

MOTIVATION FOR STARTING A BUSINESS: OPPORTUNITY OR SURVIVAL? A SOUTH AFRICAN PERSPECTIVE

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Abstract

Labour and trade union disputes and political uncertainty continue to negatively affect the South African economy. Strike action hampers productivity in many industries, affecting foreign investment. These factors all contribute to a slower economy, weakening the exchange rate and increasing cost of imports (Anon1 2014:1). A struggling electricity supply is also adding to current South African economic woes. The above factors add to the reasons why small businesses (SMEs) are being started as a means for South Africans to establish their own forms of income during these tough economic times. SMEs often form the backbone of national economies and have lately increased in importance (Hove & Tarisi 2013:57).

This research paper aims to explore the reasons why small businesses are started in South Africa by focusing on intrinsic and extrinsic driving forces. Once the reasons are known as to why small businesses are started, researchers can begin to develop interventions and strategies for the successful establishment and long-term survival of these SMEs.

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1 Introduction

One of the significant characteristics of a flourishing and growing economy is a booming and successful small and medium enterprises (SMEs) sector (Kongolo 2010:2288).

Small businesses are the backbone of many economies across the globe (Mbonyane & Watson 2011:550), and are seen in many instances as the main employers as opposed to larger companies. In South Africa, where small businesses constitute more than 80% of the business sector, on average more than 50% of all small businesses fail in the first two years (Mbonyane & Watson 2011:550). It is said that this low growth rate can be attributed to the lack of support offered to SMEs.

With this high failure rate of small businesses in mind, it is important for researchers in the field of small business to understand why individuals would still want to risk starting a small business.

Traditionally, reasons for starting a business (the entrepreneurial goal) have been considered to be economic (Carsrud & Brännback 2011:11). Many people are losing their jobs and are thus forced into business even though they may not be equipped for it. The worldwide economic slowdown starting in 2008 has led to many businesses closing down and resulting in record unemployment in Europe, USA, Asia and Africa - with South Africa having an unemployment rate of over 30%. This has resulted in many people

starting a business without the necessary knowledge or expertise. Recent insights have, however, shown that there may be other motives for people starting their own business, namely in terms of social entrepreneurship. Here, the social gains act as primary motivators. As there are various reasons for starting a business, it is important to discuss some of these reasons as covered by the literature.

2 Literature review

There has been substantial investigation as to why individuals choose to undertake starting a business (Carter, Gartner, Shower & Gatewood 2003:13). Some individuals identify a business opportunity. There are countless sources of business opportunities, especially in a rapidly changing society such as South Africa (Nieman & Nieuwenhuizen 2014:103). Business opportunities can arise when entrepreneurs use their skills, expertise or aptitude to provide a product or service to the market.

Others decide to start a business because they are unemployed and do not have the necessary skills demanded by industry. They often face poverty and decide to open their own business to find a way out of poverty (Co, Groenewald, Mitchell, Nayager, Van Zyl, Visser, Train & Emanuel 2007:30). Below are some of the factors that encourage people to become entrepreneurs and start their own business (Co et al 2007:30):

- Financial rewards
- Independence offered by working for oneself
- Sense of achievement from running your own business
- A desire to help improve the community
- Being unable to be creative when working for another

Research recognises that entrepreneurs start and operate a business for many different reasons. Career reasons such as independence, financial success and self-realisation have been empirically investigated to determine the reasons associated with entrepreneurial choice.

Opportunistic entrepreneurs may be motivated by a need to achieve or to succeed in terms of economic terms; other entrepreneurs are driven by what could be described as survival-oriented motivations. These are commonly known as necessity entrepreneurs (Carsrud & Brännback 2011:11). Necessity entrepreneurs are more concerned with avoiding failure, which could mean starvation. The central motivation is to earn enough money to be able to support one's self and family. When focused on survival, entrepreneurs may ignore opportunities that have a longer payback period. Some necessity entrepreneurs simply cannot afford to wait to achieve a bigger goal as they might starve to death in the interim. Moreover, motivation can be either intrinsic or extrinsic, or both. Intrinsic motivation refers to a personal interest in the entrepreneurial task while extrinsic motivation refers to an external reward that follows certain behaviour.

Whereas most entrepreneurial research assumes the entrepreneur is motivated by external rewards such as money, power and status, some people engage in entrepreneurial activities as an end in themselves (Carsrud & Brännback 2011:11). According to the 2013 State of the Business Owner (SOBO) Report, the top reasons today's entrepreneurs start their business are: freedom to pursue new opportunities, following their personal passion, and to gain independence from other's control and lastly financial reasons.

Despite the fact that many SME support programmes exist, SMEs in South Africa continue to experience a high failure rate (Hove & Tarisi 2013:57). Findings show that about 75% of the new SMEs that are started eventually fail. SMEs are plagued by high failure rates and poor performance levels, and identifiable factors such as lack of planning, lack of proper financing and poor management are seen to be some of the main causes of SME failure (Neneh & Van Zyl 2012:119-120).

It has also been found that a lack of education and training has reduced managerial capacity in organisations and is therefore one of the most prominent reasons for the high failure rate of new businesses. There is a serious need for South African SMEs to become better equipped to survive in the long run if they want to remain a force in the economic growth and development of the country.

Neneh and Van Zyl (2012: 120) emphasise that although financial problems affect all organisations no matter what their size, the lack of management skills and formal financial planning systems are among the most cited reasons for the failure of small businesses.

Within the South African context more information is needed on why SMEs are started by so many individuals and then fail to succeed. Once the reasons for starting SMEs have been more clearly established, the best possible training and mentoring interventions can be established to assist small business owners in the successful management of their businesses.

This research study therefore focuses on exploring the reasons for starting SMEs in order to best recommend interventions or strategies for successfully maintaining an SME in the South African context.

3 Objectives and methodology of the research study

The objectives of the study are to explore the reasons why SMEs are started by business owners in South Africa by focusing on intrinsic and extrinsic motivators.

In order to determine what prompted the owners of SME's to start or acquire their own businesses, a sample of small business owners were asked to rate the extent to which they agree with statements about various possible reasons for doing so. A questionnaire that consists of quantitative questions designed to elicit these agreement ratings from the small business owners was developed. The questionnaire was administered to small business owners operating in the coastal regions of the Western Cape and Kwazulu-Natal who registered their small businesses at an official state institution for SME's. The sampling methodology utilised was that of non-probability, convenience sampling, which enabled the researcher to collect data quickly and easily. A sufficient number of questionnaires were distributed to achieve a confidence level of 95% and an error margin of 10% at 50% response distribution. A total of 57 usable responses were received which is an error margin of 12.52%. Given the small sample size, the results will give a general indication of the why SMEs are started or acquired by business owners in South Africa.

4 Findings

Origin of own business

The small business owners were asked whether they acquired an existing business or whether they started their businesses themselves. They were asked to rate the importance of each aspect on a five-point scale that ranged from not important to extremely important.

Table 1. Origin of business

	N	Percent
Started my business myself	44	80.0
Did not start my business myself	11	20.0
Total	55	100.0

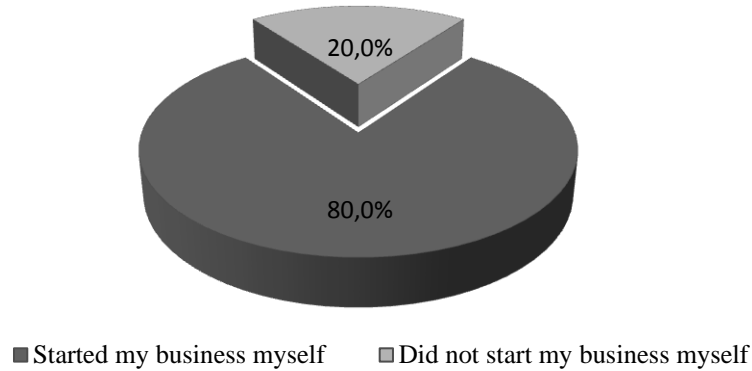


Figure 1. Business origin distribution

The majority of the respondents started their own businesses themselves (80%, n=44)

Motivating Reasons

The small business owners were presented with a set of seven typical reasons that are generally quoted when business owners are asked why they started or acquired their businesses. Some of these reasons could be considered as intrinsic in nature and others could be considered as extrinsic in nature. For example, if a business was started due to the owner having lost their

job, one can assume that the reason was extrinsic in nature; whereas starting a business to build a legacy for the family could be considered intrinsic in nature.

The reasons were presented as statements about themselves and the respondents were asked to indicate the extent to which they agreed with the statements using a 5-point Likert scale that ranged from strongly disagree to strongly agree.

Table 2. Level of applicability of the reasons for starting a business

Reason	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Total N Mean (SD)
I started the business because I wanted to make a good living for myself and my family.	2	4	3	21	23	53
	3.8%	7.5%	5.7%	39.6%	43.4%	4.11 (1.07)
I started the business because I couldn't find other work.	8	14	7	8	15	52
	15.4%	26.9%	13.5%	15.4%	28.8%	3.15 (1.49)
I started the business because I wanted to establish a business for my family to continue running in the future.	8	2	8	16	18	52
	15.4%	3.8%	15.4%	30.8%	34.6%	3.65 (1.40)
I started the business because I knew that I could make a success of it.	2	2	6	21	22	53
	3.8%	3.8%	11.3%	39.6%	41.5%	4.11 (1.01)
I started the business because there were no other businesses similar to mine in the area.	9	13	10	9	13	54
	16.7%	24.1%	18.5%	16.7%	24.1%	3.07 (1.44)
I started the business because I had the support of family and friends.	5	8	11	14	13	51
	9.8%	15.7%	21.6%	27.5%	25.5%	3.43 (1.30)
I started the business as I had the support of other small business people.	7	17	11	8	9	52
	13.5%	32.7%	21.2%	15.4%	17.3%	2.90 (1.32)

Among the reasons for why they started their own businesses, “I wanted to make a good living for myself and my family” (M=4.11, SD=1.07) and “I knew that I could make a success of it” (M=4.11, SD=1.01) ranked the highest on average (Table 2 and

Figure 2). The relatively low standard deviation in the responses to both these reasons is an indication that the respondents were more in agreement on these two reasons than on any of the other reasons. Both these reasons could be considered intrinsic in nature.



Figure 2. Mean agreement score for motivating reason statements

To establish whether these two reasons were rated highly by the same set of respondents, a cross-tabulation of the two reasons was used to investigate the extent to which they co-varied (Table 3). This table illustrates of the 52 respondents who provided

responses for both these statements, 73% (n=38) made similar selections. It is thus clear that in general, out of the 52 respondents who provided responses for both the statements, the same set of respondents tended to agree or strongly agree with these two reasons.

Table 3. I started the business because I wanted to make a good living for myself and my family BY I started the business because I knew that I could make a success of it

		I started the business because I knew that I could make a success of it					Total
		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	
I started the business because I wanted to make a good living for myself and my family	Strongly disagree	0	0	0	1	1	2
	Disagree	0	0	0	0	4	4
	Neither agree nor disagree	0	0	2	1	0	3
	Agree	2	1	2	11	5	21
	Strongly agree	0	0	2	8	12	22
Total		2	1	6	21	22	52

Starting own business vs. acquiring existing business

The mean agreement with each of the statements of those respondents who started their own businesses

and those who acquired existing businesses was compared in order to investigate a possible tendency to differ regarding their reasons for starting their own businesses.

Table 4. Mean agreement scores for business origin groups

	Did you start the business yourself?		
	Yes (n=44)	No (n=11)	Total (N=55)
I started the business because I wanted to make a good living for myself and my family	4.05 (1.02)	4.27 (1.27)	4.10 (1.07)
I started the business because I couldn't find other work	3.33 (1.51)	2.36 (1.12)	3.12 (1.48)
I started the business because I wanted to establish a business for my family to continue running in the future	3.73 (1.38)	3.40 (1.58)	3.67 (1.41)
I started the business because I knew that I could make a success of it	4.05 (1.09)	4.27 (0.65)	4.10 (1.01)
I started the business because there were no other businesses similar to mine in the area	2.93 (1.45)	3.73 (1.27)	3.09 (1.44)
I started the business because I had the support of family and friends.	3.37 (1.35)	3.50 (1.08)	3.40 (1.29)
I started the business as I had the support of other small business people	2.93 (1.35)	2.91 (1.30)	2.92 (1.32)

Both groups individually demonstrated that, on average, “I wanted to make a good living for myself and my family” and “I knew that I could make a success of it” are the most popular reasons for starting a business, although these reasons were cited more often by the group of respondents who acquired an existing business than by those who started their own businesses. With the response variation regarding “I knew that I could make a success of it” (SD=0.65) among the respondents who acquired existing businesses being half of their response variation regarding “I wanted to make a good living for myself

and my family” (SD=1.27), this is an indication that there is more agreement among this group of respondents that “I knew that I could make a success of it” and was the most common reason for acquiring a business.

Despite the observable mean agreement score differences between those respondents who started their businesses themselves and those who acquired existing businesses, Mann-Whitney U analyses revealed that these differences are not statistically significant.

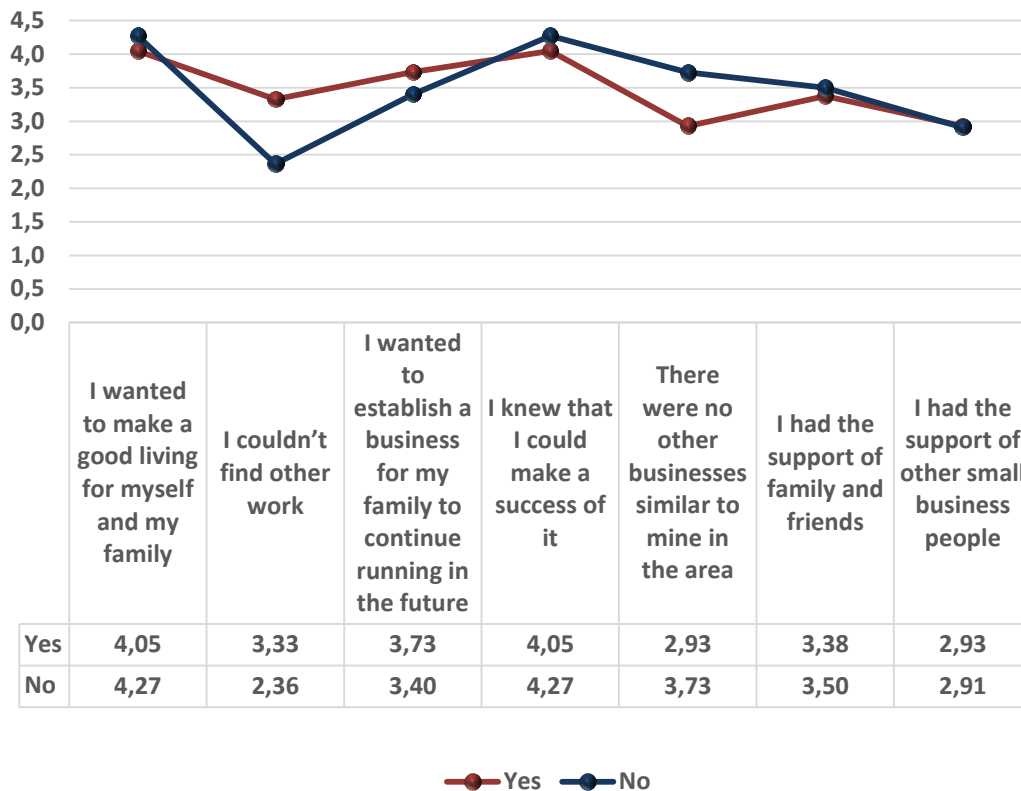


Figure 3. Mean agreement scores for the two groups

Those respondents who had acquired existing businesses demonstrated a slightly stronger tendency towards wanting a good life for them and their families than those who started their businesses themselves. They also tended on average to have more confidence in their ability to make a success of their businesses and tended to start a new type of business while those who started their own, tended more to duplicate similar businesses in their areas.

Those respondents who started their businesses themselves tended more to doing so because they could not find other work (extrinsic reason) and they tended more to see the creation of a business as a legacy for their families than those who acquired existing businesses.

All respondents had an equal belief that they had the support of their families.

Natural groupings among respondents

To investigate possible patterns among the respondents regarding the extent to which they agreed with the different reason statements, the seven statement items were subjected to K-means cluster analysis.

Two different groups were distinguished, indicating that, apart from differing regarding whether they started their own businesses or acquired existing businesses, they also differed regarding the motivating reasons for starting their own businesses. The cluster centre values of the two groups are listed in Table 5 and how the distinguishing features differ per group is depicted in Figure 4.

Table 5. Mean agreement scores for the two cluster groups

	Intrinsic	Extrinsic	Overall
I started the business because I wanted to make a good living for myself and my family	4.27	4.19	4.23
I started the business because I couldn't find other work	2.77	3.58	3.21
I started the business because I wanted to establish a business for my family to continue running in the future	3.73	3.65	3.69
I started the business because I knew that I could make a success of it	4.59	3.73	4.13
I started the business because there were no other businesses similar to mine in the area	4.41	1.81	3.00
I started the business because I had the support of family and friends	4.00	2.96	3.44
I started the business as I had the support of other small business people	3.27	2.58	2.90

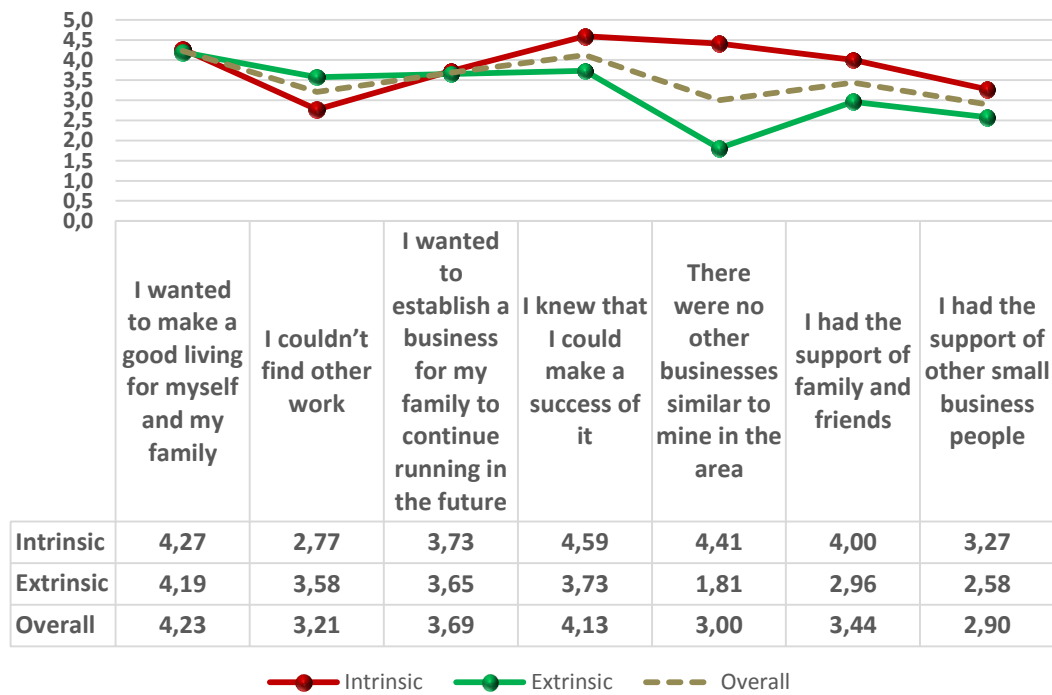


Figure 4. Mean agreement scores for the two groups

Description of the two motivating reason groups

On average, the respondents as a single group (overall) rated “I wanted to make a good living for myself and my family” and “I knew that I could make a success of it” as the most popular reasons for starting a business.

All respondents seemed to have an equal desire to make a good living for themselves and their families and to establish a business for their families to continue running into the future, regardless of whether it was out of desperation because they had lost their jobs or not.

The intrinsic group tended on average not to have started their own businesses due to having lost their jobs but because they believed that they could make a success of their businesses.

They believed in their own potential and felt they had a lot of support for their endeavour. Thus, one could conclude that they started their businesses mostly for intrinsic reasons.

The extrinsic group tended on average to have started their businesses due to having lost their jobs. They tended to have less confidence in their ability to make a success of it and also did not feel that well supported by family, friends and other small business people. Thus, one could conclude that they started their businesses mostly for extrinsic reasons.

Distribution of respondents

Of the 57 respondents who provided responses for all the reason statements, more than half (54.2%, n=26) seemed, on average, to have started their businesses for extrinsic reasons rather than intrinsic reasons.

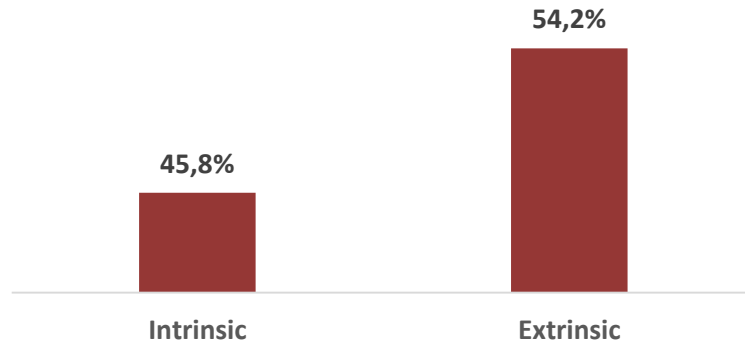


Figure 5. Motivating reason group distribution

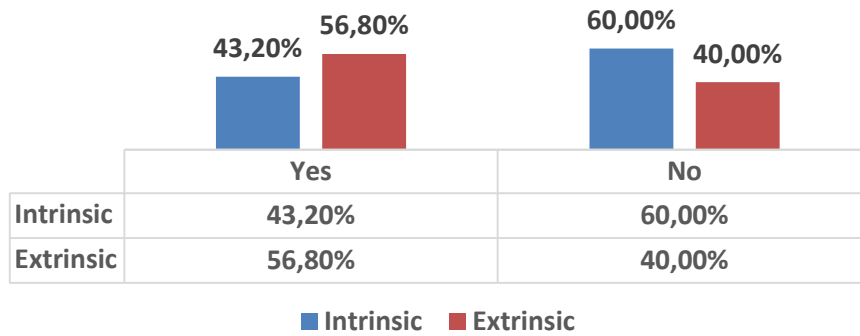


Figure 6. Motivating reason vs. business origin

There seems to be a tendency for those who started their own businesses to have done so for extrinsic reasons more than intrinsic ones while the opposite seems to be true for those respondents who did not start their own businesses themselves.

Mann-Whitney U analysis revealed statistically significant differences between those respondents who started their businesses for intrinsic reasons and those who started a business for extrinsic reasons in their rankings of “I knew that I could make a success of it” ($z=-3.105$, $p<.01$), “There were no other businesses similar to mine in the area” ($z=-5.938$, $p<.001$), and “I had the support of family and friends” ($z=-2.721$, $p<.01$).

More specifically, those who started their businesses for intrinsic reasons ($MR=30.84$, $n=22$)

tended more to believe in their ability to make a success of it than those who started their businesses for extrinsic reasons ($MR=19.13$, $n=26$). Those who started their businesses for intrinsic reasons ($MR=37.23$, $n=22$) tended more to start businesses that were different from those in their area than those who started their businesses for extrinsic reasons ($MR=13.73$, $n=26$). Those who started their businesses for intrinsic reasons ($MR=30.32$, $n=22$) tended more to have started their businesses because they had the support from their family than those who started their businesses for extrinsic reasons ($MR=19.58$, $n=26$).

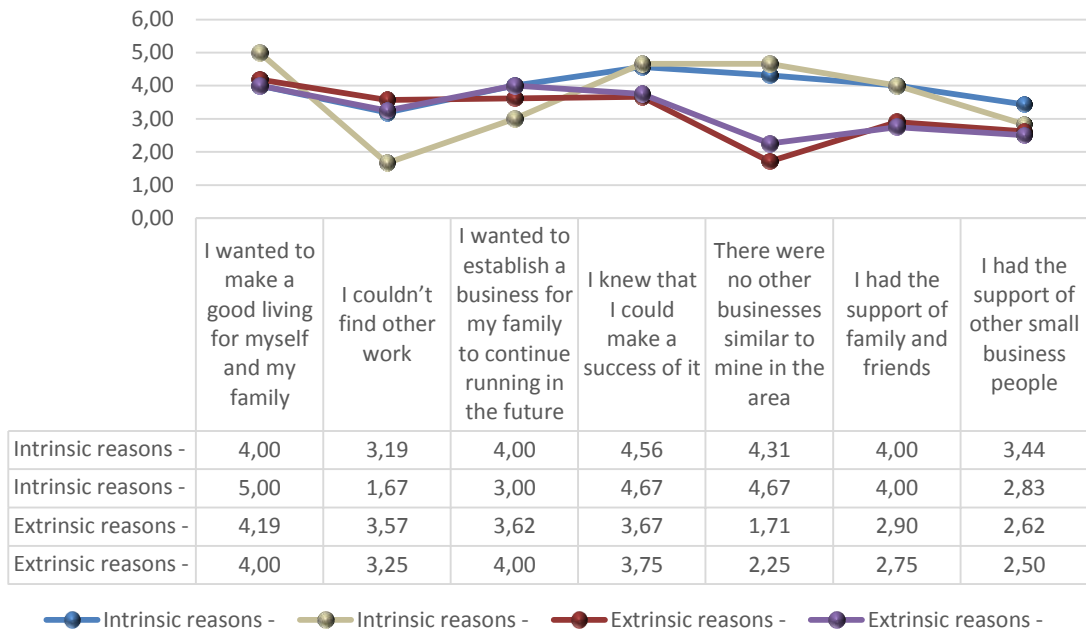


Figure 7. Motivating reason vs. type of reason BY business origin

Of those respondents who started their businesses for intrinsic reasons, those who did not start their own businesses did so much more, on average, for a good living and much less because they could not find other work than those who started their own businesses for extrinsic reasons. Also, the type of their businesses tended more to differ from those in their area than the businesses of the respondents who started their own businesses for extrinsic reasons.

Of those respondents who started their own businesses for extrinsic reasons, there was not a big difference regarding any of the possible listed reasons. Slight differences could be noted where those who started their own business tended to having done so because they could not find other work compared to those who acquired an existing business.

Their type of business also tended less to differ from those in their area compared to those respondents who did not start their own businesses.

Summary

Starting a small business is a big step and a daunting task. A prospective small business owner can be driven to start a small business by external or internal motivators also referred to as extrinsic and intrinsic motivators. Extrinsic motivators come from outside, an external reward that follows certain behaviour - such as losing a job, desiring power, money, status, recognition, or not being able to find a job and so on. Intrinsic motivators come from inside, for example having a personal interest in the entrepreneurial task in order to express themselves, wanting to accomplish something in the community, or establishing a business for the family to continue running in the future.

Based on the findings of this study that considered a set of possible reasons that are generally quoted when business owners are asked why they started their businesses, it is clear that SMEs do so for different reasons. Descriptively it was clear that, on average, whether a respondent started their own business or acquired an existing business, has an effect on the motivating reasons for starting a business. However, the dataset lacked the statistical power to support significant mean differences.

Having identified two natural groupings among the respondents regarding their agreement scores with statements about possible reasons for starting a business, the type of motivating reasons indicated by the groups tended to correspond with either intrinsic or extrinsic reasons for starting a business. It is recommended that after an SME starts a business, the business owner should seek professional assistance, for example by listening to motivational speakers and attending courses on motivation to enforce the intrinsic and extrinsic driving forces and keep themselves focused.

Given the small sample size, the results provide a general indication why SMEs are started or acquired by business owners in South Africa. Further research in this area is recommended as well as research into the intrinsic and extrinsic driving forces that keep SME owners going against all odds.

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