

DETERMINING THE RISK & EFFECT OF SELECTED SOCIAL CAPITAL ELEMENTS ON RURAL ENTREPRENEURSHIP: EMPIRICAL STUDY OF TWO RURAL DISTRICT MUNICIPALITIES

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Abstract

How to cite this paper:

Agbenyegah, A. T. (2018). Determining the risk & effect of selected social capital elements on rural entrepreneurship: Empirical study of two rural district municipalities. *Risk Governance and Control: Financial Markets & Institutions*, 8(1), 36-48. <http://doi.org/10.22495/rgcv8i1art4>

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ISSN Online: 2077-4303

ISSN Print: 2077-429X

Received: 10.08.2017

Accepted: 01.02.2018

JEL Classification: L26, M2, E26, M13, R11

DOI: 10.22495/rgcv8i1art4

The study seeks to determine the risk and effect of selected social capital elements on rural entrepreneurship. Within a job-scare socio-economic climate, entrepreneurship is the vital tool to create job opportunities to reduce the growing unemployment. These are the dilemma South Africa like the rest of the developing countries continue to experience as the socio-economic problems escalates in communities. In spite of government interventions, entrepreneurship continue to be challenged by various factors including risk taking. Generally, risk-taking features in every activities that is geared towards entrepreneurial activities and rural small businesses in search of opportunities. The search for opportunities is known to be the core of entrepreneurial activities. As such, it is certain that Rural Owner-Managers (ROMs) would continue their quest in search of business opportunities to enhance the prospects of entrepreneurial activities. Given the nature of rural climate, the search for business opportunities is proven to be difficult in the environment high risk is prevalent. Due to this and other challenges ROMs at various levels of entrepreneurial activities are unable to meet the set objectives of creating employment and poverty reduction. A quantitative approach was followed aided by a self-administered 7 Likert-scale questionnaire designed to collect dataset from ROMs of small businesses. Drawing from the snowball and convenience sampling techniques, an initial population of 300 ROMs were selected. However, only 282 questionnaires were return. Descriptive statistics, frequencies, T-test and Pearson correlation were applied to analyse the data. Research evidence indicates that risk is another hampering elements which highly affect rural entrepreneurship in various forms. Further outcomes revealed that some SCEs have significant effect on rural entrepreneurship. The study recommends general refurbishment of selected SCEs through appropriate educational programmes, government assistance, and rural infrastructure initiatives such as efficient system of transportation and communication systems to enhance rural entrepreneurship.

Keywords: Social Capital Elements, Rural Entrepreneurship, Rural Owner-Managers, Frances Baard, John Taolo Gaetsewe, District Municipalities

1. INTRODUCTION

In today's ever changing business climate, social scholars' view entrepreneurship as a process that is

prevalent in various community networks. This implies that social association is vital to facilitate successful entrepreneurial activities in urban and rural areas. Yet, within these social settings, there are elements that can as well cause serious damages

to rural entrepreneurship by contributing to its failures. The reasons are therefore enormous. Rural areas are in dying need of infrastructure overhaul including lack of other social facilities earmarked for rural entrepreneurial activities. It is therefore important to determine the social capital elements (SCEs) that threaten rural entrepreneurial activities; thus causing its failures especially in most rural areas.

Like entrepreneurship, social capital has been recognised by researchers and academics to be ever present in the field of social sciences. For years, social capital have gained much recognition in rural literature (Coleman, 1990). Kalantaridis and Bika (2006) add that rural entrepreneurship is a symbol of key potential sources that augment the social capital requirements of communities. Lyons (2002) echoes more sentiment that social capital assist ROMs in reducing entrepreneurship problems. A sentiment that is true because entrepreneurship literature mirrors vital economic tool not only for development but also for creating employment opportunities, innovation and for general welfare of societies (Acs et al, 2008:219).

The study views social capital as the essential mobiliser of other environmental resources that is likely to curtail the threats to entrepreneurial success. Shields (2005) add that wide-ranging of small businesses are well-off to benefit from such resources from the environments. Building from different fields of studies including entrepreneurship and business management, social capital has been one of the developers of various economies (Anokhin et al., 2008:117). As pointed out by Adler and Kwon (2002), SCEs including other forms of resources include networks that are available to be utilised by entrepreneurs. Similarly networks as another form of social capital, are seen as flexible tools that provide free involvement during the course entrepreneurial activities (McCarthy, Pitt, Campbell, Van der Merwe & Salehi-Sangeri, 2007; Zhang, et al., 2008). Hoang and Antoncic (2003) add that generally, entrepreneurial activity takes its root in networks as a vibrant resources that enables ROMs to become successful.

Past studies indicate that in general, existing systems of network are likely to have profound impact on entrepreneurial activities. Yet in most developing countries including South Africa, there is growing traces of networking that symbolises the only means to access mutual assistance by providing services and consistent information flow (McDade & Spring, 2005). It is in this light that researchers, Jack, Dodd and Anderson (2004) claimed that entrepreneurship can naturally be hampered by various elements of human, financial and information lapses. As Lee and Suzanne (2000) put it communities lack viability of entrepreneurial activities due to market problems and minimal capital accumulation to embark on potential entrepreneurship and small business operations to stimulate rural opportunities.

Besides, other serious restrictions such as the features of rural environments, inadequate business premises, lack of infrastructure, distant market conditions, lack of access to information and limited resources continue to weight on business opportunities (Smallbone & Welter, 2006). According to Salleh and Sidek (2011), incompetence of

entrepreneurs to access adequate information about rural entrepreneurship further add to the present deplorable circumstances that continue to impede rural entrepreneurs and entrepreneurship. Lastly, the study concedes that socio-economic environments can as well deny rural entrepreneurship from accessing vital information due to lack of relevant networks (Salleh & Sidek, 2011). Social networking is of great significance to business. The pursuant of entrepreneurial activities is further fuelled to become successful by basic networking activities (Lechner & Dowling, 2003). Family ties as another form of social capital plays vital role in making entrepreneurial activities successful (Anderson et al., 2005). Networking in general makes it easier for gathering vital information to identify fresh business opportunities which translates into jobs (Ozgen & Minsky, 2007; Saide, 2006).

The study adopts empirical approach to establish the extent to which the selected SCEs as defined affect rural entrepreneurship. In this study, the selected SCEs are referred to as critical rural resources that are represented by statements in the form of problems as shown in table I on the next page. These statements according to the authors, are operationalised to denote problems that limits rural entrepreneurial activities and small business operations. ROMs are defined in the study as individuals who owns and operates rural small businesses in the form of entrepreneurial activities. Drawing from the definition of social capital, this study is designed to explore the degree to which selected SCEs namely the network systems, role models, family unit, growing crime rates, and the state of infrastructure, information, cultural influences and bureaucratic practices among others affect rural small businesses and entrepreneurial activities.

The study defines rural entrepreneurial activities as individual actions that relates closely to rural communities in search of business opportunities in return for income. Small businesses on the other hand are defined within the qualitative context as business sectors with smaller subsidiaries and branches that are managed by ROMs (National Small Business Amendment Bill, 2004:2). The authors of this study believe that for eminent decline in small business failure and growth in job creation through entrepreneurial activities, there is urgent need for rural policy makers and municipal authorities to understand the problems of ROMs who pursue rural entrepreneurial activities. Even though past studies indicated the problems of ROMs of small businesses, rural areas in the NCP have not received sufficient scientific coverage. Hence, this study is very significant to highlight the plights of rural communities in the NCP of South Africa.

The study is structured as follows. The next section illustrates the theoretical and literature review including rural entrepreneurship and the overview of rural entrepreneurship problems. The authors drew the theoretical review in defining stated hypotheses. The account of the research's method is followed by data analyses, findings from the study discussions and conclusions. Finally the inferences of the study are outlined by the authors.

1.2. Research problem

Given the high failure rate of entrepreneurship in developing countries, the main problem of this study is to determine the level of risk and effect of SCEs on rural entrepreneurship in two rural district municipalities of South Africa.

1.3. Aims and objectives

Aim

The study aimed to determine the risk and effect SCEs on rural entrepreneurship in two rural district municipalities of South Africa.

Objectives

- To determine the effect of SCEs on rural entrepreneurship in two rural district municipalities of South Africa;
- To determine whether risk impact on entrepreneurial processes;
- To determine the significant difference between FB and JTG district municipalities in terms of BOPs and PPs;
- To proffer recommendations in the form of remedial actions to minimise the effect of SCEs on rural entrepreneurship in two rural district municipalities of South Africa.

1.4. Research Question

The question that guided this study is as follows:

- What are the limitations of SCEs (PPs and BOPs) on rural entrepreneurship in the study areas?
- How does risk impact on entrepreneurial processes?

2. LITERATURE REVIEW AND HYPOTHESES

2.1. Underlying theoretical framework

The current study is significant since it outlines the effect of selected SCEs on rural entrepreneurship in emerging rural economy of South African. The study is based on opportunity recognition theory as the hallmark of entrepreneurial activity (Ozgen & Baron, 2007. Hansen, Shrader and Monllor (2011) affirm that for a meaningful opportune, one requires two related issues namely opportunity recognition and discovery. Further implications are the extent to which ROMs of small businesses and entrepreneurial activities as explained in this study are faced with problems of inability to access SCEs to revamp existing rural infrastructure communities. The end result is the declining entrepreneurial activities among members of rural communities. Further emphasis is echoed in the study that the development of sufficient legal and regulatory infrastructure framework impacts rural entrepreneurship and opportunities.

In order to provide successful rural entrepreneurial activities, small businesses are dependent on favourable regulatory environment to identify business opportunities (Eckhardt & Shane, 2003). Opportunities are attributes driven by ROMs

within a specific business climate. As such individuals can only take advantages of specific opportunities provided there is understanding of the operating business environment. The authors are of the view therefore that understanding entrepreneurial activities is critical as there are numerous factors and problems that influence value creation of opportunities. Equally, in the same business environment, there are factors and problems that are likely to have negative influence on small businesses.

This is true because entrepreneurship is a product of social capital within the environment. As such entrepreneurial activities requires need enough social capital backings to identify opportunities (Alistair et al., 2002). Timmons and Spinelli (2009:79) stress that creating and recognising business opportunities forms part of the critical substance from which entrepreneurship is located. Entrepreneurial opportunities can be successful through various stages including discovery, recognition and identification of business prospects (Dimov, 2010:79). As Collier (1998) and Woolcock and Narayan (2000) stated, individuals from communities are beneficial of social relationships through the pool of resources that give them the latitude to curb poverty.

2.2. Significance of social capital elements (SCEs)

Social capital is of strategic value to rural entrepreneurship (Meccheri & Pelloni, 2006) as its elements infuse values and improve businesses morale and sense of uniqueness (Aronoff & Ward, 1996). The availability of social capital enable community members to personally establish high level of commitment towards collective actions (Johnston et al., 2013). Social capital is generally labelled as the predictor of various academic performances, physical and mental as well as economic and intellectual development (Rost, 2011; Vitak et al., 2011; Ellison et al., 2007). Drawing from these benefits, entrepreneurship is likely to strive better in the environment where the provision of social capital structures namely enough infrastructure. Rural areas are in dire need of infrastructure and rural policy frameworks that are designed to strengthen and nurtures the survival and growth of small businesses. This study delineates rural entrepreneurship as business activity that bears relationship to rural communities through socio-cultural and the inherent self-determination of individuals (Anderson et al., 2005:57).

This is because available stock of institutional social capital intensifies the overall business performance (Bolino, William & James, 2002; Nahapiet & Ghoshal, 1998). Put together, the availability of social capital allows deeper usage of opportunities in various areas of financial and human capital (Burt, 1992:9). One of the outstanding benefits of social capital is that it increases the personal feelings of ROMs to believe in their abilities. According to De Carolis Litzky and Eddleton (2009), through networks, it is believed that social capital creates real business operations. In addition, social capital make it possible for ROMs to gather and influence and private information to the benefit of business operations (Shane &

Venkataraman, 2000). Against these backdrops, it can be said that problems by SCEs as described are likely to cause severe disruptions to the success of entrepreneurial activities and small businesses. Based on these understanding, the authors are determined to analyse the SCEs as described in this study for an in-depth understanding to the benefits of ROMs.

2.3. Socio-economic characteristics of the study areas

The new democratic state of South Africa consists of various district, local municipalities and metropolitans. However, this study is limited to two of the nine district municipalities namely the FB and JTG district municipalities of the Northern Cape Province (NCP). The JTG district municipality lies between the North West Province (NWP) and the NCP. Being a cross boarder municipality, JTG district municipality forms part of the semi-desert landscape of South Africa. Roughly 98% of the JTG communities resides in rural areas with about 186 housing settlements and 80% of its population is found in the Moshaweng district municipality of South Africa.

The JTG district municipality depends on agricultural and mining activities for local economic growth. An estimate of 14.5% of the population between the ages of 15-64 years remain unemployed (The Draft April 2002, Strategic Transport Audit Report) in the district. The level of education is below expectations; the JTG district municipality is known for high illiteracy rate. Recent statistics indicated that about 59% of the local population acquired primary or no formal education. In contrast therefore, the level of tertiary education is significantly low. Due to poor desire for education, there is generally acute skills shortages. Roughly, 75% of the district's population receive no monthly income. As such, large volume the unemployed depends on State social grants.

The district municipality of FB is the smallest district in the NCP with about 12439 square kilometres. An estimate of 42.4% of its population is over 20 years in contrast to JTG district municipality. Further, 65.1% of FB district municipality are aged between 15-65 years. Only 18.4% and 7% of the entire population obtained grade 12 and higher educational qualifications respectively. Similar to JTG district municipality, skills shortages is rampant in FB district municipality. Only 34.3% of the population actively participate in the local economy which depends mainly on mining, agro-processing and cultural activities as the source of income. About 10.5% of the population are employed in the agricultural sector. In comparison to JTG district municipality, FB district is able to export quality fruits, vegetables and quality leader products. Given the present socio-economic setbacks across the two municipalities, this study seeks to understand the extent to which the SCEs affect rural entrepreneurial activities. In spite of being the smallest district municipality, FB district municipality is also the economic hub of the NCP contributing to the local economy due to the worldwide prominence in the diamond industry. Figure 1.1 below depicts the geographical position of the two study areas; the JTG and FB district

municipalities as part of the municipalities of the NCP. The two study areas are very rural which further makes it impossible to engage in any form of successful entrepreneurship without risks.

Figure 1. Illustration of the geographical position of study areas



Source: www.municipalities.co.za

2.4. Some views about rural entrepreneurship problems

Several academics and researchers have point out some entrepreneurship problems in the past as major hindrances to its operations. These problems among others include the cultural, socio-economic, personal and physiological factors (Zalkifli & Rosli, 2013). For instance, new businesses are met with inability to access reliable information on credit facilities about ROMs (Falkena et al., 2001). Recent rural survey of small businesses revealed other problems namely, lack of assistance, uncertain business climate and inadequate collateral to ensure funding by banks are some of the problems experienced by ROMs in rural areas (Agbenyegah, 2013). Mensah (2004) in another study stressed that ROMs of rural small businesses lack education, unable to apply the right technology and are unable to acquire the desired managerial acumen. In general, ROMs of small businesses are overwhelmed by many problems. For example, within the small business climate, more scientific work revealed issues of remoteness, the scope of small businesses, lack of product standardization and acute resource shortages as some of the constraints within the sector. Similar studies have revealed the risky nature of rural small businesses and the severe lack of infrastructure and inability of ROMs to actively participate in marketing activities (SARD Policy, 2007). Literature indicates that for rural small businesses to attain success, their location is vital (Jamalzadeh, Behravan, Espahbodi and Masoudi, 2012). According to De Klerk and Saayman (2012) and Besser and Miller (2011), problems of business location and lack of improvement in the network systems are likely to impede business success, thus resulting to high business failures.

Due to prevailing negative global economic activities, rural communities especially in developing countries are faced with mass exodus of citizens to the cities in search of employment opportunities. Streaming from the high rate of rural migration, a recent survey add that depopulation, rising unemployment, ageing population, distance marketing climate and sub-standard socio-economic

conditions further escalates the problems of rural businesses (OECD, 2006; Dinis, 2006). Table 1 below depicts some of the problems as shown in scientific literature on entrepreneurial activities and rural small businesses. These problems are divided into two sections as descriptors; PPs and BOPs and referred to in the study from SCEs. Throughout the study, selected SCEs represent independent variables. These variables are divided into two sections and labelled as personal and business (PPs) and business and operational problems (BOPs). The BOPs are classified as *lack of business assistance, no*

long-term support, inadequate resources, insufficient business locations, lack of marketing information, unable to access technology and lack of skilful personnel among others. In addition, PPs on the other hand, are represented in the study as *skill shortages, lack of marketing opportunities, very complex regulatory environment, fear of business failures, lack of permanent business premises, lack of family support, lack of confidence and extended family issues.*

Table 1. Description of the social capital elements (SCEs).

| Descriptors | SCEs | Brief summaries | Extant literature |
|-------------|---|---|--|
| BOPs | Strict government policies: unsupportive business and hostile regulatory system | Difficulties to understand regulatory environment; specific reference to tax laws and processes; high compliance costs; arbitrary law enforcement; erratic administrative policies-general policy measures hinders entrepreneurship | Ligthelm & Cant, 2002; Simrie et al, 2011; Herrington et al, 2010; Robinson et al., 2004; Maas & Herrington, 2006; Venter, Urban & Rwigema, 2011; Herrington, 2011 |
| | Distant market conditions | ROMs of small businesses in rural areas experience difficulties to readily access available markets | David, 2007 |
| | Lack of appropriate technology, resources and information | Excessive labour and hiring costs, poor infrastructure, declining transportation system, ROMs are unable to access technology; inappropriate technology | Fatoki & Garwe, 2010; Nieman & Nieuwenhuizen, 2009; World Wide Worx, 2006; Ramukumba, 2014 |
| | Limited Networks | Limited size of local business networks; inability to access markets | Young, 2010; Keeble, 1993 |
| | High energy costs; high fuel costs | Increasing energy and electricity tariffs, power outrages create burdens for small businesses | Sartorius, Eltzen & Hart, 2002; De Lange, 2008; Leuvenink, 2007; Sahifeld, 2007. |
| | Labour legislation | Existing policy of "high and fire" limits survival of small businesses and lack of capacity to employ | Radebe, 2009; World Bank, 2007, 2008 |
| PPs | Poor communication system/Infrastructure; Skills shortages; Poor record keeping | Lack of business infrastructure; high costs due to lack of business adequate business locations and transportation; limited entrepreneurial development; access to banking services is limited due to lack of broadband internet access; lack of community services and support; Lack of financial and skills/Leadership skills | Herrington et al., 2009; Stathopoulou et al., 2004; Saxena, 2012; Smallbone, 2009; OECD, 2006; Jones, 2013; Hashi & Krasniqi, 2011; Clover & Dorroch, 2005. |
| | Regulatory environments and bureaucratic practices; problems of compliance | Long channels of procedures and processes create rooms for dubious exploitation of business opportunities; red tape and undue competitions and exposure to corrupt practices | Haftendon & Salzano, 2003; Okpara & Pamela, 2007; Clover & Dorroch, 2005 |
| | Role models | Lack of influence by career models; less acknowledgment of role models by entrepreneurs; difficulties to increase entrepreneurial culture due to patterns of psychological behaviours. | De Clerq & Arenius, 2006; Lockwood, 2006; Gibson, 2004; Nieuwenhuizen, 2009; Auken, Fry & Stephens, 2006; Maas & Herrington, 2006; Van Vuuren & Groenewald, 2007 |
| | Harassment/Unstable climate | Evidence of continuous provocation of business operations by law enforcement officials due to lack of permanent operational permit or license | Chikunta, Jannie, David & Veronica, 2005; Agbenyegah, 2013 |
| | Product innovation and markets | Inability by ROMs to match products/services with external market, lack of marketing skills | Harrison & Gibson, 2006; Cant, 2012; Rudjito, 2012; Ramukumba, 2014 |
| | Funding, skills and lack of collateral | Difficulties in getting funds; inadequate managerial skills | Ackar & Vuvor, 2011; Okpara & Pamela, 2007; Clover & Dorroch, 2005 |

Source: Design for the study

Based on the literature study, the author is keen in finding out the significant differences regarding SCEs in the study areas. Therefore two working hypotheses for the study are established as follows:

2.5. Research Hypotheses

H₁: There is no significant difference between FB and JTG district municipalities in terms of business and operational problems (BOPs) of social capital; and

H₂. There is no significant difference between FB and JTG district municipalities in terms of personal problems (PPs) of social capital.

2.6. NATURE OF RISK AND ENTREPRENEURSHIP

There are many dimensions to rural entrepreneurship including the nature of risk involve as individual pursue entrepreneurial activities. Entrepreneurs in rural areas are risk-takers as they try to organise and co-ordinate inputs for entrepreneurial activities (Bawuah et al., 2006). Therefore, there is more to the risky nature of entrepreneurship. Recent survey by the World Bank (2012) have shown that entrepreneurs are at high risk due to unfair competition which mitigate against their levels of entrepreneurial survival. EL-Said and Zaki (2013) add that financial institutions regard small businesses as high risk sector for executing businesses. This implies that financial houses hardly provide financial assistance to entrepreneurs.

On the other hand, scholars are of the view that ethnicity of individuals in developing countries are extremely risky in pursuant of entrepreneurship (Van Scheers, 2010). Others argued that individuals who are highly at risk are more likely to experience lesser chances to pursue entrepreneurship (Zhao et al., 2005). Similar sentiment is shared by Mungai and Ogot (2012) who according to their views indicated that differences exist in ethnic stances to traditions and customs as seen from various ethnic groups.

Rural entrepreneurship is by no means different from the underlying concept of entrepreneurship. However, conditions such as risks is more prevalent in rural and urban communities. Besides, entrepreneurship is marred by difficulties in funding, inadequate facilities and potential lack of chronic managerial skills among others which equally impede entrepreneurial activities. Yet the issue of business opportunities seems to differ in urban and rural metropolis. For instance, risk level is very high in rural environments. According to Murtaza et al. (2011), one of the key entrepreneurial behaviour is the ability of entrepreneur to search for opportunity and to take risk.

2.6.1. Conceptualising the association between risk and entrepreneurship

Entrepreneurship and risk dates as far back as the 17th century. In spite of the differences and complex nature of its definition, the dominant theme that highly resonate in entrepreneurship literature is risk-taking. Risk taking differs from business to business and from individuals perspectives. While it is not easy to define the concept of risk (Janney and Dess, 2006), extant literature in the context of entrepreneurship define risk as various events that are known to be the subjects of uncertainty; thus it is not easy to expect constant outcomes (Knight, 1921). Similarly, the various processes of entrepreneurship including decision-making, opportunity recognition and creativity are without the risk factors (Shane, Locke and Collins, 2003). Risk is therefore a reflection of uncertainty and loss suffered due to outcomes that surfaced from a given behavioural patterns (Forlani and Mullins, 2000). In line with the above it means

that risk-taking is vital indicator of pursuing new business ventures (Colton and Udell, 1976).

This study conceptualizes risk in the context of opportunity costs which bears linkages to business losses. Generally, entrepreneurial risks increases as opportunity costs is on the upward trends. This implies that to an entrepreneurs, something must be forgone in other to ascertain potential rise in gains. Opportunity emerges in a climate of uncertainties; in the same token pursuing any venture in an environment entails positioning oneself against risks potentials. Therefore, any economy that is without risk is perceived is seen to be without entrepreneurial activities. Judging from the nature of entrepreneurial activities, entrepreneurs are mainly concern with associated risk measures in the form of potential hazards as opposed to returns (Duxbury and Summers, 2004).

Entrepreneurs suffer from numerous levels of risks during the course of business. Simply put, by pursuing entrepreneurial activities, individual entrepreneurs experience various forms of risk including his/her financial well-being, the potential to pursue opportunities as well as family relationships (Liles, 1974). For instance the failure of newly established venture, creates the negative climate where owner-managers (known as the entrepreneur) grapples in search of financial responsibilities which in turn ruin the future standard of living.

While it is equally true that rural development is complex with diverse socio-economic and cultural limitations, recent studies drew attention to entrepreneurship as the primary solution to the problems (Nasirifard et al, 2015). Numerous studies have shown that the only answer to solving problems of rural development is to create job opportunities and sustain the general welfare of communities through entrepreneurship. Recent study commissioned by Hosseini and Soleimanpour (2006) pointed to entrepreneurship as vital solutions in creating jobs, improves living conditions, equitable wealth distributions and optimal resource exploitation. Entrepreneurial activities entail processes of creating new job opportunities and organisations' growth that is linked to risk. As mentioned earlier in the study, entrepreneurial activities is associated with many risks. In the context of social settings, rural entrepreneurship include social issues namely the impact of education on rural communities, the profound lack of technological know-how, marketing limitations and factors as well as innovation deficiencies (Saxena, 2012). Further literature indicates that the advent of entrepreneurship advances the overall access to information which primes to the establishment of business networks and job opportunities (Ronning and Ljunggren, 2007).

3. RESEARCH METHODOLOGY

The study was purely quantitative. Empirically the study focused on rural areas of JTG and FB district municipalities in the NCP of South Africa as shown in figure 1.1 above. Extensive literature study was conducted by the author to compile research questions. A 7 Likert-scale anchored as follows: (7) *strongly disagree* and (1) *strongly agree* was employed for empirical dataset. 300 ROMs of small

businesses were approached to participate in the study. In total, two SCEs namely BOPs and PPs problems contributed to a 26-item structured questionnaire which were developed based on extensive literature search which led to identifications of key risk elements of entrepreneurship. Data analysis was possible through the application of Statistical Package for Social Sciences (SPSS) to ascertain the effect of SCEs on rural entrepreneurship. The author interacted extensively with the ROMs to offer assistance as most of the ROMs are semi-literate and also to generate bias free dataset.

3.1. Target population and sampling techniques

A total of 500 ROMs of small businesses were targeted as participants during the survey from the two study areas of FB and JTG district municipalities in the NCP of South Africa. Out of the 500 ROMs the author sampled 300 ROMs through the convenience and snowball techniques for empirical data across the study areas. Convenience and snowball techniques were used as it was difficult for the author to access reliable data from the rural district municipalities. On the other hand, snowball sampling as a non-probability method allows ROMs of small businesses to be identified by initial participants (Saunders et al., 2003). Besides empirical data, the outcomes of the study were enriched with additional scientific debates through relevant global literature studies.

3.2. Research instrument and administration

Prior to administering the questionnaires, a pilot study was conducted with ($N=40$) of ROMs including other researchers and academics in the field to access the clarity and readability of that questions. Few questions were reconstructed based on comments received from the pilot study. A 26-items mainly based on relevant literature taking into account the SCEs of BOPs and PPs formed part of the questionnaires. Other demographic variables were included in the questionnaires and formed the basis of structured questions. Statements and questions were designed in brief; hence the questionnaires allowed ROMs to respond by indicating specific degree of agreements or disagreements to the problems on the questionnaires. During the study, all forms of ethical issues were considered. The author asked ROMs to sign written permissions to ensure maximum protection and personal confidentiality including various issues of secrecy that relates to set ethical standards in a research climate.

3.3. Data gathering

Only ROMs who operates small businesses as described within the study areas were permitted to complete questionnaires for dataset. Both secondary and primary data was collected and analysed. Out of 300 ROMs initially earmarked for the study, only 282 questionnaires were completed and returned for analysis; thus yielding a high response rate of 94%.

3.4. Statistical treatment

In this study SCEs was divided into two sections of BOPs and PPs. These were used to determine the effect of rural entrepreneurship. Initially descriptive statistics of the mean and frequency were applied to access data. For in-depth inferences, the author applied the Pearson Correlation Coefficient to test formulated hypotheses.

4. RESULTS AND DISCUSSION

The aim of the study is to determine the effect of selected SCEs on rural entrepreneurship and small business in JTG and FB district municipalities. The SCEs affect entrepreneurial activities in economies of emerging countries where the overall infrastructure remains inadequate as compare to the developed countries. In this study, other SCEs including culture creates stringent hardships towards ROMs of small businesses. The South African, society is recognised for its negative attitude of publicity towards ROMs who are unable to reap business success (Robinson et al., 2004). Earlier the study adopts other selected SCEs of culture to determine its effect on rural entrepreneurship and small business operations in JTG and FB district municipalities. In sum therefore, cultural effect has been widely recognised by researchers to influence the general levels of entrepreneurship and small businesses (Haftendorn & Salzano, 2003).

4.1. Profile of rural owner-managers (ROMs)

Table 2 below summaries the general profile of ROMs of small businesses in JTG and FB district municipalities. Utilising ROMs' age in the study is critical because it allows the study to determine whether most respondents are old or young (Zindiye, 2008:150). The table further illustrates different age categories of ROMs. Most participants in the study represents the black population 152 (53.90%) of which 113 (40.07%) resides in the districts are aged between 30-35 years. This confirms similar study that across the districts, entrepreneurial activities commences only at late ages above 35 years (Muijanack et al., 2003). Only 29 (10.28%) of the younger population between 20-29 years pursue small business operations. This implies that the youth are not entrepreneurial; hence the persistent high rural unemployment due to general lack of entrepreneurial activity (Von Broembsen et al., 2005). Regarding individual skills, only 27 (0.57%) are skilful to pursue entrepreneurial activity. Again, decreasing skill levels further contributes to poor entrepreneurial success (Von Broembsen et al., 2005). Education plays significant role in running successful business (Martins & Staines, 2008). Existing state of education across the district is grossly insignificant, hence entrepreneurial activities is unlikely to be successful. Majority 51.77% of ROMs were in a stable relationships; thus through the two district municipalities, it is expected that entrepreneurship continue to be sustained (Powel & Eddleston, 2010; Chlosta, Patzelt, Klein & Dormann, 2012:121). Based on high level of family ties across the districts, it is assumed that entrepreneurial

activities can be successful (Kristiansen & Ryen, 2002).

Table 2 below shows that personal educational success differs especially in trade skills. About 65 (23.05%) graduated with matric certificates being the highest educational qualifications in the two district municipalities; subsequently this precedes lower matric qualification of 64 (22.70%). However, only few ROMs 27 (0.57%) attained trade skills training whilst 20 (7.09%) had university qualifications. This implies that in general, can serve as stimulant at any level of educational qualifications. Botha, Nieman

and Van Vuuren (2007) argued that educational achievement is not prerequisite to pursue entrepreneurship. Majority of ROMs were unable to receive post-secondary qualifications. This finding echoes reasons for persistent lack of rural entrepreneurial success in South Africa (Isaacs et al., 2007; Nieman & Nieuwenhuizen, 2009). The profile of ROMs that are involved in the study were mix race of various ethnic background from two municipalities. The sample is largely dominated by blacks 152 (53.90%), White 15 (5.3%), Coloured 31 (10.99%) and the Indian population were 28 (9.92%).

Table 2. Descriptive statistics of rural owner-managers (ROMs)

| ITEM | GROUP (yrs) | FREQUENCY | VALID % | ITEM | GROUP | FREQUENCY | VALID % |
|-----------|-------------------|-----------|---------|----------------|-----------------|-----------|---------|
| Age | 20-29 | 29 | 10.28 | Marital status | Single | 109 | 38.65 |
| | 30-39 | 113 | 40.07 | | Married | 146 | 51.77 |
| | 40-49 | 94 | 33.33 | | Divorced | 16 | 5.67 |
| | 50-59 | 36 | 12.76 | | Widowed | 2 | 0.70 |
| | 60+ | 8 | 2.83 | | Living together | 5 | 1.77 |
| Education | Lower matric | 64 | 22.70 | Gender | Black | 152 | 53.90 |
| | Matric | 65 | 23.05 | | White | 15 | 5.33 |
| | Certificate | 50 | 17.75 | | Coloured | 31 | 10.99 |
| | Trade skills | 27 | 0.57 | | Indians | 28 | 9.92 |
| | Diploma | 51 | 19.09 | | Others | 51 | 18.08 |
| | University degree | 20 | 7.09 | | | | |

ROMs of small businesses from FB and JTG district municipalities perceived SCEs of BOPs and PPs as impediments to rural entrepreneurial activities and small businesses.

Table 3 below, illustrates the mean score of 90.75 depicts BOPs that impede rural entrepreneurship and small business. Implications are that large section of rural entrepreneurial activities operates within the informal business

sector with barely no permanent business location but higher operational costs (Koteff, 2007). Lack of adequate formal business location is another critical hindrances to small business operations and entrepreneurial activities (Ngassam, 2009). Regarding PPs, most ROMs perceived each limitation as impediment; and are therefore ranked very high with maximum score of 46.29%.

Table 3. Descriptive statistics of PPs and BOP

| | N | Minimum | Maximum | Mean | Standard deviation |
|---------|-----|---------|---------|-------|--------------------|
| BOPs | 258 | 42 | 112 | 90.75 | 8.707 |
| PPs | 273 | 15 | 68 | 46.29 | 13.416 |
| Valid N | 252 | | | | |

The study utilised descriptive statistics of mean, standard deviation, minimum and maximum values of variables as indicated in the table 3 above. For simplification, average scores were created for variables; on the table, the highest mean score as BOP (M=90.75; SD=8.70). However, the lowest mean

score of PPs (M=46.29; SD=13.41); its PPs are perceived to affect rural entrepreneurship and small businesses in both FB and JTG district municipalities of the NCP. The minimum and maximum scores of BOPs and PPs revealed responses varying from low to extremely high.

Table 4. Level of severity: BOP

| | Frequency | % | Valid % | Cumulative % |
|----------------|-----------|------|---------|--------------|
| Slightly Low | 3 | 1.1 | 1.2 | 1.2 |
| Moderate | 15 | 5.3 | 5.8 | 7.0 |
| High | 228 | 80.9 | 88.4 | 95.3 |
| Extremely high | 12 | 4.3 | 4.7 | 100 |
| Total | 258 | 91.5 | 100 | |
| Missing System | 24 | 8.5 | | |
| Total | 282 | 100 | | |

Table 4 shows BOP of SCEs to be very high and moderate with values of 228 (88.4%) and 15(5.8%) respectively. This is followed by extremely high value of 12(4.7%) and slightly low value of 3 (1.2%).

This findings therefore means that SCEs of BOP severely impact on rural entrepreneurship in contrast to PPs.

Table 5. Level of severity: PPs

| | Frequency | % | Valid % | Cumulative % |
|----------------|-----------|------|---------|--------------|
| Low | 5 | 1.8 | 1.8 | 1.8 |
| Slightly low | 65 | 23.0 | 23.8 | 25.6 |
| Moderate | 39 | 13.8 | 14.3 | 39.9 |
| High | 84 | 29.8 | 30.8 | 70.7 |
| Extremely high | 80 | 28.4 | 29.3 | 100.0 |
| Total | 273 | 96.8 | 100.0 | |
| | 9 | 3.2 | | |
| | 282 | 100 | | |

Table 5 indicates high and extremely high problems of 84 (30.8%) and 80 (25.3%) of the SCEs of PPs on rural entrepreneurship and small businesses. In can therefore be concluded that acquiring skills through educational qualifications in addition entrepreneurial skills, the ROMs of small businesses in FB and JTG district municipalities can be sustainable (Isaacs et al., 2007; Nieman & Nieuwebhuizen, 2009). The findings demonstrate that sustained entrepreneurship can be overcome

through extensive educational achievement (Maas & Harrington, 2008).

Regarding PPs, the average level in JTG is minimal (mean score of 41.85) than the average (mean score of 54.97). In terms of standard deviation, PPs in FB district are lesser (7.13) as compared to the standard deviation (13.72 as shown in JTG district. This implies that in terms of PPs, there are wider variations of PPs.

Table 6. Correlations between BOP and PPs.

| | | BOPs | PPs |
|------|---------------------|--------|--------|
| BOPs | Pearson correlation | 1 | .392** |
| | Sig. (2-tailed) | | .000 |
| | N | 258 | 252 |
| PPs | Pearson Correlation | .392** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 252 | 273 |

**Correlation is significant at the 0.01 level (2-tailed)

Table 6 shows drawbacks of rural entrepreneurship and small business through different SCEs of BOP and PPs. Drawing on Pearson correlation coefficient, the study measures the strength of association between two variables as shown by r . is 0.392 which illustrates very moderate positive correlation between rural entrepreneurship and SCEs of BOPs and PPs. These findings are supported by extant literature that rural entrepreneurship and small businesses are hampered by problems (Young, 2010; Keeble, 1993;

De Lange, 2008; Herrington et al., 2010). Further, scientific evidence supported the findings that BOPs such as labour regulations, poor communication systems and inability to take business risks (Radebe, 2009; Saxena, 2012; Haftendon & Salzano, 2003; Bosma & Harding, 2007) add to business failures. Existing literature further confirms PPs including lack of managerial skills due to lack of education impact poorly on rural entrepreneurship and small business success (Powel & Eddeston, 2010; Zaleski, 2011; Smulders, 2007; Kunene, 2008).

Table 7. Group statistics

| Problems | District | N | Mean | Std. Deviation | Std. Error Mean |
|--|----------|-----|----------|----------------|-----------------|
| Business & Operational problems (BOPs) | JTG | 163 | 84.42945 | 8.2947 | 0.64969 |
| | FB | 89 | 87.33708 | 6.66051 | 0.70601 |
| Personal Problems (PPs) | JTG | 177 | 41.86441 | 13.72223 | 1.03143 |
| | FB | 90 | 54.96667 | 7.1382 | 0.75243 |

Table 8. Independent Samples Test

| Problems | Levene's Test for Equality of Variances | | | T-test for Equality of Means | | |
|----------|---|--------|-------|------------------------------|-----|-----------------|
| | | F | Sig. | T | df | Sig. (2-tailed) |
| BOP | Equal variances assumed | 5.128 | 0.024 | -2.843 | 250 | 0.005 |
| | Equal variances not assumed | | | -3.031 | 216 | 0.003 |
| PPs | Equal variances assumed | 90.548 | 0.000 | -8.488 | 265 | 0 |
| | Equal variances not assumed | | | -10.262 | 265 | 0 |

4.2 Business and operational problems (BOPs)

In order to test the homogeneity of variances between the two districts JB and JTG for business and operational problems index, a Levene's test was conducted and this test was found to be statistically

significant (Sig=0.024<0.05). The authors came to the realisation that there is non-homogeneity of variances between the two districts. As such, the variances cannot be assumed to be equal. Further test was performed by means of t-test results corresponding to "Equal variances not assumed". An independent sample t-test was conducted to test for

the significant difference between the two districts in terms of BOP index at 5% level of significance ($\alpha=0.05$). Results of the t-test indicate significant difference between the districts in terms BOP index at p-value less than 0.05, $t(216) = -3.031$, $p\text{-value}=0.003$. Therefore the hypothesis is not rejected at 5% level of significance. However, as indicated in table 6 above, FB (mean=87.33708) seem to have more BOPs index than JTG (mean=84.42945).

4.3. Personal problems (PPs)

In order to test the homogeneity of variances between the two districts JB and JTG for PPs index a Levene's test was conducted and this test was found to be statistically significant ($\text{Sig}=0.000 < 0.05$). So we conclude that the data show the non-homogeneity of variances between the two districts. Therefore the variances cannot be assumed to be equal. So author used the t-test results corresponding to "*Equal variances not assumed*". An independent sample t-test was conducted to test for the significant difference between the two districts in terms of PPs index at 5% level of significance ($\alpha=0.05$). There is significant difference between the districts in terms PPs index of at p-value less than 0.05, $t(265) = 10.262$, $p\text{-value}=0.000$. Therefore the hypothesis is not rejected at 5% level of significance. However FB (mean=54.96667) seem to have more PP index than JTG (mean=41.86441).

5. HYPOTHESES TESTING AND REPORTING

The argument for applying Levene's test in attempt to assess and confirm the validity of conducting the t-test. The study therefore argues that Levene's would determine the significant differences between JB and JTG, the PPs' index based on the assumption of homogeneity of variances between JB and JTG is calculated by means of a Levene test at 5%.

From table 7, the assumption of homogeneity of variances between JB and JTG was violated since the p-value < 0.05 ($p\text{-value}=0.024$). As a result, the t-test results are based on equal variances not assumed. Further, an independent sample t-test was calculated to test the significant differences between the two districts in terms of BOP index at 5% level of significance ($\alpha=0.05$). Results of the t-test inferred significant difference between the two (JB and JTG) districts in terms of BOP index at p-value less than 0.05, $t(216) = -3.031$, $p\text{-value}=0.003$. Therefore, the hypothesis is not rejected at 5% level of significance. However, as indicated in table 6 above, FB (mean=87.33708) seem to have more BOP's index than JTG (mean=84.42945).

From table 8 above, it is clear that the p-value for the Levene's test for equality of variances is 0.0161 (as seen under "*sig*"). Since this value (0.0161) is less than the significance level of 0.05 implies that the variances cannot be assumed to be equal. As such, the t-test outcome as shown "*Equal variances cannot not assumed*". The corresponding p-value for the t-test is 0.0028 is less than the significance level of 0.05 we conclude that 5% level of significance; it is concluded that there is insignificance evidence to suggest that there is significant differences between FB and JTG in terms of SCEs of BOPs. Drawing from this result, hypothesis h_1 it means that SCEs of BOPs

differ in severity about FB and JTG district municipalities.

Similarly, from table 8, the p-value for the Levene's test for equality of variances is 0.0000 (under "*sig*"). The value 0.0000 is less than the significance level of 0.05 which implies that the variances cannot be assumed to be equal. Thus the t-test given "*equal variance not assumed*" is used. The corresponding p-value for the t-test 0.0000; since the p-value 0.0000 is less than the significance level of 0.05 it is concluded at 5% level of significance then there is insufficient evidence that suggest that there is no significant difference between FB and JTG district municipalities regarding SCEs of PPs. This implies that the SCEs of PPs differ in terms of severity of problems in FB and JTG district municipalities of the NCP.

6. LIMITATIONS

The scope of this study is limited; the study was conducted in two rural district municipalities in the NCP. As such, care must be taken to generalise its outcomes. Also, the outcomes of this study was unable to determine one particular SCEs that affect rural entrepreneurship. Next, it is important to note that no scientific study is without limitations. Like previous studies, this study may be limited due to the sampling process applied. The authors utilised snowball technique based on personal judgements. It was possible that dataset collected was due to authors' bias. Besides, the convenience sampling technique is used. Thus, it fell short of being representative; its findings are likely to be the victim of external validity.

7. RESEARCH IMPLICATIONS

The primary implication for this study can be summarised as follows: How can ROMs of rural small businesses exercise their knowledge in search of business information as they are unaware of such information?

Over the years the authorities instituted many policies frameworks to offer basic financial and non-financial assistance to ROMs. The outcomes of this study like other entrepreneurship studies highlighted lack of education and training as one of the problems. This means that also ROMs in this study, are illiterate particularly in entrepreneurship education. ROMs require some training in order to access useful information for business interest.

8. CONCLUSION

This study seeks to determine the risk and effect of selected social capital elements on rural entrepreneurship. To attain the above purpose, a quantitative approach aided by self-administered Likert-scale questionnaire was used to collect data. Data evidence from ROMs assessed the effect of SCEs namely PPs and BOPs on rural entrepreneurship. For positive change towards rural entrepreneurship to assist ROMs, there is the need to encourage active entrepreneurial culture across rural communities besides entrepreneurial education as one of the outstanding social elements. Findings from the study further showed that through the evidence of available entrepreneurial

education and culture, ROMs of small businesses can overcome existing problems. Specifically, the final outcomes of the study demonstrated different kinds of problems from the study areas. These findings were in line with prior studies which showed PPs and BOPs were key inhibitors of small businesses (Macueve et al, 2009; Herrington et al, 2010; Williams & Williams, 2010). Regarding PPs, ROMs in the communities of FB highly lack various levels of PPs in the form of social facilities due to the rural nature of the areas of this study.

Extensive literature search have further shown that most of the criteria put forward by financial institutions do not favour ROMs. For instance, in general one of the limitations of rural entrepreneurial activities is the lack of funding which have ripple effect on social elements including communication and infrastructure. Without doubt, the study revealed that SCs remains a challenge in both study areas of FB and JTG district

municipalities while risk forms the gist of entrepreneurial activities not only in rural settings but also among the urban communities.

Furthermore, the study concludes that a more stringent measures be used to address the socio-economic and cultural limitations (Nasirifard et al, 2015). It is likely that addressing these problems make it possible to open doors for new job creation in order to sustain the social welfare of rural communities. Through risks, ROMs are uncertain about decisions taken regarding their businesses.

The nature of risks that are experienced in entrepreneurial environment are a major cause of concern. ROMs are unable to pursue viable business opportunities due to uncertainties by the risky nature of the entire business climate. In closure, it can be stated that the growing unwillingness by financial houses to offer funding to ROMs can be blamed on high level of risks as seen in the entrepreneurship environment.

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