

The Utility of Small Business Incubators In Mitigating Intergenerational Poverty In The Eastern Cape

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Keywords

poverty, small business, business incubation, intergenerational poverty, family enterprises

Abstract

Poverty has been an enduring threat to economic development in many nations. In South Africa, mitigation of poverty remains a focal point in a country with the highest socio-economic inequalities in the world and a high rate of unemployment. This study takes an economic perspective on poverty mitigation based on the premise that vibrant entrepreneurial activities can be useful in breaking the transmission or progression of poverty from generation to generation in underprivileged rural communities. At the centre of successful entrepreneurship is the role of business incubators, which can nurture and support family enterprises as they are passed from one generation to another through family succession processes. If these family enterprises follow a viable and profitable trend as they are passed on, then poverty transmission may be mitigated; however, if the family enterprise declines and collapses, the condition of the underprivileged will continue to prevail. The study adopted a qualitative approach based on eight narrative, open-ended interviews with owners of family entities in the rural Eastern Cape. The results of the study demonstrated that family entities follow a downward trajectory during the succession process and face many challenges that small business incubators can address. It was found that small business incubators can play a significant role in mitigating intergenerational poverty in underprivileged communities.

Introduction

At the attainment of democracy in South Africa, the eradication of poverty (or breaking its generational transmission), socio-economic inequality, and unemployment took centre stage. Despite progress having been registered to some extent, these evils have continued to be focal areas for the government, and innovative ways of addressing them remain a priority to date. This study focuses particularly on poverty and how to mitigate its tendency to be transmitted generationally or rather to manifest generation after generation (Frazer et al., 2021; Nkamnebe & Ezemba, 2021). The World Bank (2020) reported that about 61.6% of the South African population live below the poverty line for upper-middle income countries, while about 55% were below the upper-boundary national poverty line. This clearly shows the significance of the poverty reduction agenda in South Africa. While the present state of poverty in South Africa may not be eliminated, at least in the near future, what becomes important is to address it so that it is not transmitted to the next generations (Lose, 2019). This makes mitigating intergenerational poverty (IGP) transmission a critical area of inquiry in post-apartheid South Africa. Given the complex nature and perspectives of IGP transmission, as observed in Weir-Smith and Dlamini (2024), this study contributes to a better understanding of poverty and various structural inequalities affecting the socio-economic well-being of South African society.

Poverty reduction strategies are multifaceted. They include economic diversification, infrastructure development, agricultural development, microfinance and entrepreneurship, education and skills development, social protection, governance and institutional changes, as well as the creation and use of public-private partnerships (Shaikh, Rasheed & Shaikh, 2023; Nasriddinova, 2024). The present study takes entrepreneurship as facilitated by small business incubators as a way of mitigating IGP transmission.

Literature review

The concept of poverty

Poverty (at various levels and conceptions) is a phenomenon that has been observed all over the globe. While there are various theories (such as classical, neoclassical, Keynesian, cultural, monetary, ecological, Marxist/radical, political, economic, social capital and social exclusion) to explain and view poverty, it is a grave problem that governments and general society fight to eliminate (Shaikh et al., 2023; Davis & Sanchez-Martinez, 2014). As provided in Shaikh et al., (2023), many theories of poverty ought to be understood to address poverty globally. Firstly, the classical view of poverty sees it as a product of poor individual decision-making, laziness, and poor initiative taking. The classical theory is associated with such theorists as Adam Smith, David Ricardo and Thomas Malthus (Shaikh et al., 2023). Secondly, contemporary poverty theories, such as feminist and dependency theories of poverty, consider it in terms of institutional and structural inadequacies and power distribution inequalities. Neoclassical poverty theories, as identified in Shaikh et al. (2023), recognise that poverty is a result of both personal and non-personal factors. Such writers as Foster, Greer and Thorbecke (1984 as well as Deaton (1997) have explored the neoclassical school of thought on poverty. Neoclassical theories aver that individual factors associated with poverty include poor education and lack of skills, while non-personal factors are systemic and include government policies, segregation, discrimination and market failures. Thirdly, the economist John Maynard Keynes offered another theory of poverty (the Keynesian model), which explains poverty in terms of inadequate demand in the economy, which requires governments to increase spending through public works social welfare policies and to formulate policies that improve monetary expenditure (Davis & Sanchez-Martinez, 2014). Fourthly, some sectors consider poverty from a Marxist or radical perspective, where poverty is viewed in terms of capitalist-based inequalities. Their position is that poverty can be eliminated through socialism and communism. Fifthly, the monetary theory of poverty views poverty as a condition that can be reduced through the provision of financial support, leading to better availability of money and better employment opportunities (Davis & Sanchez-Martinez, 2014; Shaikh, 2023). A sixth theory (the cultural theory) of poverty views it as a result of cultural norms, beliefs and behaviours that present limitations on the capacity of people to improve their financial situation.

A seventh theory explains poverty is a result of the inequality arising from the absence of environmental opportunities and productive forces for some segments of the population. An eighth theory is the economic theory of poverty which holds that poverty can be absolute (extreme) or it can be relative (Frazer, Guio & Marlier, 2021). Whereas absolute poverty describes a lack of basic essentials such as food, water, decent shelter, clothing and medical care, relative poverty is comparative to the general state of others in a community or country. In relative poverty, individuals are said to be poor because they cannot match the standards at which others are living (Frazer et al., 2021). A further theory, political theory, explains poverty in terms of the actions of political institutions, organizations and policies. This can marginalize others who are not affiliated with them. A final theory is the social exclusion theory of poverty, where poverty emerges from being excluded from economic participation. The present study seeks to address IGP from an economic perspective based on the role of business incubators (BI) in general economic empowerment, the creation of employment, and the reduction of poverty.

The small business incubation concept

While business incubation is a concept that emerged simply to advance entrepreneurship through the support of business start-ups, its dimensions in mitigating poverty transmission have not been well explored. The objective of this study is to advance the notion that business incubators can contribute to poverty reduction by disrupting IGP (Nasriddinova, 2024). The concept of business incubators emerged in Batavia in the USA when Joseph Mancuso developed the Batavia Industrial Center in 1959 (Hausberg & Korreck, 2020). The basic idea behind the concept is to support emerging enterprises and capacitate them to overcome various challenges that include those of business knowledge, finance, market access, skills or human capital (Hewitt & van Rensburg, 2020). Business incubators are a global concept, and they offer such services as mentoring, coaching, providing support functions and infrastructural support (Lose, Yakobi & Kwahene, 2020; Li et al., 2020). In view of the assertion in Assenova (2020) that business incubators have been instrumental in improving the state of low-income, underprivileged entrepreneurs.,

Intergenerational poverty

The nature of intergenerational poverty is that it is passed from generation to generation at the family level. In this way, IGP can be analysed in its two forms: firstly, poor family enterprise succession and secondly, the succession of underprivilege (Mumbai et al., 2021). IGP is considered in describing families that are generally underprivileged, and the state of underprivilege is transmitted to the next generation, and the transmission continues (Muigai, Mungai & Velamuri, 2023). IGP is often interpreted based on theories of entrepreneurial resources and their sources. The argument here is that the continued transmission of IGP may arise from poor or lack of adequate exploitation of relevant entrepreneurial capital resources. This argument is based on economic theories of poverty which stress that poverty arises from limited resources (Dana et al., 2019). Poverty, therefore, can be considered at a community level as well as at a family level. Families and communities can be sources of entrepreneurial resources that, when adequately exploited, can break IGP transmission (Frazer et al., 2021). IGP is a concept that emerges from the terms 'poverty' and 'generation'. IGP then describes the condition when poverty is transmitted from one generation to another. This implies a situation where poor parents raise poor children, and the condition is transmitted onwards.

Small business incubation for poor family enterprise succession

Poor family business transfer captures the case where a certain generation fails to adequately benefit from a family business that will have been handed over to them, resulting in the rise of the poverty cycle. Intergenerational succession scenarios for family-owned businesses often result in conflicts or are poorly managed, resulting in the collapse of a once-thriving entity and the transmission of poverty. This situation suggests that a business incubator may be vital in developing the necessary skills during family business succession systems. The family business handover situation as an important consideration for IGP transmission is explored by Osnes et al. (2018), who distinguish three forms of family business handover, namely: (1) monolithic family business handovers, (2) distributed leadership transfer and (3) active ownership with an out-of-the family managing director. In all these forms, Osnes et al. (2018) comment that there is a new need for a family business incubator which manages family business transfers from one generation to the next. Research in Nigeria (Onu et al., 2023) found a unique form of entrepreneurship where community members are groomed so that they can start their ventures following the grooming process. This emerged from traditional notions of supporting community entrepreneurship. The present study considers this in family business transitions as facilitated by a family incubator.

Small business incubators in succession in a position of underprivilege

While the idea that entrepreneurship has the potential to facilitate poverty reduction (Morris, Santos & Neumeyer, 2020), the focus on how business incubation can reduce IGP has been low. The essence of breaking poverty transmission at a family level, therefore, is critical to reducing IGP. When considering IGP in terms of the transfer of positions of the underprivileged from generation to generation, it may be important to refer to theories of poverty, such as the Marxist and Keynesian theories, which may require structural changes in government policies (Shaikhet al., 2023; Frazer et al., 2021). Therefore, the present study is located within the economic theory of poverty and seeks means to improve the entrepreneurial capacity of generations through business incubation as well as the need to foster effective transfer of family enterprises. This study explores the view that business incubators can mitigate IGP by mediating business generational transitions to prevent family business collapse when it is passed on.

Methodology

The study drew on qualitative research based on the need to understand the subjective experiences and perceptions of family business owners from underprivileged circumstances in the rural Eastern Cape in South Africa. From the descriptions of the family business owners, the final goal was to determine the relevance and non-relevance of small enterprise incubators. Christensen, Johnson and Turner (2015) note that qualitative research tends to ensure in-depth analysis of phenomena, given its capacity to generate large data volumes. The qualitative approach was considered appropriate to obtain an in-depth

appreciation of the succession of family-owned enterprises. The research questions were: (1) What challenges do new business owners of a family entity face; (2) how do such business owners manage to overcome the challenges; and (3) what challenges do they continue to face and need assistance with at present? In the final analysis, the way these challenges were described and addressed was considered to inform the utility of small business incubators in mitigating IGP transmission in the Eastern Cape.

The study questions, as stated in the previous paragraph, were derived from the literature review assertions that business incubators support start-ups in various ways and assist them in overcoming challenges that may lead to the failure of the enterprises. A narrative approach was used as the family business owners narrated their experiences, talking about the challenges and their significance and how these challenges were overcome. The narratives were also closely considered to determine what challenges continued to date and still required assistance. In the end, this was used to inform the possible utility of small business incubators to foster family enterprise viability and reduce IGP transmission.

A snowball sampling technique, as explained in Onwuegbuzie et al. (2009), was used to select eight family-owned enterprises to respond to the research questions prepared for the study. The process started with the identification of a known family business, and a narrative interview was undertaken to establish the succession process, challenges and how the challenges were overcome. At the end of the narrative interview of the first family business owner, another family business was suggested by the respondent and then the process was repeated until it was established that the narrations provided by the small family business owners were increasingly similar. This started happening in the eighth narrative interview. This was deemed to be a saturation point, whereby it was understood that no new information would emerge from further narratives. The characteristics of the eight participants in the study are provided in Table 1.

Table 1: Sample description

Narrative interviewee	Gender	Age (years)	Race	Nature enterprise	Nature of Family Business Succession
1	Male	22	Black	Arts and craft enterprise	Business passed from great-grandfather to grandfather and then to father.
2	Male	25	Coloured	Agriculture and food processing	The business passed from mother.
3	Male	30	Black	Forestry and forestry products supplier	Business passed from great-grandfather to grandfather and then to father.
4	Female	21	Black	Flowers and ornamental plant sales	Business passed from great-grandfather to grandfather and then to father.
5	Male	39	Black	Arts and craft	Business passed from great-grandfather to grandfather and then to father.
6	Female	45	Black	Traditional tools manufacturing	Business passed from great-grandfather to grandfather and then to father.
7	Male	63	Black	Grocery and fast food retail	Business passed from great-grandfather to grandfather and then to father.
8	Female	56	Indian	Agricultural food processing	Business passed from father and was shared among siblings

The results showed that most family business owners were males, suggesting that most business succession systems favour males. The majority of the enterprises were owned by Black people who mainly resided in rural and underprivileged communities. The family business succession nature of the enterprises reflected the intergenerational nature of family businesses, suggesting a higher chance to promote IGP. Various lines of businesses were interviewed, including those in arts and culture, agricultural food

processing, grocery and fast food retail, traditional tools manufacturing, and forestry and forestry products suppliers.

Results

In this analysis, the utility of small business incubators in mitigating IGP transmission was considered to be based on their capacity to intervene and solve challenges of family business entities in underprivileged communities, thereby increasing the prosperity of later generations. The premise of these assertions was provided following the literature review assertions that entrepreneurship can reduce poverty. As such, the study explored the nature of the challenges that the family business successors faced and whether these challenges affected enterprise success. The challenges faced and how they were solved was taken to inform the possible intervention and utility of small business incubators for the success of small family enterprises. Where there is a failure to manage these challenges, the family entity may collapse or fail to grow, thereby maintaining or worsening poverty in underprivileged communities. Such situations suggest the need for small business incubators to nurture the business during its time of leadership transitions. The analysis results were focused on the specific research questions, as follows.

Results in relation to research question 1 - Challenges faced by new business owners of family entities in underprivileged communities.

To respond to the first research objective, content analysis of the narrations of interviewees was performed, sampling out keywords and phrases that reflected the challenges that the family business owner faced. In this way, excerpts were purposively sampled for analysis, as provided in Table 1

Table 2: Results on the challenges that the family business owner faced during and after the family business succession process.

Interviewee	What challenges do you face as a new business owner of the family entity?
1.	Other family members did not accept me, there was conflict in the family, my father left a will in my favour, others disregarded the will, I have poor education, family members thought I would fail to manage the enterprise, I lacked skills to run the enterprises, my father's business networks did not accept me, I did not know where to start, I had to seek support from my father's old friend.
2.	My best challenge was accounting and managing the finance, we have been running losses here, I was not informed how to manage a number of things. The business is collapsing now, our previous clients do not trust me, my father did not tell me the real business secret.
3.	I did not have infrastructure, my father used to rent some of these things and when he did, I could not be recognized, our previous clients flew, I lacked a market for a while, even some senior employees left.
4.	There was conflict in the family, sharing this was difficult, family members still come to take money, everyone still think that I have the largest share, I once closed because of stress, I had no skills to manage the enterprise, I went for training in business management, I am better now.
5.	When I inherited this enterprise, I had no knowledge at all, my father did not give me any training, financial management is difficult, managing others presents a big challenge.
6.	Getting accepted as a family business owner was a challenge, I lacked adequate advice, my business is now worse.
7.	I lacked business skills, I had no financial skills, I did not know how to promote products.
8.	I wouldn't say I faced many challenges, mine was just a psychological challenge, I just couldn't believe I was now the owner, monitoring the business, marketing, performing managerial roles.

The challenges faced by the family business owners, as presented in Table 2 showed that there was a need for some form of support that the new family owners faced. This need for support indicated the need for small business incubators, given their known role in helping enterprises overcome various operational challenges of small entities (Lose et al., 2020). It appears that the succession of the family businesses did not

consider the ability and capabilities of the new family successor. The business entity faced challenges from the psychological and infrastructural to the physical readiness of the owner. This threatened the survival of the entity. The presence of these challenges points to the possible utility of small business incubators for these family enterprises at times of ownership change.

Results in relation to research question 2 –Ability to overcome challenges.

In Vivo codes that were extracted from the narratives of the respondents were put on a network diagram using ATLAS.ti (software for qualitative data analysis), as shown in Figure 1.

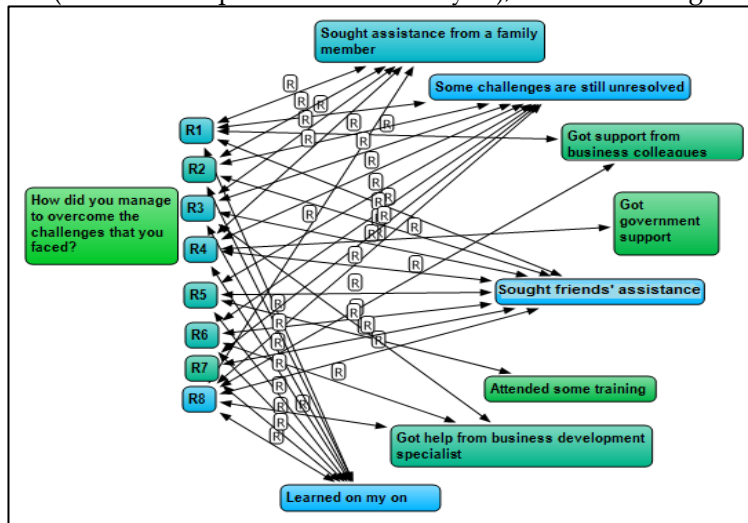


Figure 1: Network diagram indicating sources of support to overcome challenges.

Figure 1 shows that all the family business entrepreneurs who responded to the study learned on their own the techniques to overcome the challenges that they faced in the management of the enterprise. All of them also revealed that some of the challenges remained unresolved. Figure 1 also indicates that seeking assistance from friends and family members was common. These results point to the possible utility of small business incubators to the survival of family business entities. Rather than seeking the assistance of friends, the new family enterprise owners may benefit better from the services of small enterprise incubators. Support from the government, attending some training and getting support from business colleagues were minimally used resources.

Objective 3 - What challenges do you continue to face and need assistance with at present?

The challenges that the respondents continued to face are indicated by the descriptions shown in Figure 2.

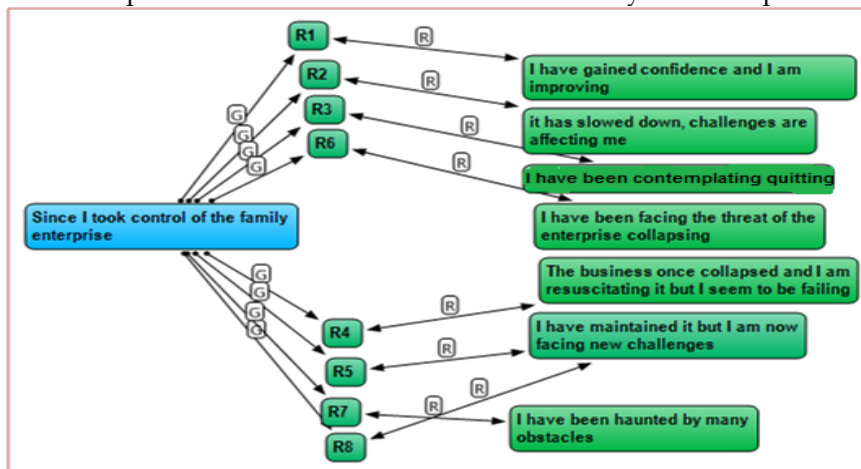


Figure 2: Continuing challenges faced by respondents.

Figure 2 shows that the respondents continued to face challenges, and the transmission of poverty continues as challenges continue to affect them. The enterprises have been maintained as they were, having once collapsed or faced collapse, suggesting a need for small business incubators to aid their capabilities in overcoming the challenges that they faced.

Discussion

This study was set to explore the utility of small business incubators in mitigating intergenerational poverty in the Eastern Cape. In order to achieve this, the study explored the nature of challenges that the family businesses faced before looking at how they managed to resolve these challenges, and before considering whether the enterprise was performing better. Indications from the study suggest that there were various challenges faced by the family enterprises in the rural areas, in support of Mugobo and Ukpere's (2011) study of rural entrepreneurship. These challenges include infrastructure, financial resources, skills, knowledge of management functions, securing and maintaining business linking, market-entry, developing and maintaining a business image, conflicts, poor confidence and low acceptance from the business community. The presence of these challenges and the failure to address them, as evidenced in this study, suggest that small business incubators can be of significant utility for family small enterprises at the time of ownership change. The utility of small business incubators can be considered in view of Mumbai et al.'s (2023) study, which found that there is a need for parental business exposure for those who inherit businesses from their parents. Small business incubators can be considered to be better positioned to provide the necessary support than parents, as in Mumba et al (2023). Evidence from this study and from the literature show that the challenges faced by the family business owners were of such a nature that small enterprise incubators could resolve them. Business incubators may be considered useful to convert family businesses to more profitable enterprises when ownership changes across generations. Evidence from the study shows that the family enterprises are either maintained or even slowed down after succession, as is also reported by Mumbai et al. (2023). This means that the next generation will adopt weak enterprises that are still the same as the ones left by generations behind, or they will even inherit enterprises that are weaker than those of earlier generations. Given the role of entrepreneurship activities, as advanced in Nkamnebe & Ezemba (2021) and Mumbai et al. (2023), in reducing poverty, without the intervention of business incubators, poverty will continue to be inherited or transmitted across generations. In this way, it can be argued that just as business incubators are vital in strengthening entrepreneurial activities, they can be vital in supporting family enterprises run by the underprivileged, leading to the mitigation of the transfer of IGP.

Limitations and future research

This study focused on family enterprises in a rural, underprivileged environment and involved quite a small sample using qualitative methods. Future research on mitigating intergenerational transmission of poverty may have to focus on a far larger scale using a different methodology in different environments. Research may also be necessary to establish the criteria used to transfer enterprises to the ownership of the next family members. Studies in the intergeneration transmission of poverty are still minimal, and more research may be necessary.

Conclusions

This study explored IGP transmission from an entrepreneurial perspective whereby there is the assumption that small family enterprises that are inherited across generations can break poverty transmission. This is only possible if the enterprises are viable and profitable. Challenges that family enterprises face from successor to successor offer a threat to the realization of better livelihoods across the generations. The study then explored the nature of the challenges to determine whether they can be ameliorated by small business incubators. It was found that the family enterprise owners faced serious challenges resulting in the collapse, slowing down or maintenance without growth of the small family entities. The challenges they faced affected them significantly, and the possibility of improving their profitability to improve the status of IGP was affected. It was found that business incubators can be useful in reducing IGP.

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