

ASSESSING THE IMPACT OF INCUBATION PROGRAMME TO SMALL AND MEDIUM ENTERPRISES DEVELOPMENT IN THE WESTERN CAPE PROVINCE OF SOUTH AFRICA

Thobekani Lose¹, Eugene Tafadzwa Maziriri² and Welcome Madinga³

¹Researcher: Department of Logistics, Vanderbijlpark, Vaal University of Technology, Gauteng Province, South Africa. Email:

²MBA Candidate: Faculty of Management Sciences, Vanderbijlpark, Vaal University of Technology, Gauteng Province, South Africa. Email:

³Lecturer: Department of Marketing Communication. AAA School of advertising, Cape Town 8000, South Africa. Email:

ABSTRACT: *This paper sought to determine the impact of incubation programme to Small and Medium size Enterprises (SMEs) development in the Western Cape Province, South Africa. The study utilised a quantitative method approach to collect data by way of closed and open handed questionnaires. The Statistical Package for the Social Sciences (SPSS) software was utilised to analyse the data. The findings indicated that incubated SMEs had about; one to ten employees (85.7%) in the programme during the course of investigation. While those who had about eleven to fifty employees represented (14.3%) as this indicates slight improvement for economic participation and job creation in the Cape Metropolitan District. A majority of the respondents (53.6%) who participated in the study strongly agreed that businesses in the incubation program has a great potential to create more jobs opportunities. In addition, the results also indicate that respondents (60.7%) joined the incubation programme to obtain a multiple of skills such as networking, finance and growth. Recommendations to improve the current standard of incubated entrepreneurs in the study setting were made.*

KEYWORDS: Business Incubators, Small and Medium Size Enterprises, Entrepreneurship, Incubation Programme

INTRODUCTION

Background

Small and medium enterprises (SMEs) have been identified as engines of growth, as they contribute to substantial employment and economic welfare (Dey, 2012). A number of researchers have concluded that SMEs make significant contributions towards social development, in promoting innovation and creativity, empowerment creation and economic development (Chetty, 2009; Mutambi, Byaruhanga, Trojer, & Buhwezi, 2010; Mmasi & Christine, 2012). Sawers, Pretorius and Oerlemans (2008) claims that close to (50%) of the country's Gross Domestic Product (GDP) is dominated by SMEs however; large companies dominate the size of formal employment. The Gauteng Province contribute up to (38) percent of all small, micro and medium business in South Africa (Urban & Naido, 2012). In support of this notion, in both developed and developing countries SMEs determine the growth rate of the country's economic activities through the practice of entrepreneurship (Nieman & Nieuwenhuizen, 2009). Both large and small companies are the significance for uplifting gross domestic product.

SMEs aids the economic growth, industrial development of nations, economic competitiveness, income generation opportunities, social welfare of the country, promotion of entrepreneurship activities, enhancing of international trade and exports (Mutambi, Byaruhanga, Trojer & Buhwezi, 2010; Rootman & Kruger, 2010). Therefore, SMEs are more significant and imperative for entrepreneurs, society at large and the country's economy (Barringer & Ireland, 2006). However, SMEs failure rate in South Africa it is still too high, SMEs fail during the first few years in business (Nieman & Nieuwenhuizen, 2009). The difficult economic conditions pose an even larger challenge to SMEs, namely the struggle to survive among competitive business industries (Rootman & Kruger, 2010). Scaramuzzi, (2002) pointed out one of the famous mechanisms employed to grow, nurture and develop SMEs for more than twenty years is business incubators in order to assist entrepreneurs to start and developing firms, by creating more job opportunities and increase GDP. This writer further pointed out that SMEs role in both developing and developed countries demonstrated development and growth, and private and public authorities have been playing a key significance in SMEs programs, incentives, policies and instruments which nurtures and support small firms.

In recognising the contributions that SMEs make towards economic development, there is a need to promote and nurture these businesses in both local and external communities. The South African (SA) national government has embarked on a number of support structures and initiatives in support of SMEs, and a number of programmes are being implemented, such as the Small Enterprise Development Agency (SEDA), and amongst these are business incubators including the Department of Trade and Industry (DTI) incubation support programme and SEDA Technology Programme (STP) (Ndabeni, 2008; Neneh, 2012; Choto, 2015). Business incubators (BIs) are organisations which are designed to grow and nurture SMEs through the early stages to become self-sustainable (Schwartz & Hornych, 2008; Caleb, Olaopa, & Siyanbola, 2012).

Therefore, this study aims to answer the following question:

What is the role of incubation programme to SMEs development in the Western Cape Province, South Africa?

The theoretical objective below will help to answer the research question above:

To determine the role of incubation programme to SMEs development in the Western Cape Province, South Africa.

LITERATURE REVIEW

The literature was reviewed under the following headings: the theoretical background by people pursue entrepreneurship activities; role of incubators; definitions of entrepreneurship; and entrepreneurial venture and small business venture.

Theoretical framework why people pursue entrepreneurship

Nieman and Nieuwenhuizen (2009) identified various key forces to evaluate that could drive an individual to become an entrepreneur. However, potential opportunities and risks strategies which are essential for business success could be assessed from these forces. The incubated

SMEs influence the fulfillment of strategies in relation to these forces. Therefore, these forces are outlined below as pull opportunity factors and push necessity factors:

Pull factors as opportunity

The opportunity based entrepreneurship (OBE) similar to independence of being your own boss; the financial freedom of entrepreneurship; sense of achievement; the drive and desire to change the world through entrepreneurship and freedom of creativity and innovation are factors that encourages individuals to become entrepreneurs according to Co, Groenewald, Mitchell, Nayager, van Zyl, Visser, Train and Emanuel (2007). Furthermore, Nieman and Niewenhuizen (2009) also agree that pull forces to become an entrepreneur are related to opportunities such as following: independence of doing something they enjoy and feeling of working for yourself; achievement in running and managing a sustainable enterprise; recognition in gaining social standards and poverty reduction with the community; personal development through practicing innovative and creative ideas without limitation and personal wealth by gaining financial freedom through the practice of entrepreneurship.

Push factor as necessity

The necessity based entrepreneurship (NBE) is an entrepreneur that entered the market place due to the lack of employment and they had no other way to survive than of venturing into entrepreneurial activity (Co *et al.*, 2007). Moreover, Nieman and Niewenhuizen (2009) concur push factors to become an entrepreneur are linked to necessities such as following: unemployment with no job opportunities and out of the working class within the established economy; job security being employed on a contractual basis with no work benefits; disagreement with directorates and management on the operation of the organisation which might be career limiting; not able to fit within the organisation in striving personal creativity and innovation; organisations may offer limited financial rewards and benefits and mainly having no other choice to work.

In summary (Co *et al.*, 2007) point out that total entrepreneurial activity (TEA) measurement is presented as an equation such as below:

$$TEA = OBE + NBE.$$

However, some entrepreneurs are driven by opportunity push factors and necessity pull factors (Nieman & Niewenhuizen, 2009).

Role of business Incubators

Choto (2015) argues that the role and objective of business incubators is to promote the creation and growth of entrepreneurial venture. Business incubators is mostly regarded as providers of resources and services to entrepreneurs, including working, technical expertise, management mentoring, business administration, shared administrative services, networking and access to new markets (Al-Mubarak, & Busler, 2010; Hutabarat, & Pandin, 2014; SEDA, 2015). Hence, incubators are best described as providing a protected environment to start firms and small business

Entrepreneurship

According to Chinomona, Maziriri & Moloi (2014) entrepreneurship is defined as the act of initiating, creating, building, expanding and sustaining a venture, building an entrepreneurial team, and gathering the necessary resources to exploit an opportunity in the marketplace for long-term wealth and capital gain. Botha, Nieman and Vuuren (2006) states that entrepreneurship is the most important solution for poverty alleviating, low economic growth and unemployment, in both developed and developing countries. The performance of entrepreneurs is based on starting new business, using a window of opportunity, and development of the business idea into a realistic format. (Ladzani & Vuuren, 2002). Furthermore, in Western countries network building, benchmarking and best practises are crucial for entrepreneurship development and sustainability (Aernoudt, 2004). However, the characteristics of sustainable entrepreneurship could be based on the following: investing in natural capital; a service business model; innovation and the increase of natural resource production with knowledge insights and capabilities to solve problems in the entrepreneurship process (Ravesteijn & Sjoer, 2012). In addition, traditionally entrepreneurship is highly considered as economic function; ownership structure; size and the life-cycle of firms and degree of entrepreneurship.

Entrepreneurial venture vs. small business venture

Entrepreneurial ventures are enterprises that have unlimited growth ambitions and are normally opportunity driven (Venter *et al.*, 2009). Furthermore, the entrepreneurial venture has multiple unique characteristics compared to small business ventures such as: potential for development, innovation and strategic objectives, where it involves market share development, sustainability, competitive advantage and positioning. Moreover, small business venture can be defined as business that have limited scope of work operating within an established market and involves an establishing product or service (Venter, Ubarn & Rwigema, 2009). The characteristics of small business venture that differentiate them from entrepreneurial venture includes annual turnover, full time employees, must be managed by the owner, and categories by gross asset values excluding fixed property (Nieman & Nieuwenhuizen, 2009).

In addition, it is fundamental for the purpose of this study that both entrepreneurial and small business venture roles are the key for entrepreneurship and job creation in South African and not all small businesses are entrepreneurial (Venter *et al.*, 2009:21). Thus, in SA there are no laws that prohibit an entrepreneur to establish a small business and own it (Gwija, Eke & Iwu, 2014). Moreover, the importance is poverty alleviation and creation of employment.

RESEARCH METHODOLOGY

For the purpose of this paper the study utilised a quantitative method approach to collect data by way of questionnaires to gain knowledge and understanding of the impact of incubation programme to small and medium enterprises development.

A maximum of 70 questionnaires were distributed to incubated SMEs to get large inputs from entrepreneurs on the exit stage of the graduation programme in were selected by incubators on the bases that they have been in operation for more than two years in business. The Statistical Package for the Social Sciences (SPSS) software was utilised to analyse the quantitative data, based on 28 questionnaires that were returned.

Population

Population refers to any group of individuals that has one or more characteristics in common that are of interest to the researcher (Choto, Tengeh & Iwu 2014). It also refers to the number of the people or unit from which research information will be obtained. The participants in this study were:

SMEs on the incubation programme for the year 2015.

Research Instrument

The collection of data through questionnaires allows more participants than could be achieved through interviews in a similar time; it is not always dependent on the researcher to be present to get information, and respondents who complete the questionnaires can choose a suitable time to participate (Townsend, 2013:91). Given the list of business incubators and incubated SMEs with the contact details on the database of Traction, this study used a random sampling technique. The researchers in this study made use of questionnaires, and respondents were randomly selected using both closed and open-ended questionnaires. The researchers began by asking the permission of business incubation managers in the business premises. The researchers utilised questionnaires in order to provide adequate information and the questionnaires also allowed the researchers to obtain large amounts of information more rapidly than through interviews mostly useful for indepth information (Lapan & Quartaroli, 2009:191). Furthermore, in this study the researchers made appointments with all relevant parties, established a time for the collection of questionnaires, and all necessary explanations related to answering the questions was provided to both BIs and SMEs.

Reliability and Validity of research instrument

In order to ensure reliability and viability of this study, a pilot study was conducted by the researcher to identify areas that could influence obtaining correct data for the study. The pilot study allows for adjusting interview questions and questionnaires. Hence, this also enables the designing of questionnaires to get maximum responses that was permitting the researcher to address the research questions. The intended objectives of the study in relation to the instrument used were assessed. Therefore, the objectives and research questions within data collection were verified to agree on validity of the survey and the instrument used in this study were reflected valid. According to Bell (2005), reliability is the text to which a test produces similar results under constant conditions in all locations and the measurement must be consistent while validity refers to a design instrument with the potential of achieving and measuring what is supposed to be achieved when measuring. After collecting data and analysing the researcher did review the findings critically in order to detect any errors and bias.

Presentation of findings

The study utilised a quantitative method approach to collect data by questionnaires, whereby 28 participants who were on the exit stage for graduation from the population of 5 business incubator. The SPSS software was utilised to analyse the quantitative data. The study results were based on 28 responses from SMEs who were on the exit level and those that have graduated from the incubation programs that participated in this study. The results are illustrated in frequency table, pie chart and bar.

Period of the business operation

The chart below illustrates the business of operation.

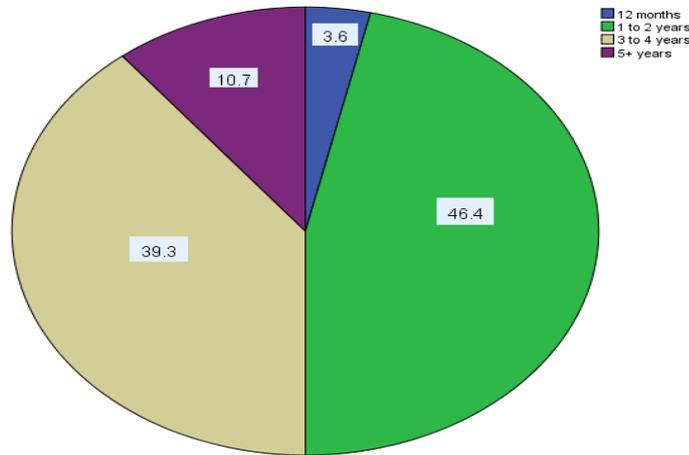


Figure 4.1: Period of incubated SMEs in operation

The above results indicate that the period of the business respondents of this study were grouped into four categories; a majority (46.4 percent) of SMEs in the incubation program were between the periods of 2 years, followed by 39.3 percent of those who were between the ages of 3-4 years. Moreover, a few respondents 10.7 percent represented SMEs that were more than 5 years in the incubation programme. Only 3.6 percent represented those that had been operating for 12 months. The study found that a majority of SMEs were indeed on the exit stage for graduation and those who has completed the programme 2-3 years. According to Scaramuzzi, (2002) business incubators should seriously specify the time limits, and the cost, type and value of services that would be given to applicants during the incubation process. In South Africa SMEs still faced with high rate of failure in their first three years in operation (Choto, Tengeh & Iwu, 2014). Hence, business incubators provide a nurturing environment to increase SME’s prospects for surviving in their first three years of operation (Al-Mubaraki & Busler, 2010; SEDA. Imbadu, 2013:3; SEDA, 2014). In South Africa both public and private business incubators three years is the general acceptance of the incubation period (Masutha & Rogerson, 2014).

Objective enrolment to incubation

The table below shows the objectives of respondents in joining the incubation programme.

Table 4.1: Objective enrolment to incubation

Objective enrolment	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Growth	5	17.9	17.9	17.9
Skills	1	3.6	3.6	21.4

Valid	Finance	1	3.6	3.6	25.0
	Networking	3	10.7	10.7	35.7
	Other	1	3.6	3.6	39.3
	More than one of the above	17	60.7	60.7	100.0
Total		28	100.0	100.0	

The objectives in attending business incubation programme were categorised into growth; skills; finance; networking; other; more than one of the above which indicates that respondents objectives were multiple as mentioned. A majority of entrepreneurs in the incubation program who participated in this research (60.7 percent) joined the incubation programme to obtain a multiple of skills, followed by 17.9 percent of those who attended the program to grow their business. A total of 10.7 percent represent those who joined the programme for a place to network. Interestingly, the respondents who joined the incubation programme for finance and other each made up 3.6 percent on the participants. The other respondents joined to have for facilities to host their clients and meetings.

According to Al-Mubaraki and Busler (2010), research shows that about incubator clients are seeking for assistance with wide range of business activities. This could be indication that business incubation concept is crucial to overcome SMEs challenges. Masutha and Rogerson (2014), explains in both developed and developing countries business incubation have been recognised as a strategic tools in helping entrepreneurial based firms in reducing high failure rate of SMEs.

The objective achievement in the incubation

The following chart illustrates the extent to which respondents agreed or disagreed that they have obtained their objectives in joining the incubation programme.

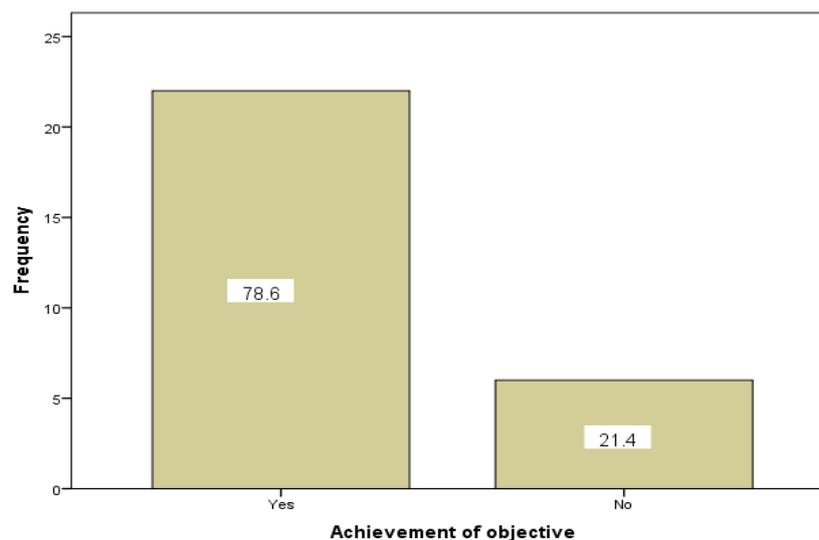


Figure 4.2: Achieving the objectives within the incubation programme

The results indicate, a majority of respondents in this research (78.6 percent) indicated that they have achieve their objectives in participation in the incubation programme, joining the

incubation would minimise SMEs failure rate for those who attend to incubation, while the remainder (21.4 percent) indicated that they did not achieve their objective in joining the incubation programme.

The results of this research indicate that entrepreneurs in the incubation programme are happy and agree that being incubated by business incubators would provide fewer chances to fail in venturing into business at early stages. These results could be related to above illustration made in the literature that the concept of business incubator is crucial to SMEs survival at early stages in operation and business incubators has been adopted in South Africa as a vehicle for accelerating the SME economy Masutha and Rogerson (2014). Therefore, the role of business incubators in facilitating the entrepreneurial skills requirements of SMEs should not be underestimated.

Entrepreneurial background in the success of the business

The table below illustrates the extent to which the respondents agreed or disagreed, that they come from entrepreneurial background.

Table 4.2: Influence of entrepreneurial background

Response on entrepreneurial background		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	35.7	35.7	35.7
	No	18	64.3	64.3	100.0
Total		28	100.0	100.0	

The results show that a majority of respondents (64.3 percent) who participated in this survey indicated that they agree that they coming from entrepreneurial background can a big role in developing the business, while (35.7 percent) they do not come from entrepreneurial background.

The results from this study indicate that most of the participants felt that coming from entrepreneurial background in the incubation programme can play a big role in the success of any business. This integrates with Choto *et al.* (2014) views that the importance of entrepreneurial background to entrepreneurs, through institutions and incubation should not be taken lightly. She mentions that the education systems have vital influence on entrepreneurial success and over the past 20 years Apartheid education has negatively influenced the mind-set of South African entrepreneurs. It is encouraging to compare these findings with Stephen and Lydia (2014) who suggest that tertiary level education and exposure is general equipping entrepreneurship activities and has direct effect of proper entrepreneurial skills on graduates.

Number of subordinates at start of the business

The chart below aims to show the number of employees that the respondents for this study employed when they started the incubation programme.

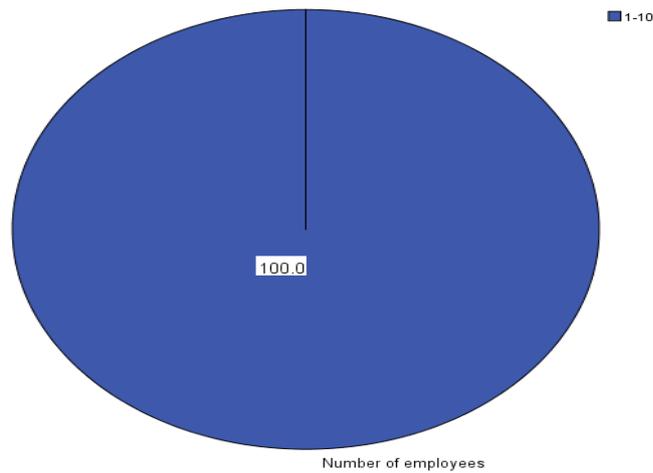


Figure 4.3: Number of subordinates at start of the business

The results demonstrate that all the respondents in this research (100.0 percent) started their businesses with only one to ten employees. The results illustrates of this research indicate that all the business attended the incubation programme joined the incubation with only one to ten employees and this could mean SMEs at early stages in the programme create less job opportunities. According to Hutabarat and Pandin (2010) the one way to develop the economy and improving standards of living in the country is to promote SMEs through business incubators. Buys and Mbewana (2007) assesses that during the start-up phases SMEs are mostly vulnerable to create job opportunities as they emerge. In addition, this could mean that entrepreneurs within the first few years in operation do not afford to hiring employees.

Current number of employees

The following chart shows the current number of subordinates that respondents have in their businesses.

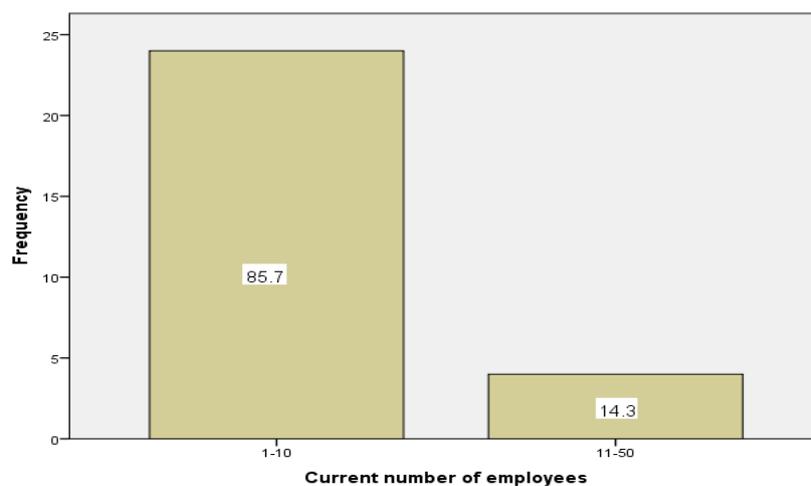


Figure 4.4: Current number of employees

The chart above shows that most of the respondents (85.7 percent) currently still had about 1-10 employees in the business. While those who had about 11-50 employees represented 14.3 percent. The results illustrates that a majority of respondents in this research had a number of subordinates between 1-10 employees. According to Buys and Mbewana (2007) differentiates that the quality of incubated entrepreneurs could be determined in the criteria of selection as the success of the incubator depends on the incubated SMEs. The results could also be a lack of business skills and resources that the incubated SMEs were looking for in order to gain independence and operate without the nurturing from incubators (Grimaldi & Grandi, 2005).

The objectives of incubated business venture

The following table highlights various business objectives that the incubated entrepreneurs have in their businesses.

Table 4.3: Objectives of the incubated business venture

	Objectives	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Growth	12	42.9	42.9	42.9
	Job creation	3	10.7	10.7	53.6
	Sustaining your needs	1	3.6	3.6	57.1
	Growth and job creation	4	14.3	14.3	71.4
	Growth and sustaining your needs	5	17.9	17.9	89.3
	All three	3	10.7	10.7	100.0
	Total		28	100.0	100.0

The objective of incubated entrepreneurs were listed into seven categories growth; job creation; sustaining their needs and wants; both growth and job creation; both growth and sustaining their needs and all three listed objectives. The results illustrate that a majority of the respondents in this study (42.9 percent) their business venture objective were business growth, followed by 17.9 percent their business objectives were both growth and sustaining their needs. The objectives of the business venture representing both growth and job creation represents (14.3 percent) of their respondents. Interestingly, the respondents their business objectives represents all the three objective and those they objectives were only driven by job creation represents (10.7 percent), and those their objective was only to sustain their needs and wants represents 3.6 percent. This could mean that objectives of the incubated SMEs they want to be developed and to be self-sustainable. Ndabeni (2014) proves that the importance of the strategic roots of incubation existence was to enhance entrepreneurship development.

Incubated SMEs has a potential to employ locals

The table below set out to illustrate the extent to which the respondents agreed or disagreed those businesses like theirs has a potential to create more job opportunities for locals.

Table 4.9: SMEs in the incubation program create more jobs

Response categories		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	13	46.4	46.4	46.4
	Strongly agree	15	53.6	53.6	100.0
	Total	28	100.0	100.0	

The current study found that a majority of the respondents (53.6 percent) who participated in the study strongly agreed that businesses in the incubation program has a great potential to create more jobs opportunities, while 46.4 percent of participants agreed.

The results of this research showed that all the respondents felt that SMEs in the incubation program have a potential to employ more people. These results could be related to the previous argument made in the literature that SMEs creation and entrepreneurship practise contribute to job creation. Thus, SMEs in both developed and developing nations are becoming a focus for economic development and entrepreneurship as a tool to accelerate job opportunities (Ndabeni, 2008; Lalkaka & Abetti, 1999; Mmasi & Chritine, 2012).

In reviewing the literature, South African unemployment rate in the year 2014 increased by 25.2 percent in comparison to 24.9 percent in the year 2012 (Dodd & Nyabvudzi, 2014; Ngidi & Hawes, 2014). However, SA government has priorities various policies in developing SMEs sector for job creation approximately 90 percent of new jobs opportunities are expected to be created by 2030 through SMEs (SEDA.Imbadu, 2013). As mentioned in the literature review, a strategic tool to unemployment reduction and poverty alleviation will be minimised in supporting entrepreneurship activities and SMEs. Therefore, the SA government has to prioritise SMEs role in employment creation and social development.

SMEs for economic participation

The chart below shows the extent to which the respondents agreed or disagreed on whether that starting an entrepreneurial firms is better than seeking for a job.

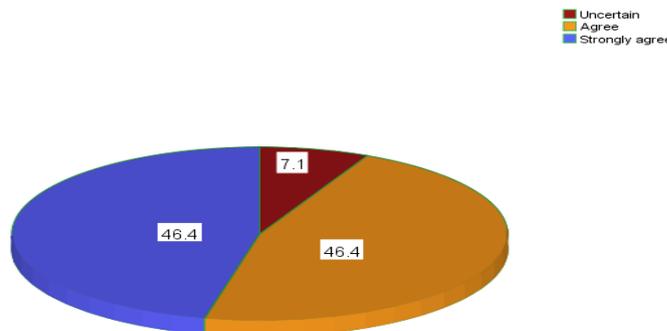


Figure 4.5: SMES for economic participation

The most interesting findings was that the respondents who strongly agreed and strongly agreed in starting a business it's a better option than seeking for a job were each represented by 46.4 percent of the participants. Very little 7.1 percent of the respondents were uncertain with the statement.

These results confirm that a large percentage of the respondents felt venturing to SMEs is the best option for economic independency than looking for a job. The findings of this study will now be compared to the findings of previous work that SMEs in SA are expected to create new employment and more people are venturing into entrepreneurship (Masutha & Rogerson, 20140). A strong relationship between pull and push factor has been reported in the literature. In reviewing the literature, Niaman and Nieuwenhuizen (2009) illustrates entrepreneurship and SMEs accelerate economic participation through entrepreneurial innovation. Another important finding was that entrepreneurship activities has been a subject of intense discussion in the literature and academic modules (Schwartz & Hornych, 2008). Therefore, it seems from the above discussion SMEs favor economic participation.

CONCLUSION AND RECOMMENDATIONS

In this study the key words has been well introduced, key questions and aims of the study have been identified, a literature review has been conducted to have an overview or to gain a depth understanding of the concepts entrepreneurship activities; role of incubators; definitions of entrepreneurship; entrepreneurial venture and small business venture. The current study found that business incubators play a significant role in development and growth of SMEs in South Africa. Therefore, it is crystal clear in order for an SME to improve its performance it can participate in an incubation programme.

Lastly, this study recommends future studies to look at:

1. Why do entrepreneurs choose to join the incubation programme;
2. Challenges faced by business incubatees in South Africa;
3. Critical factors that affect the growth of incubates in South Africa;
3. A comparative study between private and public business incubator;
4. A business framework for effective start-up of business incubators in South Africa.

Limitation of the study

In spite of the contribution of this study, it has its limitations which provide avenues for future researches. The study was limited to SMEs in the incubation programme in the Western Cape Province. Perhaps if data collection is expanded to include other provinces, findings might be more insightful. Moreover, this paper was also limited on incubated entrepreneurs on the graduation phase in the selected business incubator. An additional limitation is that this research study was conducted in urban areas only, future research might focus on both urban and rural areas. Another limitation was that this research utilised a quantitative method approach to collect data. It would have been more robust if the study included both qualitative and quantitative methods. All in all, these suggested future avenues of study stand to immensely contribute new knowledge to the existing body of business incubators and incubatees literature, a context that happens to have less studies in South Africa.

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