

Ethné Swartz^{1,2} / Jonathan T. Marks² / Caren Scheepers²

Venture Support Organizations – Lighting a Path for Entrepreneurship in South Africa?

¹ Feliciano School of Business, Montclair State University School of Business, Montclair, New Jersey 07043-1624, USA, E-mail: swartze@montclair.edu

² Gordon Institute of Business Science, University of Pretoria Gordon Institute of Business Science, Johannesburg, South Africa, E-mail: swartze@montclair.edu, marksj@gibs.co.za, scheepers@gibs.co.za

Abstract:

The papers in this special issue explore the rapid growth of venture development organizations globally. A consistent theme that runs throughout the contributions is that, while ecosystem development is necessary everywhere to enhance the economic impact of entrepreneurship, in emerging economies, contextualization is critical. Countries have idiosyncratic histories and development trajectories. Myriad stakeholders participate and shape local ecosystems. To illustrate, this introduction provides an overview of some key venture development initiatives in South Africa, and we consider how venture development organizations, particularly those based at academic institutions, could contribute to the development of the country's entrepreneurial ecosystem. We provide suggestions for policy initiatives and academic research.

Keywords: venture development organizations (VDO), venture support organizations, entrepreneurship ecosystems, contextualization

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Introduction

The papers in this special issue explore the rapid growth of venture development organizations globally. A consistent theme that runs throughout the contributions is that, while ecosystem development is necessary everywhere, particularly to enhance the economic impact of entrepreneurship, in emerging economies (World Bank 2018), *contextualization* is critical. Countries have idiosyncratic histories and development trajectories. Myriad stakeholders participate and shape local ecosystems. To illustrate, this introduction provides an overview of some key venture development initiatives in South Africa, and we consider how venture development organizations, particularly those based at academic institutions, could contribute to the development of the country's entrepreneurial ecosystem. We provide suggestions for policy initiatives and academic research.

Background to Entrepreneurship in South Africa: Challenges and Opportunities

South Africa's expanding range of ecosystem participants, evident in the map created by the Aspen Network of Development Entrepreneurs (2015), illustrates the dynamic nature of the venture development and support environment. This map is radically different to the segregated entrepreneurial support systems that existed during the Apartheid era. This is a result of the modernization of the entrepreneurial landscape globally, but also due to South Africa's political transformation. Since the mid-1990s the country has developed into an inclusive democracy that has welcomed the challenge of global competition. The country's embrace of entrepreneurship has been more problematic. Swartz, Amatucci and Marks (2019) argue that the country's history spawned cultural, institutional and structural barriers to entrepreneurship that explain the poor performance in relation to other emerging economies. Global Entrepreneurship Monitor (GEM) data suggest the country lags less developed economies in Africa when considering nascent entrepreneurship (Herrington and Kelley 2012; Herrington, Kew, and Mwanga 2017). Some change is evident though – for the period from 2003 through 2016, GEM data suggests that awareness about entrepreneurship has increased, perceptions about entrepreneurial careers have improved, and entrepreneurs are regarded more positively (Herrington, Kew, and Mwanga 2017).

This type of positive change has been lacking in South Africa's economic cycles. Following positive economic growth in the 1990s, the economy has suffered from persistent low growth, high unemployment (especially

Ethné Swartz is the corresponding author.

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among youth) and high inequality, with the brunt borne by Black South Africans. These factors are mutually reinforcing, and the country needs entrepreneurial companies to create the new jobs of the future. One significant challenge is how best to develop and *finance* the different types of companies in the entrepreneurial ecosystem. Access to finance and financial skills are the obstacles to entrepreneurship most frequently cited (Botha 2006; Irene 2016; SBP Alert 2013; Statistics SA 2017) in government and academic literature. For instance, we know the debt finance gap is a significant barrier to entrepreneurship (Scott et al. 2012) for South African women. While particularly acute for women entrepreneurs, the problem of access to appropriate funding extends to all entrepreneurs in the country (World Bank 2019).

Market inefficiencies also extend to risk capital (Lingelbach 2015). Poor institutional quality and governance in South Africa through to 2012 negatively impacted the development of venture capital in the country (Lingelbach 2015). Lack of government effectiveness, institutionalized corruption and conflicting government policy objectives sent confusing messages to potential investors, creating inefficiencies such as increased time required to changes in fund manager ownership and investor structures.

Beyond inefficiencies with the flow of capital – both debt and equity capital – there is a lack of good quality data (and verifiable) about the equity funding landscape in the country. Entrepreneurial ecosystems thrive when data are available about the entire range of funding sources appropriate to different types of companies. Debt capital sources include family and friends, banks and, increasingly, internet-based lending organizations, as well as crowdfunding platforms (Philip 2020). Startups in the country have limited options such as angel investors, crowdsourcing, venture capital and corporate venture capital but one of the legacies of Apartheid is that many entrepreneurs lack the social capital to access these sources. The country's geography also imposes an obstacle – entrepreneurs who reside in areas that are distant from the main hubs of Gauteng¹ and the Western Cape are unable to access venture development organization resources easily. The support and finance gap therefore remains acute for these entrepreneurs. Universities potentially provide the means to reach some of these entrepreneurs.

University-based Venture Development Organizations

Accelerators and incubators are emerging at universities such as the University of Pretoria, University of Cape Town, and Stellenbosch University. The latter's LaunchLab was created in 2015 as an innovation initiative between the university and corporate partners such as Nedbank (a large South African banking group), and targets startups and corporates. LaunchLab has graduated 15 organizations in areas such as agri-tech and food; paid media, clean-tech, edu-tech, fin-tech and big data, smart cities and safety. Another 45 startups are in the program in 2020 (LaunchLab 2020).

The University of Pretoria has various on-campus initiatives, including an incubator at their Mamelodi² Campus which provides a maker-space for township residents who require access to resources (<https://www.up.ac.za/up-business-incubator/article/2610792/upbi-read-more>). The Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town, Graduate School of Business launched in 2011 as a partnership between the university and the Bertha Foundation. The Centre has had a substantial impact across the academic, social and entrepreneurial landscape in the Western Cape, including an on-campus accelerator supported by MTN, a South Africa-based global mobile telecommunications firm. Universities such as the University of the Witwatersrand (Wits), Nelson Mandela University, and the University of the Western Cape (UWC) are all adopting similar strategies to encourage startups while establishing technology transfer offices to support faculty and students. The country's Technology Innovation Agency provides guidance and encourages links with universities and startup ecosystem partners in the United States, Germany, and the UK (Klose 2019).

The South African government is encouraging knowledge transfer between angel investment ecosystems in the USA and the emerging angel hubs in the Gauteng and Western Cape regions. A partnership is underway through a collaboration between the US Embassy and the Universities South Africa Entrepreneurial Development in Higher Education (EDHE) initiative (<https://edhe.co.za/>). EDHE encourages technology commercialization and technology transfer training, angel investment and closer partnerships with US educational institutions and ecosystems.

These partnerships are extensive, but it is unclear how substantive they are. Furthermore, it remains to be seen what model will emerge for sustainable engagement on entrepreneurship for South African universities collaborating with higher education institutions from Europe, Asia and other countries beyond the USA. We envision research opportunities that can emerge from tracking the outcomes from the current EDHE initiative and generating insights based on the contexts in which specific EDHE activities were implemented. For instance, the South African government has implemented a development program for eight historically dis-

advantaged institutions of higher learning. All these institutions are also participants in the EDHE activities. Data on entrepreneurship initiatives at these eight historically disadvantaged institutions should provide the basis for stakeholders to make informed decisions about university-based initiatives to support ventures and entrepreneurial ecosystems in some of the poorest communities in the country.

Corporate venture capital is finding its way into partnerships with well-known academic institutions. Wits created an innovation district focused on digital startups (<https://tshimologong.joburg/>) and it partners with IBM, Cisco and Microsoft, among others. Traditional South African banks and financial sector companies are also increasingly visible partners throughout the entrepreneurial ecosystem. Rand Merchant Investments, part of the First Rand Group, formed Alpha Code, a fin-tech club, to support the growth and development of the fin-tech industry in South Africa with support, mentorship and investment.

An important contributor to the venture funding landscape in South Africa is the Section 12J Venture Capital Company.³ This initiative of the South African Revenue Services offers a tax efficient investment for investors, provided the funds are invested within an agreed period of time in small medium enterprises. The capital gain received on the fund is tax free. Ventureburn (2019) estimated that 136 funds had been launched by January 2019, raising an estimated \$240 million.

Agenda for Future Research in South Africa

We believe a sustained research focus on venture development support organizations in South Africa could provide fertile soil for research output, and inform government policy. An example of a successful outcome in government policy can be found in the case of how venture capital in the country was developed. The South African government cultivated the development of venture capital, which was jump-started by the Industrial Development Corporation (IDC) from 1999, and, through a public-private partnership in the Small Business Development Corporation (later called Business Partners) from 1980 to the present (Lingelbach 2015). The South African Venture Capital Association (SAVCA) was formed in 1998 as an association for venture capital and private equity organizations. While the venture capital community is well represented, there is a lack of data on business angel investment. SAVCA (2017) has conducted some research and reports that angel investors in South Africa seek returns on their investments, and that social impact and mentoring are strong drivers for making those investments.

So, the ecosystem is sparking investor interest and “successes” are emerging. One example is SweepSouth, a digital platform company that provides domestic worker services. SweepSouth has received \$6 m in five rounds of investment; the company benefited from initial angel investment in South Africa and a placement with an accelerator in the USA. Additionally, Naspers Foundry, a South African fund, announced an investment in the company (Naspers 2019). Naspers is a South African new media company which is listed on the Johannesburg Stock Exchange, and an additional listing on the London Stock Exchange. The company has transformed into a global internet investor, benefiting from its early investment in Tencent (Cotterill 2019). The Naspers Foundry was created to specifically invest in South African startups, and a Naspers Lab has been created to invest in ventures in the important social entrepreneurship space in the country.

And SweepSouth is not alone. In 2019, the Crunchbase hub on South African female founded companies listed 91 organizations and 148 founders on July 11, 2019. Entrepreneurs secured \$28 million over 58 funding rounds. These companies include those with at least one woman founder, and with their company operations based in South Africa. Of these companies, 3% have been acquired.

Our examples are women-owned companies emerging from the ecosystem, as this is our area of research focus. However, similar research is needed on other entrepreneurs in South Africa, providing insights on the emergence of companies such as SweepSouth. We also have to track the connections between venture development organizations on university campuses, and the providers of both debt and equity funding in the country.

Concluding Remarks

Contextualization is critical in discussing entrepreneurial developments, particularly in developing economies (Swartz, Amatucci, and Marks 2019). We have discussed the rich network of venture support organizations being created in South Africa and shown that the nascent university-based venture support organizations form a critical part of that mosaic. Kolk and Rivera-Santos (2018) in a systematic review of research on Africa in business and management journals highlighted the need for researchers to turn their attention to Africa as a continent rich in possibilities but lacking adequate representation of research articles in leading journals. We fully support this call and believe that our introduction demonstrates the research possibilities that exist!

Notes

- 1 Gauteng is a conurbation that includes Johannesburg and Pretoria.
- 2 Mamelodi is a township to the northeast of Pretoria in the Gauteng conurbation. It was established by the Apartheid regime to house Black South Africans and it largely remains so today, with high rates of unemployment and poverty.
- 3 Named after the relevant section of the South African Income Tax Act.

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