

Capital Constraints to Entrepreneurial Start-ups in South Africa's Emerging Agribusiness Industry

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Abstract

This study is aimed at uncovering the capital constraints of emerging agribusinesses in South Africa. The goal of the research is to provide South African policy makers, programme administrators and development practitioners with information to make sound policy and programme decisions for the reduction of such constraints. The research also aims to make potential entrepreneurs aware of the importance of considering capital constraints to the start-up and growth of their businesses.

This research was informed by the principles of qualitative research and is both exploratory and interpretative in nature. The research process comprised of two phases. The first phase constituted a sample of five experts from the finance-enabling environment (financial institutions); and the second phase was made up of twenty start-up entrepreneurs in the emerging agribusiness industry.

The research found that barriers to accessing finance are largely due to lack of collateral, a poor credit record, inadequate business skills and communication problems between financiers and entrepreneurs. On the issue of what role the finance-enabling environment should play in reducing barriers to finance, findings from the research suggested more risk-taking by the financiers, relaxing the stringent credit assessment criteria, increasing the risk appetite and providing more for impairments or bad debts.

Key words: entrepreneurship; capital constraints, start-up enterprises, agribusiness industry

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 authorisation and consent to carry out this research.

Zanele Tullock

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“I did something that challenged the banking world. Conventional banks look for the rich; we look for the absolutely poor. All people are entrepreneurs, but many don't have the opportunity to find that out.”

Muhammad Yunus

CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1 Introduction

The important role small businesses and entrepreneurship play in stimulating job creation, economic growth, poverty alleviation and the general upliftment of living standards has been recognised both internationally and in South Africa (Van Vuuren & Groenewald, 2007). Entrepreneurs drive innovation and speed up structural changes in the economy, thereby making an indirect contribution to productivity (Herrington, Kew & Kew, 2008).

There is widespread agreement on the importance of entrepreneurship for economic development, even more so in the agricultural sector given that the latter is the single largest sector globally, and with its many facets, is possibly the most complex of all sectors (McKertich, 2004 in Cloete, 2008). The proposed study hopes to serve as a benchmark or a guideline for policy makers and development practitioners involved in ensuring the success of agribusiness entrepreneurial start-ups, with specific reference to accessing capital.

While agriculture contributes only less than 4% to South Africa's gross domestic product (GDP), it provides around 10% of the country's formal sector employment opportunities

(Statistics South Africa, 2004). The agriculture sector has relatively large linkage effects with the rest of the economy, and it is a major earner of foreign exchange (Statistics South Africa, 2004). Approximately 20% of the country's merchandised non-gold exports are primary agricultural products. Typical examples are the wine, fruit, and livestock industries (Worthington-Smith, 2003). According to Lahiff (2007), South African agriculture is dualistic in nature, with a highly developed and generally large-scale commercial sector co-existing with large numbers of small-scale farmers on communal lands.

Commercial farming is important to the export economy, and subsistence farming is important to a wide section of the population (Aliprandini, 2010). According to Mokoena (1996) in Botha (2008), on the one hand commercial farmers have historically been relatively well advanced in terms of technology although quite dependent on imported technology, whether through imported machinery and/or agrochemicals, or under licence as is the case for genetically modified (GM) seed; on the other hand, subsistence farms have been less endowed in terms of technology. In 1994, with the advent of democracy, black economic empowerment and the upliftment of previously disadvantaged groups have seen a number of new and emerging entrepreneurs come into the limelight (Mokoena, 1996 in Botha, 2008).

A large part of poverty reduction strategies in developing countries, particularly in Africa, is predicated on expanding agricultural production and improving the output and capabilities of small farmers (Humphrey, 2006). Entrepreneurship is one of the means

through which innovation in the agricultural sector can be fostered, thereby improving the output and capabilities of small farmers, especially those that are emerging.

According to Amanor (2009) the incorporation of smallholders or small-scale farmers into agribusiness is one of the themes that emerged in the World Bank Development Report of 2008. The report states that “There is evidence that the political economy has been changing in favor of using agriculture for development. Democratization and the rise of participatory policy making have increased the possibilities for smallholders and the rural poor to raise their political voice. New politically powerful private actors have entered agricultural value chains, and they have an economic interest in a dynamic and prosperous agricultural sector” (World Bank Development Report, 2008, p. 246).

Against this backdrop, this study is aimed at uncovering the capital constraints of emerging agribusinesses in South Africa. Investigating the financial factors that constrain start-up ventures and small businesses in the SMME agri-business sector, this research can make potential entrepreneurs aware of the importance of considering these factors in the start-up of their businesses. Once these factors are identified, they could also be incorporated into the training and development programmes of South African secondary and tertiary curricula.

1.2 Background to the Study

1.2.1 The state of entrepreneurship in South Africa

Most entrepreneurial activity takes place in small, medium and micro enterprises (SMMEs). According to Nieman and Nieuwenhuizen (2008), SMMEs make up 97.5 % of all businesses in South Africa. The authors further assert that SMMEs generate 35% of the gross domestic product (GDP), contribute to 43% of the total value of salaries and wages paid in South Africa, and employ 55% of all formal private sector employees.

The promotion of entrepreneurship and small business remains an important priority of the government of South Africa. According to the Department of Trade and Industry (2005), the government's commitment is to ensure that small businesses progressively increase their contribution to the growth and performance of the South African economy in critical areas such as job creation, equity and access to markets.

In March 1995 an important milestone was achieved when government released its *White Paper on National Strategy for the Development and Promotion of Small Business in South Africa*, the first time a comprehensive policy and strategy on small business development was formulated in the country. This policy was later translated into legislation through the promulgation of the Small Business Act of 1996.

Much of the literature in this section on the state of entrepreneurship in South Africa is informed by the 2001 to 2008 findings of the Global Entrepreneurship Monitor (GEM). The GEM was initiated in 1999 by academics at the London Business School in the United Kingdom and Babson College in the United States (Von Broembsen, Wood &

Herrington, 2005). It has developed into one of the world's leading research consortia concerned with improving our understanding of the relationships between entrepreneurship and national development (Herrington, Kew and Kew, 2008). The *raison d'être* behind the GEM is to:

- ❖ compare countries in terms of their entrepreneurial activity;
- ❖ establish which factors encourage entrepreneurship;
- ❖ determine whether the rate of entrepreneurship in a country affects national economic growth; and
- ❖ identify policies that encourage entrepreneurial activity.

As of 2005, teams from 43 countries around the globe have participated in the GEM. It is the largest and most rigorous longitudinal study of entrepreneurship on a global scale (Von Broembsen, Wood & Herrington, 2005). South Africa first participated in the study in 2001, and in all subsequent years thereafter.

In the 2001 GEM survey conducted by Driver, Wood, Segal and Herrington (2002), South Africa was placed in fourteenth position out of the 29 countries measured. In the same report the authors state that just more than half of the key informants (53%) identified problems with financial support as one of the three main inhibitors of entrepreneurial activity in South Africa. In GEM reports prior to 2003 (i.e. 2001 and 2002), entrepreneurship specialists in South Africa identified education and training as the most important factor inhibiting entrepreneurial activity in South Africa. In 2003, however, financial support was identified as the number one limiting factor. Overall,

financial support is the number one limiting factor for developing countries, according to the country specialists in these countries. In the 2001 GEM report the key issues that emerged regarding access to finance in South Africa are:

- **Financial institutions are not able to interact effectively with entrepreneurs:**
South African financial institutions have grown up in an economy dominated by large corporations that undertook big projects. Assessing start-ups and small enterprises is not part of the institutional memory and not part of the skills set of managers in most financial institutions.
- **Entrepreneurs are not able to interact effectively with financial institutions:**
South African entrepreneurs and would-be entrepreneurs are often ill-equipped to develop a business concept and present it confidently. They may also be intimidated by financial institutions, especially if they are not confident about their language and numeracy skills.
- **Poverty and lack of income:** Many expert informants noted that for entrepreneurs or would-be entrepreneurs who do not have access to resources in the first place, it is extremely difficult to access business finance.
- **Micro-enterprise finance:** Micro-enterprise finance is lacking. It is difficult to get a micro-loan for a business, on the basis of a business plan.

- **Community finance:** Community finance mechanisms, such as village banks, *stokvels* and informal business angels are often an entrepreneurial response to needs or market niches that are not accessible to mainstream commercial banks. Expert informants noted that it is necessary to explore successful examples of innovative community finance initiatives, including their replicability. and mechanisms for formal and informal financial institutions to relate to each other.

Foxcroft, Wood, Kew and Herrington (2002) in their report, compared 37 participating countries, and South Africa ranked as follows:

- 19th in overall entrepreneurial activity with 6.54% of the adult population involved in entrepreneurial ventures established since January 1999. This rate is the lowest of all the developing countries participating in the 2002 GEM. The countries are, in alphabetical order, Argentina, Brazil, Chile, India, Mexico, Thailand and South Africa.
- 15th in start-up activity, with just under 5% of the adult population involved in starting a business. In the context of the GEM report a start-up is a business that has not paid salaries and wages for longer than three months.
- 29th in new firm activity, with only 2% of the adult population involved in new firms. In the context of the GEM report a new firm is a business that has paid salaries and wages for longer than three months but less than 42 months.
- 9th in necessity entrepreneurship (a necessity entrepreneur is involved in a new business because s/he has no other choice for work), with 2.38% of the adult population being necessity entrepreneurs.

- 29th in opportunity entrepreneurship (an opportunity entrepreneur is involved in a new business to pursue an opportunity), with 3.3% of the adult population being involved in pursuing exploitable opportunities.
- Finally, in all measures of entrepreneurship South Africa ranked lowest of all developing countries participating in the study.

South Africa has slipped further behind in international rankings of entrepreneurial activities as per GEM survey analyses. According to Orford, Wood, Fischer, Herrington and Segal (2003), South Africa ranked in the bottom quartile of all countries with regard to opportunity and new firm activity, and achieved an overall low rating on survival rates for new entrepreneurial ventures. GEM's primary measure of entrepreneurial activity is the Total Early-stage Entrepreneurial Activity (TEA) index. In 2003, South Africa had a TEA of 4.3%, meaning that the authors estimated that approximately four out of every 100 adults in South Africa between the ages of 18 and 64 owned or managed a start-up business or a new business, either with others or by themselves. In 2004, South Africa's TEA index encouragingly went up to 5.4%.

In the 2004 GEM report South Africa ranked 20th out of 34 countries, and in 2005 it ranked 25th out of 35 countries. In the 2008 GEM report, factors that were cited by South African expert informants as constraining entrepreneurship were, in order of importance, government policies, financial support, and education and training. According to Bosma, Acs, Autio, Coduras and Levie (2008), access to finance as a key problem facing all entrepreneurs is a common feature of research.

Table 1: The Percentage of Entrepreneurs in Different Industries in South Africa

Category	Percentage of entrepreneurs		
	Start-ups	New firms	Total
Agriculture, forestry, hunting, fishing	1.3	2.6	1.6
Mining, construction	9.7	5.0	4.1
Manufacturing	14.3	19.1	13.8
Transport, communication, utilities	9.8	0,7	8.0
Wholesale, motor vehicle sales, utilities	6.0	6.5	6.3
Retail, hotel, restaurant	40.8	47.9	43.5
Finance, insurance, real estate	0.3	5.2	1.4
Business services	10.1	7.9	9.4
Health, education, social services	2.6	0.7	2.3
Consumer services	11.0	3.5	9.7

Source: Driver, Wood, Segal and Herrington (2001)

Given this background, it is imperative to look at the obstacles that small business owners face in terms of access to start-up finance. Equally important is to assess the current situation of the South African financial sector and come up with possible solutions that will help increase the financial success of small businesses in South Africa's agricultural sector. Pare (2002) in Cloete (2008) asserts that in developing countries the agricultural sector is identified as being critical for employment and export growth. Furthermore, South Africa is a major contributor to the farming industry world-wide (Cloete, 2008). This encapsulates the importance of this study with specific reference to the entrepreneurial process within this branch of industry. Table 1 above depicts the percentage of entrepreneurs in different industries in South Africa.

1.2.2 The South African agricultural sector

Agriculture, forestry, hunting and fishing contributed some 3.7% to South Africa's GDP during 2004, while manufacturing contributed another 19.6% (the food processing sector accounts for approximately 15% of this manufacturing sector) (Amanor, 2009). In 2002, the last figures available, agriculture employed 9.7% of workers in the formal sector (451 000), plus a similar number (459 000) of casual and seasonal workers. Agricultural exports increased from ZRA 11.4 billion in 1997 to ZRA 28.8 billion (roughly USD 4 billion) in 2007.

About one-third of agricultural production is exported and contributes approximately 6.1% to total South African exports. Agricultural exports' share of the total value of agricultural income increased from 20% to 40% over the last five years (Wakeford, 2003). The country ranks as one of the top five exporters of grapes, avocados, citrus, and plums. It supplies 70% of the world's ostrich products, and is the ninth largest wine producer in the world. More than 65% of all agricultural exports are processed products. The commercial farming sector produces most of the outputs and is responsible for almost all of the exports. In 2002, fewer than 2 500 farmers (6.6% of the total) earned more than 50% of the total gross farming income of the sector (Statistics South Africa, 2004).

Commercial farmers are increasingly diversifying their production activities and the average farm size has increased. Relatively low inflation rate is accompanied by rising economic growth and farm unemployment. This situation is exacerbated by the impact

of HIV/AIDS, which is weakening institutions and destroying the social capital with serious implications for the reduction of rural poverty in the country. Wakeford (2003) reports that whilst productivity gains, real wages and unemployment have all increased since 1990, in reality, productivity has not kept pace with the growth in real wages. The share of labour in the country's output has been declining since the early 1990s, and reached its lowest point relative to the share of capital during the past 40 years.

The following is a brief overview of key players in the agricultural and agribusiness sector in South Africa:

(i) Agri South Africa (Agri SA)

Agri SA was established in 1904 as the South African Agricultural Union. It serves some 70 000 large and small commercial farmers. Agri SA promotes, on behalf of its members, the sustainable profitability and stability of commercial agricultural producers and agribusinesses through its involvement at national and international levels. Agri SA is structured into three chambers, namely, the General Affairs Chamber, which deals with general agricultural policy matters on behalf of nine provincial affiliates; the Commodity Chamber, which deals with sub-sector policy issues on behalf of 25 commodity organisations; and the Agricultural Business Chamber (ABC) with 65 agribusinesses as members (www.agrisa.co.za).

(ii) Agricultural Business Chamber (ABC)

The ABC is widely recognised and respected as the key champion for agribusiness in South Africa. By developing and servicing influential decision-making networks, the ABC is increasingly playing a major role in creating an environment that is conducive to sound, growing and competitive agribusiness. The mode of operation of the ABC is aimed at providing well-motivated and well-reasoned inputs towards effective and influential business and government networks, thereby contributing to a vibrant and competitive agricultural sector (www.agbiz.co.za).

(iii) Transvaal Agricultural Union South Africa (TAU SA)

TAU SA was established in 1897 as the Transvaal Agricultural Union. In 2002, the union reorganised to become a national agricultural union serving commercial farmers (South African Government Communication and Information System (SA GCIS, 2010/2011)).

(iv) Agricultural Research Council (ARC)

The ARC is an autonomous statutory body set up in terms of the Agricultural Research Act, (Act 86 of 1990). It is the largest agricultural research organisation in Africa. The ARC provides research support to the Department of Agriculture, Forestry and Fisheries (DAFF), and the nine provincial departments of agriculture. The ARC also supports other agricultural institutions such as the Registrar of Livestock Improvement and Identification, the Registrar of Brands, the South African

Veterinary Council and the Perishable Products Export Control Board (SA GCIS, 2010/2011).

(v) National African Farmers' Union of South Africa (Nafu)

Nafu is an independent, non-governmental, voluntary organisation representing farmers in South Africa. The organisation was formed in 1991 with the assistance and support of the National African Federated Chamber of Commerce and Industries (SA GCIS, 2010/2011).

(vi) Department of Agriculture, Forestry and Fisheries (DAFF)

In government the agricultural sector is represented by DAFF which has a national office in Pretoria and provincial offices in each of South Africa's nine provinces. Each municipality has an agricultural office too.

1.3 Problem Statement

Owing to the low economic growth, high unemployment, and high levels of poverty in South Africa, entrepreneurship becomes a critical solution for the starting and developing of small business (Van Vuuren & Groenewald, 2007). Job creation, for example, is currently one of the key political and economic issues in South Africa, yet there is currently insufficient data on barriers to entrepreneurial start-ups, especially barriers pertaining to capital in the agribusiness sector.

In South Africa, access to appropriate finance is a major constraint on the successful development of SMMEs and the largest percentage of small businesses fail during the first two years of their existence due to cash flow problems that arise because they could not manage growth (Botha, 2008). Given that agriculture, agro-processing and related support activities in South Africa remain critical contributors to both national employment and export revenues (Bhorat, 2004 in Earle & Paterson, 2007), the need for entrepreneurship in this sector is even more pressing and critical in improving income and wealth distribution in South Africa.

1.4 Purpose Statement

The development of SMMEs has been the subject of growing interest among academics and practitioners, as well as multilateral institutions (Ekwulugo, 2006). However, the growth and evolution of agribusinesses has been under-researched, even as global developments and market dynamics impact on the agricultural industry as a whole (Amanor, 2009). Despite the growth in venture capital funding, access to funding remains a problem for small enterprises, **in particular for empowerment groups in South Africa** (Botha, 2008). In most surveys among small enterprises, the provision of concessionary finance emerges as one of the most urgently felt needs. Yet, extensive research reveals that access to financing is one of several important factors that are critical for business survival and growth (Mutezo, 2005).

In light of the above, the contribution of this research is to fill a vacuum in the empirical literature of entrepreneurship by presenting pragmatic evidence on the financial

determinants and trends of capital constraints to start-ups in South Africa's agribusiness industry. **The research is specifically concerned with 'emerging' or previously disadvantaged entrepreneurs in this industry**, and not commercial farmers. The goal is to provide South African policy makers, programme administrators and development practitioners with information to make sound policy and programme decisions for the reduction of such constraints. The research also aims to make potential entrepreneurs aware of the importance of considering capital constraints to the start-up and growth of their businesses. Recommendations will be tabled as to how these constraints may be addressed, and new areas of possible research will be identified.

1.5 Research Questions

The research is intended to address the following critical questions:

Research question 1: *What financial requirements are important to an individual considering starting an entrepreneurial business venture in the agribusiness industry?*

Research question 2: *What are the barriers associated with the provision of capital to entrepreneurial start-ups from both the entrepreneur's and the financier's view-point?*

Research question 3: *What future role should the finance-enabling environment play to reduce the barriers to finance?*

1.6 Layout of Chapters

This research report is composed of seven chapters as follows:

Chapter One: Introduction

A background to the focus of the study within the South African context is offered in Chapter One. This chapter also outlines the research problem, the purpose statement, the significance of the study, research questions guiding the study and limitations to the study. The following issues are addressed: the role of entrepreneurship in economic growth globally and in the South African economy; the state of entrepreneurship in South Africa; and a brief overview of the agricultural/agribusiness industry in South Africa.

Chapter Two: Literature Review

Chapter Two establishes a theoretical framework of reference that informs the study. It presents and explores the body of literature on the subject of entrepreneurship and highlights the various types of funding available to prospective and current entrepreneurs. This chapter also provides a comprehensive literature review on the definition of entrepreneurship, the characteristics of an entrepreneur, special contributions of small businesses to the South African economy, global perspective on SMMEs and issues pertaining to small business finance in South Africa.

Chapter Three: Research Questions

Chapter Three discusses the research questions that will guide this study.

Chapter Four: Research Methodology

Chapter Four deals with the research methodology applied in this study as well as the design of the questions for the empirical research that were formulated and distributed to a selected group of entrepreneurs and funding institutions. The research paradigm underlining the study, research design, sampling procedures, data collection strategies and ethical considerations are also outlined in this chapter.

Chapter Five: Research Results

Chapter Five focuses on the interpretation of the empirical research results by means of qualitative analysis. Research findings from the field, supported by the theoretical framework of the study, are presented in this chapter in the form of figures and other concise presentations.

Chapter Six: Discussion of Results

Chapter Six organises, interprets and synthesises data in accordance with applicable research guidelines and procedures. It culminates in the systematic and meaningful analysis of collected data on capital constraints to entrepreneurial start-ups in South Africa's emerging agribusiness industry. The findings portrayed in Chapter Five are discussed in this chapter in relation to the research objectives and the shortcomings of the study. This chapter also brings to the fore key considerations that focus on addressing the identified barriers to finance for entrepreneurial start-ups in the agribusiness industry.

Chapter Seven: Conclusion

In this chapter, the researcher summarises the findings pertaining to the research problems, makes relevant conclusions and gives recommendations for future research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

In most industrially developed and developing economies, a growing number of SMMEs need access to a wide range of sources of finance. Financial capital forms a core factor of production in the resource component of the entrepreneurial process. Arguably, well-functioning capital markets could facilitate access to finance, promote entrepreneurship and enable growth-oriented businesses to operate profitably and make significant contributions towards employment and economic stability (Hussain, Millman & Matlay, 2006).

Entrepreneurial start-ups are those newly founded companies that endeavour to enter, or sometimes even create, a market with innovative products or services. In their earliest development stages, entrepreneurial start-ups are very often hampered by a scarcity of critical resources, of which financial capital and management capacity are the most predominant (Köhler, 2003 in Stubner, Wulf & Hungenberg, 2007).

The purpose of this literature review, in line with the overall research problem, is to enable the researcher to demarcate the research problem clearly. It contextualises studies conducted locally and internationally and presents the theoretical framework within which the research is done. Relevant publications, legislation, scientific journals, academic books, reports and newspaper articles on capital constraints to entrepreneurial start-ups in the agribusiness industry were consulted to gather

information and debates on the subject and to determine whether the proposed research is not a duplication of previous research. The actual research, however, will not only rely on the review of relevant literature but the human subjects in this research will also constitute important sources of data at a primary level.

The review of this literature is divided into five parts. Part One provides a general perspective on entrepreneurship and the entrepreneurial process. Part Two is an overview of financial management with specific reference to the capital needs of an organisation, determinants of financial structure at start-up and various forms of financing. Part Three looks at an overview of the SMME sector in South Africa, and further discusses the SMME financial sector in South Africa.

2.2 Entrepreneurship

Despite a large number of studies, the definition of entrepreneurship and/or an entrepreneur continues to generate debate (Low, 2001 in Howorth, Tempest & Coupland, 2005). The term “entrepreneurship” has historically referred to the efforts of an individual translating a vision into a successful business enterprise (Collins & Moore, 1964; Hebert & Link, 1988 as cited in Kearney, Hisrich & Roche, 2009).

The term entrepreneurship comes from the French verb ‘entreprendre’ and the German word ‘unternehmen’, both of which literally mean ‘undertake’ (Boxill, 2003).

The 1998 OECD report cited in Matlay (2005) states that increasingly the term 'entrepreneurship' has become synonymous with individual, organisational and national success. Kearney, Hisrich and Roche (2009) state that entrepreneurship has been conceptualised as a process that can take place in organisations of all sizes and types. This process is a means of creating value by bringing together a unique combination of resources to exploit an opportunity.

Otuteye and Sharma (2004), as cited in Mathews (2008), argue that in the conception of an economist, an entrepreneur is one who has set his target on profit maximisation or reduced transaction costs in the exchange of goods or services. In management theory, entrepreneurs are first managers who combine their managerial and innovative resources to produce or create value for a targeted or segmented group of consumers (Bhattacharya, 2006 in Mathews, 2008).

Matlay and Westhead (2004) in Matlay (2005) argue that as a dominant paradigm, the concept of entrepreneurship has established itself firmly in the parlance of policy-makers, educators, advisors and business people. The authors further argue that as a generic term, this concept has been used in a variety of contexts and it covers a broad range of interchangeable meanings and situations. Ritchie and Lam (2006) state that according to the Small Business Service (SBS), the UK government's agency for small business, entrepreneurship is crucial to "boosting productivity, increasing competition and innovation, creating employment and prosperity, and revitalising our communities".

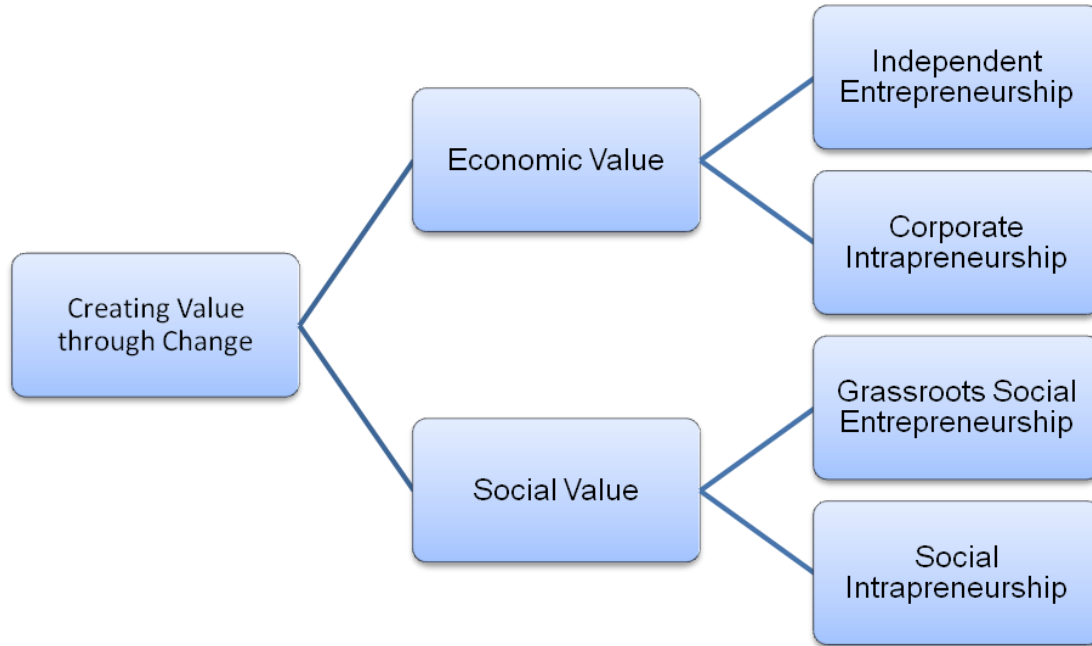
2.2.1 Types of entrepreneurship

Entrepreneurship has been the focus of academic discussion for decades. Nieman and Niewenhuizen (2009) attest to the fact that in the field of entrepreneurship there is no distinguishable consensus on the definition of an entrepreneur or the boundaries of the paradigm. Iversen, Jorgensen and Malchow (2008) emphasise the lack of consensus in the area of entrepreneurship as exemplified by a number of Organisation for Economic Co-operation and Development (OECD) reports, where entrepreneurship is defined as:

- “ An entrepreneur is anyone who works for himself or herself, but not for someone else” (OECD, 2001b, p. 23 in Iversen *et al.*, 2008)
- “An entrepreneur has the ability to marshal resources to seize new business opportunities” (OECD, 1998, p. 41 in Iversen *et al.*, 2008)
- “Entrepreneurship is the dynamic process of identifying economic opportunities and acting upon them by developing, producing and selling goods and services” (OECD, 1997, p. 151 in Iversen *et al.*, 2008).

On the other hand, Yusuf (2005) provides a more succinct definition, which states that entrepreneurship is based on two fundamental characteristics: the type of value being created and the organisational structure. There are two types of value created by entrepreneurship: either economic, such as profit or financial independence, or social, such as mobility or equity. Figure 1 below depicts this classification system.

Figure 1: Classification System for Defining Entrepreneurship



Source: Yusuf (2005, p. 119)

Social value creation has traditionally been pursued by non-profit organisations and government, while corporates and industry are drawn towards economic value creation. Yusuf (2005) developed a four-cell typology of mutually exclusive entrepreneurial activity as presented in Table 2 below.

Table 2: Four-Cell Entrepreneurship Typology

	Pursued independently of an Organisational Context	Pursued within an Organisational Context
Economic Value	(I) Independent Entrepreneurship	(III) Corporate Intrapreneurship
Social Value	(II) Grassroots Social Entrepreneurship	(IV) Social Intrapreneurship

Source: Yusuf (2005, p. 120)

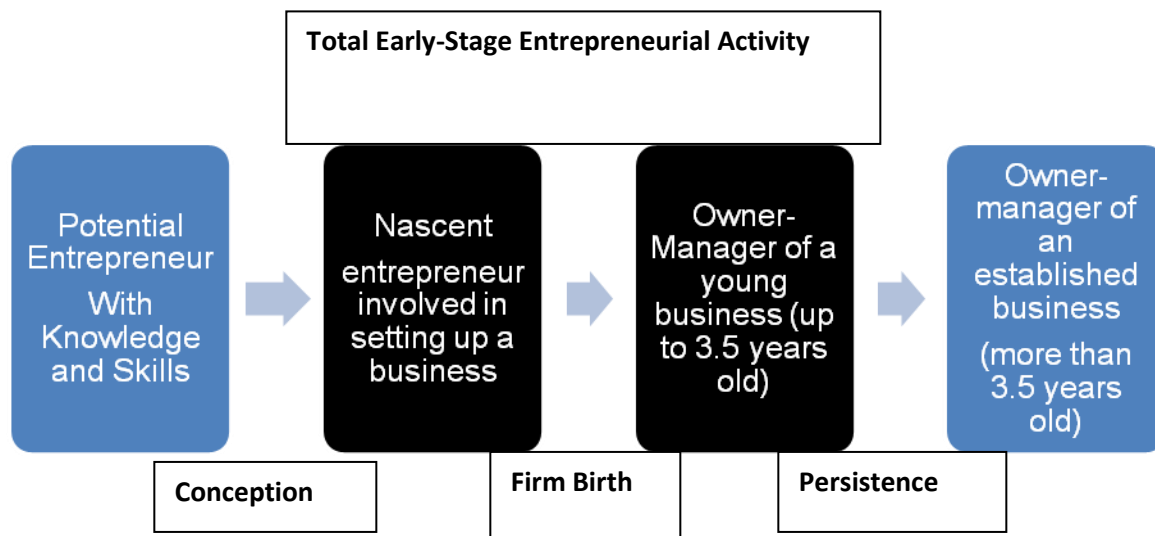
Yusuf (2005, p. 120) defines independent entrepreneurship as economic value-creating activities that are undertaken by an individual or group of individuals who have no existing organisational affiliations. The entrepreneurship discussed in this study displays characteristics of the preceding definition as well as those described by Iversen *et al.* (2008).

2.2.2 Trends of entrepreneurship

Entrepreneurs exploit new opportunities by acting as co-ordinators of resources. Start-up rates of entrepreneurs improve when emerging entrepreneurs are better educated and supported by the local economy (Naudé, Gries, Wood & Meintjies, 2008). The key objectives of entrepreneurial businesses are profitability and growth, based on an innovative idea (Nieman, Hough & Nieuwenhuizen, 2003).

Nascent entrepreneurs require business support that gives them the capacity to overcome different challenges (Herrington & Maas, 2007). Figure 2 below shows the nascent entrepreneur’s position, in relation to the entrepreneurial process.

Figure 2: The GEM Entrepreneurial Process



Source: Bosma *et al.* (2007, p. 9)

Three distinct perspectives have been identified as determinants of entrepreneurship: the role of institutions, the role of social networks and the role of personal characteristics (Muhanna, 2007). Institutions include political, legal and economic institutions. The following sub-section reviews the extent of the entrepreneurship-enabling environment in the local economy.

2.3 The Entrepreneurship-Enabling Environment in South Africa

He (2009) proposes that there are five widely recognised pre-conditions that must be in existence for entrepreneurs to succeed: a favourable market structure; availability of financial capital; a high quality of human and social capital; a culture that is tolerant of failure and strong property rights when starting, exiting or selling businesses. Coupled with the aforementioned pre-conditions is the willingness of government to create an enabling environment.

In March 1995 the South African government ratified a *White Paper on National Strategy for the Development and Promotion of Small Business in South Africa*, in which a detailed policy and strategy framework on small business development was explained (www.thedti.gov.za).

2.3.1 Resource requirements in establishing a new business venture

A variety of economic, social and personal conditions need to be present for entrepreneurship to grow. Economic conditions include, for example, the availability of capital, access to markets, financial infrastructure and new technologies; while social conditions include an effective and adequate educational system, a national culture that supports entrepreneurship and a robust and reliable infrastructure. Personal conditions include, for example, a desire for personal achievement, autonomy, an opportunity to improve personal wealth, and social status (Groenewald, Mitchell, Nayager, Van Zyl, Visser, Train & Emmanuel, 2006 in Van Vuuren & Groenewald, 2007).

Entrepreneurship contributes to business dynamics in all economies, but nonetheless, access to business start-ups may not be available to all people because of resource constraints (Kim, Aldrich & Keister, 2006). While motivations and skills may drive individuals to engage in the behaviour necessary to start a business, entrepreneurship research also demonstrates that available resources are an important determinant of entrepreneurial longevity and success. This need for resources underlines the common-sense and empirically proven view that while individuals with tenacity, passion and determination who have the necessary aptitude and training can often start businesses, they will ultimately have to rely upon resources external to them when it comes to expanding and growing their businesses (Sriram, Mersha & Heron, 2006).

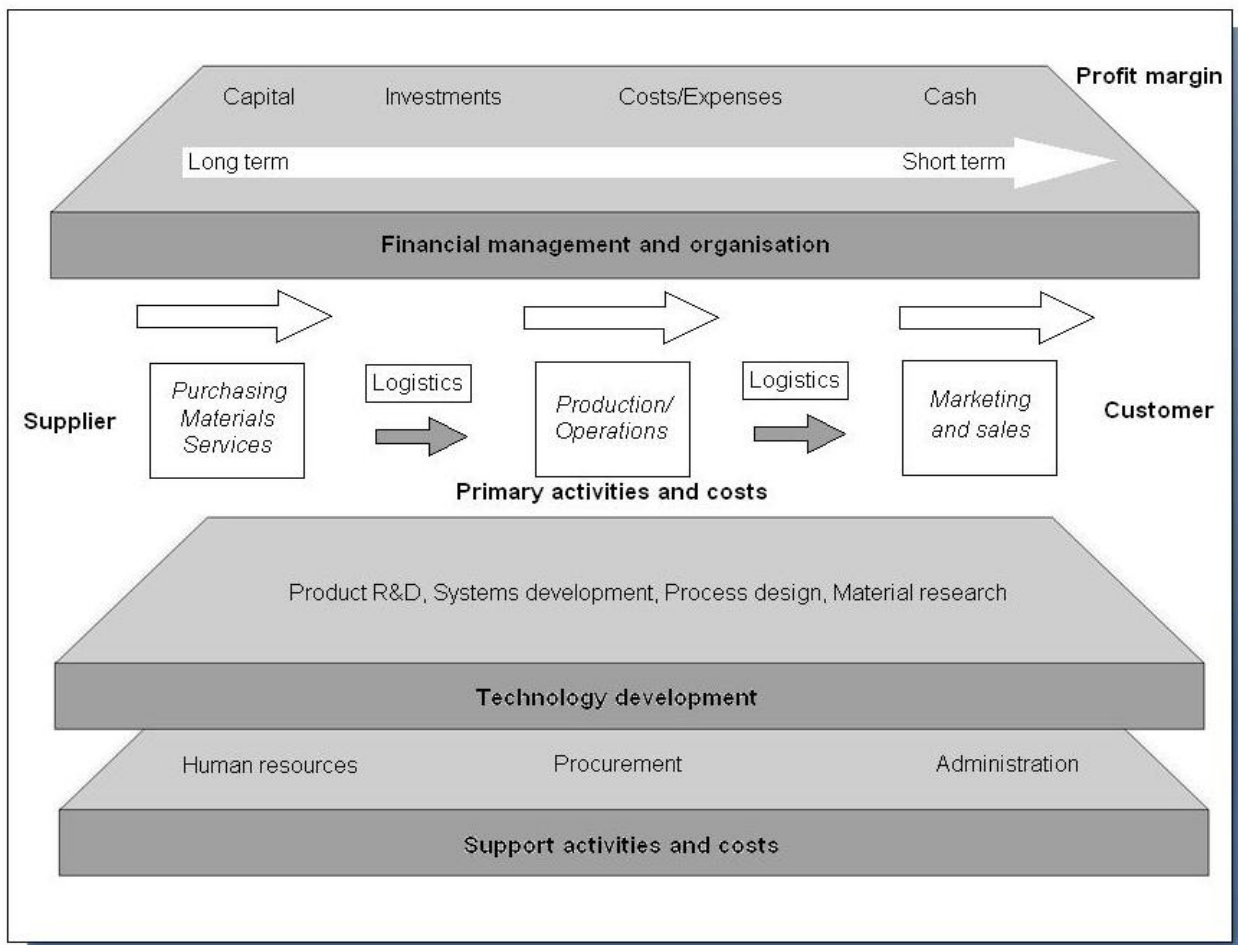
Resources are things that an entrepreneur uses to pursue a business opportunity. In broad terms, there are four types of resources that prospective entrepreneurs will combine to build a business: financial, human, physical and information (Jacobs, 2008). Financing is an important input in every business. It allows for the smooth running of day-to-day operations, asset acquisitions, expert recruitments, and the development of marketing and distribution channels (Papadimitriou & Mourdoukoutas, 2002).

2.4 Financial Management in the Value Chain of an Enterprise

In reviewing the literature on capital it is necessary to provide an overview of financial management and its interconnectedness with the rest of the enterprise. According to Bloom and Du Plessis (1996) in Bloom and Boessenkool (2009, p. 317), financial

management is concerned with balancing the allocation of funds for each activity in the value chain with the usage of financial resources in the context of the general business objectives of the organisation. Figure 3 below illustrates financial management in the value chain of a representative enterprise.

Figure 3: Financial Management in the Value Chain of a Company

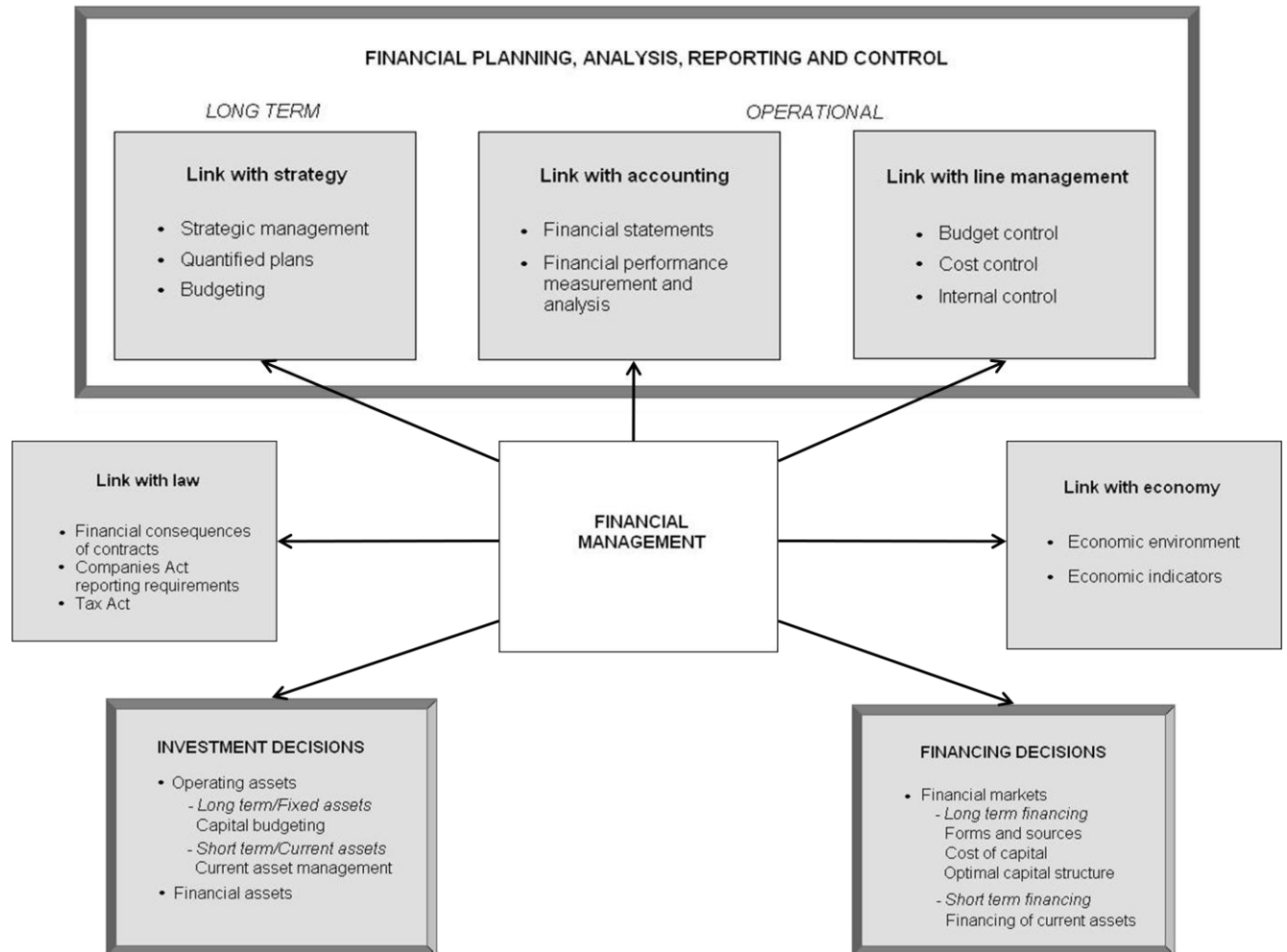


Source: Bloom & Boessenkool (2009, p. 186)

An independent financial division is a necessity in any organisation, be it a corporate entity or an entrepreneurial start-up. Each functional area in the organisation has

financial implications, which affects the integration of all decision-making (Bloom & Boessenkool, 2009, p. 186). The integration of financial management within an enterprise is illustrated in Figure 4 below.

Figure 4: Integration of Financial Management with the Rest of the Organisation



Source: Bloom & Boessenkool (2009, p. 188)

2.4.1 The capital needs of an organisation

The need for capital is never static and is always associated with risk. The capital needs of the organisation and the sources of capital available at a given moment should be determined in order to make proper financing decisions (Bloom & Boessenkool, 2009, p. 186). The authors further assert that in order to establish an organisation's capital needs, the following should be determined:

- (i) the extent of the need for different forms of capital,
- (ii) when the funds will be required, and
- (iii) for how long financing must be available.

Naturally, the financing problems of a new organisation will differ from those of an existing one. On the same note, the financing decisions of a corporate will differ from those of an entrepreneurial start-up. The latter is discussed below.

2.4.2 Determinants of financial structure at start-up

The structure of funds sourced at start-up results from the interactions between the willingness of external financiers to provide funds and the entrepreneurs' preferences for certain types of financing (Huyghebaert & Van de Gucht, 2007). Prior studies document that start-up firms in traditional industries are mainly financed with equity, with bank loans, or with trade credit, or invested in by the entrepreneurs, their family and friends (Huyghebaert & Van de Gucht, 2007).

2.5 Forms of Financing

Entrepreneurs who can envisage investment opportunities and managers who have the skills to add value to investment projects are not necessarily the providers of capital (Flynn, 2006). Part of the tasks of starting an enterprise is to investigate options available for financing. The forms of financing are outlined below in Table 3. They are in two categories, namely, long-term and short-term funding.

Table 3: Sources of Financing

Sources of long-term financing	Sources of short-term financing
Share capital <ul style="list-style-type: none"> • Ordinary shares • Preference shares 	Trade-creditors
Retained income	Bank overdrafts
Secured loans <ul style="list-style-type: none"> • Debentures • Loans 	Accounts receivable factoring
Leasing	Money markets

Source: Flynn (2003, p. 443)

2.6 Forms of Financing for Entrepreneurial Start-ups

There are various sources of business financing where the providers have different objectives, capabilities and constraints (Smith & Smith, 2004, p508). Providers such as

banks seek low-involvement, low-risk investments, usually of short duration, while others such as business angels, seek high-risk, high-involvement investments of moderate to long duration. The authors further state that different financing sources protect the value of their investments in different ways. Some, like venture capitalists, engage in active monitoring to protect their investments. Others, like factoring companies and most lenders, rely heavily on collateral. Table 4 below shows the list of financing sources for new ventures and private businesses in the USA.

Table 4: Partial List of Financing Sources for New Ventures and Private Businesses

Asset-Based Lending	Friends and Family
Business Angels	Public Debt Issue
Capital Leasing (Venture Leasing)	Registered Initial Public Offering
Commercial Bank Lending	Royalty Financing
Corporate Entrepreneurship	Self (Bootstrap)
Customer Financing	Small Business Administration Financing
Direct Public Offering	Term Loan
Economic Development Programme Financing	Small Business Investment Company Financing
Employee-provided Financing	Research and Development Limited Partnerships
Equity Private Placement	Relational Investing
Factoring	Vendor Financing
Franchising	Venture Capital

Source: Smith and Smith (2004, p. 508)

Rouse and Jayawarna (2006) categorise finance employed by small businesses into three types, namely:

- (a) personal investment, including personal savings and gifts from family and friends;
- (b) private external finance, including overdrafts, loans, asset finance (leasing and higher purchase), asset-based finance (factoring, invoice discounting and stock finance) and equity finance; and
- (c) public investment, in the form of enterprise grants, subsidised loans and public equity finance.

Three forms of financing that can be employed by small businesses, namely, debt or equity, bootstrap financing and venture capital, are discussed below.

2.6.1 Debt or equity

There are two types of start-up capital: debt and equity. Debt financing is a method that involves a loan, the payment of which is only directly related to the sales and profits of the venture. Typically, debt financing requires that some asset (such as a house, plant machine or land) be used as collateral. With debt, one does not have to give up any ownership of one's business, but one has to pay current interest and eventually repay the principal.

Equity financing does not require collateral and offers the investor some form of ownership position in the venture. Therefore, choosing between debt and equity

involves trade-offs for owners with regard to potential profitability, financial risk and voting control (Mutezo, 2005).

Carter and Van Auken (2005) and McMahon (2000), as cited in Dobbs and Hamilton (2007), assert to this by stating that business owners can finance the growth of their firms in a number of ways but the fundamental decision for many entrepreneurs is whether or not to accept external equity finance in return for part ownership of the business. This decision relates back to the owners' growth orientation and their desire to retain control of the business. In allowing external equity finance, a business owner chooses to relinquish part of their control to either a financial institution or other individuals, and many owners may be opposed to this.

2.6.2 Bootstrap financing

Freear, Sohl and Wetzel (1995) in Pretorius (2007) define bootstrap financing as the use of highly creative methods for acquiring resources without borrowing money or raising equity through traditional institutions. The authors further highlight the importance of forming strategic alliances as a method for gaining access to resources. Pretorius (2007) argues that the definition of bootstrap financing has been refined to include the variety of means which assisted with the identification and maximisation of resources and their efficiency, as well as the minimisation of the explicit costs of implementing those means.

2.6.3 Venture capital

Venture capital is a form of private equity that focuses on relatively high-risk businesses, in the expectation that the profits will be above average (Mutezo, 2005). Venture capital is a professionally managed pool of equity formed from the resources of wealthy limited partners. Fledgling, start-up firms are often hungry for resources to catalyse their growth. For such firms, venture capitalists (VCs) offer a double-edged sword (Subramanian, 2010).

On the one hand, the unique resources provided by VCs offer the start-up substantial benefits at a stage when such resources are critical to its evolution. On the other hand, the VC's control over such critical resources can enable it to extract substantial rents ex-post (Subramanian, 2010). In light of the above, one can conclude that a start-up's choice of the financier balances the benefits from combining the idea with the financier's resources against potential expropriation by the financier.

2.7 Difficulties in Sourcing Capital for Entrepreneurial Start-ups

Cassar (2004) in Ebben (2008) asserts that it has long been known that outside debt and equity financing for small firms is difficult to obtain, expensive, and often undesirable for personal reasons. In addition, Ebben (2008) argues, banks and investors are generally sceptical of the success potential of small firms due to information asymmetries, which in turn results in high costs in terms of interest rates, ownership and control.

2.8 The SMME Sector

According to Von Broembsen, Wood and Herrington (2005), in South Africa small and medium enterprises are defined as enterprises with less than 200 or in some cases 250 employees. Small enterprises have less than 50 employees, and medium enterprises have between 50 and 199 or 249 employees. In addition, official definitions include threshold revenue and asset levels. The official classification of enterprises also makes provision for very small and micro enterprises, hence small, medium and micro enterprises (SMME).

Small, medium and micro-sized enterprises make up over 90% of businesses world-wide and account for between 50% and 60% of employment (NEPAD Business Foundation Guide, 2008). They are one of the principal driving forces of economic development and form the backbone of many developing economies. They work towards stimulating entrepreneurial skills and promote private ownership. SMMEs are adaptable and flexible and as such, can respond quickly to changing markets (NEPAD Business Foundation Guide, 2008).

Small and medium-sized businesses in general, and new business start-ups in particular, are attributed a significant role in maintaining as well as creating a functional market economy, especially as a means of stimulating competition, creating jobs and promoting economic renewal (Kessler, 2007). According to Li (2002), Byrd and Lin (1990), and Oi (1992), as cited in Li and Matlay (2006), state that it is well documented that small and medium-sized enterprises (SMEs) have become a major driving force in

China's unique brand of economic growth. At the turn of the new millennium, small businesses represented 98.7% of all economically active businesses, generated 44.7% of total turnover and accounted for more than 55% of employment in the UK (Bank of England, 2001 in Hussain and Matlay, 2007).

In the South African economy various key players are part of a support network that invests in and stimulates small business. Figure 5 below reflects the framework for SMME support. The network expands beyond national and local government to non-governmental organisations, chambers of commerce and commercial banks which are part of the private sector and combined community services. The entire network aims to provide financial, administrative and technical skills for the entrepreneur.

Figure 5: A Framework for SMME Support



Source: Nieman & Nieuwenhuizen (2009, p. 200)

2.8.1 The SMME financial sector in South Africa

The following institutions in South Africa are available to entrepreneurs in accessing start-up capital for their enterprises:

- Public institutions
 - Khula Enterprise Finance Limited
 - Small Enterprise Development Agency (SEDA)
 - National Youth Development Agency
 - Industrial Development Corporation
- Private Financing
 - Own savings, families and friends
 - Commercial banks
 - Land Bank
 - Co-operatives
- Micro-finance lenders
 - Mashonisa
 - Micro-lenders
- Non-governmental organisations
- Community or Group Savings

2.9 Conclusion

Chapter Two established a theoretical framework of reference that informs the study. It presented and explored the body of literature on the subject of entrepreneurship and

highlighted the various types of funding available to prospective and current entrepreneurs. This chapter also provided a comprehensive literature review on the definition of entrepreneurship, the characteristics of an entrepreneur, special contributions of small businesses to the South African economy, global perspective on SMMEs and issues pertaining to small business finance in South Africa.

CHAPTER 3: RESEARCH QUESTIONS

3.1 Introduction

Most SMMEs in South Africa fail due to a number of reasons, namely lack of education, lack of experience and entrepreneurial culture, and most important of all, lack of access to financial resources, as already described in the previous chapter. Evidence referred to earlier in Chapter 2 demonstrates that there are serious financial constraints experienced by entrepreneurs in South Africa's emerging agribusiness industry, thus alleviating these constraints to finance would be a fundamental approach to enhancing South Africa's entrepreneurial performance in this industry.

Given this state of entrepreneurship in South Africa's agribusiness industry, it is necessary to identify financial constraint issues from the perceptions of both the entrepreneur and/or small business owner and the institutions that provide finance, be they a commercial bank, a development finance institution (DFI), microfinance institution (MFI) or a government agency providing finance.

The section that follows outlines the primary and secondary objectives of this research.

3.2 Research Objectives

The primary objective of this research is to conduct an investigation into the capital constraints of entrepreneurial start-ups in South Africa's emerging agribusiness industry.

In order to achieve the primary objective, secondary objectives have been formulated, and these are to:

- identify barriers associated with the provision of capital to agribusiness entrepreneurial start-ups from both the entrepreneur's and the financier's viewpoint;
- determine the future role the finance-enabling environment should play in reducing barriers to finance; and
- make recommendations to broaden the existing body of knowledge on the start-up of small businesses in South Africa, which could be considered by policy makers and education and training institutions.

Chapter 2 provided an overview of the concepts alluded to above. The chapter further expanded on the various types of funding available to an entrepreneurial start up and small business owner. This chapter contains the research questions that inform this study based on the literature reviewed in the previous chapter. The questions are as follows:

3.3 Research Questions

The following are the research questions that inform this study:

Research question 1: *What financial requirements are important to an individual considering starting an entrepreneurial business venture in the agribusiness industry?*

This research question aims to establish an understanding of the most important financial requirements to an individual considering starting an entrepreneurial business venture in the agribusiness industry. The results achieved from this analysis could be used in establishing differences with regard to the perceived importance of financial requirements from the view of the small agribusiness owner and perhaps also that of the financier.

Research questions 2: *What are the barriers associated with the provision of capital to entrepreneurial start-ups from both the entrepreneur's and the financier's viewpoint?*

Blanchflower and Oswald (1998) state that the single biggest concern for most entrepreneurs was where to obtain capital. Rabinowitz (2005) confirms this finding by stating that research conducted in UK-based companies revealed that the reason would-be entrepreneurs did not become self-employed was lack of access to capital. Research Question 2 aims to unveil the actual reasons (versus perceived ones) behind financial constraints in start-ups from the point of view of agribusiness owners and financial services providers.

Research question 3: *What future role should the finance-enabling environment play to reduce barriers to finance?*

This research is not only focused on discovering the financial constraints experienced by business owners in the agribusiness industry, but it also aims to determine what future role the finance-enabling environment will play in reducing barriers to finance.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

This chapter outlines the theoretical construct and research paradigm underpinning the study, the research design, sampling procedures, data collection strategies, data validity and ethical considerations during data collection. The chapter also provides the rationale for the choice of methodology and provides an overview of the merits of the chosen technique. The research methodology was designed and executed based on the literature review and the research scope.

4.2 Proposed Research Method

4.2.1 Theoretical construct

This research employed a qualitative grounded theory approach and was based on a sample of twenty start-up entrepreneurs in the emerging agribusiness industry and five experts from the finance-enabling environment. According to Creswell (2005), grounded theory designs are systematic, qualitative procedures that researchers use to generate a general explanation (called a *grounded theory*) that explains a process, action, or interaction among people. In this research the researcher endeavours to generate a general explanation regarding the interaction of emerging agribusiness entrepreneurs with the finance-enabling environment, while at the same time uncovering the capital constraints faced by these entrepreneurs. Creswell (2005) further states that because

grounded theory is formulated from the data, it does not have wide applicability or scope nor is it a “minor working hypothesis”.

4.2.2 Research paradigm

This research was informed by the principles of qualitative research, which seeks to gain meaning and insight into the chosen research subject by using people’s real-life experiences. Qualitative research studies typically serve one or more of the following purposes (Peshkin, 1993 in Leedy & Ormrod, 2005):

- *Description.* They can reveal the nature of certain situations, settings, processes, relationships, systems, or people.
- *Interpretation.* They enable a researcher to (a) gain new insights into a particular phenomenon, (b) develop new concepts or theoretical perspectives about the phenomenon, and/or (c) discover the problems that exist within the phenomenon.
- *Verification.* They allow a researcher to test the validity of certain assumptions, claims, theories, or generalisations within real-world contexts.
- *Evaluation.* They provide a means through which a researcher can judge the effectiveness of particular policies, practices, or innovations.

A qualitative approach to data collection was adopted for this research because it is an effective method for “finding out what others feel and think about their worlds” (Rubin & Rubin, 1995 in Atherton, 2007). Such approaches can generate a “fine-grained” understanding of phenomena, in that they allow for the detailed exploration of a particular phenomenon, the reasons for its existence and its component parts and aspects (Lechner & Dowling, 2003).

Qualitative methods of data collection and analysis produce insight into, and help to clarify, the broader contexts and social dynamics within which actors operate (Atherton & Hannon, 2000). For this study, particular emphasis was placed on hearing and seeking to understand the experiences and views of individuals who had recently started a new venture in the emerging agribusiness industry, reflecting the exploratory nature of the approach (Patton, 1999 in Atherton, 2007).

4.2.3 Rationale for proposed method

The research is both exploratory and interpretative in nature. It is exploratory because very little research has been conducted regarding capital constraints to entrepreneurial start-ups in South Africa's agribusiness industry. According to a recent study, "entrepreneurship in developing countries is arguably the least studied significant economic and social phenomenon in the world today" (Lingelbach, De la Vina & Asel, 2005 in Naudé *et al.*, 2008).

Furthermore, Tödting and Wanzenböck (2003, p. 352) as cited in Naudé *et al.* (2008) argue that in spite of the plausible role that the rate of small business start-ups plays in explaining national inequality in developing countries, there has been relatively little empirical work in this area. The authors further argue that apart from the existing focus on developed countries and neglect of developing countries, the literature has not really

dealt satisfactorily with the role of access to finance on a national level for entrepreneurship, and in particular with regard to start-up rates.

According to Babbie and Mouton (2009), exploratory studies are most typically done to:

- (i) satisfy the researcher's curiosity and desire for better understanding;
- (ii) test the feasibility of undertaking a more extensive study;
- (iii) develop the methods to be employed in any subsequent study;
- (iv) clarify the central concepts and constructs of a study; and
- (v) develop new hypotheses about an existing phenomenon.

Since the purposes of exploratory research are to gain insights and to discover new ideas, researchers may use considerable creativity and flexibility (Zikmund, 2003). This research is interpretative because it will enable the researcher to (a) gain new insights into the constraints to credit access for agribusiness start-ups, (b) develop new concepts and theories about these barriers, and (c) discover the problems that exist within the phenomenon of capital constraints on the entrepreneurial activity of starting an agriculture related business.

4.3 Research Scope

The scope of the research is described by the definitions of the relevant terms as follows:

An entrepreneurial start-up or start-up firm is defined by Von Broembsen *et al.* (2005) as an enterprise which has paid wages or salaries for less than three months, or

has not paid salaries and wages at all. According to Kessler (2007), an entrepreneurial start-up is defined as the commencement of business activities (measured in terms of having earned initial revenues) at least one year prior to the time of the survey.

The author further asserts that this criterion will not be used because it is only possible to take fairly reliable measurements after a longer period of time, thus it will not be useful to ask completely new entrepreneurs (who may have commenced business activities just one month before the survey) about their businesses' financial constraints.

For the purposes of this research the term **small business** will be used to refer to an entrepreneurial start-up and the definition of small business will be derived from the South African National Small Business Act of 1996. According to this Act, a small business is defined as “a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column 1 of Table 5 below and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in column 3, 4 and 5 of Table 5 opposite the smallest size or class as mentioned in column 2 of the same table”. Over and above this definition, the enterprises used in this research will be seen as small businesses in the SMME sector (as defined by Von Broembsen *et al.*, 2005, in the previous section), with particular focus on the emerging agribusiness industry.

Emerging entrepreneurs is a term used to refer to previously disadvantaged groups, who, since 1994, have been given preference by the government to enable them to become entrepreneurs (Botha, 2008). The term ‘emerging agribusinesses’ used in this research will borrow from this definition of ‘emerging entrepreneurs’ by Botha (2008), and will refer to agricultural businesses owned by people who were denied opportunities in starting businesses, in one form or another, prior to 1994. According to Jacobs (2008), a ‘black company’ is a company, business or enterprise which is 50.1% owned by black persons and where there is substantial management control. The author further states that ownership refers to economic interests, while management refers to membership of any board or similar governing body of the business.

Table 5: Definitions of Small Businesses According to Industry Sector

Column 1	Column 2	Column 3	Column 4	Column 5
Sector or subsectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
Agriculture	Medium	120	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	120	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade	Medium	120	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Commercial Agents and	Medium	120	R50.00 m	R 8.00 m



Allied Services	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering	Medium	120	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Storage	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Communications	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance	Medium	120	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Business Services	Medium	120	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Community	Medium	120	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Social and Personal Services	Medium	120	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

Source: South African National Small Business Act of 1996, No. 102 of 1996, p. 17.

4.4 Research Instrument Design

The research was conducted using two diagnostic tools, namely, expert and semi-structured interviews in two phases as follows:

4.4.1 Research process

A two-phased qualitative exploratory research approach was adopted for this research as follows:

Phase 1: This phase comprised semi-structured interviews with experts from the finance-enabling environment, i.e. Absa Bank, AFGRI, the National Youth Development Agency (NYDA), the Industrial Development Corporation (IDC) and the National Housing Finance Corporation (NHFC) (see Appendix A for the Financiers' questionnaire). These organisations were chosen on the basis that each represents a different type of financing institution. These institutions will be elaborated on in detail in Chapter 5. The aim of this research phase was to determine the views of experts regarding capital constraints on agribusiness start-ups. The purpose of surveying such experts was to help formulate the problem and clarify concepts rather than to develop conclusive evidence (Zikmund, 2003).

Phase 2: In this phase semi-structured in-depth interviews with owners of agribusinesses were conducted (see Appendix B for the Entrepreneurs' Questionnaire). These respondents were identified through the expert semi-structured interviews of the first phase of the research. The aim of this phase was to gain insights into the

challenges faced by entrepreneurial start-ups in the agri-business sector. Each respondent was interviewed wherever s/he felt comfortable, preferably a quiet place where we were unlikely to be interrupted or distracted. The interviews lasted an average of about 45 minutes to an hour, although the length of the interview varied depending on the respondent's understanding and articulation of concepts pertaining to this research.

Table 6: Research Phase and Corresponding Sampling Technique

Research Phase	Aim of Phase	Research Method	Data Collection Method	Sampling Technique	Sample Size
Phase 1	Expert opinion regarding what capital constraints on entrepreneurial start-ups in the emerging agribusiness industry face; and identification of emerging entrepreneurs of agribusinesses	Expert interviews	Semi-structured interviews	Purposive	5
Phase 2	Face-to-face interviews with owners of entrepreneurial start-ups in the emerging agribusiness industry	In-depth survey	Semi-structured, narrative enquiry	Snowball	20

4.4.2 Rationale for using aforementioned research instruments

Gillham (2005) argues that a semi-structured interview is ideal for conducting research because of its flexibility which is balanced by the structure of the questions and the

quality of the data obtained. The element of discovery is one of the strengths of the semi-structured interview.

The elite interview with a field expert provides a rich source of information and facilitates access to people in the field, as well as providing direction to the whole research process. According to Babbie and Mouton (2009), the basic individual interview is one of the most frequently used methods of data gathering within the qualitative approach. The authors further argue that structured or semi-structured interviews differ from other types of interviews.

The interview schedule was comprised of semi-structured and open-ended questions, which were designed to probe for elaboration of the situation. This assisted the researcher to understand the dynamics within the agribusiness entrepreneurial environment. A quantitative analysis would not have given enough insights into the situation.

4.5 Population of Reference and Unit of Analysis

According to Wegner (2003), a population is defined as a collection of all the observations of a random variable under study and about which one is trying to draw conclusion in practice. A population must be defined in very specific terms to include only those units with characteristics that are relevant to the problem.

Two distinct populations were targeted for this study, namely financial institutions and emerging entrepreneurs in South Africa's agribusiness industry. Zikmund (2003) describes the target population as the complete group of specific population elements relevant to the research project. For the purposes of this research, the target population for the first phase of the research comprised financial institutions such as commercial banks and government financial bodies such as the National Youth Development Agency; and the second phase comprised entrepreneurs in the SMME and agribusiness sector.

The units of analysis for the first phase of the research were the financial institutions (providers of capital); while the units of analysis for the second phase were entrepreneurs in the start-up stage of the business life cycle in the emerging agribusiness industry.

4.6 Sampling Method and Size

Table 6 above illustrates the sample size and sampling technique for the two phases of the proposed research. In the first phase judgement sampling was employed: "Judgement, or purposive sampling is a non-probability sampling technique in which an experienced individual selects the sample based on his or her judgement about some appropriate characteristic required of the sample members. The researcher selects the sample to serve a specific purpose, even if this makes a sample less than fully

representative” (Zikmund, 2003, p382). A sample of six people was drawn to help identify the emerging entrepreneurs who formed the sample for the main study.

Elements of snowball sampling in further selecting respondents of the main sample were evident in the second phase of the research in that some respondents who were interviewed were recommended by others. According to Cooper and Schindler (2003), snowball sampling is useful in applications where respondents are difficult to identify and are best located through referral networks.

4.7 Data Collection

Simply put, data collection refers to the process of gathering relevant data from the field. The researcher recorded any potentially useful data thoroughly, accurately and systematically using field-notes, sketches and photographs where necessary. The data collection methods for this study took into account the ethical considerations presented below. Both primary and secondary data were collected as follows:

4.7.1 Primary data

Interviews were conducted as follows (Leedy and Ormrod, 2005):

- a) Identifying questions in advance
- b) Making sure interviewees were representative of the group
- c) Finding a suitable location for the interview
- d) Getting written permission by signing a consent form

- e) Establishing and maintaining rapport
- f) Recording responses
- g) Following up on the interview.

4.7.2 Secondary data

This method of data collection focused largely on acquiring information on entrepreneurship, small business financing and agribusinesses (research constructs) from the following sources:

- Library searches at universities and public libraries
- Internet searches
- Books and articles related to the study
- Workshop and conference papers.

Secondary data collection covered wide areas relating to the aforementioned constructs and yielded most of the theoretical framework of Chapter 2. This method played a crucial role in refining the problem of this research, identifying the study aims and objectives and successfully designing the questionnaires for the research.

4.8 Interview Process

The types of interviews that were used during each phase are indicated in Table 4 above. Semi-structured interviews were selected for the first phase of data collection because they are useful as an exploratory technique (Gillham, 2001). The semi-

structured nature of the interview allows the expert to give meaning to the capital constraints on entrepreneurial start-ups in the agribusiness industry, and to identify entrepreneurs in the emerging agribusiness industry. According to Welman and Kruger (2005), semi-structured interviews are usually used in explorative research to identify important variables in a particular area, to formulate penetrating questions on them, and to generate hypotheses for further investigation.

Semi-structured interviews were also used in the second phase because these types of interviews allow for the capturing of demographic information, while at the same time allowing the respondent to “tell his or her story”. This method can be highly effective when trying to gain a deeper understanding of a particular phenomenon (Gillham, 2001; Welman & Kruger, 2005).

In both phases of the research process prior to conducting the interviews, the researcher reiterated the objectives of the interview. Information on the length of the interview was also agreed on beforehand so as to set reasonable expectations. Confidentiality of the interviews was further assured and none of the interviews was recorded.

4.9 Data Analysis

In analysing data, the researcher used the data analysis spiral for qualitative studies proposed by Creswell (1998), as cited in Leedy and Ormrod (2005, p150). Using this

approach, the researcher went through the data several times, taking the following steps into account:

- Organising the data using index cards and manila folders. Data was broken down into smaller units in the form of stories, sentences, and individual words.
- Perusing the entire data set several times to get a sense of what it contains as a whole. The researcher jotted down a few memos that suggested possible categories of interpretations.
- Identifying general categories or themes, then classifying each piece of data accordingly.
- Integrating and summarising the data for the readers of the research.

4.10 Data Validity and Reliability

According to Merriam (1998), qualitative research needs to convince the reader that the study makes sense, unlike quantitative study that has to convince the reader that procedures have been followed faithfully. In order to introduce rigour to this study, prior to formulating research questions an expert in qualitative analysis was consulted to verify the validity of research questions. The data and preliminary findings were presented to the expert to determine whether the results were reasonable or not. This was intended to reduce research bias. Instead of trying to achieve an objective position, it is preferable to accept the subjectivity of the interview process and to introduce thoroughness by using another researcher's opinion (Gillham, 2004).

Internal validity is “the extent to which the design and the data that it yields allows the researcher to draw accurate conclusions about cause-and-effect and other relationships within the data” (Leedy & Ormrod, 2001). The internal validity of the data was preserved by avoiding leading questions and soliciting responses through the discipline of asking open-ended questions. External validity is not an object of exploratory research of this nature as no inferences were made to the total population.

4.10.1 Triangulation

According to Babbie and Mouton (2009) qualitative research often requires the use of triangulation – comparing multiple data sources in search of common themes – to support the validity of findings. In this study the researcher collected primary data from the following categories of respondents / informants:

- First category: experts from financial institutions
- Second category: start-up entrepreneurs in the agribusiness industry.

4.10.2 Pilot studies

A pilot study is a brief exploratory investigation to try out particular procedures, measurement instruments, or methods of analysis (Leedy and Ormrod, 2005). It entails administering a particular instrument or procedure to a limited number of subjects from the same population as that for which the eventual project is intended (Welman *et al.*, 2005). For this research, a pilot study was conducted only on the first category of respondents i.e. start-up entrepreneurs, for the following reasons:

(a) to identify unclear or ambiguously formulated items resulting from translation;

(b) to notice non-verbal behaviours (on the part of the respondents) that may possibly signify discomfort or embarrassment about the content or wording of questions.

4.11 Ethical Considerations

Human subjects were used in this research. For this reason, the researcher considered the ethical implications of the proposed research within the following broad categories:

4.11.1 Protection from harm

The researcher endeavoured not to expose the participants to undue physical or psychological harm, nor to subject the participants to unusual stress, embarrassment, or loss of self-esteem.

4.11.2 Informed consent

The research participants were informed about the nature of the study to be conducted and given a choice about participating. Furthermore, they were informed that if they agreed to participate, they had the right to withdraw from the study at any time. Any participation in the study was strictly voluntary, although the participants were requested to sign a consent form (Appendix A).

4.11.3 Right to privacy

The participants' right to privacy was respected at all times. The researcher kept the information provided by participants strictly confidential.

4.12 Limitations of the Study

The following were the limitations of the study:

- Language and level of education posed barriers to this research. The interviews were in English, suggesting that the articulation of concepts, ideas and issues by the respondents might have been flawed, and that some of the meaning might have been lost during translation.
- Time was a constraint in this research and the geography was prohibitive, thereby not allowing a countrywide sample to be targeted. Consequently, the research was limited to a sample concentrated in Gauteng, North-West, Limpopo and the Eastern Cape.
- The time availability of entrepreneurs posed a challenge, which resulted in the postponement of a number of interviews that had already been scheduled.
- Varying degrees of lack of co-operation from agribusiness start-up entrepreneurs were experienced during primary data collection as this study does not promise any immediate relief from the frustrations of acquiring finance. This was mitigated by conducting a pilot study on this particular group and then explaining the significance and long-term benefits of the research before handing out the questionnaires.

4.13 Conclusion

Grounded theory was employed as the theoretical construct for this research. Principles of qualitative research were applied during this study, using both exploratory and interpretative research methodologies. Purposive sampling was used with the presumption that it will provide insights into the chosen population and snowball sampling was used given the difficulty of identifying start-up entrepreneurs in the emerging agribusiness industry.

Data was collected using primary and secondary sources. Triangulation and pilot studies were employed as tools for data validity. The primary data was collected from emerging entrepreneurs and from experts in the finance enabling environment. The research considered some ethical implications because human subjects were used as the main source of primary data. In line with the research methodology described above, the next chapter presents research findings.

CHAPTER 5: RESULTS

5.1 Introduction

Research results as obtained from the indicated fieldwork, supported by the theoretical framework of the study, are presented in this chapter in the form of figures and other concise presentations. Face-to-face semi-structured interviews were conducted. The first phase of the interviews was with five experts from the finance-enabling environment (hereafter also referred to as financial institutions). All of the financial institutions were based in the Gauteng province. The second phase entailed interviewing owners or managers of entrepreneurial start-ups of agribusinesses from four provinces in South Africa, namely, Gauteng, North West, Limpopo and Eastern Cape. Twenty emerging entrepreneurs were interviewed from various sectors within the agribusiness industry.

For the second phase of interviews it was important to report the results of the research demographically so as to gain a better understanding of the owners or managers of the start-up enterprises being researched as the core unit of analysis. The results thereafter seek to address the following research questions:

- (a) What financial requirements are important to an individual considering starting an entrepreneurial business venture in the agribusiness industry?*
- (b) What are the barriers associated with the provision of capital to entrepreneurial start-ups from the entrepreneur's perspective?*

The results from the questionnaire are discussed in detail as shown in the sections below.

5.2 Results from Interviews Conducted with Entrepreneurs

5.2.1 Demographic profile of respondents

This section pertains to the demographic profile of the agribusiness start-up entrepreneurs covered in the research. The sample structure is described in terms of gender, age, race, home language and education level.

5.2.1.1 Gender

Males constituted the majority of owners across all the enterprises that were interviewed. The sample consisted of 70% males and 30% females as presented in Table 7 below. This distribution is in line with the findings by Herrington *et al.* (2008), in which the authors state that in South Africa males are 1.6 times more likely to start new enterprises than females.

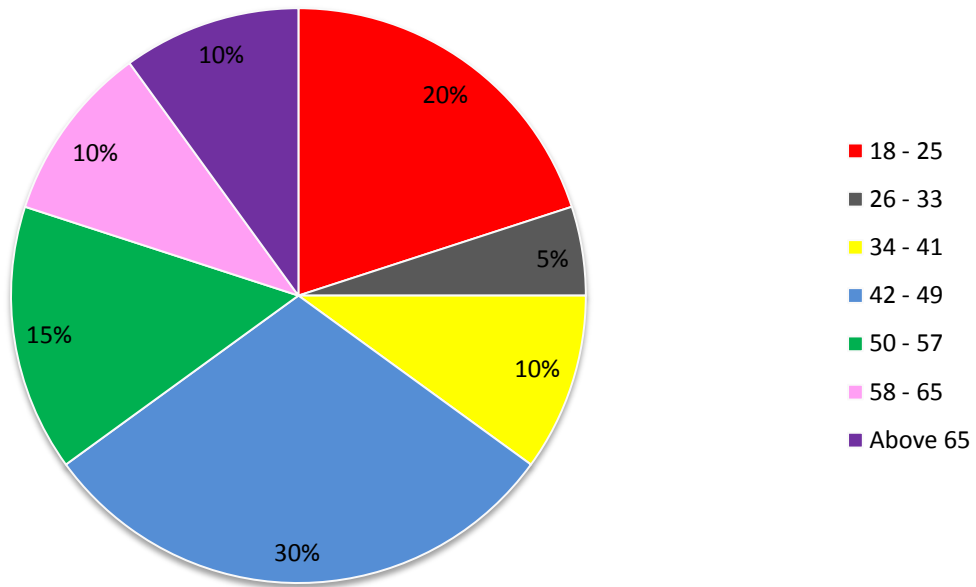
Table 7: Gender Split of Agribusiness Owners

Gender	Mean percentage
Male	70%
Female	30%

5.2.1.2 Age range

The majority of respondents fell within the 42–49 age range, as illustrated in Figure 6 below. The youngest respondent fell within the 18–25 age range, while the oldest was above 65 years of age.

Figure 6: Age Range of Enterprise Owners



5.2.1.3 Racial profile

All the respondents were of African descent (black). This was partially expected because the research is on the emerging agribusiness industry and not on the commercial sector.

5.2.1.4 Home language

Table 8 presents the language distribution of entrepreneurs in the sample. Respondents mostly speak SePedi (40%), IsiXhosa (20%) and IsiZulu (15%). These are followed closely by SeTswana (10%) and TshiVenda (10%). XiTsonga (5%) was the least

spoken language. None of the sampled respondents spoke English as their first language.

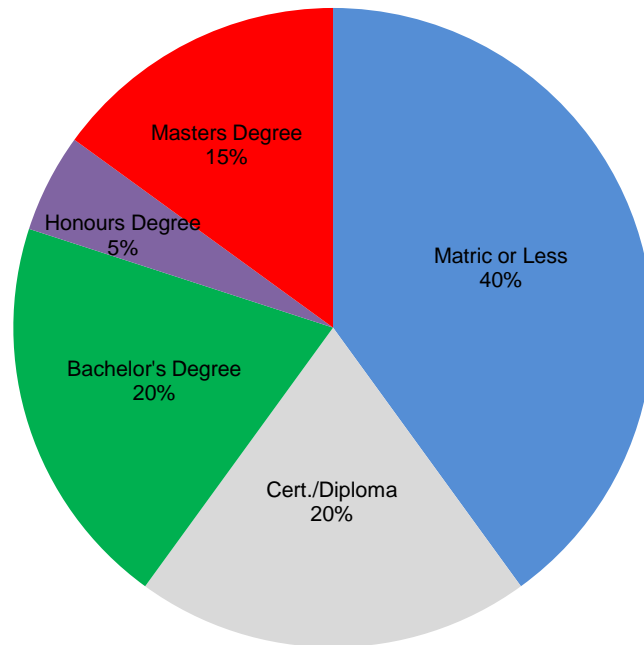
Table 8: Languages Mostly Spoken at Home

Language	Mean Percentage
IsiXhosa	20%
IsiZulu	15%
SePedi	40%
SeTswana	10%
TshiVenda	10%
XiTsonga	5%

5.2.1.5 Highest formal qualification

The majority of respondents had a matric (Grade 12) qualification or less, as shown in Figure 7 below. This statistic confirms the fact that the majority of respondents (some with formal educational qualifications are included here) chose to start their businesses because they could not be ‘absorbed’ by formal employment. These entrepreneurs are referred to by Nieman and Nieuwenhuizen (2009) as push entrepreneurs and not pull entrepreneurs.

Figure 7: Highest Formal Education Qualification



5.2.2 Results on information pertaining to businesses

5.2.2.1 Position or role of the entrepreneur in the business

An overwhelming 90% of respondents were owners of the enterprises that constituted this research, as depicted in Table 9 below. The responses received were therefore from the actual owners, and not representatives thereof.

Table 9: Position or Role in the Business

Position/role in the business	Mean Percentage
Owner	70%
Manager	10%
Both	20%

5.2.2.2 Number of years the enterprise has been in operation

All of the enterprises had been in operation for a period of two years or less. This sample is in line with the objectives of the research which specifically tries to investigate the capital constraints on entrepreneurial start-ups. According to Kessler (2007), an entrepreneurial start-up is defined as the commencement of business activities (measured in terms of having earned initial revenues) at least one year prior to the time of the survey.

5.2.2.3 Economic sector in which the business is classified

Table 10 below depicts the economic sectors within agribusiness in which the enterprises were categorised. More than half of enterprises consulted for this research were in agro-processing or value-adding. Examples include a juice processing plant, a peanut-butter making operation, an essential oils enterprise, a dairy farm (milk and cheese processing) and a plant where jam is made. The crop production and animal husbandry sectors constitute 'pure' farming in crops and animals respectively.

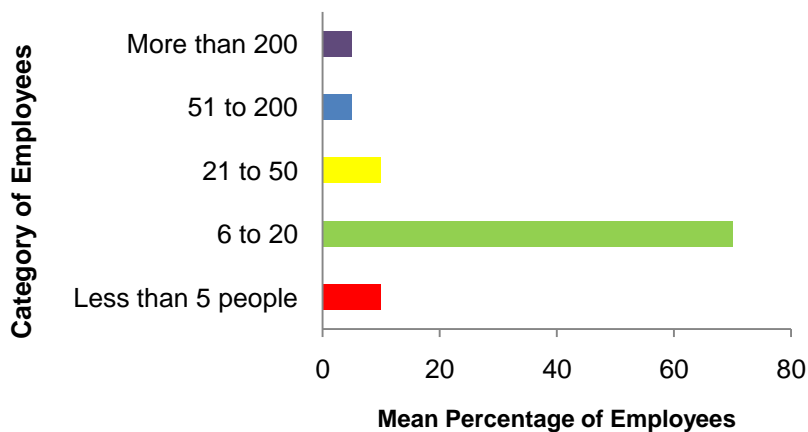
Table 10: Economic Sector in which the Business is Classified

Economic Sector	Mean Percentage
Agro-processing/Value-adding	60%
Aquaculture/Fisheries	5%
Crop Production	30%
Animal Husbandry	5%

5.2.2.4 Number of employees

Figure 8 below illustrates that the majority of enterprises had an employee complement of six to twenty people (the green bar). Only one enterprise, which is in the Eastern Cape, had a staff complement of more than 200 people. Two of the enterprises (10%) employed fewer than five people.

Figure 8: Number of People Employed



5.2.2.5 Ways in which start-up capital was raised

Half of the respondents received their start-up capital from one of South Africa’s commercial banks, as shown in Table 11 below. Two of the respondents (10%) used their own savings, and the rest borrowed money from family and friends. This finding is in stark contrast to a discovery by Orford *et al.* (2003) which suggests that only 27% of new start-ups in South Africa expected to use institutional finance to fund their new ventures, while 54% of the entrepreneurs expected to use their own income or savings.

Table 11: Ways in which Start-up Capital was Raised

Start-up Capital	Mean Percentage
Family and friends	40%
Own savings	10%
Commercial bank	50%

5.2.2.6 Finding out about funding institutions for agribusinesses

Referral by friends, relatives and/or acquaintances turned out to be the biggest source of information regarding funding institutions of agribusinesses, as shown in Table 12 below. Thirteen of the twenty respondents (65%) felt that financial institutions ‘neglected’ them because most agribusinesses operations are situated in rural areas. They also felt that the neglect was perhaps due to the fact that their operations were not considered to be as lucrative as those in the manufacturing and services sectors.

Table 12: Funding Institutions of Agribusinesses

Finding out about funding institutions of agribusinesses	Mean Percentage
Referral by friends and relatives	90%
Over the radio	10%
TV advertisement	10%

5.2.3 Responses from entrepreneurs to research question 1

Research question 1: What financial requirements are important to an individual considering starting an entrepreneurial business venture in the agribusiness industry?

Research question 1 is addressed by question 9 on the entrepreneurs' questionnaire (Appendix A) and reads as follows:

What financial requirements were important to you when you started your agribusiness?

Table 13 below depicts the responses from a selection of respondents (agribusiness entrepreneurs) to this questionnaire question that tries to address research question 1.

Table 13: Responses from Entrepreneurs to Questionnaire Questions Addressing Research Question 1

Respondent	What financial requirements were important to you when you started your agribusiness?
Respondent 3	"I needed money for erecting a fence, for an irrigation system, to purchase production inputs, to pay employees and for water and electricity".
Respondent 4	"The money I required was mainly for the development of infrastructure, specifically to build a store room".
Respondent 6	"The requirements I had pertained to purchasing machinery to process nuts to peanut butter. I also needed money to purchase raw material for planting".
Respondent 7	"Capital was needed for production inputs and labour costs. The expansion of scale of production also needed capital".
Respondent 11	"I needed money for the purchasing of farming inputs, tractor and farming implements as the ones that I currently have are not in good working condition to serve the intended purpose of the enterprise".
Respondent 12	"The money I needed was for training of the employees".
Respondent 13	"What was important to me was to be able to buy processing equipment and chemicals to treat maize seeds; money to build a change room and toilet for the employees and to purchase a weighing scale of 100kg capacity".
Respondent 16	"I needed money to buy more land for our essential oils operation, to buy an irrigation system, to pay for water and electricity and to pay our employees".
Respondent 18	"Even though we used our pension to start the medicinal plants operation, we needed money to purchase dairy cattle in order to diversify into dairy farming".
Respondent 19	"We wanted to expand our jam-making enterprise. We needed money to purchase land and machinery".

5.2.4 Responses from entrepreneurs to research question 2

Research question 2: What are the barriers associated with the provision of capital to entrepreneurial start-ups from the entrepreneur's point of view?

Research question 2 is addressed by questions 6 and 7 on the entrepreneurs' questionnaire (Appendix A). The questions read as follows:

What barriers did you experience in sourcing capital to start your business?

If you applied for financial assistance to a bank or development finance institution and your application was rejected, what were the reasons for rejection?

Table 5.8 and 5.9 below depict the mean percentages of responses from the respondents (agribusiness entrepreneurs) to these questionnaire questions that seek to address research question 2.

Lack of collateral was mentioned by 90% of the respondents as the main barrier in sourcing start-up capital. As high as 80% of the respondents cited a poor credit record and 65% cited a lack of business skills and expertise. A negligible number of respondents stated that lack of agricultural expertise specifically posed a barrier to sourcing capital. Communication problems between themselves and the financiers were experienced by 40% of the respondents.

Table 14: Barriers Experienced in Sourcing Start-up Capital

Barriers experienced in sourcing start-up capital	Mean Percentage
Communication problems	40%
Lack of collateral	90%
Poor credit record	80%
Lack of business skills	65%

Contrary to what transpired from Table 14 above, only 60% of respondents who applied for finance cited lack of collateral as the reason for the rejection of their loan application, as shown in Table 15 below. The primary reason given for loan rejection was a poorly designed business plan. The character of the entrepreneur did not seem to be a deterrent in sourcing capital as none of the respondents cited it as the reason for loan rejection.

Table 15: Reasons for Application Rejection

Reasons for application rejection	Mean Percentage
Poor credit record	80%
Lack of collateral	60%
Poorly designed business plan	90%
Character of the entrepreneur	0%

5.2.5 Responses from entrepreneurs to research question 3

Research question 3: What future role should the finance-enabling environment play to reduce the barriers to finance?

Research question 3 is addressed by questions 10 and 11 on the entrepreneurs' questionnaire (Appendix A). The questions read as follows:

What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance apart from offering financial products?

What future role should the finance-enabling environment play to reduce the barriers to finance?

Table 16 below depicts the responses from a selection of respondents (agribusiness entrepreneurs) to these questionnaire questions that seek to address research question.

Table 16: Responses from Entrepreneurs to Questionnaire Questions Addressing Research Question 3

Respondents	What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products?	What future role should the finance-enabling environment play to reduce the barriers to finance?
Respondent 3	"They help with risk management and financial advice".	"Monitor and evaluate the production process".
Respondent 4	"From what I know they help with financial advice. That's about it".	"Training in agribusiness".
Respondent 6	"There is poor service by financial institutions towards small agribusinesses".	"Lending should exclude collateral but focus more on commitment by members, e.g. consistent banking account of projects (credit records)".
Respondent 7	"None that I can think of really".	"Offering training in business management".
Respondent 11	"No assistance except that of making loans accessible to us".	"Requirements put forth to qualify for a loan must be reduced so that the black farming community can access finance. Currently rules are very stringent".
Respondent 12	"They don't help that much. As far as I'm concerned their primary focus is to make money and (they) do not bother to ensure barriers to finance are reduced".	"To provide training in agribusiness skills".
Respondent 13	"None that I can think of. We were largely helped by government through its Comprehensive Agriculture Support Programme (CASP) to build infrastructure, process seeds and for fencing".	"The role they should play is to provide training in agribusiness skills".
Respondent 16	" <i>TechnoServe</i> , a Standard Bank-sponsored company that helps small-scale farmers, assisted us with start-up capital, securing a market for our essential oils and training employees".	"Financial institutions should play an active role in providing business management skills. They also need to have a system to identify the commitment of farmers".
Respondent 18	"We did receive financial advice, but that was it. More can be done by financial institutions if they put their minds to it".	"Training in managing our businesses would be most welcome. This would be a win-win situation for both the entrepreneur and the financier".
Respondent 19	"I wasn't aware they had a role to play other than to offer finance".	"I really don't see how else they can help".

5.3 Results from Interviews with Experts from Financial Institutions (Finance-enabling Environment)

5.3.1 Overview of interviews with experts from financial institutions

Information about the respondents and the interview locations is presented in Table 17 below. The interviewees were all decision-makers in their respective companies, with the exception of one interview in which the decision-maker's assistant stood in as a proxy. The interview environments were ideal for the research data collection as it was possible to have the maximum attention of the interviewees for the duration of the interview, regardless of their location.

Table 17: Description of Interviews with Financiers

Financial Institution	Interviewee	Designation of Interviewee	Interview Location	Interview conducted
National Youth Development Agency	Zuko Nkungu	Investment Officer	Halfway House, Midrand	Office
ABSA Bank	Kobus Snyman	Manager: Business Development	Pretoria	Via Telephone
National Housing Finance Corporation	Simpfiwe Madikizela	General Manager: Policy and Research	Park Town, Johannesburg	Office
Industrial Development Corporation	Monde Neer	Accounts Manager	Sandton, Johannesburg	Via Telephone
AFGRI	Charles Mashile	Manger: Enterprise Development	Centurion, Pretoria	Boardroom

5.3.2 Overview of financial institutions from which financiers were Interviewed

National Housing Finance Corporation (NHFC)

The NHFC was set up by the Department of Housing in 1996 with a mandate to ensure that every South African with a regular source of income is able to gain access to finance, to acquire and improve a home of his or her own. The NHFC is one of the country's eight Development Finance Institutions (DFIs), and acts as a wholesale funder and risk-manager, facilitating access to housing finance for low and moderate income communities.

Industrial Development Corporation (IDC)

The IDC is a self-financing, state-owned national development finance institution that provides financing to entrepreneurs and businesses engaged in competitive industries. It was established in 1940 to promote economic growth and industrial development in South Africa. The IDC's primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and to the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens. The IDC achieves this by promoting entrepreneurship through the building of competitive industries and enterprises based on sound business principles.

Absa Group Limited

The Absa Group Limited (also known as ABSA or Absa) is the largest consumer bank in South Africa. It is one of the leading banks in South Africa, offering private, retail and corporate banking. Amalgamated Banks of South Africa was formed in 1991 through the merger of the United, Allied and Volkskas Groups. This was followed in 1992 by acquisition of the Bankorp Group (which included TrustBank and Bankfin). In 2005, Barclays Bank of the United Kingdom purchased a 56.4% stake in Absa, which then represented the largest foreign direct investment in the country.

AFGRI

AFGRI Limited (AFGRI) is a JSE-listed agricultural services provider, focusing on agricultural producers, agri-processors and consumers of agricultural and related products, both locally and internationally. The company has three segments: AFGRI Financial Services, which includes the capital and broking operating units; AFGRI Agri Services, which comprises the logistics and producer services divisions, and AFGRI Foods, which comprises the animal protein and oil and protein businesses. AFGRI Limited is headquartered in Centurion, South Africa.

National Youth Development Agency

The NYDA resulted from the merger of the National Youth Commission and Umsobomvu Youth Fund, and is a national public entity owned and funded by the

government. It also reports to government through The Presidency. The NYDA was formally launched on 16 June 2009, as pronounced by President J.G. Zuma in his 2009 State of the Nation Address.

The NYDA offers both enterprise and micro-finance as follows:

Enterprise Finance

Enterprise finance aims to promote entrepreneurship among young people, so it provides funding to youths aged 18 to 35 years to help them start a new business or grow an existing one. This type of finance ranges from R100 000 to R5 000 000 for the entrepreneurs to expand, buy into or buy out existing businesses or start new businesses. Finance is provided directly and through partners.

Micro-finance

This type of finance provides loans ranging from R1000 to R100 000 to youths aged 18 to 35 years to start a new business or grow an existing one. The micro-finance loan is divided into eight different products where finance is structured according to the amount requested, affordability indicators, and the type of finance required; i.e., asset finance, working capital finance or contract-based finance. The terms are then tailored to the individual's requirements.

5.3.3 Responses from financial institutions to research question 2

Research questions 2: What are the barriers associated with the provision of capital to entrepreneurial start-ups from the financier's viewpoint?

Research question 2 is addressed by two questions from the financial institutions questionnaire (Appendix B). These questions are numbered 8 and 9 on the questionnaire and are as follows:

- What, in general, are the barriers associated with the provision of capital to entrepreneurial start-ups?
- What are the barriers associated with the provision of capital to entrepreneurial start-ups, specifically in the agribusiness industry?

Table 18 below depicts the responses to these two questionnaire questions that seek to address research question 2.

Table 18: Responses from Financial Institutions to Questionnaire Questions Addressing Research Question 2

Financial Institution	What, in general, are the barriers associated with the provision of capital to entrepreneurial start-ups?	What are the barriers associated with the provision of capital to entrepreneurial start-ups, specifically in the agribusiness industry?
NHFC	“Security/collateral, business plan, management expertise, market understanding and access thereof”.	“Risk involved, security/collateral, market access, technical knowledge and expertise/skills”.
IDC	“Requirements of financial institutions for the provision of adequate security....hardly any institution takes a risk on the cash flow or expected cash flow of the project or the business. Applicants with inadequate security are generally rejected”.	“Not suitable land for particular crops most times. Lack of water rights. Lack of skill and experience in agribusiness. Scale of project too small most times”.
Absa	“Lack of collateral is the biggest barrier”.	“Lack of collateral and inadequate/insufficient business management skills”.
AFGRI	“We only work with agricultural enterprises so this question is not relevant to us”.	“Lack of collateral is the main issue; viability of the proposed enterprise; access to market (contractual off-take)”.
NYDA	“Lack of experience in general business management and lack of collateral”.	“Lack of experience in agribusiness and lack of collateral”.

5.3.4 Responses from financial institutions to research question 3

Research question 3: What future role should the finance-enabling environment play to reduce the barriers to finance?

Research question 3 is addressed by two questions from the financial institutions questionnaire (Appendix B). These questions are numbered 10 and 11 on the questionnaire and are as follows:

- What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance apart from offering financial products?
- What future role should the finance-enabling environment play to reduce the barriers to finance?

Table 19 below depicts the responses to these two questionnaire questions that seek to address research question 3.

Table 19: Responses from Financial Institutions to Questionnaire Questions Addressing Research Question 3

Financial Institution	What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance apart from offering financial products?	What future role should the finance-enabling environment play to reduce the barriers to finance?
NHFC	“Empowering the people through borrower and consumer education/training and capacity building, advice in financial management, support through taking equity and participating in the management of the business”.	“By taking more risk, relaxing the stringent credit assessment criteria, increasing the risk appetite and providing more for impairments or bad debts”.
IDC	“The barriers are still high especially for start-ups I can’t say there is much which they are doing, banks are geared towards salaried employees and established businesses. There is still a lot which can be done”.	“There should be an incubator fund for start-up entities to share risk and to build the skills of the applicants. Established agribusinesses may outsource some of the functions to the start-ups and buyers should make an effort to buy from small agribusinesses e.g. Woolworths and Pick n Pay”.
Absa	“They offer training in business skills and risk mitigation”.	“Setting up an incubator fund for start-ups would be a good idea; relaxing the current stringent lending terms is another idea; and increasing risk appetite”.
AFGRI	“Our company helps by ensuring financial viability of an enterprise through offering technical support in the form of targeted training, e.g. in grain production; assisting farmers to source markets”.	“Increase risk-appetite and market intelligence capacity (understanding of various markets)”.
NYDA	“They offer training to potential entrepreneurs in order to prepare them for the business environment as well as its management. This gives entrepreneurs the necessary expertise which would have otherwise been a barrier if absent”.	“Generally, the current stringent lending terms should be revised in accordance with the fact that South Africa is a developing country. As such, the financing/lending policies of South African financiers should seek to accommodate the majority of South Africans and not just a few selected individuals”.

5.4 Conclusion

The relevant findings of the qualitative research process were presented in the sections above. The responses from each respondent for both phases of the research were recorded and grouped under each of the three research questions. In the following chapters the findings will be analysed in the context of the literature review provided in Chapter 2.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

The purpose of this chapter is to discuss the results from the data as reported in Chapter 5, combined with the research questions and literature review. The major themes have been identified and are compared to the relevant literature for each of the three research questions. A conclusion is presented after each research question.

6.2 Research Question 1

What financial requirements are important to an individual considering starting an entrepreneurial business venture in the agribusiness industry?

6.2.1 Findings from the research

The emerging concerns from the research data relating to financial requirements that are important to individuals starting an entrepreneurial venture differ from one type of agribusiness venture to another and largely pertain to infrastructural needs. These are some of the requirements from the sample of respondents:

(a) Essential oils enterprise

- Money was needed to erect a fence, to install an irrigation system, to purchase production inputs, to pay employees and to purchase water and electricity.

(b) Medicinal plants enterprise

- The need to spread the risk of the business by diversifying into dairy farming. Capital also required to grow the business by purchasing land for planting.

(c) Dairy and cheese-making enterprise

- The need for capital was mainly for the development of infrastructure, specifically to build a store room to keep tools and equipment.

(d) Juice and jam-making plant

- Money was needed to purchase land and machinery.

(e) Peanut-processing plant

- The need for machinery to process nuts to peanut butter and capital to purchase raw material for planting.

6.2.2 Important points from the literature

The findings of the research pertaining to research question 1 are in line with the argument put forth by Rouse and Jayawarna (2006), in which they state that almost all new businesses require funding to purchase goods and services and to build the basic infrastructure of a new business. Papadimitriou and Mourdoukoutas (2002) further emphasise that financing is an important input in every business. It enables the smooth running of day-to-day

operations, **asset acquisitions**, expert recruitments, and the development of marketing and distribution channels.

He (2009) further proposes that there are five widely recognised preconditions that must be in existence for an entrepreneur to succeed, namely:

- (a) a favourable market structure;
- (b) availability of financial capital;**
- (c) a high quality of human and social capital;
- (d) a culture that is tolerant of failure; and
- (e) strong property rights when starting, exiting or selling businesses.

6.2.3 Conclusion to research question 1

In addressing research question 1, most of the respondents indicated that they needed capital to purchase equipment, or machinery, to build a store room and/or purchase chemicals and other raw materials. The development of infrastructure seemed to be the primary need, followed by paying for water and electricity, purchasing production inputs and paying employees.

6.3 Research question 2(a)

What are the barriers associated with the provision of capital to entrepreneurial start-ups from the entrepreneur's view point?

6.3.1 Findings from the research

Lack of collateral was cited by the majority of respondents as the most eminent barrier experienced in sourcing start-up capital. This was followed by a poor credit record and in third place was lack of business skills and expertise. Some of the respondents stated that lack of agricultural expertise specifically posed a barrier to sourcing capital. A significant number (40%) of respondents also experienced communication problems between themselves and the financiers.

It transpired that only 60% of respondents who applied for finance cited lack of collateral as the reason for the rejection of their loan application, a drop in percentage from the 90% of respondents who cited it as a barrier. The reason provided by the majority of respondents regarding loan rejection was a poorly designed business plan, an aspect that could be considered a business skill.

6.3.2 Important points from the literature

The findings pertaining to research question 2(a) are consistent with empirical evidence from the literature on lack of collateral as a barrier to sourcing capital. There is acknowledgement in the entrepreneurial financing literature that viable business starters may struggle to demonstrate their credibility to private financiers due to an absence of a track record or assets to act as security (Fraser, 2004; Mason & Harrison, 2003) and that some groups may be assessed by lenders as representing a high risk or may even face discrimination (Carter, Shaw, Wilson & Lam, 2005).

Emphasising the issue of lack of collateral by entrepreneurial start-ups, Huyghebaert and Van de Gucht (2007) further state that some of the reasons why entrepreneurial or business start-ups often have difficulty in accessing finance is lack of prior history and reputation, high failure risk, and highly concentrated ownership. The authors argue that given these odds stacked against entrepreneurial start-ups, creditors typically will be concerned about adverse selection and risk shifting problems when lending funds at start-up.

On the issue of communication between entrepreneurs and financiers, Foxcroft *et al.* (2002) reaffirmed that entrepreneurs have difficulty in communicating with financial institutions and that financial institutions do not understand the difficulties associated with owning a small business. This, the authors state, impacts on the level of trust and the development of relationships.

6.3.3 Conclusion to research question 2(a)

The availability of investment finance affects the way in which new enterprises reach the market with their innovations (Druilhe & Garnsey, 2004). Economists and policy makers agree that there is a failure in the market for loans, especially those for new businesses (Cohelo, de Menza & Reyniers, 2004). Research conducted among SMMEs in the tourist industry in Gauteng, South Africa, revealed that access to finance was found to be an important need among entrepreneurs that was not being met by institutional support structures (Rogerson, 2001 in Rabinowitz, 2005).

6.4 Research question 2(b)

What are the barriers associated with the provision of capital to entrepreneurial start-ups from the financier's point of view?

6.4.1 Findings from the research

In addressing research question 2 from the financiers view point, lack of collateral was mostly cited as the barrier associated with the provision of capital to entrepreneurial start-ups. In emphasising this issue of lack of collateral, one respondent stated that “applicants with inadequate security are generally rejected”. Lack of experience in general business management and understanding of the market and access thereto were also stated as some of the barriers associated with the provision of capital.

When asked what barriers are associated with the provision of capital to entrepreneurial start-ups, **specifically in the agribusiness industry**, lack of collateral was also cited the most frequently. Added to this was lack of agribusiness skills, lack of water rights, inadequate market access and the risks involved in agriculture-related enterprises.

6.4.2 Important points from the literature

The findings from the research are in line with assertions by Rwigema and Venter (2004:390), who state that traditional financial institutions view informal SMMEs as high risk areas that have poor collateral and high administrative

costs. The authors further declare that traditional financial institutions often have stringent funding requirements for small businesses. These requirements often present barriers for entrepreneurs which forces them to source alternative forms of financing.

6.4.3 Conclusion to research question 2(b)

The literature supports the main points emerging from the data analysis, namely that lack of collateral, among other things, does pose a barrier to accessing capital. Drawing on the experiences articulated in the research, financial institutions have stringent requirements for small businesses in general, including businesses in the agribusiness industry.

6.5 Research Question 3

What future role should the finance-enabling environment play to reduce the barriers to finance?

6.5.1 Findings from the research

In addressing research question 3, the majority of respondents felt that the finance-enabling environment does not do much in reducing barriers to finance, except offering financial products which is in any case their business. Only one respondent indicated the role played by Standard Bank in assisting small scale farmers through a company called *TechnoServe*. This company assists farmers with start-up capital, securing a market for products or farm produce and training employees.

When asked what future role financiers should play in reducing barriers to finance, most of the respondents indicated the need for training in agribusiness and general business management. Some indicated that the current requirements for loan approval were too stringent and suggested that they be relaxed. One particular respondent indicated that lending should exclude collateral but focus more on commitment by members, e.g. consistent banking account of projects (credit records).

In addressing research question 3 from the financiers' point of view, the majority of respondents stated that financial institutions do offer training to potential entrepreneurs in order to prepare them for the business environment and its management thereof.

Regarding the future role that financial institutions can play in reducing barriers to finance, some respondents brought up the issue of incubator funds for start-up entities to share risk and to build the skills of the applicants. The relaxation of current stringent lending terms was highlighted by some respondents, with one of them particularly stating that lending terms should be in accordance with the fact that South Africa is a developing country, therefore financiers should seek to accommodate the majority of South Africans and not just a few selected individuals. Increasing the financier's risk appetite was also cited as one of the ways to reduce barriers to finance.

6.5.2 Important points from the literature review

The issues raised in addressing research question 3 resonate with research conducted by Driver *et al.* (2002), which found that South African financial institutions have grown up in an economy dominated by large corporations that undertook big projects. Assessing start-ups and small enterprises is not part of the institutional memory and not part of the skills set of managers in most financial institutions. According to Hurst and Lusardi (2004), perhaps the most frequently cited obstacle to new business formation is the inability of aspiring entrepreneurs to acquire the capital necessary to start a business.

6.5.3 Conclusion to research question 3

Financiers have become increasingly interested in understanding the factors associated with the provision of finances to micro-enterprises in developing countries, primarily because credit access has been recognised as an important tool for small business economic development and the overall reduction of poverty (World Bank, 1996 in Davies, Hides & Powell, 2002). Nieman, Visser and Van Wyk (2008) further emphasise that identifying credit access barriers could enable policy makers and financiers to take steps to develop and implement strategies to promote sustainable entrepreneurship in South Africa.

6.6 Conclusion to the Discussion on the Research Findings

Table 20 summarises the knowledge gained by the researcher from the interviews held compared to the literature review.

Table 20: Research Evaluation

Research Question	Comments
Financial requirements important to an individual considering starting an entrepreneurial business venture in the agribusiness industry?	The research elicited information that substantially supported the literature review and revealed new insights into the financial requirements of emerging agribusiness start-ups. The main thrust of the findings centred on the need for infrastructural development by entrepreneurs in this industry.
Barriers associated with the provision of capital to entrepreneurial start-ups from the entrepreneur's view point?	The research revealed what the literature indicated that traditional financial institutions often have stringent funding requirements for small businesses.
Barriers associated with the provision of capital to entrepreneurial start-ups from the financier's view point?	It transpired from the research that barriers associated with the provision of capital are largely due to lack of collateral, a poor credit record, inadequate business skills and communication problems between financiers and entrepreneurs
Future role that the finance-enabling environment should play to reduce the barriers to finance	Findings from the research suggested more risk-taking by the financiers, relaxing the stringent credit assessment criteria, increasing risk appetite, and providing more for impairments or bad debts.

The findings of the research indicate that the overall research objectives have been met.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

This chapter provides a conclusion to the research conducted, identifies possible practical implications of the results and makes recommendations for additional study for areas worthy of further investigation. It therefore implies that this study created a platform for deeper empirical assessment. Findings from this study can be used as a benchmark or a guideline for policy-makers, development practitioners and training institutions involved in ensuring the survival of entrepreneurial start-ups of emerging agribusinesses.

7.2 Review of the Research Project

At this stage a brief review of the main objectives and scope of the research is appropriate.

The stated primary objective of the research was to conduct an investigation into the capital constraints of entrepreneurial start-ups in South Africa's emerging agribusiness industry.

The unit of analysis for the first phase of the research were the financial institutions (providers of capital to agribusiness entrepreneurs); while the units of analysis for the second phase were entrepreneurs in the start-up stage of the business life cycle in the emerging agribusiness industry.

To create context for the research, five decision makers from the finance-enabling environment were interviewed during the first phase of the research, and twenty start-up entrepreneurs in the agribusiness industry were interviewed during the second phase of the research. The interviews were recorded, transcribed and then analysed in the context of the literature review.

7.3 Implications of Findings

Although not representing the entire population of start-up entrepreneurs in South Africa's emerging agribusiness industry, the results of the research provide insights into the capital constraints of these entrepreneurs and the role the finance-enabling environment can play in reducing these barriers to finance.

In terms of the findings and their analysis thereof stated in the previous sections, the major implications of these findings for South Africa are as follows:

- Although operating in the SMME environment, differences exist in needs and challenges facing agribusiness start-up entrepreneurs in comparison to start-ups from other sectors. The former is, for an example, perceived by financiers as a riskier undertaking, thereby posing challenges for entrepreneurs in this sector to access finance. This implies that existing government and private support structures,

and education and training programmes must make provision for these differences in their various offerings.

- Financiers need to be made aware of the need to provide some form of training to start-up entrepreneurs in financial management and risk mitigation. The research indicated that agribusiness entrepreneurs perceive financiers as non-caring when it comes to the survival of their businesses. The provision of such training (at a cost of course) could be a win-win situation for both the entrepreneur and the financier.
- Potential entrepreneurs wishing to operate in the agribusiness industry must be made aware of the challenges in accessing capital that are unique to this particular industry. It transpired from the research that of primary importance to agribusiness entrepreneurs is capital for infrastructure requirements.
- The need for training in managing start-up enterprises highlighted by the majority of entrepreneurs implies the inherent lack of such proficiencies or skills. This therefore poses a challenge for government to broaden the efforts meant to encourage entrepreneurial behaviour in citizens, by means of innovations in the school educational process, with the insertion of entrepreneur-specific disciplines in the curriculum of elementary and intermediate schools and universities.

7.4 Recommendations for Further Research

- It is necessary to rethink the issue of emerging entrepreneurs in South Africa's agribusiness industry. Therefore there is a need for future research to understand the strengths and weaknesses of entrepreneurial activity in this industry, and account for the reasons why black entrepreneurs have not, in larger numbers, expanded beyond the 'emerging' or 'small-scale' phase.
- A comparative study is required to assess the key similarities and differences in capital constraints between the various economic industries in South Africa as outlined in Table 4.1 in Chapter 4 of this research. Such a study would help in outlining a relevant policy framework that suits the specific needs of a particular industry. A global perspective on other successful models in upliftment in this context should be included.
- There is a need for research to determine how the incorporation of entrepreneurship-specific disciplines in the process of educating children impacts on the development not only of the basic entrepreneurship concepts, but also entrepreneurial values, skills and attitudes. The need for such research stems from the fact that 60% of the interviewed entrepreneurs in this research indicated that their applications for capital were rejected on the basis of a poorly designed business plan.

7.5 Concluding Remarks

The research was conducted to determine the capital constraints to entrepreneurial start-ups with specific reference to the emerging agribusiness industry in South Africa. The research found that barriers to accessing finance are largely due to lack of collateral, a poor credit record, inadequate business skills and communication problems between financiers and entrepreneurs. The findings of this research are in line with similar international research (Mazzarol *et al.*, 1990; Deakins & Freel, 2003) on various aspects influencing start-up businesses. From the entrepreneur's viewpoint, financiers posed barriers by having stringent lending requirements and a limited risk appetite.

On the issue of what role the finance-enabling environment should play in reducing barriers to finance, findings from the research suggested more risk-taking by the financiers, relaxing the stringent credit assessment criteria, increasing the risk appetite and providing more for impairments or bad debts. Another pertinent suggestion put forth was that of an incubator fund for start-up entities to share risk and to build the skills of the entrepreneurs. It was further emphasised that, generally, the current stringent lending terms should be revised in accordance with the fact that South Africa is a developing country. As such, the financing and lending policies of South African financiers should seek to accommodate the majority of South Africans and not just a few selected individuals.

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Appendix A: Financiers' Questionnaire



August / September 2010

Dear Respondent

This is a research survey on the **CAPITAL CONSTRAINTS TO ENTREPRENEURIAL START-UPS IN SOUTH AFRICA'S EMERGING AGRIBUSINESS INDUSTRY** in partial fulfilment of the requirements for the degree of Master of Business Administration (MBA) at the Gordon Institute of Business Science (GIBS), University of Pretoria.

The research is aimed at uncovering the capital constraints of emerging agribusinesses in South Africa. By finding out the financial factors that influence start-up ventures and small businesses in the SMME agribusiness industry, this research can make potential entrepreneurs aware of the importance of considering these factors in the start-up of their businesses.

In trying to gain a better understanding of the capital constraints experienced by emerging South African entrepreneurs in the agribusiness industry, your participation in this regard is needed and greatly appreciated. By responding to this questionnaire you will be contributing towards a positive intervention in the fields of both entrepreneurship and agribusiness. Be assured that all information provided will be treated in the strictest confidence.

Please acquaint yourself with the instructions below before completing the attached questionnaire:

Instructions to complete the questionnaire:

The questionnaire is an MS Word document and can be e-mailed to ZaneleT@daff.gov.za as follows:

1. Please save the attached questionnaire to your hard drive.
2. Close your e-mail and open the saved questionnaire.
3. Proceed to answer the questions by using your mouse. Click on the appropriate square/s or by filling in the required information.

4. Once you have completed the questionnaire save the alterations and return the questionnaire to me using the e-mail address provided above by 31 August 2010.

If you face any difficulties with the questionnaire, please do not hesitate to contact me on the following contact details:

Cell: 072 460 5720

E-mail: ZaneleT@daff.gov.za

Tel: (012) 319 6462

The research is guided and supervised by Dr. Alex Antonites, senior lecturer and Chairman of Entrepreneurship at the University of Pretoria. His contact details are as follows:

Cell: 082 894 6602

E-mail: Alex.Antonites1@up.ac.za

Tel: (012) 420 3119

Thank you for taking time in participating in this research process.

Yours sincerely

Zanele Tullock (Miss)

CONSENT FORM

I would be grateful if you would indicate your consent to participating in this research by ticking the box below. Furthermore, if you are prepared to have your name and surname disclosed in the research report will you also please tick the appropriate box and signoff. If you have any concerns, please contact my supervisor or me using the following contact details:

Zanele Tullock

Dr. Alex Antonites

Cell: 072 460 5720

Cell: 082 894 6602

E-mail: ZaneleT@daff.gov.za

E-mail: Alex.Antonites1@up.ac.za

Tel: (012) 319 6462

Tel: (012) 420 3119

I consent to filling in this questionnaire

I consent to my name and surname being used in the final research report

Signature

Date:.....

QUESTIONNAIRE: EMPLOYEE OF A COMMERCIAL BANK, MICROFINANCE INSTITUTION OR DEVELOPMENT FINANCE INSTITUTION

The questions below are open-ended. Please fill in as much information as possible.

1. What is the name of your company?
2. What is your designation in the company?
3. What are the responsibilities of the post you are occupying?
4. From which economic sector do people mostly seek start-up capital?

Agriculture	<input type="checkbox"/>
Mining and Quarrying	<input type="checkbox"/>
Manufacturing	<input type="checkbox"/>
Electricity, Gas and Water	<input type="checkbox"/>
Construction	<input type="checkbox"/>
Retail and Motor Trade, and Repair Services	<input type="checkbox"/>
Wholesale Trade	<input type="checkbox"/>
Commercial Agents and Allied Services	<input type="checkbox"/>
Catering	<input type="checkbox"/>
Transport	<input type="checkbox"/>
Storage	<input type="checkbox"/>
Communications	<input type="checkbox"/>
Finance	<input type="checkbox"/>
Business Services	<input type="checkbox"/>
Community	<input type="checkbox"/>
Social and Personal Services	<input type="checkbox"/>

5. What estimated percentage of the total loan application population do entrepreneurs from the agribusiness industry constitute? (The agribusiness industry includes general farming, agro-processing and aquaculture/fisheries).
6. What financial requirements are important to an individual considering forming an entrepreneurial start-up in general?
7. What financial requirements are important to an individual considering forming an entrepreneurial start-up, **specifically in the agribusiness industry**?
8. What are the barriers associated with the provision of capital to entrepreneurial start-ups?
9. What are the barriers associated with the provision of capital to entrepreneurial start-ups, **specifically in the agribusiness industry**?
10. What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products?
11. What future role should the finance-enabling environment play to reduce the barriers to finance?
12. If you have any other comments or inputs pertaining to capital constraints to entrepreneurial start-ups in South Africa's agribusiness industry, kindly write them down.

Thank you again for participating in this research.

Appendix B: Entrepreneurs' Questionnaire



August / September 2010

Dear Respondent

This is a research survey on the **CAPITAL CONSTRAINTS TO ENTREPRENEURIAL START-UPS IN SOUTH AFRICA'S EMERGING AGRIBUSINESS INDUSTRY** in partial fulfilment of the requirements for the degree of Master of Business Administration (MBA) at the Gordon Institute of Business Science (GIBS), University of Pretoria.

The research is aimed at uncovering the capital constraints of emerging agribusinesses in South Africa. By finding out the financial factors that influence start-up ventures and small businesses in the SMME agribusiness industry, this research can make potential entrepreneurs aware of the importance of considering these factors in the start-up of their businesses.

In trying to gain a better understanding of the capital constraints experienced by emerging South African entrepreneurs in the agribusiness industry, your participation in this regard is needed and greatly appreciated. By responding to this questionnaire you will be contributing towards a positive intervention in the fields of both entrepreneurship and agribusiness. Be assured that all information provided will be treated in the strictest confidence.

Please acquaint yourself with the instructions below before completing the attached questionnaire:

Instructions to complete the questionnaire:

The questionnaire is an MS Word document and can be e-mailed to ZaneleT@daff.gov.za as follows:

5. Please save the attached questionnaire to your hard drive.
6. Close your e-mail and open the saved questionnaire.
7. Proceed to answer the questions by using your mouse. Click on the appropriate square/s or by filling in the required information.

8. Once you have completed the questionnaire save the alterations and return the questionnaire to me using the e-mail address provided above by 31 August 2010.

If you face any difficulties with the questionnaire, please do not hesitate to contact me on the following contact details:

Cell: 072 460 5720

E-mail: ZaneleT@daff.gov.za

Tel: (012) 319 6462

The research is guided and supervised by Dr. Alex Antonites, senior lecturer and Chairman of Entrepreneurship at the University of Pretoria. His contact details are as follows:

Cell: 082 894 6602

E-mail: Alex.Antonites1@up.ac.za

Tel: (012) 420 3119

Thank you for taking time in participating in this research process.

Yours sincerely

Zanele Tullock (Miss)

CONSENT FORM

I would be grateful if you would indicate your consent to participating in this research by ticking the appropriate box below. Furthermore, if you are prepared to have your name and surname disclosed in the research report will you also please tick the appropriate box and signoff. If you have any concerns, please contact my supervisor or me using the following contact details:

Zanele Tullock

Dr. Alex Antonites

Cell: 072 460 5720

Cell: 082 894 6602

E-mail: ZaneleT@daff.gov.za

E-mail: Alex.Antonites1@up.ac.za

Tel: (012) 319 6462

Tel: (012) 420 3119

I consent to filling in this questionnaire

I consent to my name and surname being used in the final research report

Signature

Date:.....

QUESTIONNAIRE: AGRI-BUSINESS OWNER

Please answer each question by filling in an X in the shaded box provided on the extreme right.

Demographic Information

a. What is your gender?

Male	<input type="checkbox"/>
Female	<input type="checkbox"/>

b. In which range does your age fall?

18 – 25 years	<input type="checkbox"/>
26 – 33	<input type="checkbox"/>
34 – 41	<input type="checkbox"/>
42 – 49	<input type="checkbox"/>
50 – 57	<input type="checkbox"/>
58 – 65	<input type="checkbox"/>
Above 65 years	<input type="checkbox"/>

c. What is your race?

Asian	<input type="checkbox"/>
Black	<input type="checkbox"/>
Coloured	<input type="checkbox"/>
Caucasian	<input type="checkbox"/>



d. Which of the following languages do you mostly speak at home?

Afrikaans	<input type="checkbox"/>
English	<input type="checkbox"/>
IsiNdebele	<input type="checkbox"/>
IsiSwati	<input type="checkbox"/>
IsiXhosa	<input type="checkbox"/>
IsiZulu	<input type="checkbox"/>
SePedi	<input type="checkbox"/>
SeSotho	<input type="checkbox"/>
SeTswana	<input type="checkbox"/>
TshiVenda	<input type="checkbox"/>
XiTsonga	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>

e. What is your highest formal education qualification?

Matric/Grade 12 or Less	<input type="checkbox"/>
Certificate/Diploma	<input type="checkbox"/>
Bachelor's Degree	<input type="checkbox"/>
Honours Degree	<input type="checkbox"/>
Master's Degree	<input type="checkbox"/>
Doctorate	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>

Information Pertaining to Your Business

13. What is your position/role in the business?

Owner	<input type="checkbox"/>
Manager	<input type="checkbox"/>
Both	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>

14. For how long has your business been in operation?

0 – 2 years	<input type="checkbox"/>
3 – 5 years	<input type="checkbox"/>
5 – 10 years	<input type="checkbox"/>
More than 10 years	<input type="checkbox"/>

15. In which economic sector would you classify your business?

Agro-processing/Value-adding	<input type="checkbox"/>
Aquaculture/Fisheries	<input type="checkbox"/>
Crop Production	<input type="checkbox"/>
Animal Husbandry	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>

16. How many people do you employ?

Less than 5 people	<input type="checkbox"/>
6 – 20 people	<input type="checkbox"/>
21 – 50 people	<input type="checkbox"/>
51 – 200 people	<input type="checkbox"/>
More than 200 people	<input type="checkbox"/>

17. How did you raise start-up capital?

Family and friends	<input type="checkbox"/>
Own savings	<input type="checkbox"/>
Commercial bank	<input type="checkbox"/>
Development Finance Institution	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>

18. What barriers did you experience in sourcing capital to start your business?

Communication problems	<input type="checkbox"/>
Lack of collateral	<input type="checkbox"/>
Poor credit record	<input type="checkbox"/>
Lack of business skills	<input type="checkbox"/>
Other (please explain below)	<input type="checkbox"/>

If answered **Other**, please explain:

19. If you applied for financial assistance to a bank or development finance institution and your application was rejected, what were the reasons for rejection?

Poor credit record	<input type="checkbox"/>
Lack of collateral	<input type="checkbox"/>
Poorly designed business plan	<input type="checkbox"/>
Character of the entrepreneur	<input type="checkbox"/>
Other (please explain below)	<input type="checkbox"/>

If answered **Other**, please explain:

20. How did you know about the funding institutions of agribusinesses?

Referral by friends and relatives	<input type="checkbox"/>
Over the radio	<input type="checkbox"/>
TV advertisement	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>

Please note that the following three questions are open-ended. Kindly provide as much information as you can.

21. What financial requirements were important to you when you started your agribusiness?

22. What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products?

23. What future role should the finance-enabling environment play to reduce the barriers to finance?

Thank you again for participating in this research.