

A case for Business Incubation Centres: The Role of Small Business Incubators as engines for Rural Entrepreneurship in South Africa

1. Introduction

Proclamations abound, on the importance of small businesses for the advancement of economies and the generation of employment in developing economies, including South Africa. “It is an established fact that the small business sector is regarded as a fundamental ingredient in the establishment of a modern, progressive and vibrant economy”, (Beaver: 2002:4). This is why ailing economies have always looked to small businesses as a source of economic growth due to their reputation as the biggest job creation engines, which play a huge role in reducing poverty, inequality and unemployment.

The South African National Development Plan vision for 2030, is that by 2030, South Africa's rural communities must have better opportunities to participate fully in the economic, social and political life of the country. The vision includes better integration of the country's rural areas, achieved through successful land reform, infrastructure development, job creation and poverty alleviation. The realization of this vision requires an exploration of partnerships and solutions, one of which is the advancement of small businesses in rural communities.

In the context of South Africa, fostering rural entrepreneurship is crucial in advancing the development of rural economies, alleviating poverty and mitigating entrenched inequalities. Rural communities bear the most brunt when it comes to unemployment due to a dearth of the private sector companies and opportunities in rural areas, as such they are often characterized by high unemployment rates and limited opportunities leading to a cycle of poverty, inequality and underdevelopment. Even with the high unemployment rates, there is no doubt that economic activity still takes place in rural communities. Rural communities also have problems and needs which create opportunities for the establishment of small businesses.

Small business incubators have emerged as an effective model to foster entrepreneurship, particularly in rural areas where access to resources, mentorship, and market opportunities is limited.

The World Bank's infoDev defines business incubation as a process that nurtures innovative, early-stage enterprises with high growth potential to become competitive businesses. Small business incubators act as catalysts to unlock this potential by providing aspiring entrepreneurs with the necessary support, resources and guidance to start and grow their ventures.

The sobering statistics, which show that 80% of start-ups in South Africa fail within the first three years of operations (Mafoyané: 2015), make small business incubation centres imperative in the establishment of successful rural small businesses

The objective of this extended abstract is to explore the significance of small business incubators as a vehicle for the advancement of rural entrepreneurship and driving inclusive growth across rural communities in South Africa. The study is motivated by a call to advance rural economies in South Africa as planned on the National Development Plan Vision for 2030.

2. Methodology:

The focus of this qualitative study is to explore and understand the significance of small business incubators for the advancement of rural economies in South Africa. According to Denzin and Lincoln (2011), the qualitative method is appropriate when (a) the problem requires more than a yes or no hypothesis, (b) a large sample may not be available, and (c) common themes are expected to result from exploring the data to address the research question. The qualitative methodology was appropriate for conducting this study.

This qualitative study was conducted drawing on a sample of 3 rural incubation centres which were chosen for this study.

A case study design is an adaptable approach for analyzing societal and developmental disciplines (Yin, 2014). Using a case study provides a means for collecting information from individuals and groups to describe and understand phenomena. Yin noted that the case study could be a single case or multiple cases bounded by time and location. For this study, a multiple-case study approach was utilized, as obtaining information from more than a single participant provides additional insights, understanding, and assurance of validity in identifying the effectiveness of rural small business incubation centres. (Denzin & Lincoln, 2011).

The interview schedule, which covered the location, number of incubates, successes and challenges, was used for the study. This added value in evaluating the different responses according to the size of the incubation centres. The respondents were Managers in the small business incubation centres which are based in rural communities of KwaZulu Natal.

Some interview schedules were sent via the email and some were distributed personally.

The research analyses was undertaken and presented using MSWord.

3. Main Findings:

The small business incubation centres which responded are all based in rural communities and they support between 20 and 70 SMMEs per cohort.

The questions which guided this research were centered around 4 themes discussed below.

1. What have been your biggest successes as an incubation centre?

The findings of this research was that the biggest successes have been employment creation, stakeholder relations and receiving funding for incubates.

Its encouraging to note employment creation as a success for some incubators because the main reason for the support of small businesses is on the premise of small businesses being the creators of jobs, which lead to increased economic participation and the eradication of poverty in rural communities. This proves the assertion that the more small businesses are supported the more jobs can be created in the rural economies toward the achievement of vision 2030 goals. Providing and receiving funding is another notable success for incubation centres because one of the challenges faced by entrepreneurs in

the lack of funding, it is therefore important for incubation centres to be able to provide funding, raise funding or prepare incubates for funding and investment.

2. *What have been your biggest challenges as an incubation centre?*

The common challenges of business incubators are finance and funding while another rural incubation centres biggest challenges are lack of corporate partnerships and lack of skills amongst incubatees. There is also a common challenge amongst the incubators of the rural mindset amongst incubatees. These challenges require incubation centres to strategize around solutions. The issue of skills shortage can be solved through training. This applies to the challenge of the mindset as well, this can also be trained however changing a mindset takes time and requires patience from the incubation centres. The lack of funding required focused stakeholder engagement sessions as well as the support of the private sector companies which are very limited in the rural areas.

3. *What challenges do your beneficiaries experience?*

Challenges faced by rural entrepreneurs are standard and revolve around the lack of physical, human and financial resources as well as a struggle with compliance requirements.

It is no secret that connectivity continues to be an issue in rural communities, some young people from rural communities have still never experienced a computer throughout their schooling career, this is one of the gaps that is easily bridged by the small business incubation centres as most of them are equipped with computer rooms which are for use by incubatees.

Incubation centres provide the needed resources in order for small business owners to be able to run their businesses successfully. Incubation centres also offer assistance with compliance requirements for SMMEs.

4. *What are the critical success factors for a township or rural incubator?*

The findings of this research is that finance, funding, provision of information, working space with equipment as well as horizontal and vertical business linkages are the critical success factors for rural business incubators.

What is interesting to note in the findings of this research is that the issue of finance and or funding, is prevalent in all 4 themes of the research questions. This highlights the importance of finance and funding for rural incubators as well as for entrepreneurship development in general. Most of the other issues which were outlined in the findings are issues that can be solved with sufficient finances. The only other issue raised which can not be solved through finding is that of business linkages.

4. Discussion:

Small businesses are the engine of economic growth and development due their ability to generate jobs, income and stimulate competition; they are sources of innovation and they create possibilities for business ventures, (DeKok et al., 2011). This positions small businesses as a solution towards economic development in general and rural economic development in particular.

The small business sector is also characterised by a high failure rate. According to Mafonyane 2015, South African small businesses have an 80% failure rate in the first 3 years. These statistics are alarming and the importance of the small business sector demands solutions to this high failure rate, so that South Africa can be able to reap the benefits of the small business sector. This research explores small business incubators as a solution to challenges faced by small businesses in rural South Africa.

Hackett and Dilts (2004) define incubation as “enterprises that facilitate the early-stage development of firms by providing office space, shared services, resources and business assistance”. By this definition alone, it is clear that small business incubation centres provide a solution for some of the challenges faced by rural small businesses.

The findings of this study show that rural small businesses share common challenges and are characterized by the lack of resources, lack of infrastructure, lack of funding, lack of knowledge, lack of skills, shortage of workspaces, connectivity issues, lack of access to capital and business networks. These issues lead to small business owners giving up on starting and growing small businesses in rural communities. It is no coincidence that all these issues fall under the scope of small business incubation centres placing the rural small business incubators at the centre of the solution for the advancement of rural entrepreneurship.

These are issues that rural small business incubators are able to assist entrepreneurs with. These are also issues which can lead to failure of small businesses, because without physical, human or financial resources, small businesses can not survive beyond a certain point. Also without funds or a finance strategy a small business is bound to crash and eventually close doors.

According to the academic literature, business incubators can help to decrease the number of venture failures and increase the survival rates (Ryan - Wright, 2009; Klostermann – Kraus, 2010, Ayatse et al., 2017).

Business incubation is one of the most important mechanisms to help and support start-up companies to survival and growth in the competitive business environment. Business incubators address the challenges of small businesses by offering financial assistance, access to funding networks, and mentorship programs. By providing seed funding, grants, or low-interest loans, incubators enable entrepreneurs to bridge the initial financial gap and turn their ideas into viable businesses. Moreover, they facilitate connections with investors, industry experts, and other entrepreneurs, fostering collaboration and knowledge exchange.

Additionally, small business incubators play a vital role in building entrepreneurial capacity and skills within rural communities. Through training workshops, seminars, and mentoring sessions, incubators equip entrepreneurs with essential business skills

such as marketing, financial management, and strategic planning. These capacity-building efforts not only enhance the success rate of startups but also contribute to the overall economic resilience and empowerment of rural communities.

The findings of the research also imply that the biggest issue amongst existing rural incubation centres is that of finance and funding which is what would allow them to be able to offer the said solutions to small businesses. The implications of these findings is that Small Business Incubators need to be supported by funding which will allow them to support small businesses. This is why the vertical and horizontal business linkages are important because they are another way that rural small business incubators can be able to raise funds for the small business incubation centres. Lack of funds for small business incubators is a challenge which compromises the support given to small businesses.

5. Conclusion:

The main points of this research is that a greater part of the challenges faced by rural small businesses can be solved through the incubation centres, however these incubation centres also need to be funded so that they can be able to discharge the support to rural incubation centres.

Ayatse et al. (2017) see business incubation as a unique institutional agreement that focuses on the development of entrepreneurial culture within a community. This entrepreneurial culture is what is needed in the rural regions of south Africa in order to reduce the triple challenge of poverty, unemployment and equality. Through business incubation centres entrepreneurs are able to access information, resources, working spaces with equipment and machinery, training, mentorship, business linkages, exposure as well as preparation for funding and access to new markets.

There is no doubt about the need for small business incubation centres in rural regions of South Africa, infact the conclusion of this study is that the small business incubation centres are as important as schools are for rural economic development and ideally these centres should have the same presence and funding that is provided to schools. This will ensure that rural entrepreneurship is provided with the support it needs in order to thrive, be sustainable, provide jobs, alleviate poverty and equality in rural communities and contribute towards the achievement of the South African National Plan: Vision for 2030.

This research study concludes that business incubation centres are a tool for economic development which provide the necessary support for the growth and support of rural entrepreneurship which ultimately lead to rural prosperity.

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