

## **FOR WHOM THE BELLS TOLL: UNEMPLOYED YOUTH AND THE COMPELLING CASE FOR ENTREPRENEURSHIP IN SOUTH AFRICA**

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### **Abstract**

*This paper examines the extremely high rate of unemployment amongst the youth in South Africa and then makes a compelling case for the development of entrepreneurship. Throughout economic history, theoretical explanations of the inextricable relationship between unemployment and entrepreneurship have been shrouded in uncertainty. There are proponents who opine that unemployment stimulates entrepreneurial activity and those who advocate that higher levels of entrepreneurship reduce unemployment. This paper uses the latter position as a theoretical framework for analysis. The final section concludes by recommending that the South African development state together with the private sector makes a concerted effort to deliberately encourage the development of entrepreneurship with the express hope that the process will reduce the rate of unemployment in the country.*

**Keywords:** Unemployment, Entrepreneurship, Youth, Development, Policy

### **1. Introduction**

Throughout economic history, theoretical explanations of the inextricable relationship between unemployment and entrepreneurship have been shrouded in uncertainty. There are proponents (Evans and Leighton, 1990; Blanchflower and Meyer, 1994; Audretsch and Thurik, 2000) who opine that unemployment stimulates entrepreneurial activity and those (Picot *et al.*, 1998; Pfeiffer and Reize, 2000a; Audretsch and Thurik, 2000) who advocate that a higher level of entrepreneurship reduces unemployment. The former theoretical position is referred to as the “Schumpeter effect” (Garofoli and Audretsch, 1994) and the latter position, the “Refugee effect” which dates back to Oxenfeldt (1943). Empirical evidence, confirms the ambiguities that reflect the two conflicting theoretical positions. Some researchers have found that unemployment is associated with greater entrepreneurial activities, whilst others have concluded the opposite.

Unravelling the relationship between entrepreneurship and unemployment, therefore, is crucial, because public policy is frequently based on assumptions that do not reflect this ambiguity. For example, in advocating a greater role for public policy to promote entrepreneurship, governments of various emerging economies assert that increases in entrepreneurial activity tend to result in higher subsequent growth rates and a reduction of unemployment. Kuratko (2009) and Allam and Hoosen (2003), likewise, note that Economic displacement is one of the external multiplier forces that influence the development of entrepreneurship, which in turn, plays a key role in the process of economic development through the creation of employment, increasing investment and consumption of a country. In similar vein, Chigunta (2001) also asserts that entrepreneurship has

been receiving increasing recognition as a source of job creation, empowerment for the unemployed and economic dynamism in a rapidly globalizing world - China, India and Brazil being sterling examples.

In the following section, the paper introduces the concepts of unemployment and entrepreneurship and makes a compelling case as to why a vigorous campaign for entrepreneurship by the development state of South Africa in partnership with the private sector is now, more than ever, an imperative to reduce unemployment amongst the youth. The third section will discuss the current unemployment situation in South Africa and tender some reasons as to why such a precarious position prevails. The final section makes recommendations and suggests policy measures to reduce unemployment in the youth sector of the South African population.

## **2. Understanding the Concepts of Unemployment and Entrepreneurship**

In this section I will attempt to define the concepts 'unemployment' and 'entrepreneurship' because they have intrinsic relevance to the study.

### **2.1. Unemployment**

It is now a given that every economy in the world is characterised by persons who are economically active and those who are not. The economically active refers to persons within an economy who are willing and able to work, and include those actively engaged in the production of goods and services and those who are unemployed. Unemployment refers to a situation where persons who are willing and capable of working are unable to find suitable paid employment (Fajana, 2000). Unemployment has in recent years become a major problem and governments throughout the world monitor the situation with a keen eye. As unemployment levels increase associated problems and challenges of poverty and welfare also increase (Alao, 2005).

There are different types of unemployment and it is not the intention of this paper to go into those details. Suffice it to say, the unemployment has become a major problem in all countries of the world, especially in newly emerging economies.

### **2.2. Entrepreneurship**

According to (Kanothi, 2009) the definition of entrepreneurship is simply the combining of ideas, hard work, and adjustment to the changing business market. It also entails meeting market demands, management. Most importantly, it describes the key directive of any business - innovation. Innovation is by far the primary factor that governs the very creation of a small business or entrepreneurship. Innovations can be processes or even products. Entrepreneurship, therefore, is the process of increasing the supply of entrepreneurs or adding to the stock of existing small, medium and big enterprises available to a country by creating and promoting many capable entrepreneurs who can successfully run innovative enterprises, nurture them to growth and sustain them, with a view to achieving broad socio-economic development goals.

Shepherd and Douglas (1997) observe that entrepreneurship development is the ability to envision and chart a course for a new business venture by combining information from the functional disciplines and from the external environment in the context of the extraordinary uncertainty and ambiguity which faces a new business venture. It then manifests itself in creative strategies, innovative tactics, uncanny perception of trends and market mood changes and courageous leadership. Entrepreneurship, when treated as 'enterprise-creation' helps develop new skills and experiences that can be applied to many other challenging areas in life.

Schnurr and Newing (1997) justify the need for promoting entrepreneurship culture on the ground that youth in all societies have sterling qualities such as resourcefulness, initiative, drive, imagination, enthusiasm, zest, dash, ambition, energy, boldness, audacity and courage which are all valuable traits for entrepreneurship development. Bennell (2000), likewise, maintains that governments, non-governmental and international organisations seeking to improve youth livelihoods could best pursue their empowerment objective by tapping into the dynamism of young people and build on their strong spirit of risk-taking through entrepreneurship development.

In short, entrepreneurship development has also led to employment generation, growth of the economy and sustainable development in countries throughout the world. This paper, therefore, will use this theoretical position to frame the discussion for the next section.

### **3. The South African Scenario: Unemployment and the Need for Entrepreneurship**

The previous section alludes to the fact that entrepreneurship is simply about risk taking to conduct an economic activity or perform an existing economic venture innovatively. This provides for a distinct difference between a business person and an entrepreneur. Someone who owns and runs a pizza store might be classified as a businessperson, but if the quality, ingredients and delivery mode of such a venture makes for its competitive edge, which is constantly revised and improved on, then the person, according to the above definition, is an entrepreneur. South Africa, especially in the franchise sector, is not short of entrepreneurial success stories, which in many cases became global successes. However such success stories are far too few in relation to the population and employment levels in the country. Part of the blame has been levelled at our basic and higher education sectors which promotes and encourages learning which makes our students job seekers rather than job providers.

The 2011 S A census places the South African population at 51.8m, about 60% of which live below the breadline ( HSRC, 2005 Report), defined as living below R20/day. The official unemployment rate in the third quarter of 2012 was 25,9% ( Makinor Report, October 2012), with unemployment amongst the youth quoted at about 60%, of which over 600 000 are unemployed graduates ( Adcorp, February 2012). This large number of unemployed graduates is attributed mainly to skills mismatch, especially at the higher education sector, where programmes and qualifications are not aligned to the country's economic needs, in other words what the country and global economy skills needs and what the higher education output focus in South Africa are poles apart. Added to the above burden of unemployment, with associated low revenue base for the state, are spiralling social welfare costs with estimated 18m social grant recipients in 2012 compared to 2.5m in 1995. The

perception amongst South Africans is that public education and health, as depicted by exponential growth in the private education and health sectors, are deteriorating rapidly with no meaningful solution in sight

The South African government has become the biggest employer in the country, followed by the formal and finally the informal sectors. This with the reduced state revenue base exacerbated by high unemployment figures as well as unsustainable social welfare costs. The solution points to growth in both the formal as well as informal sectors of the economy, where entrepreneurship and new business ventures could serve not only to absorb skilled and unskilled labour but also as drivers for economic growth in the mist of global economic meltdown

### **3.1 Growing the Private and Informal Sectors**

Many businesses in the informal sector may grow into big business with proper guidance and support. The perception is often that lack of funding opportunity hampers entrepreneurship, however while many business ventures do fail due to lack of funding, it is lack of business networking and administrative skill that poses most challenges for new start-ups.

The informal sector is characterized by minimal regulation, and is often a one person idea without formal registration in terms of the companies Act. It is most prevalent in the food and beverage, textile and tourism sectors of the South African economy. Besides providing income and livelihoods to millions of families, the most important aspect of the informal sector lies in entrenching a self-reliance and initiates budding entrepreneurs into the rollercoaster live of entrepreneurship where risk taking, persistence, gut feel, and results focus are the order of the day

Advantages of this sector include minimal costs as most are run at home, walkway pavements and door to door selling, the informal sector forms the platform for a multimillion rand stockvels savings industry in the financial sector

### **3.2 Growing the Small Business Sector**

Small business is defined as any business with an annual turnover threshold of R14.8M or below, or any business that employs 50 people or less. It is by far the biggest employer, with 57% (Adcorp, February 2012) of all people employed in the private sector being employed by small businesses. The South African government, like most governments in the world, recognizes the importance of this sector in economic growth and has made serious overtures in the past five years to encourage small business development. Some positive and concrete intervention by treasury includes attractive tax breaks for small businesses, with any business with a net profit of R63 800.00 per annum been zero rates, while any turnover above this amount up to R300 000.00 per annum rated at only 10%nett profit, and any amount above the R300 000.00 net profit per annum attracting the normal company tax rate of 28%

Despite the above generous incentives, small business uptake, especially success, remains disappointing by global standards. This could be attributable to South Africa's education system, which discourages important attributes of entrepreneurship such as risk taking, as well as the states' uncapped social welfare policy, which encourages economic growth through spending rather than concentrate on the saving and investment side

## **4. Some Recommendations**

Reducing the high unemployment rate in South Africa could only be achieved through establishing short, medium and long-term plans

#### **4.1 Short-Term Plan**

Overhaul basic as well as the higher education sectors. A maximum five year plan to overhaul the curriculum and introduce new teaching criteria which will introduce learners to simple trade such as buying and selling, with real examples such as learner oriented project at local small businesses, as role modelling is one of the most important learning aspects of budding entrepreneurs

There is emphasis to double the enrolment rate at higher education sector in the next five years, however with over 600 000 graduates already jobless in the country at the moment, this approach, as well as in adding two more universities in the country to continue business as usual, where students are robbed blind by tertiary institutions that charge a sizable amount in tuition fee, mostly shouldered by the tax payers through subsidies and student loans, which providing programmes and qualification unsuitable for the current economy, will prove detrimental

Higher education, through university councils and senior management, need to be sensitized to the knowledge economy needs so that they could realign their programmes accordingly. State subsidies should no longer be tied to enrolment and graduation rates, but major emphasis in funding should be tied to graduates employability. A faculty should be penalized if their graduate enters the economy and remains unemployed within a set period

#### **4.2 Medium-Term Plan**

Realign state funding institutions such as National Empowerment Fund, Umsombovu Youth Fund, African Development Bank as well as the Land Bank to focus on small entrepreneurial projects. These institutions should be run by entrepreneurial people rather than pure state employees who earn regular salary. Remuneration of senior level managers and executives should be tied to the number of successful ventures created and funded per annum

#### **4.3 Long-Term Plan**

Shift the economy from consumer spending to saving and investment. Start by reducing state employment burden both quantitatively through systematic retrenchments and redundancies, as well as organically by capping salary increases of senior managers, this will reduce government cost and release much needed revenue to allocate to small business development, health and education as well as infrastructure development over the next 15 to 20 years

Streamline the social welfare system and introduce vouchers as well as tax credits for vulnerable families, child minders as well as children's education centres

#### **4.4 A Need for Radical Transformation in Our Education System**

It is the contention of this paper that that any effort at making entrepreneurship attractive to the youth must first and foremost consider vigorous and radical changes in the educational system. South Africa does not need a euro-centric educational system that churns out timid and risk averse youth who are always prepared to maintain the status quo.

We need an educational system that:

- Encourages radical thinking so as to generate new business ideas.
- Inspires confidence and urges young people on to take the necessary risk that will bring about innovation and lead to economic transformation.
- An educational system that truly makes the youth problem solvers.
- A System that makes people truly independent

In the light of the above, this paper recommends the following:

- that entrepreneurship should be made a separate, examinable and compulsory subject from secondary school level;

- different types of entrepreneur's club should be formed in secondary institutions. membership of such clubs should be made compulsory to all students. Activities of such clubs should be supervised by teachers with background in business disciplines and accomplished entrepreneurs;
- at the tertiary level, the tenets of entrepreneurship should be incorporated into the curricula all higher education institutions – whether public or private;
- entrepreneur's Resource Centres should be set up in every urban centre;
- a percentage of the mining revenue should be used to set up a fund to support school leavers who decide to create jobs for themselves;
- government external trade policy must guard against undue trade liberalization so as to protect the businesses of young entrepreneurs;
- accomplished entrepreneurs in South Africa should as part of their social responsibility adopt and support young entrepreneurs to grow their businesses without necessarily presenting it as consultancy, which young entrepreneurs can hardly pay for;
- motivational speakers should encourage the youth to be self-reliant;
- People working for others should be encouraged to set up their own businesses gradually and think of working for themselves; and finally
- All sectors of society (private, public and civil society) must work in unison ensure the stability of our democratic dispensation and its business friendly tenets such as the rule of law, respect for human rights etc. so that people can think of sacrificing their meager resources today, for a greater benefit tomorrow.

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