

A COMPARATIVE ADVANTAGE APPROACH TO ENTREPRENEURSHIP IN THE SOUTH AFRICAN CONTEXT: THE CASE FOR DEVELOPMENTAL LOCAL GOVERNMENT

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ABSTRACT

Worldwide, entrepreneurship is recognised as essential for the economic growth of a country. In South Africa, the government has initiated several policies and initiatives for the growth of entrepreneurship. Despite these initiatives, the failure rate of small businesses remains high and there is widespread recognition that more need to be done to boost entrepreneurship in the country. The present study was formulated to offer a new approach to accelerate entrepreneurship in the countries. The aim of the study was to offer a comparative advantage based approach for the growth of entrepreneurship in the South African context. A document analysis technique was used to explore the nature of competitive advantages in South Africa's nine provinces. After exploring the comparative advantages inherent in these provinces, it then reviewed the capacity of local government to take advantage of these advantages for the purposes of growing local entrepreneurship and improve residents' lives. The study found that South Africa has different comparative advantages and the local governments possess certain operational elements for the exploitation of local advantages. Even though the Gauteng Province was found to have significant technological, demand pattern and commercial policy advantages than other provinces, every province had its own advantage elements which can be the basis for entrepreneurship. Local governments achievements in service delivery, citizen participation, accountability, reduction of corruption and skills development can be useful in realising the comparative advantage based entrepreneurship approach that was proposed in this study.

Keywords: Comparative Advantage, Entrepreneurship, Local Government, Economic Growth.

INTRODUCTION

Despite significant global interest in entrepreneurship, many developing countries such as South Africa have not reached their full entrepreneurship potential (Bowmaker-Falconer and Herrington, 2020). In South Africa, Unemployment remains high (29.1%) and (Bowmaker-Falconer & Herrington, 2020) while the failure rate for small businesses remains high (an estimated 75% of small businesses fail in the within the first four years of existence (Bruwer & Van Den Berg, 2017). Under these circumstances, few studies have considered the implementation of a comparative advantage approach to entrepreneurship. This study was based on the assumption that entrepreneurship practices are likely to vary from one geographical region to another based on the locational or geographical comparative advantages prevalent in a region. Having postulated the comparative advantage argument, a further assumption held in the study is

that the success and survival of entrepreneurial initiatives is based on a matching comparative advantages to the type and nature of entrepreneurial opportunities. In addition, successful fit between comparative advantages and entrepreneurial activities was assumed to lead to a higher rate of survival for entrepreneurial ventures and greater overall economic growth for South Africa. The study assumed that the higher failure rate of business initiatives could be also be a result of mismatches between comparative advantages and business initiatives.

LITERATURE REVIEW

Comparative Advantage

Adam Smith popularised the theory of comparative advantage while David Ricardo is well known for the theory of absolute advantage. These theories recognise the significance of four elements in trade, namely: (1) technological superiority, (2) resource endowments, (3) demand patterns and (4) commercial policies (Gupta, 2015:10). The theory of comparative advantage was based on the argument that trade between nations is based on certain absolute advantages that one nation may have on another. South Africa has crafted the developmental local government concept which is based on the belief that local government is closest to and has daily contact with the people (Thornhill, 2008:492) and should lead local development. This study was based on the assumption that the four elements stated above represent key concepts in the growth and development of entrepreneurship initiatives across different spheres led by local governments in South Africa.

Developmental Local Government

The concept of developmental local government has been envisaged in the South African decentralised government framework. Fox and Meyer (1995) observed that development is a concept that entails the improvement of quality of life for all and it includes the following concepts: (i) improving people's lives, for instance, income and consumption levels of food, medical services, education and such through the relevant economic growth processes, (ii) fostering the growth of people's self-esteem through the establishment of social, political and economic systems and institutions, which promote human dignity and respect; (iii) increasing people's liberties to choose by enlarging the range of choice variables, such as increasing the varieties of consumer goods and services. It appears from the above that development is based on comparative circumstances. As such, one can argue that the development of centralised entrepreneurship policies is likely to adequately address the unique needs of groups in a heterogeneous society such as South Africa. Hence the need for comparative entrepreneurship which should be seen as entrepreneurship based on comparative advantages of the prevailing local conditions. It is often argued that local government is government closest to the people. Local government is the sphere of government closest to the community and this strategic position makes it the ideal tool for development (Ababio, 2004).

Entrepreneurship and Developmental Local Government

The fact that local government is directly linked to the people and functions in the people's locality can be taken to imply that local government has the capacity to be the agent for implementing development in South Africa. As a key element of development, developmental local government should be viewed as critical for boosting entrepreneurship. The vision for local government in modern society has moved from mere service delivery to be one of actively inspiring and driving local economic activities such as entrepreneurship. Concepts of developmental government such as inclusive local citizen participation and equalisation of opportunities in decision-making can be considered as the fundamentals for local entrepreneurship. Through such concepts, Citizens are encouraged to actively participate at four levels: as voters; as citizens who express views on policy through stakeholder associations; as consumers and end-users of municipal services and as organized partners involved in the mobilization of resources for development through economic partnerships and collaborations with businesses, non-governmental organizations and community-based organizations (DPLG, 2009). Govender (2011) argues that citizen participation is clearly a strategic capacity and imperative of local government. The South African local government system, like others internationally, has adopted a parallel system of elected representatives and direct participation by citizens and civil society.

The White Paper on Local Government (RSA, 1998) details four interrelated focus areas for local government as follows: (1) maximising social development and economic growth (including meeting the basic needs of the poor, and the growth of the local economy), (2) influence social and economic well-being of local communities, (3) integrating and coordinating local activities (4) democratising development, empowering and redistributing wealth. It should be noted that the promotion of entrepreneurship in local communities can significantly play a role in realising key local government targets.

Conceptualisation of the Study

As stated in The White Paper on Local Government (2008) the reality in South African cities, towns and rural areas that millions of South Africans still live poverty and are isolated from services and opportunities. The apartheid local government system did very little to help the broad masses of South Africans with the greatest needs. On the other hand, the current democratic government has not met its full vision in reversing historical patterns of inequity and unmet human needs. Having noted this, and taking note of the essence of entrepreneurship in national development, local government must play a central role in representing communities, protecting human rights and meeting basic needs.

It must focus its efforts and resources on improving the quality of life of local communities, especially of those members and groups within communities that are often marginalised or excluded, such as women, people with disabilities and very poor people. Every public institution is created to provide specific goods and services (Nkuna, 2012 in Cloete & Thornhill, 2004:300). Taking note of these premises, it ought to be argued that the recognition and full consideration of comparative advantages in technological superiority, resource endowments, demand patterns and commercial policies across local governments can be a useful strategy for the growth of entrepreneurship as a vehicle for national development, reduction of unemployment and expansion of the national economy. The entrepreneur is popularly known as a skilled risk taker and as an individual who can exploit opportunities for financial gain is likely to find possible opportunities in relative advantages associated within localities and as promoted by relevant local governments.

METHODOLOGY

The study adopted a qualitative document analysis technique. Firstly, it analysed the General Household 2018 Survey Report to explore the situation across the nine provinces of South Africa, namely: Western Cape, Eastern Cape, Northern Cape, Free State, kwaZulu-Natal, North West, Gauteng, Mpumalanga and Limpopo provinces. The document analysis was purposive in that it searched on for information related to technological advantages, demand pattern advantages, resource endowments and commercial policy advantages of a provincial area relative to others. The General Household Survey (GHS) has been used as an instrument to track the progress of development across South Africa's nine provinces since 2002 when it was first introduced. The GHS 2018 was then analysed to search for the required data. Secondly, the study reviewed the Local Government Turnaround Strategy (LGTAS), 2009 document. In 2009 the Minister of Cooperative Governance and Traditional Affairs (CoGTA), together with the respective Members of the Executive Council (MECs) responsible for local government conducted an assessment across the nine provinces of South Africa to determine the key problem statement in different thematic areas and to establish the root causes of poor performance, distress or dysfunctional municipalities. From these assessments the consolidated State of Local Government Report, 2009, was compiled and widely consulted with stakeholders. Following the analysis of the results of these assessments and from the issues covered, the framework known as the Local Government Turnaround Strategy (LGTAS) was established and published in November 2009. One of the main aims of the Turnaround Strategy is to renew the vision of developmental local government. The LGTAS 2009 document was used to provide possible achievement themes within local governments that can be useful for the successful exploitation of comparative advantages in order for growth of entrepreneurship within local governments. Document analysis was then supported by a review of literature in order to yield a comparative advantage approach to entrepreneurship in the South African local government context.

FINDINGS

The review of the GHS (2018) Report demonstrates that economic activities in the nine provinces of South average vary from province to province. It was also established that each province has certain unique comparative advantages related to technology, demand patterns, resource endowments and commercial policies which in turn can affect entrepreneurship. Table 1 shows examples of the comparative advantages relative to the nine provinces. While it was found that the Gauteng Province possess more stronger advantages when compared to all other provinces, each province had its own advantage to focus on. For instance the Limpopo and kwaZulu-Natal provinces seemed to be strong in agricultural related endowments and demand patterns while the North West Province seemed to be more strong in livestock related areas. The implication of these findings is that entrepreneurship should focus on where comparative advantage lies. Whereas entrepreneurship in the Gauteng Province can be mixed and span across various sectors, the Western Cape appeared to have an advantage on recreational activities while the North West can relate to livestock issues.

Province	Technological superiority	Demand patterns	Resource endowments	Commercial policies
Gauteng	<ul style="list-style-type: none"> - High usage in communication technology. - Lead in internet connectivity 	<ul style="list-style-type: none"> - High demand for trade and accommodation ventures. - Leader in manufacturing - Leader in construction 	<ul style="list-style-type: none"> - Highly populated province - Highly populated province 	Leading business and economic hub
Limpopo	<ul style="list-style-type: none"> - Lowest in internet connectivity 	<ul style="list-style-type: none"> - High manufacturing activities 	<ul style="list-style-type: none"> - Leads in agricultural activities - High satisfaction in public health care facilities - High home ownership - High wood energy availability - High grain and food production - Good school attendance 	
Kwazulu-Natal	<ul style="list-style-type: none"> - Good internet connectivity 	<ul style="list-style-type: none"> - High livestock rearing - High grain and food production 	<ul style="list-style-type: none"> - Second highly populated province 	
Mpumalanga	<ul style="list-style-type: none"> - Good internet connectivity 	<ul style="list-style-type: none"> - High agricultural activity 	<ul style="list-style-type: none"> - High home ownership 	
Western Cape	<ul style="list-style-type: none"> - Superior in communication technology usage. - High internet connectivity 	<ul style="list-style-type: none"> - High manufacturing activities. - High in leisure activities 	<ul style="list-style-type: none"> - High use of electrical energy - High use of gas energy 	
Eastern Cape	<ul style="list-style-type: none"> - Moderate internet connectivity 	<ul style="list-style-type: none"> - High agriculture activity. - High presence of livestock - High poultry production 	<ul style="list-style-type: none"> - High home ownership - High use of paraffin energy 	
Free State	<ul style="list-style-type: none"> - Moderate internet connectivity 	<ul style="list-style-type: none"> - High vegetable and fruit production 	<ul style="list-style-type: none"> - High use of electrical energy access to good quality water for use - Good school attendance 	
Northern Cape	<ul style="list-style-type: none"> - Moderate internet connectivity 	<ul style="list-style-type: none"> - High livestock rearing activities - High poultry production 	<ul style="list-style-type: none"> - High home ownership - High use of electrical energy - High use of gas energy access to good quality water for use 	
North West	<ul style="list-style-type: none"> - Low internet connectivity 	<ul style="list-style-type: none"> - High livestock rearing - High poultry production 	<ul style="list-style-type: none"> - high home ownership - High use of electrical energy 	

Having noted that South African provinces vary in their comparative advantages to successful entrepreneurship, the study then looked at the capacity of the local governments to capitalise on the comparative advantages so as to promote competitive entrepreneurship. The LGTAS was then reviewed and a number of achievements in improving the operations of local governments were found. The study sought to argue that these achievements can be fully operationalised so as to realise maximum advantage of the local advantages. It was felt that for successful entrepreneurship that is based on local advantages, the local governments should be efficient in the correct area. Table 2 provides themes established from the analysis. These themes

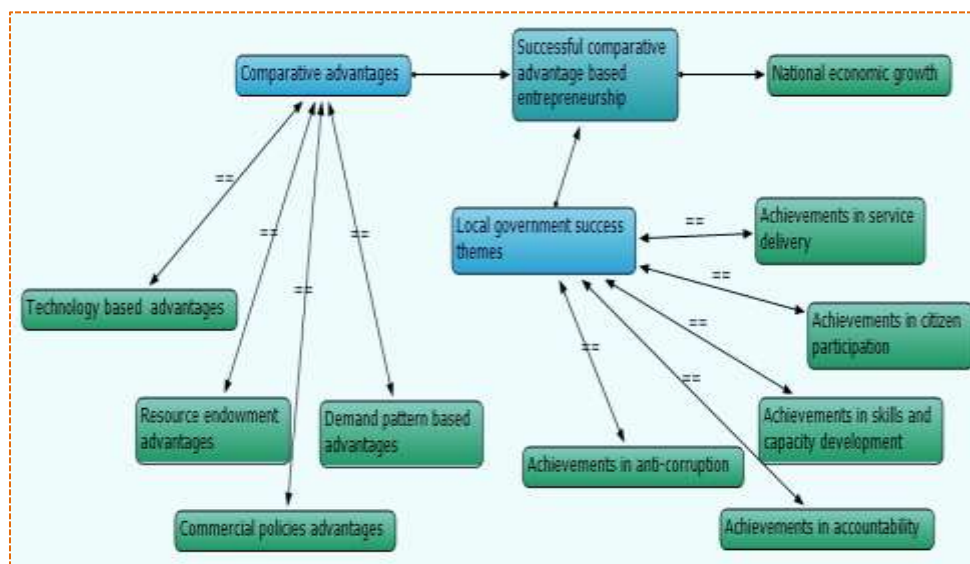
could be used to operationalise the comparative based approach in South African local governments.

Table 2	
THEMES FOR OPERATIONALISING THE COMPARATIVE APPROACH TO ENTREPRENEURSHIP IN SOUTH AFRICAN LOCAL GOVERNMENTS	
Themes	
Theme One	Achievements in accountability (The local government system has made significant progress towards achieving an open and transparent public service. This has been achieved through a system of institutional checks and balances)
Theme Two	Achievements in Citizen Participation (With regard to accountability and citizen participation, there have been several initiatives. These have ranged from establishing statutory institutions, such as intergovernmental forums at all three spheres of government and ward committees at local government level, to non-statutory mechanisms such as izimbizo and working groups. The establishment of ward committees at the sphere of local government has been an important component of instituting democratic government. These committees support the right of communities to participate in decisions that affect development in their areas, while similarly imposing a corresponding duty on municipalities to encourage community participation.
Theme Three	Achievements in Anti-Corruption (Specialised courts to prosecute acts of corruption have been established and have shown some success. Sector co-ordinating structures, the blacklisting of individuals and businesses that engage in corrupt activities and national anti-corruption hotline (NACH), managed by the Public Service Commission (PSC) have also been established. To deal with tender fraud, the Prevention and Combating of Corrupt Activities Act of 2004 called for the establishment of a Register for Tender Defaulters, which is currently being managed by National Treasury. Existing laws provide a foundation for open, transparent and accurate government. In addition to these progressive laws, a number of institutions that deal with corruption and hold public officials accountable have been established. These include oversight institutions such as the Auditor-General and the Public Protector, which were established in terms of Chapter 9 of the Constitution. Many measures have also been taken to counter corrupt practices and put stronger accountability mechanisms in place.
Theme Four	Achievements in Developing Skills and Capacity (Local government is experiencing shortages in skilled personnel. This, impacts on its ability to plan, budget, manage and deliver services. Government has acknowledged this and introduced support programmes to build capacity in municipalities over the last 23 years. Other efforts include drawing expertise into the employ of the municipal sector through initiatives such as Project Consolidate and the Joint Initiative on Priority Skills Acquisition (JIPSA).
Theme Five	Achievements in Service Delivery (The thrust of local government's constitutional functions is to deliver services to communities. These are set out in schedules 4 and 5 of the Constitution (National Planning Commission, 2011). There have been many efforts to improve service delivery, especially the provision of basic infrastructure to poor households. The Local Government Turnaround Strategy (LGTAS) identifies water, sanitation, refuse removal, electricity and roads as primary municipal services.

RESULTS

The study of the GHS has established that South African Provinces hold differing locational or comparative advantages. The Gauteng Province was found to possess significant advantages owing to it being home to the City of Johannesburg which is one of the strong economic cities of Africa. Entrepreneurship within the Gauteng Province can be based on broad opportunities related to technological, demand patterns and commercial policies. The Western Cape Province seemed to be the city which is most suited to recreational, leisure and tourism related entrepreneurship. This seemed to be in line with the fact that the Western Cape Province includes the Cape Town Metropolitan area which is a well-known tourist attraction city which

and includes significant world status facilities to accommodate people from various parts of the world. Provinces such as Limpopo, Mpumalanga, North West and kwaZulu-Natal were found to possess their own comparative advantages which local communities can also pursue to ensure progressive entrepreneurship. For instance, the Limpopo province seems to be endowed with rich soils making it favourable agriculture based entrepreneurship whereas the North West province seemed to be suited for livestock related entrepreneurship. Provinces such as the Eastern Cape and Free State have their own comparative advantages but could require constant government related support. The study also found that a number of achievements have been noted in the South African local government system. These achievements can be essential in order to realise success of the comparative approach to entrepreneurship. These include achievements made in service delivery, anti-corruption, citizen participation, accountability and skills and capacity development. The basic comparative approach to entrepreneurship in the South African context is provided in Figure 1



Source: Author's configuration

FIGURE 1
A COMPARATIVE ADVANTAGE BASED APPROACH TO ENTREPRENEURSHIP IN THE SOUTH AFRICAN CONTEXT

CONCLUSION

This study was formulated to explore two issues, firstly: the existence and nature of comparative advantages that can be exploited by local spheres of government for the full realisation of entrepreneurship objectives of the nation. Secondly, it sought the state of local government in exploiting comparative advantages within their localities for boosting entrepreneurship and ultimately, national economic growth. It then looked for the possibility of a comparative advantage based approach to entrepreneurship across South African provinces. The study assumed that if local governments focus on their comparative advantages and tailor suit initiatives for entrepreneurship growth to the local advantages then the expected success rate of small businesses will increase. This in turn can lead to a favourable economic group. The study found that South African provinces vary in their comparative advantages based on technological

advantages, resource endowments, demand patterns and commercial policies. It was also found that local governments have made significant achievements in accountability, service delivery, anti-corruption, citizen participation and skills capacitation. Literature perspectives indicated that with these achievements, local governments can distinctively exploit their comparative advantages. These achievements when carefully directed to the correct advantages of a local area can lead to successful entrepreneurship in the various provinces. This in turn can result in improved economic growth.

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