



South Africa Siyasebenza

Learning Series

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Innovative Enterprise Incubation Models for Employment Generation in South Africa: The Case of Awethu Project



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The Jobs Fund is a R9 billion fund established by the South African Government in 2011. It was established to encourage innovation and give greater impetus to initiatives with potential to generate sustainable employment. The Fund aims to catalyze innovation in job creation through structured partnerships with the private and public sectors as well as NPOs by awarding once-off grants to organisations through a competitive process. The Jobs Fund operates on challenge fund principles and aims to incentivise innovation and investment in new business approaches that directly contribute to long term sustainable employment creation.



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Abstract

This paper presents the evaluation results of the Awethu Incubator Project and the lessons drawn from both the experiences of the incubatees and the incubator itself. A total of R20 million was disbursed to Awethu under the Enterprise Development Window over a period of three years. The project was expected to create 1000 new permanent jobs, 248 short term jobs and to train 1568 beneficiaries under their SME incubator programme. The evaluation found that while Awethu did not reach its contracted target of new permanent jobs, it significantly exceeded the number of contracted new short term jobs and trained beneficiaries. The evaluation also

- Pre-incubation services such as entrepreneurial training and orientation for prospective incubatees
- Human resources, personnel development or training
- Business training

The project was expected to target youth in under-resourced areas of the Gauteng province. These prospective incubatees would already have been running an informal business or had a business idea but had not yet started operating their business.

Awethu's intended outcomes for its incubatees included:

- improved business knowledge and skills in the areas of business plan development, financial planning and management;
- improved access to business opportunities and finance;
- increased growth of incubatees business turnover and
- increased sustainable employment growth and profitability as longer term outcomes.

1. Introduction

The Awethu Project is based on a business incubation model that targets aspiring entrepreneurs, trains them and mentors them to success. Awethu provides the following standard incubator services:

- Marketing assistance (advertising, promotion, market research, market strategy)
- Assistance with accounting or financial management
- Provision of mentors
- General business advice
- Training, seminars, and/or workshops
- Broadband connections
- Office equipment
- Telephone network and hardware

1.1 Approach

Awethu used an integrated marketing approach to attract a large number of applicants. Mass media marketing channels were used to generate awareness of the project so as to encourage applications. Talent Scouts were also deployed to recruit businesses in the townships and request potential entrepreneurs to submit applications. Awethu then utilised a selection process aimed at identifying entrepreneurial potential. The organisation did not pre-screen applicants for educational achievement, prior business experience, or access to capital. Having an

investable idea was also not a requirement for selection. Instead, the incubator required applicants to prove entrepreneurial ability through the Awethu Talent Identification Process, which is a tailored rigorous testing process aimed at identifying those with the requisite talent and work ethic to establish and run a successful business. Each applicant was required to pass through a series of practical business tests which afforded applicants a chance to prove entrepreneurial potential. These tests included the ability to complete assignments, attend meetings on time and the ability to set and meet objectives. The assessment tested entrepreneurs on whether they understood what they had been trained on and based on the assessment score, they would move through to the next round.

This was a six-month business and personal development process, which included weekly group meetings with an Entrepreneurship Team (comprising a group of incubatees and facilitated by the Incubation Coach and held on a rotating basis at incubatee business premises).

Over the course of the six months, incubatees participated in 12 two-week mentorship modules (facilitated by a host entrepreneur). Each incubatee generated a business plan, however, this process did not involve talking to potential customers to obtain inputs into the business plan.

2. Evaluation Methodology

The evaluation was carried out towards the end of the implementation of the Awethu 3-year project term. A theory driven, mixed-methods evaluation design was employed to evaluate the incubation activities of the Awethu project. Data and evidence were obtained from the following sources:

1. a literature review of international and South African incubator best practices;
2. structured interviews with the incubator managers;

3. structured interviews with the Jobs Fund managers;
4. a survey with 189 Awethu beneficiaries;
5. four focus group discussions (two with female incubatees and two with male incubatees).

3. Results

Awethu had a high number of initial applicants to select from largely due to the big enrolment campaign they had mounted. Table 1 shows the breakdown of their enrolment numbers. However, only 213 entrepreneurs representing just 42% of the number of incubatees who were enrolled in the program finally graduated from the Awethu incubation program. These graduate entrepreneurs created a total of 239 jobs.

Table 1: Awethu Client Application Breakdown

Total Number of Applications	30,278
Number of Applications Accepted into Pre-Incubation	1,641
Number of incubatees Accepted into Full Incubation	512
Number of Incubatees Graduating from Incubator	213

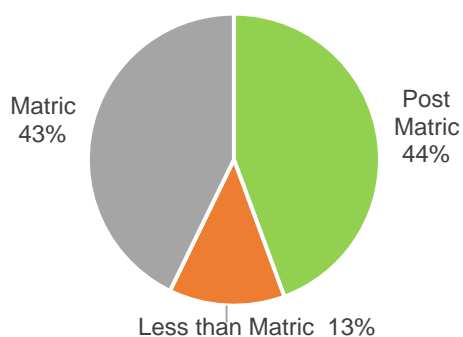
The level of education of incubatees is a good indicator of how much they can assimilate and implement from the training. The higher the level of education of the incubatee, the more advanced the content of the training can be. Out of a sample of 188 incubator beneficiaries who responded to the evaluation questionnaire, 44% had Matric level education and 43% had post-Matric qualifications. This indicates a fair level of education justifying an expectation of intermediate literacy and numeracy proficiency in the sample of incubatees on the Awethu Project. Part of Awethu's theory of change included the assumption that the knowledge and skills the incubatees acquire through the incubation would

lead to success in the business which would enable them to create new jobs. This is a reasonable assumption under normal circumstances.

In spite of this, however, the majority of Awethu respondents indicated that the incubator did not have much of an impact on their ability to create or retain jobs. This refers to jobs created by the incubatees in their businesses and not to the incubatees themselves, although the incubatees themselves were counted as a proxy for “jobs” if they made a profit of R1,500 after a period of 4-5 months.

In other words, even though the knowledge and skills gained by the incubatees enabled them to run and sustain their businesses, for most of them this did not necessarily mean they could take on employees in their businesses and create new jobs. This was a major assumption in the theory of change of the Awethu Project that did not seem to hold.

Figure 1: Highest Level of Education in the incubatees sample (N=188)



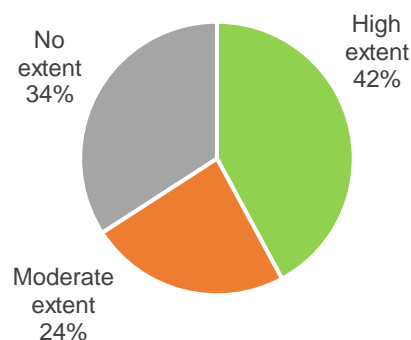
In spite of the reported inefficiency of the incubatees to create contracted number of new jobs, 66% of the respondents attributed the positive changes on a range of personal qualities to their involvement with the Awethu incubator. These qualities included the incubatees' motivation to do business, self-discipline, determination to succeed in business, confidence and self-belief, creativity, ability to keep trying

when dealing with obstacles, willingness to take risks, and ability to deal with failure (Figure 2).

4. Factors Influencing Outcomes

Due to the two-tiered nature of the model intervention, the factors influencing the outcomes of the project were analysed at both the incubator project level and the at the incubatee individual

Figure 2: Perception of Extent of Attribution of Change in Business due to Awethu Involvement



level.

4.1 Incubator Project Level factors

1. Clear Exit Criteria

The Awethu Incubator project did not have clear graduation criteria that determine when incubatees are no longer eligible for the business incubator's services. Incubatees were considered to have exited the incubator when either or all of the following conditions occurred:

- a) the business stopped trading;
- b) the business failed to pay incubator fees; and/or
- c) the business cut contact with the incubator.

It has been shown in the literature, however, that a clear upfront graduation/exit plan and criteria is important for incubatees' success (Schwartz, 2009).

2. Initial Project Recruitment Expenditure

A large outlay of resources was directed towards marketing and recruitment as well as screening of the 30,000 applicants who responded to the Awethu recruitment campaign. The challenge was that the ratio of potential incubatees with real opportunity-driven business ideas with growth potential was very small. Awethu's selection process and criteria have since evolved and become more stringent. They now require the development and presentation of a business plan before incubation.

3. Incubatee Selection

The inability of Awethu management to identify appropriate applicants with sufficient drive and motivation to make money for themselves was a limiting factor in overall project success. Awethu did not select the right incubatees and as a result, the incubator had to terminate its relationship with many of the accepted incubatees as they did not exhibit enough drive and ability to implement weekly tasks that were mutually agreed with their coaches.

4.2 Individual Incubatee Level factors

Several factors were mentioned at the incubatee level that limited the success of the trained incubatees. The following factors were the most common ones mentioned by the incubatees:

- a) Lack of family/spousal support including issues of jealousy if the business did well.
- b) Unwillingness to allow the incubatee to run their business from the residential premises coupled with the pressure to get a "normal job" as the business initiative was usually viewed as a part-time occupation by family members.
- c) Unrealistic expectations of financial support from the business turnover by family members. It was reported that such expectations led to demands that severely compromised business cash flow, financial management and even survival.

- d) Most of the incubatees had not formally registered their businesses and this was a major reason for their relative lack of access to finance and business networks, which in turn led to challenges in accessing or realising market opportunities.

5. Conclusions

In many instances Awethu's support appears to have had a positive effect on their incubatees in terms of increased turnover and profit. This has contributed to more sustainable business and income sources for those working in both the formal and informal economy. As such, the quality of informal employment was greatly improved but this did not result in higher levels of formal job creation. As a result, Awethu did not achieve its target of new permanent jobs. Many of Awethu's incubatees appeared to sustain informal employment for one or two people and not more.

The evaluation results also seem to suggest that assisting small scale entrepreneurs and informal traders to formalize their operations does not always lead to successful businesses and increased job numbers.

Awethu should focus on accurately identifying opportunity-driven entrepreneurs that are likely to be more effective provided the support, approach and services are effectively tailored to incubatee needs. A mix of interventions including personal development, assistance with access to finance, support with marketing etc. seem to be more effective than just providing access to finance.

6. Recommendations

The following recommendations are made regarding incubators and their interaction with small and informal entrepreneurs in South Africa:

1. **Incubatee selection:** it is recommended to have clear criteria and processes to select incubatees with the required personal and

behavioural attributes such as motivation, work ethic, punctuality etc.

2. **Mentorship.** Incubator management time spent with incubatees in developing action plans to address business constraints and opportunities, has been reported by incubatees as extremely important for sustainability and growth. Mentorship after incubation graduation is also very important to ensure survival of newly mentored enterprises. The large part of the value add in after-incubation mentorship lies in the networks and contacts that the mentor is able to bring to bear on the new business. This is usually crucial in gaining and maintaining access to markets.
3. **Access to finance:** Lack of access to finance for aspiring small and informal entrepreneurs is a big impediment to development and survival. Licencing incubators as financial service providers and partnering with the Small Enterprise Finance Agency (SEFA) to establish dedicated micro-funds managed by incubators is a recommendation worth considering. Awethu sought to address this problem by providing R5,000 grants to incubatees. However, it is not clear whether a grant and/or subsidised loan approach is the best approach to provide such finance. The development of an incubator-owned venture fund is a recommended good practice as it provides the incubator with the ability to provide access to finance to incubatees who are finance ready, but who are also receiving technical assistance, thereby de-risking the finance decision for the incubator.
4. **Post incubation support** is important as incubatees typically grow much faster after graduation. The real value (outcome and impact) of the incubation investment can only be measured post incubation. Many of the newer business models incorporate incubatees' sharing of success with the incubator as a form of payment for the incubation period. This is a way of ensuring contact with the incubatee post incubation.

Incubation graduates themselves are a source of role-models and support for the incubation process. Incubators should therefore always stay in touch with their incubatees after graduation so they can use them as role models.

In addition, the incubatees' transition from having incubation space to finding and occupying space outside of the incubator can threaten business sustainability. Staying in touch with the incubator can help plan for this transition. For example, a savings fund could be set up at the start of incubation to help in the transition from the incubator into the business environment. The provision of other ongoing post-incubation support functions to graduates including bookkeeping services, access to networking and marketing events, on-going mentoring (subject to agreement with mentor), and workshops on business and personal development are also seen as good practice.

6. Lessons Learnt

The 50% profit-sharing model, combined with difficult personal circumstances prevalent in the under-resourced communities were key drivers behind the high attrition rates.

Screening for high-potential entrepreneurs that exhibit strong problem solving capabilities; diligence; resilience and leadership is essential to success.

Innovative revenue-generation options in incubators including an upfront, pay-as-you-go model, and a reduced or tiered profit-sharing model is indicative for continued good relations with the incubatees.

The assumption that clients are responsive and capable of expanding their businesses due to imminent success has limitations and accompanying implications for job creation.



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