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**Poverty Alleviation: Intervention, and Designing  
and Developing a Survey Instrument for  
Investigating the Effect of Entrepreneurial Skills  
on the Successfulness of a Small Business**

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# Poverty Alleviation: Intervention, and Designing and Developing a Survey Instrument for Investigating the Effect of Entrepreneurial Skills on the Successfulness of a Small Business<sup>1</sup>.

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## Abstract

This is a long-term poverty project with a two-fold aim of intervening and thoroughly investigating the effect of education (i.e. entrepreneurial and managerial skills) on the successfulness of a small business in Wallacedene in the Western Cape Province of South Africa. An entrepreneur centre will be established in Wallacedene, which will provide consultative and training services to the people in order to help them to do their businesses more profitably and/or start a small business. A statistical survey was carried out to obtain a base data set for future reference purposes. The data were analysed to find the factors that affect small businesses in the area. The results indicate that, in general, the levels of education of the entrepreneurs in Wallacedene are relatively low (averaging at grade eight) and that the education of an entrepreneur plays a major role in the performance of a small business in Wallacedene. The other important factor is working capital, as expected.

The policy implication is that human capital development and financial assistance should be encouraged. This might go a long way in creating jobs and alleviating poverty in Wallacedene.

**Key words:** Poverty alleviation, Wallacedene, Western Cape Province and Small business

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## 1 Introduction

It is common knowledge that poverty alleviation is high on the national government's agenda of the major issues that have to be dealt with and, indeed, a lot of time and money have been and are being spent to achieve it. The GEAR strategy is intended to address the income inequalities in the South African economy hoping that in the long run, there will be sustainable economic growth and job creation (Motloung and Mears, 2002). However, the poor people in the country are still struggling and are even, on average, becoming poorer and poorer with time. It is high time some thing drastic was done to change the status quo.

For poverty alleviation to take place, there must be an analysis of the causes of poverty that affect a particular people in their own particular situation, which should preferably be carried out with the active participation of the people themselves (Burkey, 1993:12). Burkey (1993:205) argues that poverty alleviation must be a self-reliant participatory development - that this should be an "educational empowering process" in which people in partnership with each other and with those able to assist them, identify problems and needs, mobilize resources to plan, manage and control and assess the individual and collective activities that they themselves decide upon. This is a "Participatory Action Research."

After a poverty study, which was done in Wallacedene by Serumaga-Zake, et al. (2002), it was decided that a scientific intervention be engineered by the authors in the area. This is a long-term participatory action research project intended to help the poor to uplift themselves economically. It is aimed at (1) helping the poor people to create their own jobs through small businesses and (2) thoroughly investigating the effect of education and training (through equipping them with entrepreneurial and managerial skills) on the successfulness of a small business in Wallacedene. The statistical methodology that will be used in this study will produce a more precise estimate of the effect of education on business performance than those normally obtained by employing the usual survey methodology (such as the one used in this research paper).

Wallacedene is one of the poorest squatter camps in the main city of the Western Cape Province, Cape Town. It is located about 20 kilometers from the centre of Cape Town. Its household population is estimated to be 9000 – counting one household for one shack. This is a very conservative figure considering the fact that some shacks accommodate more than one household. It was formed between 1985 and 1989 soon after the city council had cleared the trees in the area. The community was selected for the study because of its proximity to the University of the Western Cape to cut on the costs. Wallacedene ranks number 43 out of 647 communities in the Western Cape ordered from the poorest to the richest (Miller, 1999). An entrepreneur centre is to be established in Wallacedene, which will provide consultative and training services to the people of Wallacedene in order to help them to run their businesses more profitably and/or help them to start a small business. The departments of: Statistics, Social Work, Economics and management of the University of the Western Cape will be involved; they will serve as valuable sources of technical and scientific expertise. Regarding initial capital, the centre

will advise potential entrepreneurs on how to access financial support from government and private organizations or non-government organizations.

Another community in the Western Cape, with a similar socio-economic environment (assuming the same political environment) will be identified for a control treatment. Every year, data will be collected from the Wallacedene community as well as from the other community for a comparative statistical analysis. This is a quasi-experimental research, an action research, the success of which will open the door for a large-scale consultation service to the poor throughout the Western Cape Province. In other words, if the Wallacedene entrepreneur centre succeeds, centres of a similar nature will be established in other areas of the province where the poorest of the poor live. This kind of intervention is similar to those done in some developed countries such as United States of America (see for e.g., Brooks, 1986; Bernier, 2003).

To kick-start the project, a statistical survey on entrepreneurship was conducted in Wallacedene to obtain a base data set for future reference purposes and to find the factors that affect the performance of a small business in Wallacedene. Due to scarcity of money a similar survey has not been done yet in another area for comparison purposes as suggested earlier. This paper presents some of the important results of this survey. Section two discusses the methodology used and section three the results and a summary of the study.

## **2 Methodology**

Initially, a statistical survey was done to investigate poverty in Wallacedene (see Serumaga-Zake, et. al., 2003). This study resulted into a great need for an intervention and a further poverty alleviation investigation in the area. Another statistical survey was then organized - which was carried out in Wallacedene by five Masters students from the University of the Western Cape - supervised by one of the principal researchers. Data were collected from the entrepreneurs (or owners of small businesses) in Wallacedene using a partly structured questionnaire. These data were supplemented by five focus group discussions. The survey took about four weeks spread over a period of four months, that is, from November 2003 to February 2004. By "small business" we mean a business with a total number of employees of less than or equal to 10 including family members. Most of the businesses (92.5%) were employing less than or 2 employees. The enumerators interviewed every entrepreneur they came across because there were relatively few small businesses in the area. So, no sampling technique was employed. A total of 243 entrepreneurs were interviewed. The entrepreneurs themselves were the respondents – they were the people who were actually interviewed. Only 9.5% of these businesses were registered.

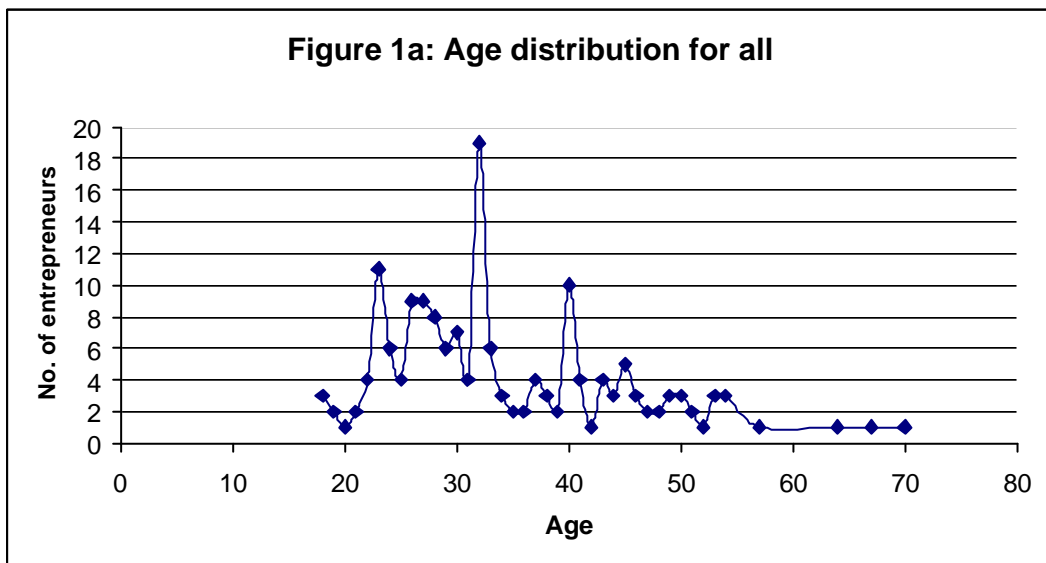
The data were analysed by using STATA. Descriptive statistics were done and a regression model of business performance on age, education and working capital (proxied by the value of the materials used) was fitted. The level of education was measured in terms of the highest grade passed or reached at school. The following were the results (section three).

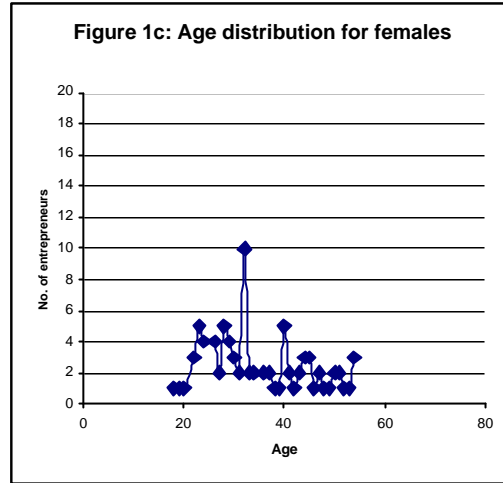
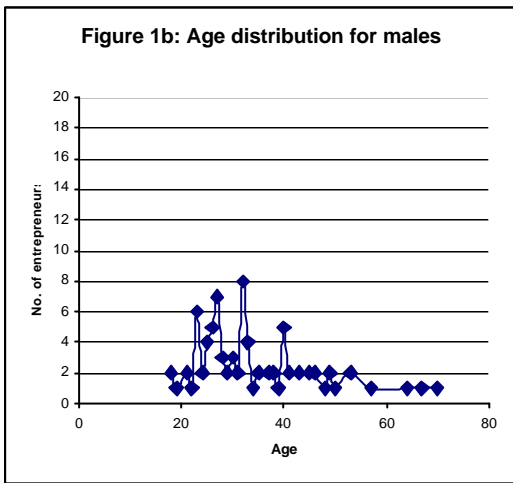
### 3 Results

#### 2.0 Descriptive Statistics

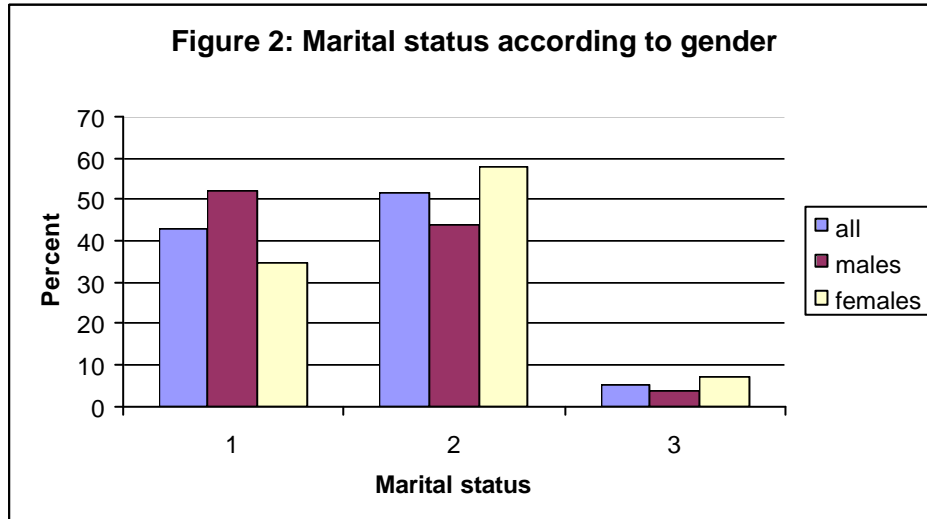
Out of 243 respondents, aged between 15 and 70 years, 122 (51%) were men. The sample consisted of 233(96.5%) blacks, 7(3%) coloureds and 1(0.5%) entrepreneur from another ethnic group. All were South African nationals. The discrepancy in the numbers is due to missing information. The majority 142(60%) were migrants from the Eastern Cape Province, 89(38%) were local and a few 4 (2%) had originated from other provinces. Most of the respondents had a very poor family background - they inherited poverty from their parents. Relatively a large number of their fathers (40%) work/worked in the mines and most of the mothers (about 61%) are/were domestic workers. The average education level of the parents, regardless of gender, is/was (in case they died) grade five.

According to Figures 1a, b and c, the majority of entrepreneurs were between ages 20 and 50. The age distributions of the males and females are similar. The average age of the females was 35 years and that of the males was 34 years. The maximum ages were 54 and 70 for the females and males respectively. The overall average age was 34 years.





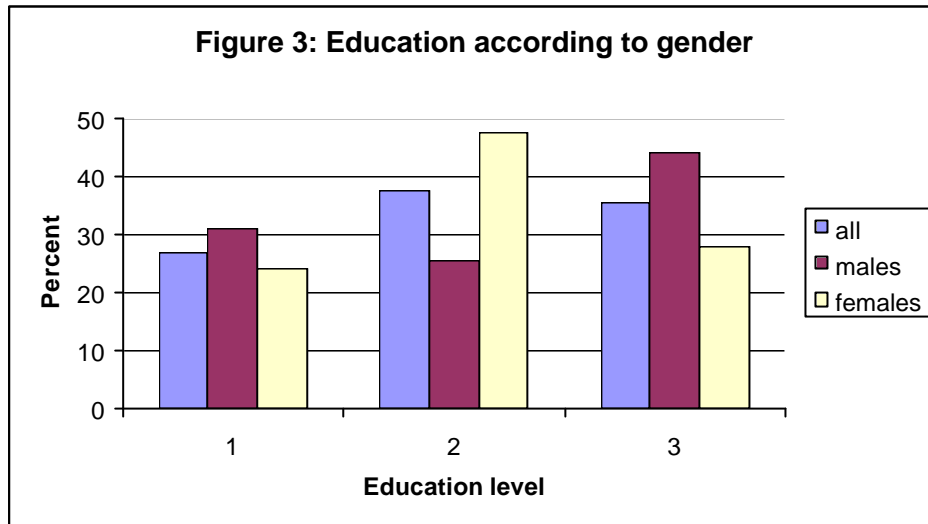
The majority of the male entrepreneurs (52%) was single or had never married before, whereas most of their female counterparts (58%) were married. Figure 2 shows the distribution of marital status of the entrepreneurs according to gender. It was not possible to know the number of married women who were staying with their husbands and that of married women who were not.



Note: 1=Single, 2=Married and 3=Other

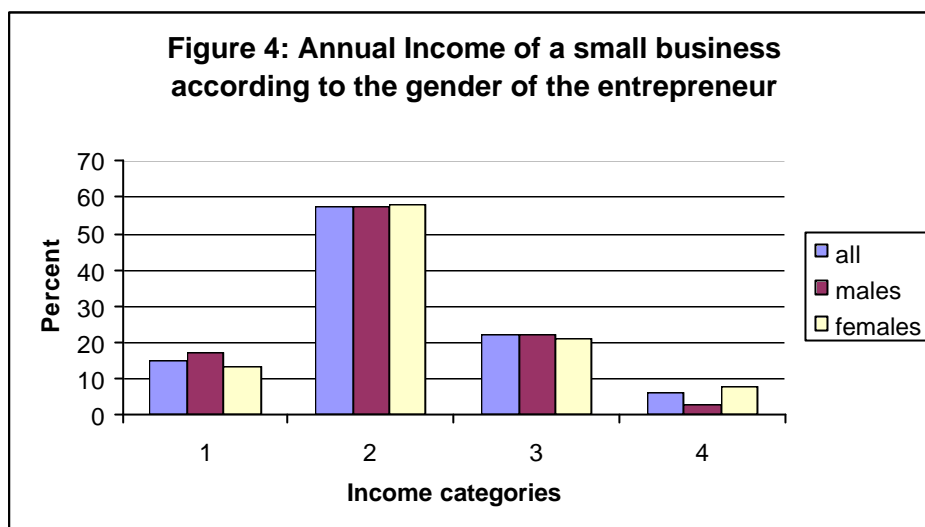
The entrepreneurs were of relatively low education – averaging at grade eight for both genders. Figure 3 shows the distribution of education in terms of primary education (1), middle school or junior secondary education (2) and senior secondary education (3). It is indicated that education levels varied according to gender. It seems that, on average, the males were more educated than the females. For example, 44% of the male entrepreneurs

went up to secondary education level whereas 28% did in the case of females. This may have been due to gender discrimination that has ruined women, in general, for decades.



**Income**

Seven observations with extreme values of annual income (of a small business) of between R50000 and R100000 were excluded from the data analysis because of being regarded as outliers. Five categories of annual income were formed as follows. Category 1 – less than R501, category 2 – between R500 and R10000, category 3 - between R10000 and R25000 and category 4 between R25000 and R50000 inclusive. Some businesses made relatively very little money (e.g. less than R500 per annum) because they did not sell a thing on some days. Figure 4 indicates that most small businesses earned between R500 and R10000 a year, and that their incomes did not vary significantly according to the gender of an entrepreneur.



This is a bit surprising - one would expect the males' businesses to be more profitable than those of the females since, on average, the male entrepreneurs were more educated. This might possibly have been due to the fact that the females who were less educated were older and/or had more experience in running a business than the males who were more educated (because the females stopped studying earlier to work or do a business). Work experience is regarded as learning or training on the job and is thus another form of education. So the effect of education on business performance may have been confounded with age and/or work experience.

### Types of business

Table 1 demonstrates that most businesses were of hawking (33%), small grocery shops (26.5%) and taverns or shebeens (17%). Hawkers sell commodities like maize, fruits and vegetables, sour milk, suitcases, socks, sweets and biscuits. Figures 5 to 8 show some of the small businesses in Wallacedene. For the chicken business, the entrepreneurs said that their hens were dieing of a disease they did not know, so they had to slaughter and sell them in relatively large numbers unfortunately at a loss because they had to cut the price.

Figure 5: A glossary shop



Figure 6: A hawker's business



Figure 7: A chicken business



Figure 8: A food business (i.e. fried chicken and other commodities like sweets)



It is shocking to realize the number of taverns existing in a relatively small area. This phenomenon needs a special investigation.

**Table 1: Type of business and performance according to the gender of an entrepreneur**

Type of business	No.	%	Median Income	Median Age	Median Education (Grade)	Median Income	
						M	F
Hawking	64	33	5500	30	9	6000	5000
Small grocery shop	51	26.5	5600	35	8		
Tavern/shebeen	32	17	5000	39	7.5	5000	6700
Service	23	12	6500	30	10	7000	2000
Butchery	17	9	2000	30	8	5500	6000
Small restaurant	3	1.5	500	32	9	850	2500
						400	5000

According to the table, the most profitable businesses are service, shop, hawking and tavern/shebeen. It is interesting to note that for selling liquor, males were doing far better than females but it was the other way round when it came to running a butchery or a restaurant. The results seem to indicate that younger entrepreneurs tended to be more educated and more likely to be hawkers or do service businesses than their older counterparts. These are likely to be the unemployed youth, some times fresh from school; when they graduate or drop out of school, they try to find jobs and when they fail to get them, they resort to doing odd jobs or small businesses (most likely) in the informal sector. It is also indicated that businesses such as owning a shop and selling liquor needed people who were mature and who had worked for some time to accumulate enough capital to start a business.

#### **Problems that cause businesses in Wallacedene to closedown**

The respondents who had closed down their businesses before were asked what caused them to do so. They gave the following reasons: lack of credit (30%), lack of business (19%), customer credit (4.5%), crime/robbery (3%) and many other minor ones including lack of goodwill (56%). They reiterated that they did not have any kind of business support, they could not compete with supermarkets nearby and that customers always wanted to buy on credit but they did not pay. They also said that culturally, people in the community are jealousy – they do not want other people to succeed in life and that crime and robbery at gunpoint, especially during the closing time in the evening, was rampant.

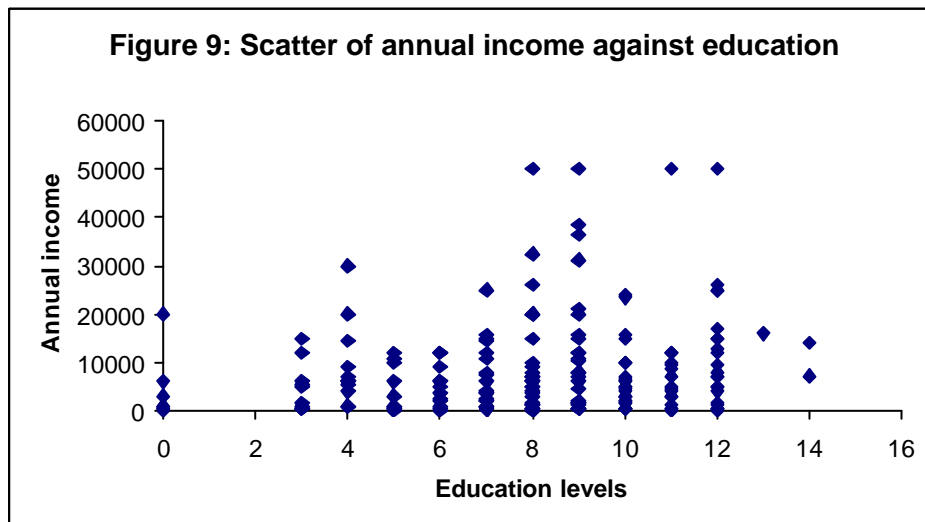
#### **Focus group discussions**

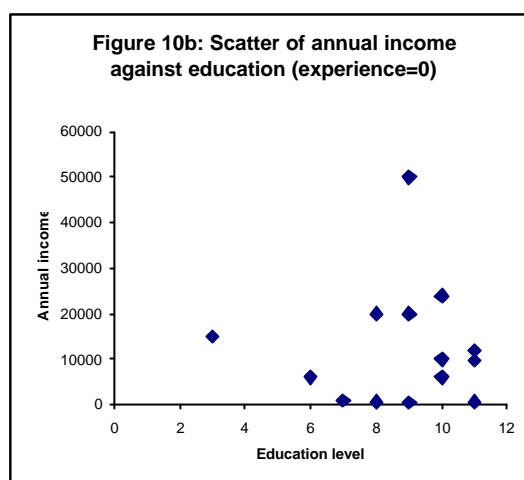
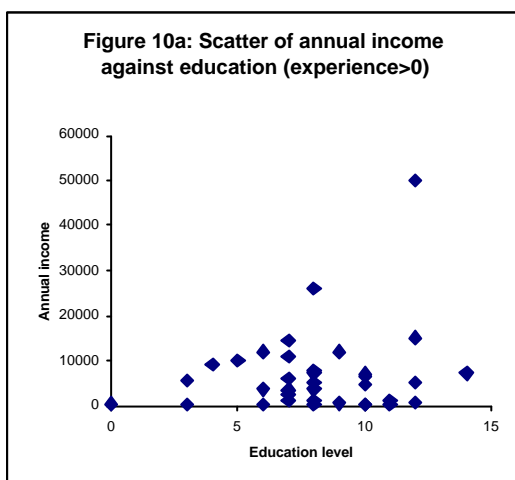
Five focus group discussions were held to obtain in-depth information about doing a small business in Wallacedene. The participants, in general, said that they did not get any business assistance whatsoever from anywhere, be it financial or technical. The major problems they raised were: lack of business skills, lack of goodwill/unity, jealousy with no spirit of competitiveness, lack of equipment (especially for businesses like that of fixing cars), credit buying (creditors do not pay), and crime and robbery - in that order.

### 3.2 Regression analysis

Regression analysis was done to find out the important factors that affect the performance of a small business in Wallacedene. Specifically, this was done to test the hypothesis that the education of an entrepreneur is a major factor of business performance. Hence, business performance was the dependent variable of the regression model. It was proxied by the annual income (value added) of a small business. The other factors that were included in the model are the age of an entrepreneur and working capital (approximated by the value of the materials used).

Figure 9 indicates that business performance, on average, increased with education until grade eight, and then it decreased with more education. This may be misinterpreted to mean that from grade eight on wards, the education of an entrepreneur lowered business performance. It is interesting to note that there was some kind of a tradeoff between formal education (i.e. schooling) and work experience in that, people with more formal education had less work experience and vice versa. This means that the entrepreneurs who had more or better (less or worse) formal education started working later (earlier) than those who had stopped schooling earlier (later) hence having less (more) working experience. Figures 10a and b seem to demonstrate that small businesses whose owners had less formal education but with some work experience tended to have more or less the same income as those whose owners had more or better formal education but with no work experience. They also indicate that, in general, entrepreneurs with work experience proportionately had less formal education than those without it. Bearing in mind that work experience is another form of education (i.e. informal education), the implication is that, on average, the education of an entrepreneur increases a small business performance.





For the regression analysis, three dummy variables were formed for the ages of the entrepreneurs as follows. Dummy variable age1 included ages from 15 to 34, age2 from 35 to 54 and age3 from 55 to 70. The results of the regression analysis are shown in Table 2.

**Table 2: Results of the regression analysis**

<i>Dependent variable=Log of annual income</i>		
Variable	Coefficient	P> t
Intercept	7.665	0.000
Age2 (35-54)	-0.335	0.150
Age3 (55-70)	0.484	0.105
Middle School	0.506	0.049
Senior Secondary	0.351	0.179
Working capital	0.755	0.001
Adj-RSQ	0.09	
No	179	

The results indicate that education and working capital influence business performance in Wallacedene. Surprisingly, “middle school” education is the only one, which is significantly different from primary schooling and most beneficial as far as business performance is concerned. This might imply that people prefer work experience or informal education to “senior school” education as far as running a small business in Wallacedene is concerned. This excludes those who drop out of school because they do not have money to pay school fees. Relatively few entrepreneurs indicated whether they had previous work experience or not so this variable was not included in the model - including it would have reduced the total number of observations used in the analysis terribly. Some of the effect of work experience on business performance therefore may have been included in that of formal education.

According to the regression model, business performance increases with increases in the education of an entrepreneur and working capital, as expected. For example, on average, if an individual with primary school education went back to school and studied up to the middle school level, his/her business would perform about 51% better, holding other factors constant. The regression model explains 9% of small business performance in Wallacedene.

### **Conclusion**

It has been found that the education of an entrepreneur and working capital are important factors of a small business performance in Wallacedene. The policy implication is that human capital development and financial support for entrepreneurs in Wallacedene should be encouraged to promote small businesses in the area. This might go a long way in helping to create jobs for the people in order to alleviate poverty.

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