

THE PRIMACY OF EFFECTIVE HUMAN CAPITAL MANAGEMENT TO THE GROWTH OF ENTREPRENEURSHIP VENTURES. A STUDY OF CASES FROM THE FAST FOOD RESTAURANT SECTOR IN CAPE TOWN

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ABSTRACT

This paper draws on two fields, human resources management and entrepreneurship to examine the observed problem of stalled established business ownership even despite favourable Total Early Stage entrepreneurship (TEA) among many nations. The aim of the study was to establish the perceptions of entrepreneurs on the influence of human capital on the growth and sustainability of entrepreneurial ventures from the restaurant sector in Cape Town. The study adopted a qualitative research design which was based on interviews to infer the entrepreneurs' perceptions on the role of effective human capital management to growth of entrepreneurial ventures. Fifteen interviews were conducted and analysed following a thematic analysis procedure. Various themes and sub themes which pointed to the criticality of effective human capital management were established. It was found the people possess certain social, philosophical, psychological and ideological attributes that cannot be found from other resources. At the end of the analysis, it was established that human resources are central to the growth of entrepreneurial ventures as they possess certain exploitable entrepreneurial talents, are capable of unlocking the value of other resources and also they are the drivers of growth. Following these findings, it was recommended that entrepreneurs should centralise effective human capital management for growth.

Keywords: Entrepreneurship, Human Capital, Small Businesses, Business Growth, Competitive Advantage.

INTRODUCTION

Reporting for the World Economic Forum (WEF) in its yearly series of the Global Economic Report, Schwab and Zahidi (2020) observed that the year 2020 has been characterised by major disruptions which were epitomised by the Covid-19 pandemic as well as increases in technological focus associated with the Fourth Industrial Revolution (4IR). Against this scenario, the years ahead have been forecasted to emphasise on re-building and the transformation of systems to ensure resilience to further shocks as well as better development (Schwabb & Zahidi, 2020). Borrowing from Barney's (1992) Resource Based View (RBV) of the firm, the present study was based on the premise that, better future performances has to recognise the position of resources as the basis for competitive advantage. The study was hinged on the recognition that entrepreneurs and other forms of businesses require superior human capital systems to re-build, strengthen their competitiveness and increase resilience against further economic shocks. In fact, Schwab and Zahidi (2020) impressed that the previous epoch was characterised by talent shortages, skills shortages and inappropriate reward systems which have been deepened by Covid-19 and

technological crisis. Consequently, there is greater need to re-align, re-skill and re-educate human resources for greater resilience and transformation for development.

PROBLEM STATEMENT

More than seventy five percent (75%) of new entrepreneurial ventures fail in their first three years in South Africa (Bruwer & Van Den Berg, 2017). South African entrepreneurs face the threat of failure to sustain their ventures. Recognising this problem in the Global Entrepreneurship Monitor (GEM), Bosma et al. (2020) exposed that the proportion of individuals starting and running a business is greater than that of those owning established businesses. This seems to suggest that while the tendency to start a business venture could be high in many economies, sustaining the ventures seem to be a challenge. In South Africa, this phenomenon manifests itself in a high failure rate for small businesses. Schwab and Zahidi (2020); Asoba (2020) reported the same paradox and commented that even though there has been growth in entrepreneurial culture across societies, the actual creation of sustainable businesses has stalled. Inquiries into this phenomenon suggest that there are a large number of factors contributing to the problem including limited resources, lack of key infrastructure, leadership inadequacies, and poor managerial skills of entrepreneurs as well as a lack of relevant business etiquette. Human capital management seems to be an important component of the entrepreneurship matrix. Few studies have considered the human resources element to the failure problem. In particular the effective acquisition of skilled human capital for the sustenance of entrepreneurial ventures has not been fully considered. Vuba (2019) further observes the skills challenges faced by entrepreneurs and commented that South African entrepreneurs who own small businesses find it difficult to secure their skills requirements since many skilled persons prefer to seek employment opportunities in large and established organisations as well as in the public sector. Research has established that there are many factors that contribute to failure of many entrepreneurs, including poor financial management. Entrepreneurs, as they grow, require the services of certain people to drive their value creation strategies. The way the entrepreneur manages its pool of human resources could be an important determinant of success.

Objectives of the Study

Given the research problem stated above, the objectives of the study were:

1. To explore the perceptions of entrepreneurs on the primacy and importance of human capital management on the sustainability of their ventures.
2. To establish the potential of role of human capital in entrepreneurship success.

REVIEW OF LITERATURE

Sustaining Entrepreneurship in the Restaurant Sector in South Africa

Given the problem of skills shortage that entrepreneurs face in managing their small businesses, it appears that there is greater need for entrepreneurs to close the skills gap through specially focused human capital management that addresses special needs. Lack of new business model for small businesses in the fast food restaurant sector in Cape Town is making them less competitive due to the impact of disruptive technologies. Drawing from Schwab (2016), as a result of disruptive technologies associated with the 4th Industrial Revolution (4IR), business models are transforming and industry best practices are being recon-figured, leading to multiple speculations about future models and factors for business survival, competitiveness and sustainability. Disruptions in traditional business models within

the restaurant sector of the hospitality subsector manifest in high failure rate (Mupani&Chipunza, 2019) of small restaurants as they fail to respond to changes and achieve new operational efficiencies in the context of the 4IR (Mhlanga, 2018). Statistics South Africa [SSA] (2016) reported a sixty two percent (62%) failure rate for fast food restaurants within the first year of business while the failure rate over five (5) years was reported to be eighty seven percent (87%). To explore the phenomenon, this study sought to explore the central role of superior human capital management in the re-modelling of the business model for small restaurants in Cape Town. The study is expected to boost entrepreneurship in the fast food restaurant sector and to improve the sustainability of small restaurant businesses within Cape Town. The outcomes of this study are expected to contribute to the sustainability and competitiveness of fast food small businesses and inform policy makers on relevant policies to implement to support small businesses.

The Human Capital Context for Entrepreneurship in South Africa

Human capital can be defined as the capabilities and skills of people and the population in general as key contributors to the business labour system (Schwab & Zahidi, 2020). Gurel and Tat (2017) recognised that human capital remains a key source of strengths for many organisations. In analysing the Strengths, Weaknesses, Opportunities and Threats (SWOT) of organisations, human resources have been often identified as a key element of organisational strengths. Competitive advantage theories have recognised that human capital is a critical source of sustained competitive advantage (Barney, 1991; Powell, 2001; Gaya &Struwig, 2016). A number of conjectures and propositions on the economic position of entrepreneurship in several contexts have been researched. The emergence of entrepreneurship research seem to have started in the early 1920s with Schumpeter (1934) and Knight (1921) having received recognition as pioneers of entrepreneurship research (Ferreira, et al., 2015). Frese and Gielnik (2014) revealed that entrepreneurship research trends involved a focus on the psychological aspects of entrepreneurs before it took a turn to the economic strategy of entrepreneurship. Possession of key resources has always been recognised as critical in organisational studies. Two critical frameworks, namely: (1) the strength, weaknesses, opportunities (SWOT) analysis and (2) resource based views of the firm, have always recognised that the right people are a strong force for organisational growth. In a literature review of small businesses and the South African economic environment, Bruwer and Van Den Berg (2017) observed the seminal work of Joseph Schumpeter as the origins of the small business phenomenon to solve the problem of unemployment. Small businesses started to emerge in the early 1980s. In South Africa, the National Small Businesses Act No 102 of 1996 was passed to formalise small businesses. Robert Schumpeter's 1947 seminal paper on creative responses pointed to the criticality of innovation (that is re-inventing an existing idea) as opposed to invention (the generation of a new idea) (Bruwer& Van Den Berg, 2017). This argument is the basis for the growth and support of entrepreneurship and small businesses. It is noted that the United States of America (U.S.A) was the first country to formalise the operations of Small businesses following the Schumpeter principle. In South Africa several legislative instruments were crafted in 1996 to advance Small businesses. A number of government structures and institutions were set up to promote development of small businesses, these included: (1) Small Enterprise Development Agency (SEDA) to facilitate the provision of financial, training, marketing franchise opportunities for small businesses, (2) National Employment fund to assist and fund small businesses initiated by black people, (3) National Small Business Advisory Council which promoted SMME at the central government level. A joint study of small businesses conducted by the World Bank group in partnership with

Genesis Analytics and the South African Department of National Treasury (2018) found that small businesses contribute thirty four percent (34%) to the Gross Domestic Product GDP and employs between fifty percent (50%) to sixty percent (60%) of the country's workforce. This demonstrates how small businesses have become a key economic phenomenon in South Africa. In 2018, the number of small businesses in South Africa was estimated to be 2.44 million (SEDA, 2018) and the majority of them are in the wholesale and retail sector.

The Competitiveness of Small Businesses in the Restaurant Sector

Survival, sustainability and competitiveness of entrepreneurs in the small restaurant sector is generally considered low. In fact the failure rate for fast food restaurants in South Africa is considered to be higher than the average failure rate for small businesses, with most fast food restaurants failing in their first year of inception (SSA, 2018). This problem exists in a situation where there is also an increase in demand for fast foods (Mhlanga, 2019). Some researchers have attributed the high failure rate to the strong competition which players in the fast food industry experience. Historically, the restaurant industry used to be characterised by an oligopoly competition structure with the few industry players following an in-service business model. With the increase in competition, new innovative business models such as digital service platforms have been experienced. Operators with better, people oriented application tendencies have increased the cost of entry for new restaurants. This problem is of greater magnitude when consideration recent economic literature which have warned about the progression of the world economic order to the 4IR which involves widespread application of robotics and automation, artificial intelligence, nanotechnology and adaptive or convergence technologies. Furthermore, technologies such as artificial intelligence and robotics may destroy or disrupt many jobs in the services sector and in labour-intensive industries (Schwab, 2018). It has also been noted that the 4IR is also associated with mass personalisation, enabled by social technologies and better data processing capabilities. Schwab (2018) comment that these advances have a direct bearing on both big and small firms, as a result, fundamental shifts in production processes are a necessity. Given these trends, the proposed study is premised on the idea that human capital based operational strategies are central to both the survival and the failure rate experienced in the fast food sector.

METHODOLOGY

Data for this study was collected through interviews with entrepreneurs from the fast food restaurant sector in Cape Town. Open ended questions were asked during the interviews to establish their perceptions on the importance of human capital management in their enterprises. The methodology adopted for the study was drawn from sociological assumptions of reality as well as the associated epistemological assumptions. The researcher believed that the workplace is a social institution which was created to serve social functions. In serving the presumed social function, the workplace is also characterised by various social interactions involving the employees of the workplace. As a result of the stated basis, sociological theories were assumed to be appropriate in analysing premises of the study. Marvasti (2004) posit that sociological realities can be understood from three basic philosophical positions, namely: idealism, materialism and realism. The study was rooted in the idealist philosophy, holding that reality is entrenched in people's minds. It was believed that the reality of the phenomenon under investigation can be well understood through the ethnographic approach based on interviewing, questioning and interacting with fast food restaurateurs to gather their views on their perceptions on the role of human capital in influencing growth of their entrepreneurial ventures.

In setting out the methodology for the study, it was noted that the existence of entrepreneurs manifests itself in the existence of small businesses. This argument is consistent with Bosma et al (2020) who inform that entrepreneurship in an economy is indicated by the complexity of Established Business Ownership (EBO). Consequently, EBO is related to the number of small businesses created. In view of this, the study focused on entrepreneurs as defined in terms of persons who own small businesses. Since the study focused on the restaurant sector, the entrepreneurs who participated in the study were from the restaurant sector. Following the above, all respondents were owners and/or managers of their respective small businesses, (2) all small businesses were fast-food enterprises, (3) all small businesses were non-franchised business entities, (4) all small businesses were in conformity with the formal definition of an SMME from the Small Business Act No. 102 of 1996, (4) all small businesses were either micro enterprises or small enterprises, (5) all small businesses employed fewer than 50 full-time employees, (6) all small businesses were sole traders or partnerships (7) all small businesses had been in existence for at least two years and (8) all small businesses had operated within the perimeters of the Cape Town Metropole area.

A snowball sampling strategy was followed. A popular small restaurant entrepreneur was identified within the Cape Town area. An in-depth interview was conducted and tape recorded. The interview focused on the perceptions of the entrepreneur on the role of human capital in the growth of entrepreneurship ventures. After the interview, this first respondent was asked to suggest other entrepreneurs to participate in the study. This process was continued and the interviews were conducted in the same style until no new information was emerging. A total of fifteen (15) interviews were conducted. Therefore the snowball sampling technique was conducted until there was information saturation.

ANALYSIS AND DISCUSSION

To analyse the data collected from the in-depth interviews that were conducted in the study, Berg's (2001) reflections that content analysis is the most direct way of analysing interview data. The interview views were recorded on tape before they were recorded verbatim for further analysis. The study sampled out words, sentences and phrases that indicated the prime and central role of human resources management in driving the growth of entrepreneurial ventures among the entrepreneurs who participated in the study. The data was then subjected to thorough reading and annotation of themes and issues. The aim of these processes was to ensure that the data was adequately condensed to ensure comparability and reduction into meaningful themes and summaries as observed in Neuendorf (2002). Table 1 shows a coding an open coding chart that was created to depict the main themes and sub themes that emerged from the study.

Open coding for main themes	Sub themes		
Respondent 1: An entrepreneurial venture is a creation of people (creation of value), everything else comes from the people (central link).	Respondent 8: Growing the entrepreneurial venture through continuous value creation	Respondent 10: Ensuring sustainability	Respondent 15: Finding new opportunities
Respondent 2: Entrepreneurial opportunities arise from the creativity and total actions of people in organisations (Organisation wide business roles, Originator of business	Respondent 1: Performing organisational wide and pervasive business roles Respondent 14:	Respondent 4: organise, administer and manage all other resources	Respondent 8: Fosters entrepreneurial competitiveness

ideas).	recognising new entrepreneurial opportunities		
Respondent 3: Entrepreneurs rely on both human and non-human components to create value for the society. The human component oversees the non-human component (People oversee non-people components).	Respondent 3: oversees other growth enablers	Respondent 5: plays central roles	Respondent 11: Coordinates non-human resources
Respondent 4: Entrepreneurs are unique individuals with special business creation talents (Provide entrepreneurial talent). Talents are inherent in people. Talented people cannot be reproduced or copied easily (Uniqueness of people talent)	Respondent 1: invest entrepreneurial talent in the venture	Respondent 7: entrepreneurial talent cannot be copied by competitors	Respondent 9; source of competitive advantage
Respondent 5: People possess psychological, social, philosophical and ideological prerequisites for the growth of entrepreneurship. These prerequisites cannot be provided by non-human components of the entrepreneurial venture.	Respondent 9: Formulate the entrepreneurial vision, mission and enduring ethos of the entrepreneurial venture Respondent 8: Source of competitive advantage	Respondent 14: Responding to environmental shifts Respondent 15: Source of superior identity of the entrepreneur Respondent 1: Source of unique competitive advantage	Respondent 3: ensures unique service delivery Respondent 6: Source of superior productivity
Respondent 6: All other forms of entrepreneurial growth are overseen by people.	Respondent 13: drives new growth opportunities	Respondent 12: Performs strategic roles for growth	Respondent 6: Act as strategic leaders. Respondent 2: Operate strategic technologies Respondent 5: Possess the strategic intelligence for growth

Further analysis of the above themes and subthemes involves analysing patterns and of relationships among the themes, sub themes and the original transcribed interview data. Atlas ti. was used to analyse and to depict the relationships within the data set. The analysis resulted in the network diagram which is presented as Figure 1. Figure one shows that people tend to possess certain social, psychological, ideological and philosophical attributes that are essential for the growth of entrepreneurship. These attributes greatly differentiate human resources from non-human resources. As a result of these unique attributes possessed by human capital (Barney, 1991), there are certain aspects of effective human capital management which further create the centrality of human capital in entrepreneurial ventures. These results seem to vindicate literature arguments that human resources are critical for competitive advantage (Powell, 2001; Barney, 1991). Sub themes from the respondents included the observation that human capital represents the provision of entrepreneurial talent, the creation of entrepreneurial value as well as the performance of certain entrepreneurial roles. Furthermore, the respondents suggested that people in organisations are central as they build entrepreneurial competencies and also drive growth of ventures. The observation that entrepreneurs are at the centre of all other resources as they operate technologies, provide

strategic intelligence and are the source of entrepreneurial talent were evident from the study (Sullivan, 2018).

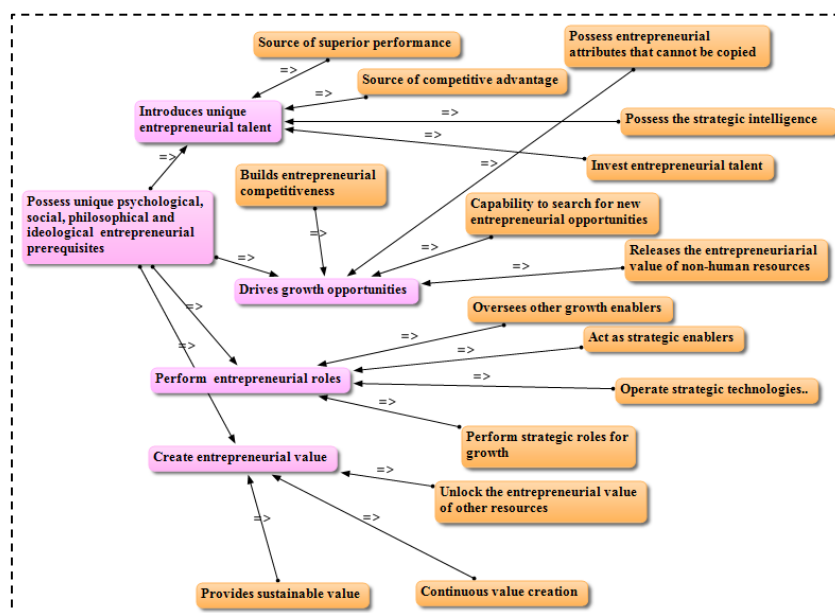


FIGURE 1
THEMES AND SUB THEMES ON HUMAN CAPITAL PRIMACY IN
ENTREPRENEURSHIP

Author’s Construct

The network shown in Figure 1 was subjected to further analysis so as to establish key central themes in order to summarise the data shown in Figure 1. Figure 2 depicts the central themes that arose after further scrutiny. To arrive at the central themes, the themes and sub themes shown in Figure 1 were condensed to create the network diagram shown in Figure 2 using Atlas ti. From Figure 2, the primacy of effective human capital management is based on its capacity to drive entrepreneurial value, unlock value from other resources as well as the possession of key entrepreneurial talents (Nkosana et al., 2016).

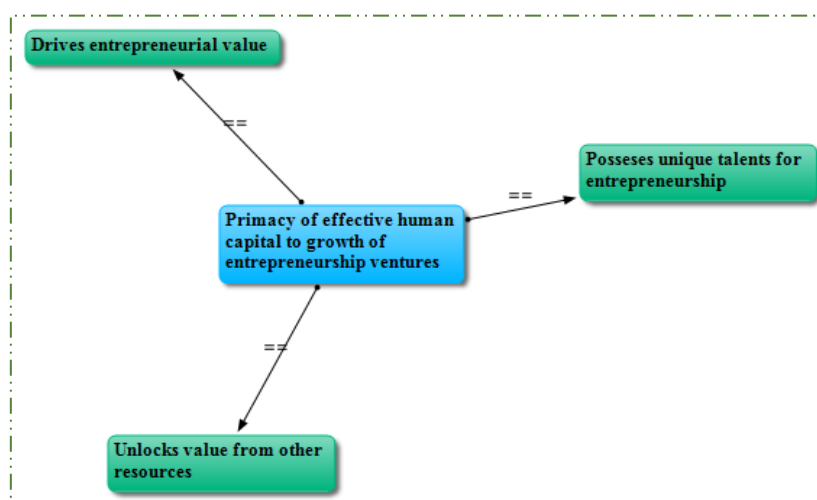


FIGURE 2
THEMATIC DIAGRAM ON THE PRIMACY OF EFFECTIVE HUMAN CAPITAL
TO GROWTH OF ENTREPRENEURSHIP VENTURES

CONCLUSIONS

This study was set to investigate perceptions on the primacy of effective human capital management among entrepreneurs from the restaurant sector in Cape Town. The study evolved from the recognition that small businesses created by entrepreneurs face a high failure rate owing to several environmental conditions. Various themes and sub themes emerged on the nature in which human capital management is central to the sustainability and growth of entrepreneurs selected from the restaurant sub-sector of the hospitality industry. These were summarised into three packaged themes that epitomise the primacy of effective human capital management in the growth of entrepreneurial ventures. These three were: human capital drives entrepreneurial growth, human capital unlocks the value of other resources and also people possess various entrepreneurial talents for growth. Therefore the conclusion from the study pointed to the supremacy of effective human capital management for the growth of entrepreneurial ventures.

RECOMMENDATIONS

Following these findings, it is recommended that entrepreneurs in the restaurant sector in Cape Town should recognise human capital management as a key and central factor in sustaining and growing their ventures. These entrepreneurs are recommended to ensure that their employees are well selected and trained to ensure that they contribute their most to the growth of their entrepreneurial ventures.

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