

Turnkey operations key to empowerment of entrepreneurs and SMMEs in South Africa

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The South African economy is facing some very difficult times, both locally and internationally. This statement distils widespread concerns for the future of the country and all those who live in it. The process of globalisation has unleashed changes that have affected almost every country in the world and the recent financial crisis of 2008 has further exacerbated the situation.



There is now a clarion call for a much more imaginative approach to the economic problematique. Such action, though, may not in fact require a great leap as small and medium enterprises have long been an integral aspect of official economic thinking in South Africa. National strategies have placed these enterprises at the heart of South Africa's future, with specific reference to job creation and sustained economic growth.

A focus on small, medium and micro enterprises (SMMEs) is internationally accepted and regarded as a sound imperative for economic development, especially in global emerging economies. A number of studies demonstrate that SMMEs are the key propellers of job creation. According to the World Bank, there is ample evidence to show that the contribution made by SMMEs is more pronounced in developing than in developed countries. The World Bank further claims that a robust SMME sector has the capacity to be a dynamic, transformational force since "relative to larger firms, SMEs enhance competition, entrepreneurship, job growth and spur economy-wide efficiency, innovation, growth and poverty alleviation".

Entrepreneurship is a precondition for any business. In this regard, South Africa is an underperformer. The latest report by the Global Entrepreneurship Monitor shows how far behind its peers South Africa has fallen. Given the quantum of finance injected into the development of the SMME sector, South Africa's entrepreneurial uptake has not met expectations. A lot hinges on getting South Africa's entrepreneurial culture right. Similarly, South Africa's unemployment rate is a cause of serious concern. According to conservative estimates, the country's unemployment rate stands at about 25 percent - one of the worst in the world and about four times the global rate of 6 percent. The majority of the unemployed are predominately young people and job creation is critical to their future. Entrepreneurship and SMME development therefore is crucial to the sustained economic growth of the South African economy and job creation.

In response to the dilemma that South Africa is facing in terms of the challenges spawned by poor economic growth and the unemployment problem, Regent Business School has established a Centre for Entrepreneurship. The Centre has been endowed with a R10 million grant with the proviso that it becomes a catalyst for change in social entrepreneurship and social innovation and small business development. However, mindful of the fact that both entrepreneurship and SMME development is lagging behind in South Africa, especially in terms of global standards, the new Centre is advocating for a paradigm shift in approaching the predicament relating to the poor showing of SMME development.

After a series of brainstorming sessions, the management of the institution decided that a new model of entrepreneurship and business development be introduced. In sharp contrast to the traditional western model which prescribes a set of chronological steps commencing with a business plan and ending with the formal registration of an enterprise before the formal commencement of business, the new model recommends that *inter alia* the concept of a turnkey operation (inclusive of a 'tried and tested' business plan) becomes the focal point of the centre's endeavour. The outcomes of the brainstorming

sessions also recommended that the issues of Social Entrepreneurship and Social Innovation be firmly embedded in the founding principles of the new centre. Within this context, the centre is required to empower entrepreneurship for the greater good of communities rather than individuals. This approach in itself is a significant departure from the traditional model of entrepreneurship adopted by many empowerment agencies and institutions, both in the public and private sectors.

The *raison d'être* for the introduction of the 'turnkey operation' as the hub of the new entrepreneurship centre is the premise that too much time and effort was spent on the formalities of processing a business strategy and compliance issues rather than on the practicalities of running a business. In order to exemplify the problem, in a recent exercise to empower the youth (under 35 years of age) of South Africa to become entrepreneurs, the Department of Labour in partnership with the Small Enterprise Development Agency (SEDA) provided a sum of R15 000 to each selected participant. The money was to be used to identify a possible business venture, write up a viable business plan, register the company and apply for additional finance from an independent funding agency or a bank. The majority of the candidates paid R11 000 for the business plan, and the remainder of R4000 was used for the registration of the business venture, branding, advertising and stationary needs. Indeed the majority of the participants did have a business plan written for their venture by another vendor and had their new business registered at the Companies and Intellectual Property Registration Office (CIPRO). That was as far as the empowerment process went. The majority of participants did not even know what the business plan meant and could not answer critical questions relating to financial projections and business viability when they were interviewed by potential investment agencies. The well-intentioned exercise had a very negative outcome and cast many aspirant entrepreneurs to the never-ending queues of the unemployed youth in the country.

The new entrepreneurship and small business development paradigm which RBS propounds is a significant departure from the traditional western-based model. In the first instance the new social entrepreneurship and social innovation paradigm insists that the business venture should assist and contribute towards the overall empowerment of a collective rather than just an individual. In this way the new model for entrepreneurship contributes to the gainful employment and skills development of more than one person. Secondly, and perhaps more importantly the new model prioritises the mission and intrinsic value of social responsibility. In proverbial terms, each member of a collective becomes 'his brother's keeper'.

Why the 'Turnkey Operation' as the underpinning for the new entrepreneurship and business development model? Generally when an aspiring entrepreneur decides to establish a new business venture, he or she needs to go through a chronological set of procedures, i.e. deciding on the nature of business to be established, writing up a business plan, registering the new venture and complying with the necessary official requirements, norms, regulations and laws of the country. Once these 'official' pathways have been traversed, the aspirant entrepreneur needs to seek finance for the entrepreneurial project, identify a suitable venue for the enterprise and decide, if necessary, and establish through research what the most appropriate technology for the production process is. A substantive amount of time would have elapsed and it is possible that the hopeful entrepreneur could get 'lost' in the labyrinth of technicalities, and bureaucracy. Research also shows that a large number of business ventures never make it pass the first year of operation and this could be attributed to the frustration experienced in the setting up phase of a new venture. In contrast to this approach, the new paradigm recommends that a collective representing an indigent community unanimously decides on a social entrepreneurship project which could contribute significantly towards the empowerment of the collective. The leadership of the collective should attempt to secure a 'tried and tested turnkey operation which also has a 'built-in' business plan.

The turnkey operation obviates the need for a community to undertake its own research and development exercise in order to decide on what is the appropriate technology for its specific entrepreneurial requirements. Ideally, such an operation should be acquired in South Africa, if it is available and at a competitive price. If not, then there are two major countries, China and India that specialise in such technologies which are particularly geared for the SMME market. India, for example, has set up a quasi-government organisation called the National Small Industries Corporation (NSIC) to cater for this precise need.

The NSIC has established its own *bona fides* in terms of empowering other emerging economies, specifically for SMME development (<http://www.nsic.co.in/elibrary.asp>) and has a rich and recognisable record of working in other parts of Africa. A good exemplar of a turnkey operation sourced from the NSIC is a brick-making machine which could not only contribute towards the manufacture and sale of bricks thus earning income for a community, but also add value towards housing

improvement and other 'basic needs' infrastructural development within a community. In addition, members of a community can through this process be endowed with a new set of skills. The financing of such a collective enterprise will hold much more sway rather than an individual who applies for funding to finance his or her personal business venture. A community rather than an individual becomes responsible for the financial loan to procure the machinery. Moreover, in order to qualify for such a loan the new collective enterprise must register and comply with all the norms, regulations and legal requirements of the country.

The turnkey machinery could even be adapted to the environmental requirements of specific conditions. For example, the machinery could be modified to suit the two-phase power requirements of residential areas instead of the three-phase power needs of industrial estates. In rural settings, the machine could be custom-made to operate manually.

Transfer of technologies and turnkey operations for SMME development

The importance of technology transfer from a development perspective is nothing new. One of the fundamental processes that influence the economic performance of nations and firms is technology transfer. Economists have long recognised that the

transfer of technology is at the heart of the process of economic growth, and that the progress of both developed and developing countries depends on the extent and efficiency of such transfer. In recent years economists have also come to realise the important effects of international technology transfer on the size and patterns of world trade.

Interest in technology transfer goes back to over eight decades. During the colonial era, technology transfer by colonial powers to production entities in their colonies was mainly in the primary sector such as mining, plantation and agriculture. Those transfers were aimed at the development of methods and techniques in order to obtain the maximum output in export industries such as mining and plantation agriculture and the development of infrastructure for such industries. After independence, in the late 1940s and early 1950s, many governments in the newly independent countries showed great interest in acquiring technology for import-substitution and often relied heavily on firms from their former colonial rulers to gain access to the technologies needed and transfer of technology by multinational companies (MNCs) became common, and public international bodies and not-for-profit organisations also became involved in such activities with the aim of improving living conditions in the recipient country by producing goods to be sold in the local market.

Even though technology transfer is not a new business phenomenon, the considerable literature on technology transfer that has emerged over the years agrees that defining technology transfer is difficult due to the complexity of the technology transfer process. The term technology transfer can be defined as the process of movement of technology from one entity to another. The transfer may be said to be successful if the receiving entity, the transferee, can effectively utilise the technology transferred and eventually assimilate it. The movement may involve physical assets, know-how, and technical knowledge.

In effect, technology transfer is a transaction or a process through which technological 'knowhow' is transferred normally between businesses or agencies representing businesses. This is the micro-level "business model" of technology transfer in which the transaction or collaboration takes place because both the parties (the supplier and the acquirer) perceive gains. The focus of the business model is not simply on technology transfer but also on its integration with the other dimensions of the business to ensure that it makes a contribution to improving the competitiveness and performance of the business.

The creation or absorption of new technology through the medium of turnkey operations has become a vital component for companies to improve or maintain their competitive position in the market place. Companies operating in sectors where competition takes place on the basis of price alone, such as the extraction or commercialisation of raw materials, may rely on new technologies to improve their efficiency in the extraction of raw materials by improving their productive processes or acquiring new machinery and equipment. They may also use new technology to better commercialise their products or to improve their management structure, control and communication. In other sectors, where the market evolves incessantly as new products with new functions or designs appear on a regular basis, companies are forced to innovate by acquiring or developing new technologies. Technological innovation is therefore a crucial element of the competitive strategy of any

enterprise, big or small, high-tech or low-tech. The ongoing integration of domestic and international markets through continuing deregulation and liberalisation of markets has enhanced competitive pressure for all firms, and especially increased the technological needs of small enterprises worldwide while also improving their access to new technologies and capital goods.

Conclusion

The discussions presented thus far in this paper indicate that indeed there is another approach to entrepreneurship and SMME development in this country. The Social Entrepreneurship Model with the assistance of turnkey operations can contribute towards a critical mass of new entrepreneurs and SMMEs that can in turn assist towards the alleviation of the unemployment problem and contribute positively towards sustained economic growth in South Africa.

The challenge for South Africa is to develop innovative ways by which the required critical mass of skills can be developed quickly within a range of SME-oriented institutions and within the SMEs themselves. To assist the government in this country to develop this critical mass of skills, the Centre for Entrepreneurship at RBS will be working in partnership with various agencies (public and private) and will be seeking funding to commence a technology transfer capacity building programme in the SMME sector.

To ensure that this capacity building effort reaches a larger group of entrepreneurs and SMMEs through a "multiplier effect", the Centre for Entrepreneurship at RBS will adopt a "training of trainers" strategy in partnership with foreign agencies such as the NSIC of India. These trainers would then be expected to return to their respective communities and train SMMEs through business and industry associations and relevant government organisations. The Centre for Entrepreneurship at RBS would also provide the trainers with all the relevant training materials. Under this technology transfer capacity-building "training of trainers programme" participants will be imparted skills for the greater good of the country, its communities and its people.

Finally to quote Nicole Manuel, "Perhaps the most rewarding advantage of being a social entrepreneur is the impact you can have on society. Social entrepreneurs create businesses in a variety of industries that can have a positive impact on society, including alternative energy, health awareness and education". According to David Bornstein, the author of "How to Change the World: Social Entrepreneurs and the Power of New Ideas," social entrepreneurs view communities as the solution and not as the beneficiaries of products and services. Social entrepreneurs provide the resources and expertise that help communities improve their qualities of life.

In terms of the new paradigm, business owners and social entrepreneurs must benefit the economy by generating jobs and income. In addition to providing jobs, social entrepreneurs should also use part of their profits to fund projects that can benefit the community as a whole. This combination of business acumen and social awareness is a big lure to many people interested in becoming social entrepreneurs.

As Bill Drayton, founder of Ashoka Changemakers and one of the world's foremost thinkers in the world of social entrepreneurship, said, "Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionised the fishing industry."

We welcome any suggestions or critique

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