where to go for funding", using skills acquired from work in corporate. ENT6 used her network to get a few little jobs. She commented "You do anything for money … (sic) when cash flow dries up.".

ENT3 developed business wisdom, which allowed him to read a situation and determine whether promises being made would be honoured or not, and to make other arrangements if necessary. He said " … you need to have what I call business wisdom, to be able to read a situation, when you talk to someone, to know that he will not pay .. although he says he will pay tomorrow, .. and ..to … start communication now (sic) for alternative sources of cash".

Except for ENT3, most entrepreneurs never considered bank loans, for the same reasons provided in Section 5.1.1. Even though ENT3 did not say, it is likely he got the bank loan using the contacts he developed while he was a banker.
Cash flow was also addressed through sales and marketing (Section 5.1.3) and product/service development (Section 5.1.4). It was intimately related tied to networks, from whence business opportunities came (Section 5.1.3) as indicated by ENT6 who said, "I wish I hadn’t (gone overseas prior to launching my firm) because I lost a lot of my contacts and all of that by being away and it would have been much easier on cash flow ...". And cash flow and finance for expansion were connected. ENT2, whose cash flow was excellent commented that, "we don’t need to go and apply for funding (for expansion) because that is in this country that is probably the biggest hindrance to actually starting out a business and why so many people don’t".

There were unsuccessfully attempts to access specific government funding. ENT7 said, "I did (try to access government funding) – we did but (sic) failed because we are just not the right colour". The entrepreneurs would also have been hesitant because "They (government agencies) want 35% of your business that doesn’t seem like you know…(sic) right" (ENT7).

Controlling margins, implied as being a problem, was addressed through a pricing strategy. Some entrepreneurs went in to business with a premium pricing strategy. CD said "we premium priced it (products and services)", while ENT7 said "we not the cheapest, …...". Premium pricing improves revenues and plays into mitigating external finances (Section 5.1.1).
Premium pricing was aided by: quality (ENT3 said, "... pricing is about quality" while ENT7 said "... excellence (of our product/service) is our thing"); credibility of industry reference. ENT2 first client chose them even though they were the most expensive bidder due to their reference. They opined that their premium pricing indicated "How much a reference, a credible reference, trusted reference – how much weight that actually holds over and above your proposal and your pricing ....". The reference being referred to was a contact made while the business owners worked in corporate; and, confidence the entrepreneur had in their ability to provide or deliver a good quality product or service, which came from prior work experience, which led to reputation. ENT2 said "they (clients) don’t question it (premium pricing) because of the fact that we are of the reputation and the fact that they are prepared to pay a bit more for quality and for better service".

The collection of accounts receivable was based on relationships., ENT3 said he engaged debtors to build an understanding which he leveraged to get favourable consideration.

A lack of industry experience or offering a product not yet on the market led to difficulties in setting product/service prices. ENT6 for example said "... There is no real product exactly like mine so it (setting prices) has been kind of difficult, and there has been a bit of trial and error, ...". Increasingly, ENT6 started setting prices based on her improving knowledge of her target industry. ENT3 also set his prices based on his knowledge of industry. He noted "I have been
doing this for seven or eight years I know what the industry is, (sic) and I know what I'm worth”.

In general, the pricing strategy affects the ability of the entrepreneur to scale up (scalability), which is a problem under production/operation management (Section 5.1.5). An insight into the complexity of which pricing strategy to use was provided by ENT2. They said “We find if you go in cheap it is very difficult to scale up because people expect you to come in at that price (sic) next time. Plus there is a perception that you are maybe going to be inferior, (sic) and you could loss business because the credibility of our clients depends on what we are able to deliver”.

Table 5.2 lists the actions used by entrepreneurs in this study to manage their internal finances.
Table 5-2 Actions for solving problems associated with managing internal finance

<table>
<thead>
<tr>
<th>Problem: Managing internal finance</th>
<th>Actions</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow problems; Controlling margins</td>
<td>Conscious decision to build reserves before launching business</td>
<td>Plan extensively before launching business. The entrepreneurs in this study had at least five years of work experience and saved up.</td>
</tr>
<tr>
<td></td>
<td>Inject own cash into business</td>
<td>Dispose off assets acquired before launching business</td>
</tr>
<tr>
<td></td>
<td>Approach family and friends for cash and/or loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bootstrap business</td>
<td>Shrink personal needs (downsize life style); Reduce cash payments to entrepreneur, e.g. through owner choosing to change remuneration policy from fixed salary to a commission (Can be used for self motivation to go out and bring in more business) Find a second job; Hire part-time and contract employees; Work from home; Build good reputation with suppliers and leverage it to get better payment terms; Engage debtors/customers who are running late in payments (Build a good relationship with debtors and leverage it to extract favourable/timely payments. Avoid transactional relationships).</td>
</tr>
<tr>
<td></td>
<td>Control margins through a suitable pricing strategy</td>
<td>A premium pricing strategy requires high quality products, confidence gained from past experience, and a strong/reputable referral</td>
</tr>
<tr>
<td></td>
<td>Develop business wisdom</td>
<td>To help in knowing when a customer is likely to keep their promise to pay, and to allow for alternatives</td>
</tr>
<tr>
<td></td>
<td>Effective sales and marketing, and market focussed product/service development</td>
<td>Using product/service development, find a product or service that can be sold to as many businesses as possible.</td>
</tr>
</tbody>
</table>
5.1.3 Sales/marketing

The interest in sales/marketing was centred on distribution channels, and promotion that lead to actual buying. In the course of the interviews, market segmentation, number of customers and market size were also mentioned by participants. Sales are important because they generate revenues that lead to cash flow (Sections 5.1.1 and 5.1.2). All businesses in this study suffered from the problem of newness and lack of a budget for marketing. Earlier marketing campaigns used print media (e.g. magazines) and posters and company websites as communication channels. However, "marketing message got lost because people just don’t/ (sic) didn’t understand the product/service" (ENT7). Some entrepreneurs initially targeted the wrong market. ENT6 “thought (her company) would serve medium to smaller businesses but they had no idea and they would not pay for my service at all …… so it ended up being big corporate companies”.

Dependency on one customer has been noted in literature as being a problem for start-up companies. This was not the case in the current study. Most entrepreneurs launched their businesses only after they had tied down a contract from one or two clients. ENT2 found "a large company outside of South Africa ….. in Europe" that "got them up and running. This was followed by a rapid increase in the volume of work, the volume increasing from one project in three or four months to about three or four projects a month (ENT7).

ENT1 highlighted a unique problem of a restricted market size. Her services
and products were accessed by up to 300 customers, and she commented that this was limiting. She said, "I cannot grow with the current situation, if I sale bread I would know I am selling bread I am selling thirty loaves a day that is it. It cannot go anywhere else it cannot go up, (sic) expand, basically. I have sort of reached my … ……my limit …, the capacity is all that there is, it is taken up".

Marketing problems were addressed through a demonstration of credibility and reputation. The clearest indication of this was ENT6. She said “... people wanted to know what it is I knew in the industry so I set out to write a book …”. ENT6’s marketing had been particularly difficult until then, but the book greatly facilitated the process going forward. She said, "what it (book) has done for me is it has created credibility in the industry it has allowed people to know who I am and for me to show what I know in the industry and people come to me now as opposed to me going knocking on doors". Other entrepreneurs used their or the entrepreneurial team’s experience in industry as evidence of credibility. In all cases, credibility and reputation showed the availability of “skills to deliver” (ENT2).

The second approach was to change the marketing channels to ensure the marketing message was cheap and effective. These included face-to-face visitations/and or telephonic conversations and to word of mouth marketing. In most cases, the first port of call for the entrepreneurs was a contact(s) in the networks they had formed during work in corporate companies. Other entrepreneurs started by building, sometimes from nothing, networks through attending conferences, meetings and fora related to their products/services,
including meeting other players, like competitors, in their industry. ENT5, by partnering, appropriated someone's network. According to ENT5, his business partner "had people that he used to do work with and all he had to do was, (sic) tell them, guys I'm back". While these were physical networks, one entrepreneur, ENT4, was using Facebook® and Twitter®, where her friends tell their friends about her products.

Word of mouth marketing occurred in the networks of the early customers of the entrepreneurs, and was self-sustaining. For example, ENT5 said "Once you (sic) provide services to one person, he is going to refer you to other people ..... they (customers) will come to you". ENT7, who followed up the sources of new businesses noted ".... whenever we do get a call of an unknown source, we always ask how you found out about us, and more than often, it's word of mouth".

Word of mouth was a cheap but very effective marketing channel and was a method of bootstrap financing businesses: "it is more powerful than a 10 million rand advert campaign"(ENT2). ENT7 bootstrapped her business in a different way. Because of the topical nature of her product/service, a local magazine chose to run news articles on her projects for nothing: in a sense, she bartered information for advertising space. ENT7 said "We try and get more media coverage than what we do put in advertising. So what we do, whenever we have a project, we bring engineering news (a local weekly) into it because they want to know more about these projects and report on them so we very close to a particular team within them".
Word of mouth referrals were only possible because the entrepreneurs had reputation in the industry and their products/services were of high quality. ENT3 attributed the increasing number of his customers to "doing a good job". ENT7 commented that, "… a lot of the clients that came the following year was, word of mouth, somebody recommending because of the ….. quality of service/product'.

In summary, two things stood out for marketing: Credibility (and reputation) and networks. A marketing campaign was based, first and foremost, on the credibility/reputation of the entrepreneurs. Networks make marketing easier because they enable word of mouth marketing. Table 5.3 summarizes the activities performed to facilitate sales/marketing.

**Table 5-3 Actions for solving problems associated with sales/marketing**

<table>
<thead>
<tr>
<th>Problem</th>
<th>Actions</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newness, lack of marketing budget</td>
<td>Demonstrate credibility</td>
<td>Curriculum vitae for work done in employ of corporate in industry</td>
</tr>
<tr>
<td>Cash flow problems; Difficulty</td>
<td></td>
<td>Use reputable persons in industry as referees</td>
</tr>
<tr>
<td>controlling margins</td>
<td></td>
<td>Partner with someone well known in industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Demonstrate knowledge of industry</td>
</tr>
<tr>
<td>Marketing message</td>
<td>Network; Word of mouth marketing</td>
<td>Meet potential clients face to face</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use personal network</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tap into the networks of business partners and customers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use the internet and social internet tools like Facebook®</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New products: Educate clients about product and how it links to their business</td>
</tr>
</tbody>
</table>
5.1.4 Product/service development

Product/service development is another problem noted in literature as being a problem for entrepreneurs. The product/service to be offered by an entrepreneur needs to be readily acceptable to the target market, or there is no business, and the firm fails. Entrepreneurs in this study had an idea of what they wanted to do when they started up. ENT2 were categorical that "when you (an entrepreneur) start up you have an idea of what you want to do".

Three problems were encountered by some entrepreneurs when they wanted to actualize the idea of what they wanted to offer. The first problem was marketing, which has already been addressed in Section 5.1.3. The second problem, faced by ENT6, was not knowing how to offer a product or service. She said "I didn't really know exactly how I was going to do it or anything". She researched to improve her understanding of the product, sought and landed a corporate job to work in the area of the product she planned to offer, and finally, partnered with two others to offer services to a client.

Scalability, used here to imply increasing the clientele of the business, was the last problem. ENT2 said "the one downside ... to ... our model is the scale ability, it's difficult to scale them". ENT6 said "I realised .... (her first offering) is not scalable so then I realised .... to scale the business I need ..... ". The difficulty in scalability centred on the finiteness of resources. ENT6 couldn't scale up because doing so would need expertise which was not available. She said "in this space there weren't a lot of people that had expertise in this so it is
very difficult to scale ...". ENT2 talked about time and commented "(sic) you don’t want to sell your time….. because time is limited, … is very limited.

Scalability was addressed, quoting ENT6, by using two approaches to product development. She said "... one was what (sic) product/service the/(sic) a business needed and two was what the/(sic) an industry needed". Most entrepreneurs followed the business needs approach and engaged first in consulting on one or two products/services, determined by their specialist education mix they offered. According to ENT2, consulting was "... a pay check to pay check business ….. The client comes to you and they pay you and you build them something (sic) or provide them a service ...". In the time of the start-up phase, the product/service mix was expanded, and ground work for new products was being laid.

The expansion of the product/service mix in the first three months was achieved through “additive human capital”. Business partners brought in their skills and corporate experience. ENT3 was a typical example. He (ENT3) moved, when he was alone, from doing bits of consulting for a client to, when he (ENT3) got partners, advising him on mega projects.

Further product development was market-oriented. Entrepreneurs followed up on points of views picked from interactions with customers, kept up to date with developments in the industry e.g. trends. ENT2 noted that the products and services they offered evolved to include "things that we’ve seen maybe during the course of …. working with clients". The use of customers in product
development by established firms is well documented, but not much is known about the same for new firms.

Product development for industry was an addition to addressing business needs, and was a progression along the value chain. It is noted here to complete the picture because it was not performed by any entrepreneur in the transitioning period. ENT6 had moved away from consulting (serving one company/business) to offering a product for general use by most businesses in an industry. This progression required a reading of the trends in the industry and was facilitated by an intimate knowledge of, and a high credibility in the industry. Industry-wide products have "a more solid revenue stream" or provide passive earnings" (ENT2). This approach to product development ties in with managing cash flow that can be used in place of external finance (Section 5.1.1) and managing internal finance (Section 5.1.2).

To summarize, product development was mostly facilitated by the knowledge an entrepreneur possessed. Either the knowledge came from the entrepreneur himself or from partners, employees, and competitors. Entrepreneurs began by offering one product/service, and then scaled up to either address business needs by increasing their product/service mix and/or industry needs. Entrepreneurs having many products/services were immune from the scaling problem. Entrepreneurs who start with a single product/service need to move to diversify or create a general product that can be used by many businesses in the industry they are serving. Table 5-4 lists the actions provided as having been used to address products encountered in product development.
Table 5-4 Actions for solving associated with problems in product/service development

<table>
<thead>
<tr>
<th>Problem</th>
<th>Actions</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Demonstrate credibility</td>
<td>Already covered in Section 5.1.3</td>
</tr>
<tr>
<td>How to offer product/service</td>
<td>Research to learn more about product/service;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Find a job, through network, and work corporate in area of product/service to be offered</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Form partnership with somebody offering a platform for the kind of product/service</td>
<td></td>
</tr>
<tr>
<td>Product/service development</td>
<td>Interaction with customers generates ideas for tweaking current products/services to meet market needs and for new products/services</td>
<td></td>
</tr>
<tr>
<td>Scalability</td>
<td>Offer a wide spectrum of products/services;</td>
<td>Need to use more people, including partners and contractors</td>
</tr>
<tr>
<td></td>
<td>Move from single business to industry wide products/services</td>
<td></td>
</tr>
</tbody>
</table>

5.1.5 Production/operation management

Production/operation management ties in with sales/marketing to improve the performance of a business (Anderson et al., 2007). The interest in production/operation management was centred on quality of products, suppliers, and production space. A summary of the actions used to address these issues is given in Table 5.5.

a) Quality of products/services

Quality was used by entrepreneurs in this study as a differentiating ingredient in the products and services they offered. Quality had been used to support
premium pricing (Section 5.1.2). Problems related with how to set, judge and maintain the level of quality. The level of quality expected of some products/services was set based on experience gained working in corporate. It was maintained by using partners and employees. ENT3, who had partners with extensive corporate experience, said "we double check each other's work". A similar approach was used by ENT5 and ENT7.

The level of quality was also maintained by "keeping abreast of the new developments, the latest issues, subjects and all of that …" (ENT3). ENT7 trained contractors and used competitors for services e.g. repairs to ensure high quality work. ENT2 controlled quality by limiting the amount of work they took on in order to ensure consistent "personal amount of quality that we add (sic) to each project".

A pricing strategy was another tool used to set quality. This occurred especially for entrepreneurs who had problems judging quality because of the newness of their product/service. In this case, the quality was right if the price of the product/service was acceptable. She set the price based on a very good understanding of the industry.

b). Suppliers
Suppliers were selected based on whether they could provide services of the quality set by the entrepreneur. ENT7 identified her suppliers using the social capital of her business partner. ENT4, who did not have partners, used the internet to search for suppliers. She knew the quality of products she wanted to
offer her market, and where they could be sourced. After locating a few suppliers, she visited them before making a selection who to go with.

c) Problem of working space:
Finding working space was implied as being a problem. ENT3 and ENT6 did not have offices when they started their companies, and bartered it. ENT3 said: I went to one of the guys that I had known for a very long time and I asked him for just a desk … and the guy says fine, I can give you a desk but you will help me with a bit of consulting .." ENT6 said "I got a retainer actually for a company to manage their …. …. for a few hours a week, … for office space .. " ENT2 plan to follow the approach adopted by ENT3 and ENT6. Other entrepreneurs did not have issues with office space because they chose to either work from home (e.g. ENT5), or negotiate with the rental office for understanding with rent (ENT7).

Table 5-5 Actions for addressing problems associated with production/operation management

<table>
<thead>
<tr>
<th>Problem</th>
<th>Actions</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>Use experience from corporate understanding your product/service</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Train contractors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coopete with others in industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Control number of projects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Use a pricing strategy</td>
<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>Choose suppliers from own or business partner's network in industry</td>
<td></td>
</tr>
<tr>
<td>Production space</td>
<td>Bootstrap</td>
<td>Office space from e.g. a known acquaintance in return for some service; work from e.g. home, where no rent is required.</td>
</tr>
</tbody>
</table>
5.1.6 General management

The issues mentioned under general management, the fact that there was only one person (running the business), and managing/controlling growth. Table 5.6 lists the actions used to address the issues.

ENT1, ENT4 and ENT6 complained about being "only one person" running the business. A typical statement was "One thing is that when you start a business you are everything, the HR, Operations, you are the finance person, you are everything" (ENT4). Being the only person took away time for other things that are important for the business and affected the quality of work. ENT1 noted that while "it is important to network and now I only see the importance of networking honestly where do you get time it?". ENT6 noted that she was " ... just doing too much so I am not doing anything very well ...". It also constrained the ability to scale up businesses, as noted in Section 5.1.5.

The being "only one person" problem could be solved by having partners or recruiting employees. None of the entrepreneurs in this study who had a business partner complained about this item. Business partners assist in the running of the business, as was noted by ENT5 who when asked whether the business partner shared administrative problems, said:

"..... if there is anything that really warrants us to meet then we go and we meet, ...., almost after very two months we meet and we discuss and see okay is our business going right and things like that, .... Okay, the other thing that I do is, I will review ... reports in some cases ... and refer
them to him and say what do you think now?"

Controlling growth was implied as being a problem and was addressed by a conscious of avoiding uncontrolled growth. ENT2 did not want to "just try to grab anything we can…(sic) lay our hands on". ENT5 said "I don’t put a proposal to each and every thing that I see ..". Growth was controlled using quality. ENT2 wanted to "manage what we are doing" so that they could "do it better". ENT5 said "(sic) I try to control the quality of work and then it tells (sic) me how much work I can accept". As has already been noted, quality plays an important role in managing internal finance by supporting a premium pricing strategy (Section 5.1.2) and for word of mouth marketing (Section 5.1.3).

Constrained growth due to inability to scale up has already been addressed in Section 5.1.4. To find a balance between controlling growth and ensuring sufficient cash flow, entrepreneurs employ a suitable pricing strategy. ENT2 employed premium pricing (Section 5.1.2) . They, with ENT5, also said they accepted projects that could further lead to high value strategic relationships.

<table>
<thead>
<tr>
<th>Problem</th>
<th>Actions</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only one person</td>
<td>Form a partnership&lt;br&gt;Acquire employees</td>
<td></td>
</tr>
<tr>
<td>Controlling growth</td>
<td>Consciously choose which contracts to accept&lt;br&gt;Use a pricing strategy&lt;br&gt;Use need to maintain quality of product/service&lt;br&gt;Use product development to determine reach</td>
<td></td>
</tr>
</tbody>
</table>
5.1.7 Human resource management

Human resource management affects firm performance (Davidsson & Honig, 2003). It is concerned with, among others, recruitment/selection, turnover/retention, and maintaining satisfaction/morale. These issues, along with managing partnerships were real or implied problems in this study. Table 5.7 lists a collection of the actions that were mentioned as having been used to address the problems.

Recruitment was an implied problem in this study. Entrepreneurs hired through their personal networks. Most times, the entrepreneur personally knew the hires, or they were family members and friends (ENT7). For example, ENT3's first hire was a person he had worked with before. Except for ENT7, the initial recruitment strategy was to hire temporary employees. This was meant to avoid fixed costs and is a form of bootstrap financing (Sections 5.1.1 and 5.1.2). Only ENT7 started with fulltime employees, and it is because she had raised enough start-up capital.

Hiring through networks did not guarantee good quality employees. ENT1 "could not find honest, reliable, (sic) employees" and her turn-over was very high. ENT6 and ENT7 had some "horrific", employees but, because of the labour laws of the country, were "onerous to get rid of". These employees came from established "companies and … were used to getting salaries" (ENT6) without, on their own, making "projects work" (ENT7). Both ENT6 and ENT7 changed their hiring policy to start hiring part-time employees or using contractors. The use of part-time employees and contractors has been
mentioned before as methods under bootstrap financing (Section 5.1.2). They also prefer "people that have at least attempted to work for themselves or have that sort of a mindset because (sic) such people realise how difficult it is and how serious they have to be" (ENT6).

Entrepreneurial teams were acutely aware of the possibility of their partnerships breaking up. Break-ups, they said, were due to partners "not knowing each other really well" (ENT2), "having skill sets that overlap leaving gaps in the business that lead to arguments" (ENT2), and "holding different visions and beliefs as to where the company should go" (ENT3, ENT5). Partnerships were managed through the following mechanisms:

1. Using a formal contract that covered performance criteria, and sharing of assets in the event of a break-up (ENT5);
2. Self selection depending on how well they knew each other, because a partnership "is like a marriage" (ENT2);
3. Ensuring skill sets are complementary to avoid "gaps in the business" (ENT2). ENT2 talked of their partnership having ".... got two very different spheres and then in the middle they kind of just overlap so we can understand what’s going on with each other"; and
4. Shared interests. According to ENT3, "Business partners should be people with the right interest, and who organize collectively towards that interest" (ENT3).

Entrepreneurs struggled with employee management. ENT3 addressed the problem by "being open and transparent about finances and remuneration,
communicating the vision of the company to ensure "the guys all understand where we were going and what was happening", paying the guys well, crediting them, being humane without losing business focus and allowing people to learn by use of performance appraisal and feedback from clients", sentiments that were supported by ENT5. Ensuring a friendly and family-like environment and formalizing a company charter capturing business principles which all abide by also helps (ENT3).

Motivating employees was a challenge for some entrepreneurs. ENT7 noted that "It (motivating fellow colleagues) was very difficult in the beginning because I set what I wanted them to do, as it is done in industry, and it didn't happen because they weren't motivated to do it even with fantastic incentives". She changed her approach and started designing tasks around their interests. This approach has an element of empathy. ENT7 opined that motivation could also be easier if hires are acquired based on "your (sic) (the entrepreneur's) work ethic, reputation and background".

ENT7 had a unique problem of "everybody is older (sic) than me and everybody is either family or friends ...", which she addressed by strictly observing the principle of separating work from family. She said "Friday afternoon when we have lunch and drinks together, that's when I am your friend and your family, and on weekend."
<table>
<thead>
<tr>
<th>Problem</th>
<th>Actions</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment</td>
<td>Hire from personal networks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hire temporary employees</td>
<td></td>
</tr>
<tr>
<td>Managing partnerships</td>
<td>Pick on people you know very well</td>
<td>This is &quot;like a marriage&quot;</td>
</tr>
<tr>
<td></td>
<td>Draft an agreeable contract</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ensure you have complementary skills</td>
<td>Helps to ensure all aspects of the business are covered</td>
</tr>
<tr>
<td></td>
<td>Choose people with whom you share a vision</td>
<td>Reduces instances of fighting about where the business should be headed</td>
</tr>
<tr>
<td>Level of hiring</td>
<td>Decide whether you need an injection of highly people</td>
<td></td>
</tr>
<tr>
<td>People management</td>
<td>Hire part-time to monitor attitude</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If possible, hire former entrepreneurs</td>
<td>Such people realize how difficult running a new firm is and how serious they have to be; they also need less &quot;hand-holding&quot;</td>
</tr>
<tr>
<td></td>
<td>Incentivise appropriately</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Give credit when it is earned</td>
<td>&quot;.&quot;.</td>
</tr>
<tr>
<td></td>
<td>Be open and transparent</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>Provide feedback and encourage learning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Encourage a family-like environment</td>
<td>Share hobbies outside work, know some members of each other's family</td>
</tr>
<tr>
<td></td>
<td>Communicate vision</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Motivate appropriately</td>
<td>It helps to fit job tasks to people/employees so that they can apply themselves fully</td>
</tr>
<tr>
<td></td>
<td>Hire people who fit your profile</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In case of a family business, separate family matters from business matters</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Show empathy</td>
<td></td>
</tr>
</tbody>
</table>
5.2. Changes in sources of capital

This section answers Research Questions 2 to 4 and uses responses from participants and inductive reasoning.

5.2.1 How the sources of financial capital change between start-up and new firm stage

Changes in the sources of financial capital are required because entrepreneurs look to grow their businesses. Those observed in the current study were not uniform. ENT2 did not change their strategy of bootstrap finance. However, like all other entrepreneurs, they acquired an inflow of cash from sales revenue. Entrepreneurs in this study only launched their companies after signing a contract with a client. As already noted, no entrepreneur obtained a bank loan (because of lack of security and track record with bank, and also out of conviction that "the fundamental key is not to borrow to finance growth but instead to use internal finances" (ENT3)) or funding from a government agency. There was a general consensus that financial capital in form of once off hard cash was not helpful to an entrepreneur, and such sources of financial capital were avoided. ENT3 said "if you want to give me money stay with the money but I would rather ….. give me transactions …" ENT2 had a similar view. They said, "You can even give us money; you can actually give us money. You can say you want to invest in our business here’s ten million rand okay to pay your expenses and your overheads. But ….. it’s going to run out very quickly".
Cash inflows were greatly aided by the presence of a cash cow, a general product or service in the product/service mix of an entrepreneur that could be offered to as many clients as possible and became a ready source of revenue. Either the cash cow was in place from the start, or it was launched in the early life of the business. ENT2, ENT3, and ENT5 had a cash cow from the start. The presence of a cash cow was aided by a broad range of human capital.

The cash cow was not revenue stream diversification. A business can diversify its revenue streams and still struggle with financial capital. The cash cow is the product/service that dramatically changes the cash flow of the business. For example, even though the firm of ENT7 had "three, four revenue streams at the moment" (of the interview), only one of them was a cash cow and had only been in place shortly after she joined the firm fulltime. She said "… as soon as I joined the business full time it was at the beginning of 2010 I started … and we started bringing that money in".

5.2.2 How the sources of human capital change between start-up and new firm stage

Like financial capital, the change of human capital in the three months as a start-up firm (shown in Figure 5.1) was not uniform. Firms that were launched by a team of partners (e.g. ENT2 and ENT7) only brought in contractors or employees. Lone entrepreneurs in addition to employees and/or contractors sought to create a partnership with other people (e.g. ENT3 and ENT5, and ENT6 who joined an existing group with a platform). The partnerships and
employees filled gaps in the skills set of the team, brought in work, and/or increased the spread of networks of the businesses. ENT2, a partnership, said their skills were complementary and covered the spectrum of the activities of the business. ENT5 brought in a partner for clients.

Employees increased the human capital pool of the business. The employees of ENT3 assisted the firm to scan the environment of any changes. For example when they new Companies Act came into force, "... someone from the firm came to me to say, not all companies need .......... (some service ENT3 is offering) ..........", a fact that ENT3 I didn't know about it, yet. ENT5 said some of his clients required skills sets that were only possessed by some of his employees.

Entrepreneurs learnt from the act of running the firms, at two levels. The first level was filling gaps in their knowledge. For example, ENT3 confessed that "... I learned a lot of things because in CA they don't teach you softer skills like actual marketing and communication ...". ENT6 learnt new skills in finance and was able to do her own finances even though she did not have any prior training. The second level was operational. Entrepreneurs understood better what it would take to secure contracts/land business. ENT6 realized early on that she needed to have credibility in her target industry and what it took to sell her products (some of those things it's relationships). ENT7 realized why she was struggling with sales and motivating her employees and had to relearn people management and then reconfigure her approach to human resource management, and to marketing, as already indicated in Sections 5.1.3 and
5.1.7. ENT3 acquired "business wisdom", the "ability to read a situation and determine whether the customer will keep their promise". Knowing where a customer stood especially on their ability to pay assisted the entrepreneur to have a plan B.

5.2.3 How the sources of social capital change between start-up and new firm stage

The social capital changed, but like for the other forms of capital, the change was not uniform, depending on whether the firm was started by a lone or by a team of entrepreneur(s). In both cases, the social capital expanded in waves, with the entrepreneur at the centre, over time. Considering them as circles (Figure 5.2), the innermost circle represents the personal network of the entrepreneur, which already existed e.g. from working in corporate, or it had to be build from scratch, as was done by ENT6.
The second ring, which was merged with the first ring in the case of entrepreneurial teams, is for social capital of business partners. ENT5 talked about his partner as bringing in industry contacts. The third ring came from employees, who could independently bring deals into the firm from their contacts, as happened for ENT3 and ENT5. The fourth ring of the social capital is made up of the social capital of the customers of the entrepreneur, who activated word of mouth advertising for the start-up firm. It was not very well developed for all the entrepreneurs after three months in business. However, it was activated much sooner for entrepreneurs with corporate experience.
Chapter 6. Discussion: Effect of entrepreneurial capital on start-up – new firm transition

We present here a mapping of the various forms of capital utilized in transitioning from a start-up firm to a new firm. Chapter 5 presented the views of the entrepreneurs. These views have been coded in the current chapter using the definitions of capital presented in Section 2.4, Entrepreneurial Capital. Appendix 4 provides a coding scheme for the various forms of capital. The coding shows that all the three forms of capital that constitute entrepreneurial capital have been utilized by all the entrepreneurs in their transition from start-up to new firm.

We note in passing that the entrepreneurs in this study faced and continued to face problems in the various functional areas of their businesses. Chapter 5 has covered these problems in granular form.

6.1 Financial Capital

The coding of the activities of the entrepreneurs in this study indicated that activities done in accessing external finance, managing internal finance, sales/marketing, production/operation management and human resource management addressed financial capital. Financial capital was cash flow, which provided sources of funding for other operations. To sustain cash flow, expenses and/or cheaper ways of executing tasks were sought in the listed functions of the firm (Tables 5.1, 5.2, 5.4, 5.5, and 5.7). The literature classifies
all methods used to reduce expenses as bootstrap financing (See for example (Winborg and Landstrom, 2001 in (Newbert & Tornikoski, 2010; Roomi, 2009)). The use of bootstrap financing has already been observed for "young" and "old" firms in South Africa (Paiva, 2010) but this is the first time it has been found to be used in the transition from start-up to new firms, and also, the first time the functional areas where it occurs in businesses has been provided.

A tendency for bootstrap financing becoming more a matter of choice, and not necessarily an option forced on to an entrepreneur by financial constraints has been observed. The drivers for this are one, entrepreneurs yearn for independence in how to run their firms, two, know that they do not meet the terms and conditions for bank loans, and three, understand that government institutions are ineffective and/or make unreasonable demands. This voluntary choice of bootstrap financing is in agreement with literature (Messersmith & Rutherford, 2010).

The difficulty experienced in accessing external finance found in this study is in line with literature (Co and Mitchell (2004) in (Ebben, 2009; Ebben & Johnson, 2006). The reasons are also similar: in literature, it is due to the "liability of newness" (Stinchombe 1965 in (Pretorius, 2007)) which affects creditworthiness ((Winborg, 2009)), which in the current case manifests as lack of a track record.

Entrepreneurs in this study have tempered their application of some of the bootstrap financing methods noted in literature (Figure 2.6) ((Van Vuuren, 2007)). They chose to avoid any method that appeared to be confrontational
like using interest on overdue payments or ceasing business with late payers. Instead, they treated relations with customers as strategic and built up social capital in them. They also practiced new bootstrap financing techniques, as follows:

i). Reduce personal needs to minimize entrepreneur's salary from business

ii). Lower level of lifestyle (e.g. trade-in big fancy car for a cheaper one)

iii). Change business owner's remuneration from a fixed salary to a commission-based system

iv). Barter information for advertisement space

v). Use word of mouth advertising

The strategy to utilize bootstrap financing does not change between start-up and new firm. This indicates that the strategy runs through to firms that mature given that bootstrap finance has been observed in "older" small firms ((J. Ebben & Johnson, 2006)). The bootstrap finance methods applied by the entrepreneurs in the course of the transition from start-up to new firm status did not change, probably because the duration of the transition, three months, is too short for any changes to be implemented. Also, the entrepreneurs in this study qualified for transition based on single contracts. Otherwise, the techniques are expected to change with time ((Wiklund, Baker, & Shepherd, 2010)). The thrust of the source of financial capital changed to cash flow from sales.

Financial capital based on bootstrap financing is a microcosm of entrepreneurial capital as applied in this study. There is both the role of the cognitive abilities of the entrepreneur and his networks in ensuring access to financial capital. The
development of, what one entrepreneur called, business wisdom, and reasoning and planning for alternative sources of financial capital is a cognitive ability of the entrepreneur, and is coded as human capital. The raising of capital from family and friends is a manifestation of the use of network ties, which is social capital. The bootstrap financing practiced by the entrepreneurs here, and others in literature is therefore based on human and social capital.

6.2 Human capital

Human capital permeates all the problem areas covered in this study. The methods used to provide solutions to the problems (Tables 5.1 – 5.7) have an element of entrepreneurial ingenuity, a human capital element, in them. For example, the bootstrap finance methods used to improve cash flow were based on the cognitive abilities of the entrepreneurs. Also, prior employment created credibility that aided marketing efforts. This ubiquitous use of human capital supports some thinking in the literature of entrepreneurship that says human capital is the basis for business survival (Youndt, Snell, Dean, Lepak (1996) in (Ebben & Johnson, 2006)).

Human capital changes occurred during the start-up phase, especially for entrepreneurs who start alone. Business partners and employees join the entrepreneur, in the application of the thinking that human capital is additive ((Pretorius, 2007)). Partners, and sometimes, employees help bridge knowledge gaps, as has been indicated in literature ((J. Ebben & Johnson, 2006)). The accumulation of human capital in the start-up phase is normally a way for increasing longevity in business ((Geroski, Mata, & Portugal, 2010)).
Most entrepreneurs, at a personal level, learnt new skills in the start-up phase, both from physically running the firm and from interacting with customers. This is in line with literature ((Arribas & Vila, 2007)). These learning helped the entrepreneurs to solve problems as they occurred.

So, what is the role of human capital in the start-up – new firm status transition? Human capital is used to ensure financial prudence required to internalize sources of finance for expansion. The choices made to shrink personal needs, change the remuneration policy from a fixed salary to a commission, the knowledge on how to control margins through a suitable pricing strategy and to provide an offering, through product/service development, that generates revenue for the business are made possible by human capital. A lot of thought goes into choosing a pricing strategy because it impacts how easily the entrepreneurs can scale up their business. Understanding the industry one is operating in aids the choice of pricing strategy.

The marketing of the business after launching requires that entrepreneurs demonstrate their credibility in industry. The credibility comes from prior work experience (human capital) or dealings in the industry where work assignments provide evidence of capability (human capital).

Human capital enables product/service development, how the product/service can be offered, and how scaling can be achieved. The setting and maintenance of quality of products or services is based on experience (human capital). The
expansion of human capital through having a business partner assists greatly with general management of the business, and human capital is used to control growth. Human capital assists in managing partnerships by ensuring that the partners have complementary skills.

6.3 Social Capital

Social capital provided resources to entrepreneurs, as noted in literature (Nahapiet and Ghophal (1998) (in Chandler & Lyon, 2009)). The immediate resources in this study, which are also mentioned in literature, are bootstrap finance methods that relate to financial capital and human capital ((Geroski et al., 2010)), partners and employees (human capital) ((Sullivan & Marvel, 2011)) and general support (both financial and emotional) ((Anderson et al., 2007)).

We highlight a little talked about form of social capital, reputation (and credibility) and its importance to the transition. Business owners of start-up firms desperately sought reputation and credibility; either they have some stock of it already, or they built it. The reasons for this, and in support of literature, are that reputation drives two things: sales/marketing ((Zimmer & Aldrich, 1987)) and a premium pricing strategy ((Leung et al., 2006)), both of which feed into financial capital. The first sales for most entrepreneurs come because of their reputation, manifested as referrals from their networks, indicating that reputation effectively counterbalances the "liability of newness".

The reputation in this study has been built on the work experience (human capital) of the entrepreneur or of the entrepreneurial team, implying that human
capital precedes social capital. This is different from non-business situations, e.g. schooling, were social capital precedes human capital (Coleman 1988 in Brüderl & Preisendörfer, 1998)).

The transitioning period (between start-up and new firm) is accompanied only by an immediate increase in the contacts of the entrepreneur. The contacts expand because of the addition of partners, employees, customers and suppliers to his network, in agreement with literature (Cummings 2004 in (Su et al., 2011). This represents an increase in the latent social capital of the entrepreneur: the network increases, but the entrepreneur is not yet in a position to leverage the ties that have been formed. This is because the effects of social capital are not felt for some time, up to a year for some entrepreneurs, after the firm is launched. This observation supports literature, where it is noted that the development of social capital requires time (Nahapiet & Ghophal (1998) in (McWilliams & Siegel, 2010)).

The network of the entrepreneur in this study is dispersed both when he is a start-up and a new firm. Dispersed networks have been credited with bringing in more business.

### 6.4 Entrepreneurial Capital

Entrepreneurial capital in this study was defined as a combination of the financial, human, and social capital. The use of each form of capital in the process of firm organization is summarized in Table 6.1. Every one of the business processes is required to ensure a predictable cash flow. Table 6.1 is
therefore a summary of the role of entrepreneurial capital in the transition from a start-up firm to a new firm, as defined in GEM reports.

The problems in most functional areas require more than one form of capital (Table 6.1). This observation supports theoretical studies that have shown that two forms of capital can occur simultaneously (Slotte-Kock & Coviello, 2010).
### Table 6-1 Role of entrepreneurial capital in the start-up - new firm transition

<table>
<thead>
<tr>
<th>Business areas/processes</th>
<th>External finance</th>
<th>Managing internal finance</th>
<th>Sales / marketing</th>
<th>Product / service development</th>
<th>Production / operation management</th>
<th>General management</th>
<th>Human management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forms of capital</strong></td>
<td>Human; Finance (bootstrap financing); Social (loans from network)</td>
<td>Human; Finance (premium pricing); Social (reputation)</td>
<td>Social; Human</td>
<td>Human; Social (limited Ideas for product development)</td>
<td>Human (e.g. for setting, checking and maintaining quality); Social (for suppliers); Finance (for production space)</td>
<td>Human</td>
<td>Human; Social (for recruitment); Financial (limited)</td>
</tr>
</tbody>
</table>
The interplay of the various forms of capital in this study is shown in Table 6.2. The aim of entrepreneurs is to have a predictable cash flow. This is dependent on human capital, which apart from arming the entrepreneur with ingenuity, also helps him/her build up a social network that forms his/her social capital. Social capital (reputation and credibility) brings in business by counterbalancing the phenomenon of "liability of newness". The revenues from business provide the financial capital of the firm by ensuring a predictable cash flow.

Table 6-2 Interplay of human, social, and financial capital to generate entrepreneurial capital

<table>
<thead>
<tr>
<th>HC</th>
<th>SC</th>
<th>FC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate work experience</td>
<td>Reputation ➔ Referrals</td>
<td>Predictable cash flow</td>
</tr>
<tr>
<td>Confidence, Network</td>
<td>➔ Biz opportunities ➔</td>
<td></td>
</tr>
<tr>
<td>Choice of strategy</td>
<td>More Referrals ➔ More</td>
<td></td>
</tr>
<tr>
<td>Cash flow management</td>
<td>business opportunities</td>
<td></td>
</tr>
<tr>
<td>Understanding Industry (knowing the rules of the game)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The interplay observed here is one that was earlier suggested by Bourdieu 1986 (in (Klyver & Hindle, 2007)) who suggested that eventually, all forms of capital convert into financial capital, even if the conversion is not direct.
Chapter 7. Conclusions and Recommendations

7.1. Summary of findings

The aim of this study was to determine the role of entrepreneurial capital in the transition of firms from the start-up to the new phase, as defined in GEM reports (Herrington et al., 2010) using the problems faced by entrepreneurs in several functional areas of a business as proxy. We defined entrepreneurial capital as the combination of the financial, human, and social capital of the entrepreneur. We collected the actions used by entrepreneurs to solve problems and classified them into the various forms of capital.

We have shown that entrepreneurial capital drives the transition from start-up to new firm. We have documented the activities performed by entrepreneurs to solve problems in the core functional areas of business that constitute each of the three forms of capital. By using the functional areas of a business, we have been able to open up what in literature are "black boxes" that go "entrepreneur capital X is important for positive entrepreneurial outcomes".

The human capital of an entrepreneur is instrumental in launching and supporting all the processes in a business. Corporate work experience is important in several ways: it endows an entrepreneur with an understanding of the product/service they end up offering; exposes him/her to the target industry; endows him/her with important business skills; and, builds him/her a personal
social network that becomes social capital (reputation and credibility) when they launch their business.

Social capital in this study is based on human capital. It is a source of resources (loans and partners/employees) but most importantly, confers reputation to an entrepreneur. Reputation counters the negative effects of "newness" and leads to sales. Entrepreneurs regard highly contacts that can be leveraged for business.

Financial capital, in the form of cash flow, determines whether a business transits from start-up to new firm. Entrepreneurs in the start-up phase use bootstrap finance to manage their cash flow and circumvent the difficulties encountered in accessing external finance. Entrepreneurs strive to have a cash cow product/service in their mix of offering to ensure that the business earns revenue to keep it operational. Bootstrap financing is increasingly becoming a choice. Entrepreneurs don't want the infusion of hard cash by investors into their businesses. Bootstrap financing is a microcosm of entrepreneurial capital. Entrepreneurs are applying bootstrap financing techniques more strategically.

Human capital visibly changes the most during the start-up – new firm transitioning period under the rule "human capital is additive". Sources of financial capital change to include cash flow. The changes in social capital are latent during the transition.
7.2 Implications of study

a) Potential entrepreneurs

1. Education is important. It is the stepping stone to corporate employment.
2. Get corporate experience first before you launch your business: you kill three birds with one stone because you can buy assets that can be used to support cash flow (financial capital), gain experience (human capital) and develop a personal network (social capital).
3. You can't afford to be a one-product/service wonder unless it is also your cash cow.
4. Accept that banks are a no-go, and government bodies mandated to assist entrepreneurs are, at least for now, ineffective. You will need yourself and your network.
5. Do not have a rosy picture of business opportunities: The number of business contracts in the first three months is dismal.

b) Government and business incubators

Do not focus on financial assistance to entrepreneurs. Those who need financial capital are candidates for exit of business. Entrepreneurs with the stamina to stay in business avoid hard cash injections in their businesses and are choosing to use bootstrap finance. The best scenario is for businesses to be taught to be frugal and to rely more on internal sources to finance themselves in the early years. This comes from an observation in this study that most entrepreneurs consider cash injections from outside less consequential. Entrepreneurs need connections, social capital, that can give them transactions.
c). Academia and others in the entrepreneurship research

We need to standardize terms in the entrepreneurship literature. This will greatly assist by avoiding confusion. For example, start-up firms in GEM reports are those that have been paying salaries for three months and new firms have been paying salaries for up to 42 months. In the literature, new firms can have a maximum age of 15 years ((Stringfellow & Shaw, 2009))

To compilers of GEM reports, the timeline for the transition of start-up firms to new firms is too short. It is usually covered by a single contract. A longer timeline can assist in bringing to the fore any valuable nuanced changes in the forms of entrepreneur's capital.

7.3 Recommendations for future work

An analysis of the entrepreneurs who participated in this research shows they were all in the services industry. They need minimal initial capital to set up their firms and their approach to e.g. product development could be unique. It would be interesting to perform research on entrepreneurs in manufacturing and related industries to see whether the picture of transitioning provided here is applicable to their situation.

In general, in the course of this research, we realized that there is very little literature on new firms in each of the business functional processes used to collect data. Each of them is therefore a candidate for future research.
This study considered entrepreneurs who were in business at the time of the interview. The observations made can be validated by performing another research, but using entrepreneurs who exited business. The comparison can lead to more insight in the transition process.

Some information in the literature requires to be updated. In particular, and pertinent to this research, the methods of bootstrap financing are out of date and should be refreshed to capture current trends.
References


Appendix 1: Data collection instrument

UNIVERSITY OF PRETORIA
Gordon Institute of Business Science (GIBS)

Informed Consent Letter

Dear Sir/Madam,

I am conducting research on how entrepreneurs in South Africa resolve challenges that face their firms very early on when they start operations. The research is an interview to last between 45 and 60 minutes. The research will help us make recommendations to stakeholders about what to expect and how help entrepreneurs in South Africa. Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. By agreeing to the interview, you indicate that you voluntarily participate in this research. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher name: Christopher Machio
Research Supervisor Name: Zenobia Ismail
Email: cmachio@csir.co.za
Phone: 012 841 2870

Email: zismail@idasoa.org.za
Phone: 012 392 0538

Signature of participant:______________________________________________
Date: _________________________________

Signature of researcher: ______________________________________________
Date: ________________________________
A. Business information

Please describe how you are, what you do and your business.

Business problems and activities to solve them

The following are known problems that face entrepreneurs/business owners:

1. Obtaining external finance
2. Managing internal finance (Maybe Table A1 could assist)
3. Sales/marketing
4. Product/service development
5. Production/operation management
6. General management
7. Human resource management

We are interested to know whether you:

i). Experienced any of these problems during your first three months in operation and how you went about solving them;

ii). Are experiencing the problems now and how you are solving them

We will appreciate it if you can be as frank as possible without compromising your business secrets.
### Appendix 2: Project timelines during the life of the project

<table>
<thead>
<tr>
<th>Subject</th>
<th>Last, final date (2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Official: Proposal submission</td>
<td>Wednesday 27 April</td>
</tr>
<tr>
<td>2 Proposal marks, supervisor comments available</td>
<td>Thursday 12 May</td>
</tr>
<tr>
<td>3 Meeting 1: Discuss comments on proposal with supervisor, chart way forward</td>
<td>Tuesday 17 May</td>
</tr>
<tr>
<td>4 Start on Chapters 1 – 4: Fine tune Literature Review</td>
<td>Tuesday 17 May</td>
</tr>
<tr>
<td>5 Elective 1: Operationalising Strategy</td>
<td>Thursday 19 – Sunday 22 May</td>
</tr>
<tr>
<td>6 Elective II: Scenario Planning</td>
<td>Thursday 2 – Sunday 5 June</td>
</tr>
<tr>
<td>8 Finalise Chapters 1 – 4</td>
<td>Friday 1 July</td>
</tr>
<tr>
<td>9 Submit electronic copy of Draft of Chapters 1 – 4 to Supervise</td>
<td>Friday 1 July</td>
</tr>
<tr>
<td>10 Receive Comments on Chapters 1 – 4 from Supervisor (Check with Supervisor)</td>
<td>Friday 8 July</td>
</tr>
<tr>
<td>11 Refine Chapters 1 – 4 and submit to Supervisor</td>
<td>Monday 11 July</td>
</tr>
<tr>
<td>12 Official: Research Workshop 1: Chapters 1 – 4</td>
<td>Monday 11 July</td>
</tr>
<tr>
<td>13 Meeting 2: Ethics clearance form</td>
<td>Thursday 14 July</td>
</tr>
<tr>
<td>14 Submit Ethical Clearance</td>
<td>Friday 15 July</td>
</tr>
<tr>
<td>15 Identify possible interviewees</td>
<td>Friday 15 July</td>
</tr>
<tr>
<td>16 Hold first interview, perform transcription</td>
<td>Wednesday 20 July</td>
</tr>
<tr>
<td>17 Elective IV: Project Management</td>
<td>Thursday 21 – Sunday 22 July</td>
</tr>
<tr>
<td>18 Official: Supervisor sign off on Chapters 1 – 4</td>
<td>Monday, 25 July</td>
</tr>
<tr>
<td>19 Complete interviews</td>
<td>Wednesday 3 August</td>
</tr>
<tr>
<td>20 Compile Chapter 5</td>
<td>Wednesday 10 August</td>
</tr>
<tr>
<td>21 Submit Chapter 5 to Supervisor</td>
<td>Wednesday 10 August</td>
</tr>
<tr>
<td>22 Official: Research workshop 2: Chapters 4 – 5</td>
<td>Monday, 22 August</td>
</tr>
<tr>
<td>23 Complete Chapters 6 and 7</td>
<td>Wednesday 14 Sept</td>
</tr>
<tr>
<td>24 Submit Chapters 5 – 7 to Supervisor</td>
<td>Thursday 15 Sept</td>
</tr>
<tr>
<td>25 Receive comments on Chapters 5 – 7 from Supervisor</td>
<td>Tuesday 20 Sept</td>
</tr>
<tr>
<td>26 Official: Research Workshop 3 – Chapters 5, 6, 7</td>
<td>Monday 26 Sept</td>
</tr>
<tr>
<td>26 Meeting 3: Review Chapters 5 – 7</td>
<td>Monday 26 Sept</td>
</tr>
<tr>
<td>27 Global Module</td>
<td>10 days betw Monday 3 and Thursday 27 October</td>
</tr>
<tr>
<td>28 Official: Research Workshop 4 – Entire project</td>
<td>Monday 31 October</td>
</tr>
<tr>
<td>28 Revise, Proof Read, Print</td>
<td>Wednesday 2 November</td>
</tr>
<tr>
<td>29 Submit</td>
<td>Monday 7 November</td>
</tr>
<tr>
<td>30 Official: Dissertation submission:</td>
<td>Wednesday, 9th November</td>
</tr>
</tbody>
</table>
Appendix 3: Consistency Matrix of the research

<table>
<thead>
<tr>
<th>Research questions</th>
<th>Literature Review</th>
<th>Data Collection Tool</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Question 1</strong>: What problems/challenges did/do you face after you started/nw that you are paying salaries and how did/do you solve them?</td>
<td>(Huang et al., 2009)</td>
<td>Interview</td>
<td>Content analysis, constant comparison</td>
</tr>
<tr>
<td><strong>Question 2</strong>: Do the sources of financial capital of firm owners change between start-up stage and new firm stage?</td>
<td>(Shaw et al., 2008) (Song, Podoynitsyna, Van Der Bij, &amp; Halman, 2008)</td>
<td>Survey, Interview</td>
<td>Content analysis; analytic induction</td>
</tr>
<tr>
<td><strong>Question 3</strong>: Do the sources of human capital of firm owners change between start-up stage and new firm stage?</td>
<td>(Carter et al., 1996; Liao &amp; Welsch, 2008; Lichtenstein et al., 2006)</td>
<td>Survey, Interview</td>
<td>Content analysis; analytic induction</td>
</tr>
<tr>
<td><strong>Question 4</strong>: Do the sources of social capital of owners change between start up stage and new firm phase?</td>
<td>(Coleman, 2007; Huynh et al., 2010; Kim et al., 2006)</td>
<td>Survey, Interview</td>
<td>Content analysis; analytic induction</td>
</tr>
</tbody>
</table>
Appendix 4 Coding scheme for forms of capital

Financial capital (FC): Savings, boot strapping; loans; investments; salary.

Human capital (HC): Abilities, capabilities, Education, work experience, cognitive ability

Social capital (SC): Family; friends; referrals/references; networks; reputation

Entrepreneurial capital (EC): Combination of financial capital, human capital and social capital