

Starting One's Own Business – What Motivates Entrepreneurs?


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ABSTRACT

The purpose of this study was to determine the factors that motivate and challenge people when starting up their own small business. This paper includes the challenges that entrepreneurs encounter, advantages and disadvantages of owning one's own business, as well as highlighting the factors that are important to succeed in owning one's own business. The study was quantitative in nature and made use of an online survey questionnaire to collect data from entrepreneurs and potential entrepreneurs in KwaZulu Natal, South Africa. The results indicated that the most motivational factors include the desire to pursue a business idea and that they want to be their own boss. The results further highlighted that the main challenges for small business owners are financial in nature as well as support from the government.

Keywords: Entrepreneurs; Small And Medium Enterprises; Motivation; Challenges

INTRODUCTION

 Small businesses form the cornerstone of many economies. However, it is a known fact that very few companies start off big and, similarly, very few small companies grow into large multinationals. It is therefore important to define the difference between a small and medium-sized enterprise. There is no universal definition for either of these two types of businesses.

In the USA, for instance, the Small Business Administration (SBA, 2012) defines a small business as "... one that is independently owned and operated, is organized for profit, and is not dominant in its field". Depending on the industry, size standard eligibility is based on the average number of employees for the preceding twelve months or on sales volume averaged over a three-year period (The U.S. Small Business Administration, 2014). A small business in Europe is one that is independent and has less than 250 employees (European Commission, 2014). In South Africa, the accepted definition for a small and medium sized enterprise is "...any entity, whether or not incorporated or registered under any law, consisting mainly of persons carrying on small enterprise concerns in any economic sector, established for the purpose of promoting the interests of or representing small enterprise concerns, and includes any federation consisting wholly or partly of such association, and any branch of such organisation ..." (South Africa, 2003). Small and medium enterprises usually have less than 200 employees.

Against this background, this study has been undertaken and the focus will fall on reasons as to why these businesses were started.

DISCUSSION

Small And Medium Sized Enterprises: Its Place And Role In The Economy

The place and role of small and medium sized enterprises in the economy of any country, and its impact on job creation, cannot be disputed. Forbes (2012) states that the role that small businesses play in the U.S. economy is sometimes understated; however, there is nothing small about the impact that small businesses have on their economy. According to the U.S. Small Business Administration (2014), small businesses provide 55% of all jobs in

the United States. In Australia, small businesses account for almost half of the employment in the private sector and over one-third of production (Reserve Bank of Australia, 2012). As is the case in these countries, South Africa also regards small businesses as important drivers of economic growth, job creation, and black economic empowerment. The economic growth, the creation of employment, and the alleviation of poverty in South Africa have been linked to the growth of small businesses.

As a result of the significance and importance of this sector, small and medium enterprises (SMEs) in South Africa have received significant consideration and investment over the past number of years from government, ranging from the establishment of state-initiated projects to supportive legislation, a variety of funding institutions, and government incentives through the Department of Trade and Industry (DTI).

Given the support and assistance provided to numerous small businesses and the significant role it plays in the economy, many unemployed and employed people have taken the step to start their own business. Being self-employed is a trend that is increasing in South Africa, and apparently worldwide. The number of small businesses started in the USA, for example, was 27.9 million in 2010 (SBA, 2012), while in South Africa, there were 5.9 million in 2010 (Finmark Trust, 2010).

In South Africa, SME's make up 55% of all employment (Van Scheers, 2011) which equates to 19.2 million jobs of all employed people (Adcorp, 2012). Currently, 5% of the South African population is carrying the remaining 45% economically and, therefore, entrepreneurship is seen as the only way to have a sustainable economy in the future (Germishuizen, 2012).

The economic downturn and resultant worldwide depression that started in 2008 has still not been overcome and many economies are still struggling in 2014. Spain's rate of unemployment and upsurge of poverty is now at its slowest since the global financial crisis in 2008. However, unemployment is still an immense issue, with 26.3% in their second quarter (Harress, 2013). Similar to Spain, several European countries that broke free from the recession are still trying to recover from unemployment and massive public debts. Even though South Africa's economy has performed well and remains stable, unemployment is still a great challenge, particularly among the youth (SABC News, 2013).

This economic downturn has led to many international crises, including huge financial bailouts for European Union members such as Greece and Portugal. Millions of people all over the world lost their jobs, with unemployment figures in the USA, Europe and South Africa reaching record levels. The result was that many people started their own businesses - not because they all wanted to but because they had to. Not all were equipped to successfully run their businesses and added to this was the introduction of the National Credit Act. Credit allows consumers to spend money they don't really have and to spend more money than they make. Consumers make use of credit even when they have cash and then they make new debt to pay off old debt. The National Credit Act (35 of 2005) is part of a complete regulation overhaul intended to guard the consumer in the credit market (The Banking Association, 2013). This placed restrictions on lending criteria and banks have become extremely strict in assessing self-employed applications.

Reasons For Starting An Own Business

Various studies have been conducted as to the reasons why people start their own businesses and it has been found that there is a high level of similarity between countries. For instance, studies conducted in the United States, United Kingdom and Australia indicated the following most popular reasons for starting their own business (Smith, 2007): 59% because they wanted to be their own boss, 50% had a desire to pursue a business idea, 50% because of their financial ambition, and 44% took advantage of an opportunity that emerged in the marketplace. More than one-third (36%) said they were frustrated with how big companies operate, while 15% of business owners said that their previous employer did not provide them with adequate opportunities. Only 1% of respondents inherited a family business.

Other reasons respondents gave as to why they started their own business include the following (Smith, 2007):

- Being laid off and the aspiration “to make things, to improve the world”
- A wish to live their own lifestyle
- Miss-match between the values, goals, and ambitions of the entrepreneur and their employers – they find themselves motivated to go on their own and start their own business

From the above findings, it can be inferred that the desire to “be my own boss” is the most mentioned reason selected by these business owners for starting their own business. There is a clear force among these business owners; that is, to be self-determining and in charge of their own future. Such studies have not yet been done in South Africa; therefore, this study will investigate and identify the reasons why South African small business owners started their own businesses.

Advantages And Disadvantages Of Owning One’s Own Business

As indicated above, having one’s own business is not always easy or a guarantee for success. Numerous people say that they want their own business; however, they have no idea how complex such a task is. Having your own business is nothing like just having an ordinary job and most people’s experiences come from having a job and working for somebody else. Any person can decide to start their own business; however, not everyone will be fortunate enough to succeed. In exchange for the opportunity of owning one’s own business, one gives up benefits that every day employees take for granted, such as a job term, a regular salary, paid vacations and sick leave, plus the ability to leave your job behind at the end of the day. There are a number of advantages and disadvantages associated with owning a business.

The following are advantages and disadvantages of owning one’s own business (Kishel & Fisher, 2005):

Advantages

- Control - The authority to make decisions rests with the owner of the business.
- Creative freedom - Your ideas and talent can be freely expressed.
- Profits - The more successful your business, the more money you can put in your pocket.
- Job security - You can’t be fired, laid off or forced to retire.
- Pride - Knowing you built your business with your own efforts.
- Wealth - Opportunity to create an asset that you can borrow against, sell or pass on to someone else.

Disadvantages

- Investment at risk - If the business fails, you could lose your entire investment.
- Long hours – 12-hour days are needed, especially in the beginning, to get the business going.
- Fluctuating income - Instead of reliably receiving a steady pay check, you depend on the ups and downs of the business.
- Responsibility - The freedom to make your own decisions carries the risks of standing by them.
- Pressure - There’s always pressure to please consumers, payroll, and suppliers/creditors.
- Regulations - You must abide by the local laws and safety stipulations.

Characteristics Of An Entrepreneur

According to Robinson (2014), entrepreneurs have different qualities than commercial managers, including tenacity, passion, tolerance, vision, self-belief, flexibility, and rule-breaking (Robinson, 2014). Entrepreneurs have to be able to deal with uncertainty and push through various complications. They also need a powered passion for their product and service. The skill to spot an opportunity that no one else sees is also a defining characteristic of an entrepreneur, together with self-confidence to be positive that your product or service is something that the world needs.

Previous research has shown that individuals who possess certain characteristics, such as motivation, confidence, willingness, and vision, are more likely to succeed in their own business than those who fall short of these characteristics (Kishel & Fisher, 2005).

RESEARCH METHODOLOGY

Purpose Of Study

A questionnaire was developed for this study in determining the motivations and challenges for starting your own business. The questionnaire mostly incorporated questions that are of quantitative nature. An online survey questionnaire (Survey Monkey) was used to collect the data from entrepreneurs and potential entrepreneurs in the South African province of KwaZulu Natal. A sufficient number of questionnaires were sent out for a confidence level of 95% and a confidence interval of 10. A total of 39 usable responses were received, giving a 95% confidence level and a 14.8 confidence interval at 50%.

The demographic profile of the respondent group is presented in Table 1. It is clear that the respondents are predominantly female (64.1%), African (85%), and 82.5% (45% + 37.5%) are younger than 40 years of age or younger. Most respondents (82% = 12.8% + 43.6% + 17.9% + 7.7%) have post-school qualifications and 54.1% already do have small businesses. A proportion of 45.9% respondents are planning to start their own businesses. The sample thus has an approximate equal proportion of existing and potential entrepreneurs.

Table 1: Demographic Profile

Gender	N	%
Male	14	35.9%
Female	25	64.1%
Business status		
Own business	20	54.1%
Planning to start-up own business	17	45.9%
Age category		
21-30	18	45.0%
31-40	15	37.5%
41-50	5	12.5%
Older than 50	2	5.0%
Race category		
African	34	85.0%
Indian	3	7.5%
White	3	7.5%
Level of education		
Did not matriculate	1	2.6%
Grade 12	6	15.4%
Certificate only	5	12.8%
Diploma only	17	43.6%
Undergraduate degree	7	17.9%
Post graduate degree	3	7.7%

RESULTS

Motivation For Starting An Own Business

Respondents provided their view on motivation on a scale of low, medium and high.

Table 2: Motivating Reasons

Motivating Reasons	Motivation Rating		
	Low	Medium	High
Desire to pursue a business idea	7.50%	7.50%	85.00%
I have the skills for the business	7.89%	10.53%	81.58%
Want to be my own boss	5.13%	15.38%	79.49%
Financial ambition	10.00%	22.50%	67.50%
Took advantage of an opportunity that emerged in the marketplace	20.51%	20.51%	58.98%
Lack of opportunity with previous employer	35.90%	25.64%	38.46%
Have no alternative income source	62.16%	13.51%	24.33%
Frustrated with how big companies operate	30.77%	46.15%	23.08%
Do not have a job	65.79%	18.42%	15.79%
Invited to run someone else’s business	81.08%	8.11%	10.81%
Inherited a family business	86.49%	8.11%	5.41%
Retrenched	94.44%	2.78%	2.78%

The top motivating factors are:

- Desire to pursue a business idea (85%)
- I have the skills for the business (81.58%)
- Want to be my own boss (79.49%)

The least motivating factors are:

- Retrenched (94.44%)
- Inherited a family business (86.49%)
- Invited to run someone else’s business (81.08%)

It may be observed that the top motivating factors are predominantly positive and include financial ambition, independence, and application of skills.

“Inheritance of family’s business” and “Invitation to run someone else’s business” may not be applicable to the respondents, hence a low motivation score allocated to these items. “Retrenchment”, “Do not have a job”, and “No alternative source of income” are decidedly not motivating factors to start one’s own business. The latter may be considered demotivating and possibly these respondents may be unaware of the opportunities that do exist for entrepreneurs.

Challenges In Starting Up A Business

Respondents provided their view on challenges on a scale of low, medium and high.

Table 3: Challenges Of Starting Own Business

Challenges Starting Own Business	Challenge Rating		
	Low	Medium	High
Getting funding	10.3%	15.4%	74.4%
Providing security to banks	26.3%	21.1%	52.6%
Lack of government support	29.0%	21.1%	50.0%
Finding the right premises	26.3%	26.3%	47.4%
Time available to do proper planning of the business	20.5%	33.3%	46.2%
Lack of available qualified staff	32.4%	24.3%	43.2%
Being able to compete with larger companies with prices	34.2%	23.7%	42.1%
Lack of experienced staff	35.1%	24.3%	40.5%
Securing suppliers	34.2%	31.6%	34.2%
Lack of marketing knowledge	29.0%	39.5%	31.6%
Lack of knowledge of the business	48.7%	24.3%	27.0%

The three top challenges facing entrepreneurs/potential entrepreneurs are as follows:

- Getting funding (74.4%)
- Providing security to banks (52.6%)
- Lack of government support (50.0%)

The least challenging factors, with the highest scores of low, are as follows:

- Lack of knowledge of the business (48.7%)
- Lack of staff experience (35.1%)
- Securing suppliers (34.2%)
- Being able to compete with larger companies with prices (34.2%)

Investigation Into The Relationships Between Motivating And Challenges In Starting Up A Small Business

A series of one-way Analysis of Variance (ANOVA) statistical tests were employed to determine whether there were significant statistical differences between the mean critical scores of high and low motivating factors. No statistical evidence could be found.

A series of one-way Analysis of Variance (ANOVA) statistical tests were employed to determine whether there were significant statistical differences between the mean critical scores of high and low challenging factors. No statistical evidence could be found.

A Chi-Square test of association was also conducted between the Motivation factors (low and high) and the Challenging factors (low and high).

No association could be found at the 0.05 level of significance:

(Chi-Square value=0.094, DF=1, p-value =0.7593)

Figure 1 displays the Motivating and Challenging groups.

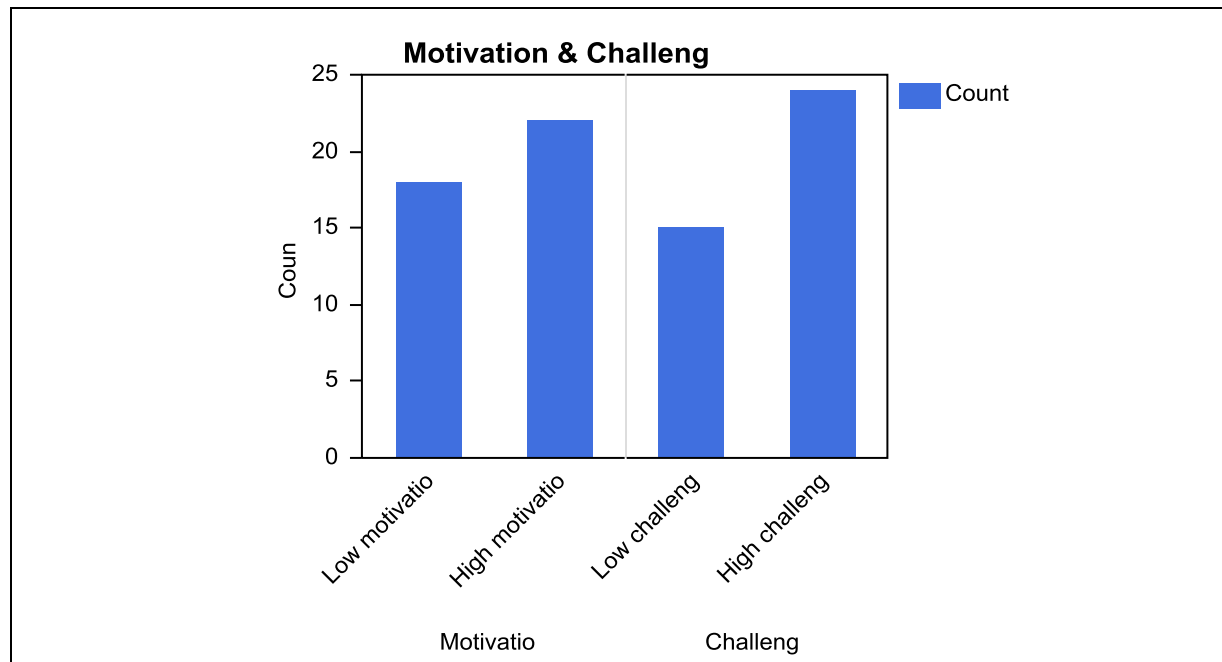


Figure 1: Motivation And Challenges

Investigation into the influence of the biographic profile of respondents upon the Motivating and Challenges, revealed:

- Whether respondent is an existing small business owner or a potential owner
- Gender
- Age
- Level of education

A series of Chi-Square tests of association were conducted between motivating factors and challenges facing the business owner in starting up a small business and the biographic information of the respondent at the 0.05 level of significance. No statistical evidence of any association could be found.

CONCLUSION

A small, medium and micro enterprise (SMME) in South Africa is any business with fewer than 200 employees and an annual turnover of less than R5 million, capital assets of less than R2 million, and the owner is directly involved in the management of business (Mago & Toro, 2013).

The study revealed that most small business owners in KwaZulu Natal established their businesses due to desire to pursue a business idea (85%), as well as possessing the skills to conduct business (81.58%) and wanting to be their own boss (79.49%). The least motivating aspects are retrenchment (2.78%), inheritance of a family business (5.41%), and an invitation to run someone else's business (10.81%). The main challenges for the small business owner are of financial nature; i.e., getting funds (74.4%) and providing security to banks (52.6%), as well as support from government (50%). The results, in terms of financial challenges, support research findings undertaken by other researchers. The least challenging factors include lack of knowledge of the business (34.2%), lack of marketing knowledge (31.6%), and securing suppliers (27.0%). It is reflected in the study that there is no significant relationship between motivation and challenges in starting up a business. Furthermore, no statistical evidence of any association between motivation and challenges in starting up a business and the biographical profile of the small business owners could be found in the study.

Why it is a challenge for small business owners to obtain and secure finances wasn't researched and analysed. While operations of finance providers are beyond the control of the small business owner, it is recommended that the focus should be on aspects that fall inside his/her ambit of control, such as self-improvement, improvement of business, and managerial skills. This would be to the advantage of the small business owner as it could lead to better planning, business plans, viability studies, and preparation to obtain the necessary funds and taking the business forward. It is further recommended that the study is expanded to other provinces and to increase the number of respondents

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