

Resource Report 11: Research into Successful Entrepreneurs

A research project sponsored by the National Department of Housing, the Social Housing Foundation, Nedbank and the FinMark Trust



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in Association with CSIR Built Environment**

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Reports produced as part of the Housing Entrepreneurs Research Project:

Final Reports:

Research Report: Consolidated analysis of research into Small Scale Landlords and Home Based Entrepreneurs (April 2006)

Small Scale Landlords: Research Findings and Recommendations (3 May 2006)

Home Based Entrepreneurs: Research Findings and Recommendations (to be released in July 2006)

Resource Reports

Literature Review

Resource Report 1: Literature review of Small Scale Landlords (6 February 2006)

Resource Report 2: Literature review on the financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks. (6 February 2006)

Resource Report 3: Literature review on entrepreneurship, housing and housing finance (6 February 2006)

Resource Report 4: Literature review on Home Based Entrepreneurs (6 February 2006)

Small Scale Landlords

Resource Report 5: Research into Landlords in Inner Cities (6 February 2006)

Resource Report 6: Research into Landlords in Townships (6 February 2006)

Resource Report 7: Research into Successful Landlords (6 February 2006)

Resource Report 8: Research into Service Providers in respect of Small Scale Landlords (6 February 2006)

Resource Report 9: Research into Public Sector Stock (6 February 2006)

Home Based Entrepreneurs

Resource Report 10: Research into Home Based Entrepreneurs (6 February 2006)

Resource Report 11: Research into Successful Entrepreneurs (6 February 2006)

Resource Report 12: Research into Service Providers in respect of Entrepreneurs (6 February 2006)

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1 Introduction

Finmark Trust, the Social Housing Foundation, Nedbank and the Gauteng Department of Housing have appointed Shisaka Development Management Services in association with the CSIR to undertake research into 'Housing Entrepreneurs'. Housing Entrepreneurs are defined as small scale landlords and entrepreneurs who operate or use their house as part of their business activities.

The purpose of the research is to understand **how housing and housing finance can be used as a tool to promote the emergence and growth of entrepreneurs and small scale landlords**. Specifically the study aims at:

- **Identifying the housing finance interventions** necessary to build an entrepreneurial and small scale landlord sector in low income areas.
- Developing **appropriate information products and tools** to assist emerging entrepreneurs and landlords in their efforts at becoming housing entrepreneurs.
- Focusing on the potential for small scale entrepreneur landlords to be the model for dealing with **difficult to transfer state owned stock**.
- Understanding the key issues which would support a **productive relationship between the landlord and the tenant** in the small scale sector in the mutual interests of both parties.
- Inform policy and strategy directions so as to facilitate **better access to housing investment opportunities for either entrepreneurs or small scale landlords**, such as are already being realised in the middle and upper income sector of South Africa.

This report forms part of Phase 1 of the research and comprises a literature review of the financial needs and products available to small scale Landlords and Entrepreneurs. This report forms part of Phase 1 of the research and comprises research into Successful Entrepreneurs. This report comprises an analysis of the detailed research findings which are set out in Annexure A attached as a separate report.

This research comprises one component of the overall research being undertaken with includes:

- Research into landlords operating in Townships

- Research into landlords operating in inner city areas
- Research into successful landlords
- Research into Entrepreneurs in Inner Cities and Townships

This report includes:

- Purpose of the research
 - Methodology
 - Key findings
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2 Purpose of the research

This research aims to compliment primary research undertaken of Entrepreneurs in 2 Inner City and 3 Township areas. This research focuses on studying the mechanisms and dynamics of entrepreneurs.

This research comprises qualitative in-depth interviews with 20 Entrepreneurs that are perceived as being “successful ”. The findings of the primary research of Entrepreneurs (above) will be compared with the findings of established successful Entrepreneurs.

For the purpose of the study ‘successful’ Entrepreneurs are defined as individuals who had distinguished themselves displaying one or more of the following characteristics:

- The enterprise has been in operation for 3 years or more
 - The enterprise is able to adapt to changing market conditions and/or demand;
 - The product or service offered is competitive in that the enterprise has a stable customer base.
 - The entrepreneur has been recognized by his or her peers or customers as being successful.
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3 Methodology

The following methodology was applied in undertaking the research:

- An in-depth interview schedule was developed focusing on the motivation for becoming an entrepreneur, key resources involved, financing the business, perceptions about financial institutions, and specifically the role of the home/housing finance in their success.
- Successful entrepreneurs were identified through word of mouth from fellow entrepreneurs, those profiled in *Enterprise* magazine and the *Sowetan* as successful, and/or recipients of awards for their entrepreneurial endeavours.
- A trained facilitator conducted the interview in the preferred language of the Entrepreneur. The principles of the Free Attitude Interview, developed by Dr. Ineke Meulenberg-Buskens¹ were used. This technique allows for data to be obtained in an unbiased manner and assists respondents to discuss freely their knowledge, ideas, experiences and values related to the subject under discussion.
- A summary of the data obtained is provided for each interview, with regards to the themes set out in the objectives of the research. These themes were explored and links made with other themes. Each issue was exhausted in terms of the content of the interviews. The transcripts of the interviews are contained as a separate report in Annexure A. A summary of the interviews is detailed in Appendix 1 attached.

¹ Ineke Meulenberg Buskens (1993) *Qualitative Research Reader*. Pretoria: Human Sciences Research Council & Vrolijk,A.; Dijkema, M.F.; Timmerman,G. (1980) *Gespreksmodellen* (Translated in English to: “Discussion Models”). Alphen a.d. Rijn. The Netherlands.

4 Key findings

4.1 *Overview of the business*

The 20 Successful Entrepreneurs interviewed were undertaking a mix of business activities incorporating the following:

- Bed and breakfasts (6)
- Estate agent (1)
- Pallet repairs (1)
- Restaurants (2)
- Tour operator (1)
- Couriering (1)
- Business incubation and training (1)
- Marketing (1)
- Engineering supply (1)
- Cleaning (2)
- Pipe installation (1)
- Construction business (1)
- Office furniture (1)

Many successful entrepreneurs had more than one business operating simultaneously. All businesses were operated formally having been registered, mostly as Close Corporations.

Businesses had been in operation for between 1 and 12 years. Of the Entrepreneurs interviewed 7 indicated that this was their first business, 2 that it was their first formal business. Of all the Entrepreneurs interviewed 11 had previous experience of running a small business.

The Entrepreneurs employed between 1 and 425 employees.

Most of the Entrepreneurs interviewed had learnt their skills from family and friends, followed role models or other successful Entrepreneurs in the media and/or in their family or learnt their skills through their previous formal employment in a hands-on way. One Entrepreneur had learnt to hone his skills by carefully watching his competitors.

None of the Entrepreneurs noted an MBA or university qualification or government programme as the source of their skills – most seemingly felt that their hands on learning, particularly through learning from mistakes made, and exposure to entrepreneurial role models, the hidden curriculum of family experience were more important factors.

4.2 Motivation and attitudes

The reasons given by the Entrepreneurs interviewed for starting their business varied comprising a combination of push and pull factors.

- Pull factors:
 - To be their own boss (2)
 - Experiencing the success of a first business and a desire to build on this (1)
 - Awareness of gaps in the market and opportunities (7)
 - Exposure to entrepreneurial role models (particularly successful black entrepreneurs – Mama Lolo, Herman Mashaba, Ivan Khoza, Jimmy Ntinti were mentioned - and family members) (11)
 - Recognition of their own skills (2)
 - Loving what they do (2)
 - The reward of high risk (1)
 - Encouragement by friends and family. (2)

Said one, 'I always dreamed of running my own business'.

- On the push side the following aspects were noted:
 - The need to support their families (1)
 - The need to generate income (2)
 - Frustration with their work situation and/or clashes there. One entrepreneur noted that he'd been retrenched and decided to start a business with his package (1)

All Entrepreneurs interviewees noted that they wanted to expand their business. The key constraints identified was access to working capital and infrastructure/capital infrastructure.

Key success factors identified by the Entrepreneurs interviewed included:

- Two B&B operators noted that their businesses were very well located, next to major tourist attractions.
- Three entrepreneurs noted that they sustained their business through ploughing back profits into the business, using the profits to grow the business. In the words of one: ‘It is important to reinvest money from the business back into the business in order for it to grow and improve.’
- There was a sense of the careful management of resources and strict financial discipline
- Starting small, building slowly and growing incrementally.
- Also a sense of mixing personal and business interests – for example, the use of a personal loan and the entrepreneur’s credit card to finance the business

A subsidiary of South Shore Bank, Shore Bank Advisory Services has partnered with USAID to launch the Global Financial Innovations Partnership (GFIP). This is an innovative model for leveraging capital and technical assistance resources to benefit 100 million “slum dwellers” by 2020 in disinvested urban communities and developing economies throughout the world.

4.3 Access to financial products

Own savings was the dominant form of finance used by the Entrepreneurs interviewed to start their businesses. One combined this with a loan from his personal account, another with his overdraft facility, one with his provident fund, and others with informal loans from friends/family. One entrepreneur used his retrenchment package and another sold his vehicle to generate the finance needed for his business.

All of the Entrepreneurs interviewed had negative perceptions about Financial Institutions. Key issues identified were that:

- Financial Institutions do not understand small business
 - Financial institutions are inflexible and have a complex bureaucracy - which prevents banks from responding to individual needs
 - Financial Institutions have a sluggish response rate in terms of loan applications; and charge high interest rates.
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- Financial Institutions discriminate on racial grounds and only offer money when you do not need it.

There was some fear in terms of committing to loan repayments while the business is still small, especially when cash flow varies from month to month, as well as a fear of losing assets through failure to repay the loan, particularly the home. In the words of one, ‘Banks are quick to confiscate your property. I won’t risk losing mine.’

One entrepreneur noted that entrepreneurs need more education in terms of loans.

One entrepreneur noted that she’d been blacklisted, another that his partner had been blacklisted which impacted negatively on the ability to access a loan.

When asked what advice they would give to Financial Institutions the Entrepreneurs suggested the following:

- Consider black people equally and take a non-racial approach (6)
- Be flexible when an entrepreneur cannot repay – have a long term vision (4)
- Review security requirements as the rules are too rigid (7)
- Lower interest rates (2)
- Employ people who understand small and medium enterprises (5)
- Recognise that people with a passion are needed to grow small business into big business (1)
- Check financial commitments of SME owners (1)
- Provide advice and guidance centres for entrepreneurs (5)
- Top management needs more vigorous BEE (1)

4.4 Use of the house for business purposes

The majority of Entrepreneurs interviewed (16 out of 20) own their homes with the remaining 4 renting.

Most (18) of the Entrepreneurs used the house in terms of their entrepreneurial ventures, with only two saying that they did not use their house for business purposes. Uses made of the house were as follows:

- As the venue for the business, e.g. bed and breakfasts (14)
- As an ‘incubator’ for their business in the initial phase, after which the business graduated into more sophisticated levels and moved out of the home (4)

The following **advantages** for using the house for the business were identified:

- the convenience of working all hours
- being close to family
- savings on office rental
- security of a business at home
- convenience – no need to travel to work, rent and electricity paid for both home and business
- a B&B operator noted that there was no need for a big loan since she could use her home, another was pleased that the value of her home appreciated given the improvements she’d made to it
- there is no lease agreement if the business operates from home, so if the business fails, there is no risk

The following **disadvantages** were identified:

- difficulty in separating work and home life – ‘I never stop working’ in the words of one, clients come before family, negative impact on personal space
 - the difficulty in providing a professional image – a concern which grew as the business grew
 - clients tend to see the individual rather than the business if the enterprise is based at home
 - easy to lose discipline if working from home leading to ‘loafing’
 - space constraints – difficult to take on more employees if the business is at home
 - isolation of working at home which constrains access to markets
 - house not insured as a business place.
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While the majority of the Entrepreneurs interviewed used their house in which to locate the business, only one did so as security for a loan for the business. This enterprise was the largest one in the group with a turnover of some R12 million. While calculated risk taking is a key feature of successful entrepreneurs, part of the reason for not using the house is related to the possibility of losing it, being too enormous a risk for many. The more assets an entrepreneur is able to command, the greater the capacity to buffer against external shocks, which points to the further use of the house as cushion. Lenders may have to develop alternative lending products than those attached to the house, or target a housing finance product to entrepreneurs whose enterprises are operating at scale. Alternatively, products designed to protect this asset when a business goes sour, a first exclusion clause for example, may well prove a helpful option.

4.5 Policy and regulatory environment

Of the Entrepreneurs interviewed four complained about onerous statutory and regulatory requirements, particularly labour and Human Resource aspects.

While government has made strides in terms of making the procurement environment more small-business friendly, the 'reach' of this intervention is perceived to be low. The Entrepreneurs interviewed noted that government should have more small business friendly tendering opportunities, large tenders should be broken down to make them more accessible to small and medium enterprises

For one entrepreneur a particular problem was late payment by government. One entrepreneur noted that nepotism in terms of the awarding of contracts should be stopped and unsuccessful tenderers should be told why they have not been successful.

Perhaps unsurprisingly, 14 successful entrepreneurs felt that government should make financial assistance available in the form of loans and grants to small businesses.

While government employees would no doubt dispute it, one entrepreneur felt that government staff are on the whole ill-equipped to understand entrepreneurs, service their needs and further that it would be useful if those who were to assist entrepreneurs had been entrepreneurs themselves.

4.6 Social Capital

The role of trust and personal relationships, emerges clearly as an important factor in terms of the Entrepreneurs interviewed. Whereas physical capital refers to physical object (house, for

example), human capital to the properties of individuals (education), social capital refers to the connections among individuals – social networks and norms of reciprocity and trustworthiness that arise from them.

The Successful Entrepreneurs interviewed tended to be well networked, 18 out of the 20 belong to business associations, some even belonged to more than one. Every interviewee pointed to the role played by family and friends – not just in terms of informal loans, but as the source of skills transfer for those skills they use in their businesses. Two entrepreneurs noted that the encouragement from friends and family was the motivating force for them to consider the entrepreneurship avenue in the first place. In the words of one entrepreneur, ‘The couriers support each other, help each out in terms of breakdowns and so on.’ One entrepreneur employed people from his previous jobs who had lots of experience.

In this context, it is useful to note the high degree of mistrust of financial institutions.

4.7 A ladder of development?

Whether or not the Successful Entrepreneurs are moving up a ladder into more sophisticated or higher value-added areas is not clear..

In support of a ladder of development there is clear evidence that many of the Entrepreneurs interviewed had started small and steadily built up their businesses into the successes they currently are. This is evident from the following factors:

- Two successful enterprises noted that they had previously operated informal business,
 - Illustratively, a successful woman entrepreneur who was previously unemployed, started selling food at the local school, saved the money from this. She then decided to start a bed and breakfast because she had a family to support. She combined resources in an entrepreneurial way: got help from the Gauteng Tourism Board, drew on her cooking knowledge handed down from her father – a chef and her role model - and family resources (bed, furniture, house).
 - Her business has been in operation for three years now and provides not only food on the table for her family, but employment for 2 people;
 - Another entrepreneur started as an informal business operating from a container, saw a business opportunity in terms of the lack of African products at many restaurants. He has
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been running a successful registered restaurant business for the last 6 years, employing 30 people, 13 of them temporary; in addition to a cell phone business.

- Yet another was retrenched 5 years ago when his previous employer outsourced their cleaning operations. He converted his garage at home into an office, had a desk and a telephone; using the skills he'd learnt during 15 years of employment in the cleaning business and his retrenchment package, he built a business that does R12 million turnover per year.
- As noted earlier, all successful enterprises wanted to expand further and move their businesses into higher value added areas. One wanted to expand his existing business nationally, another into other African countries: bed and breakfast operators noted a number of expansion avenues – three wanted to add on a conference facilities, another a coffee shop, one a guided tour component; an entrepreneur offering township tours noted that his aim was to acquire a 44 seater bus to gear him up for hotel contracts. This latter factor points to the critical role of business linkages with bigger private sector companies in terms of entrepreneurship development and success. It is typically the private sector that creates jobs.
- Four of the successful entrepreneurs had used their homes for their initial forays into entrepreneurship, but moved on as the business 'graduated' to higher levels.

On the negative side, many of the Entrepreneurs also suffered set backs and experienced business failure. The dynamic nature of many successful enterprises, the up and down character, downright failure in some cases, means that the metaphor of a ladder is perhaps better understood as 'snakes and ladders'.

Success is relative to what people want to do, their vision for the business, their comfort levels – not everybody wants their enterprise to be listed on the JSE. The ladder metaphor seems to ignore this reality.

<p>Overview of the business</p>	<ul style="list-style-type: none"> ▪ Mix of businesses interviewed, incorporating a number of bed and breakfasts, estate agencies, construction/cleaning/tourism businesses ▪ All businesses were registered, mostly as ccs ▪ Businesses had been in operation for between 1 and 12 years ▪ 7 interviewees reported that this was their first business, 2 noted that it was their first formal business, 11 had previous experience of running a small business ▪ Businesses employed between 1 and 425 employees (while the 425 would put this business in the medium category, it is likely that these employees were part-time)
<p>Entrepreneurial Motivation</p>	<p>A combination of push and pull factors, namely:</p> <ul style="list-style-type: none"> • Drive to succeed/have a better life ▪ Experienced success with first business attempts ▪ Exposure to entrepreneurial role models, who motivate (particularly successful black businesspeople and in the family) ▪ Recognition of own skills/abilities ▪ Awareness of gaps in the market ▪ Frustration with current situation ▪ Retrenched ▪ Self-motivated/driven ▪ Opportunity presented itself ▪ One entrepreneur noted that she'd been unemployed for a long time so pulled together a number of women and decided to start a bed and breakfast
<p>Entrepreneurial skill source</p>	<ul style="list-style-type: none"> ▪ Family/friends ▪ General business skills, confidence and knowledge gained from previous work experience added value to the way the enterprise operates (both formal employment and prior small businesses) ▪ Followed role models / successful entrepreneurs in the media ▪ Learnt from mistakes made ▪ Self-taught, read books, did research
<p>Start-up processes</p>	<ul style="list-style-type: none"> ▪ Comfortable to start small with existing resources and build up steadily to improved resources ▪ Although upfront cash needed, overcame obstacles of not obtaining start-up capital ▪ Prepared to suffer inconvenience/defer gratification (ie. interviewees had sold their homes/taxis in order to start their business) • Previous company assisted financially and with in-service training in line with its BEE focus
<p>Financial tools used</p>	<ul style="list-style-type: none"> ▪ Own savings was the dominant response – one combined this with borrowing on personal account, another used her husband's

	<ul style="list-style-type: none"> ▪ Overdraft facility attractive and easier to obtain – one combined this with his provident fund • Entrepreneurial support organizations provide small loans
<p>Perceptions of loans/banks</p>	<ul style="list-style-type: none"> ▪ Negative perception of loans and banks, along the lines of ‘banks do not understand small business ▪ Fear of losing assets through loan, particularly the home ▪ Afraid to commit to loan repayments when still small, especially when income varies from month to month ▪ ‘Bank offer loans to those who don’t need it’, banks inflexible to needs of emerging entrepreneurs ▪ Interest too high ▪ Bureaucracy at banks prevents them from responding to individual situation ▪ One entrepreneur had been blacklisted, similarly another’s partner, so they could not access loans ▪ Entrepreneurs need education about loans
<p>Key problem areas</p>	<ul style="list-style-type: none"> ▪ Unpredictable cash flows/ erratic business periods – erratic income ▪ Some interviewees complained of regulatory hassles (labour laws)/too much paperwork ▪ Sectors threw up different problems – eg. low season a problem for those in the tourism industry, the cost of petrol/vehicle breakdowns for couriering business etc. ▪ Limited capacity – information, systems, skilled staff
<p>Role of house</p>	<ul style="list-style-type: none"> ▪ Majority owned their homes – 16 out of the 20 interviewed ▪ Only two out of 20 interviewees said that the home did not play a role in their business <p>The house was used in a number of ways:</p> <ul style="list-style-type: none"> ▪ As office space – removing need to rent ▪ One used his home as security (this enterprise was largest in scale); another sold his home to gather sufficient resources to start ▪ As the venue for the business, eg. bed and breakfasts ▪ Two used the house for storage/parking purposes ▪ Five entrepreneurs started their businesses at home and moved out as the business expanded <p>Advantages cited were:</p> <ul style="list-style-type: none"> ▪ Convenience of working all hours, being close to family, family can benefit from business (i.e food from guest house etc.) ▪ Savings on office rental

	<ul style="list-style-type: none"> ▪ Security ▪ No need to travel to work ▪ A b&b entrepreneur noted that there was no need for a big loan to purchase a house since she could use her own ▪ The location of the home – next to major tourist attractions, in one instance – was also cited • Rent and electricity paid for both home and business • Several of the B&B interviewees noted the desire to expand – either through adding on conference facilities, more rooms, a coffee shop <p>Disadvantages</p> <ul style="list-style-type: none"> ▪ Difficulty in separating work and home life, clients come before family and friends, impacted negatively on personal space ▪ Difficulty in providing professional image, a concern which grew as business grew ▪ Clients saw the enterprise as the individual rather than the business ▪ Easy to lose discipline/loaf if working from home ▪ Space constraints, for example, difficult to take on more staff if the business is at home • House not insured to be a business place • Isolated
<p>Ongoing support</p>	<ul style="list-style-type: none"> ▪ Strong belief in own potential ▪ Commitment ▪ Support from family/friends/fellow entrepreneurs in their specific sector ▪ Support from Business Association ▪ Success breeds success ▪ Role models motivate ▪ Sustain business from profits, use the latter to grow the business
<p>Key success factors</p>	<ul style="list-style-type: none"> ▪ Passion ▪ Commitment/resilience/patience ▪ Discipline/determination ▪ Creativity ▪ Motivation to expand ▪ Love what they do ▪ Being optimistic ▪ Skills ▪ Proper employee training ▪ Proper management training ▪ Good customer relations

	<ul style="list-style-type: none">▪ Manage staff well
Key needs	<ul style="list-style-type: none">▪ Working capital▪ An understanding of small entrepreneur (especially erratic income) from govt/financial institutions▪ Tenders catering for small business – more ‘tender-friendly processes’▪ Black empowerment focus needed from financial Institutes▪ Understanding of entrepreneurial environment from government/ financial institutes
Key Constraints	<ul style="list-style-type: none">▪ Working capital▪ Infrastructure / capital for infrastructure