EXPLORING HOW SOUTH AFRICAN BUSINESS INCUBATORS ASSIST ENTREPRENEURS IN ACCESSING VENTURE CAPITAL

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GRNALL003

Research dissertation presented for the approval of the University of Cape Town Senate in fulfilment of part of the requirements for the degree of Master of Commerce (Specialising in Financial Reporting, Analysis and Governance) in approved courses and a minor dissertation. The other part of the requirement for this qualification was the completion of a programme of courses.

I hereby declare that I have read and understood the regulations governing the submission of Master of Commerce dissertations, including those relating to length and plagiarism, as contained in the rules of the University, and that this dissertation conforms to those regulations.

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ABSTRACT

Context: Venture Capitalists (VCs) specialise in providing capital to new businesses with a short track record; however, new South African businesses still face high failure rates due to a lack of funding and insufficient entrepreneurial skills. Business incubators (BIs) aim to bridge this gap by providing support and resources to entrepreneurs to start and manage new businesses and access to capital, including venture capital.

Purpose: This study assesses how South African BIs support entrepreneurs in preparing for venture capital funding.

Research Design: The study is an exploratory qualitative study and employs an engaged scholarship approach and entrepreneurial ecosystem theory. Primary data was collected through semi-structured interviews, supplemented by a questionnaire with three key stakeholders: BIs, VCs, and entrepreneurs. Thematic analysis was used to identify key themes and insights.

Main findings: BIs can significantly impact entrepreneurs' ability to secure venture capital by providing tailored support and networking opportunities. Stifling this impact is the expectation gap between BIs and VCs, BI management expertise, insufficient quality entrepreneurs, and government policies that are mute on early-stage funding.

Contribution: The research builds on existing literature and highlights BIs' critical role in the South African entrepreneurial ecosystem. It also provides insights to BIs and the government to aid the creation of a thriving entrepreneur ecosystem bolstered by increased VC participation.

Recommendations and Implications: The BI-VC relationship should be strengthened and communication enhanced. BI management should actively increase their entrepreneurial expertise and skills while building programs that effectively enhance entrepreneurial skill development. The government should increase effective policies that create an environment for early-stage capital to thrive. Improving entrepreneur support can lead to higher new business success rates, contributing to economic growth and job creation in South Africa.

Research limitations: The study's population was limited to the Western Cape, although some participants are involved in their role (entrepreneur, BI, or VC) throughout the country and some throughout Africa.

Originality: This study uniquely explores the intersection of South African BIs and VCs to increase entrepreneurial success through improved BI support mechanisms. Adding to previous BI literature by including the VC and entrepreneur perspective, supplementing interviews with a questionnaire to corroborate results, grounding the study on a theoretical framework and collaborating with practitioners using the engaged scholarship approach, determining whether any changes occurred since previous studies, and exploring the industry for new success factors.

Keywords: Business incubators, business support, early-stage funding, entrepreneurship, startup success, venture capital

CONTENTS TABLE

TABLES LIST

DIAGRAMS LIST

ACRONYMS LIST

BI or BIs	Business Incubators
BEE	Black Economic Empowerment
GEM	Global Entrepreneurship Monitor
MNC	Multi-National Corporation
PE	Private Equity
PIC	Public Investment Corporation
R&D	Research and Development
SME or SMEs	Small or Medium-sized Enterprise(s)
SA SME	South African SME
SAVCA	South African Venture Capital and Private Equity Association
USA	United States of America
VC or VCs	Venture Capitalist(s)

INTRODUCTION

Maduku and Kaseeram (2021) stressed how alarming the failure rate of South African small businesses was, especially among startups. This failure is concerning as small businesses significantly contribute to economic growth and job creation (Cant, 2020; Maduku and Kaseeram, 2021). This problem is a pervasive issue across the African continent, and the lack of access to finance has been identified as a key factor (Kato & Tsoka, 2020). Cant (2020) suggested that job seekers turn to entrepreneurship to put food on the table due to the lack of jobs in the formal sector, and many of these job seekers reside in the underdeveloped urban areas of South Africa. Cant (2020) concludes that the legal processes and access to funds are stumbling blocks to their success. With the official unemployment rate of South Africa at 32.1% in the third quarter of 2024 (Stats SA, 2023), the failure of Small or Medium-sized Enterprises (SMEs) and the failure to create jobs is especially problematic.

Startups and new businesses are driven by founders (entrepreneurs) to disrupt, create, or fill a gap in an industry or market and will probably require funding at some point to grow into mature businesses (Ogujiuba and Olamide, 2021). Founders could self-fund their startup, turn to family or friends, or seek other sources of financing (Urban and Moreno, 2022). Traditional lenders are unlikely to provide financing to a new business without a proven track record or security, thus starving the business before it has had a chance to meaningfully engage in trade (Urban and Moreno, 2022). Startups could turn to Venture Capitalists “VCs” for funding, as VCs typically specialise in financing startup businesses (Pradhan et al., 2018).

Key obstacles noted in the literature to the growth of new businesses and startups in South Africa are access to various finance options, management attitude and skills, and shared infrastructure, leading to a high failure rate (Olawale and Garwe, 2010). Business Incubators “BIs” act as stepping stones for entrepreneurs to access VC funding and other financing options. BIs provide entrepreneurs with legal and other business-related assistance, subsidised or free office space, and management skills development (Rens et al., 2021). VCs provide funding, supplemented by mentoring and guidance to aid the venture’s growth and success (Pradhan et al., 2018); however, VCs state that entrepreneurs in South Africa lack the relevant business skills as one of the main reasons that VCs turn down startups’ funding applications in South Africa

(Celliers et al., 2021). BIs and VCs aim to support new businesses' growth, albeit from differing perspectives. BIs focus on support structures to enable entrepreneurs to get to a point where they can raise financing or are self-sustaining. VCs focus on providing financing with the goal of earning a financial return. BIs should link their entrepreneurial development to what VCs require (Mlambo, 2013). If this is not the case, entrepreneurs will likely fail in accessing venture capital funding.

This dissertation set out to assess whether BIs support entrepreneurs in a way that enables them to be successful at attaining VC funding. The researcher interviewed the three key stakeholders in the entrepreneurial environment, to answer this question through different lenses. In short, the researcher asked whether BI's resources include specific support for entrepreneurs to access venture capital funding, asked VCs what areas entrepreneurs require support from BIs, and asked entrepreneurs what support they received and whether it allowed them to access venture capital funding. This research builds on the existing global literature to identify how South African BIs can improve their entrepreneurial support that will ultimately drive economic growth, reduce joblessness, and alleviate poverty (Madiba and Madikizela, 2022).

This research builds specifically on Buys & Mbewana's (2007) eight key BI success factors by adding the venture capital perspective and employing the engaged scholarship approach (Arundale, 2018; J. T. Mahoney, 2008; Simba and Ojong, 2017; Van de Ven, 2007) alongside entrepreneurial ecosystem theory as the theoretical framework (Fuerlinger et al., 2015; Hemmert et al., 2019; Isenberg, 2010; Isenberg, 2016; Isenberg & Onyemah, 2016; Stam & van de Ven, 2021; Wurth et al., 2022). The study was performed using a qualitative research design with semi-structured interviews for primary data collection from ten participants (Alsaawi, 2014; Asenahabi, 2019). The participants also completed a short questionnaire to assist the researcher in comparing interview data between the different key stakeholders and the triangulation of results to ensure robustness (Thurmond, 2001). The results were analysed using thematic analysis to identify and determine themes for discussion.

The study confirmed the eight BI success factors that Buys and Mbewana (2007) identified in their research and found three more themes: lack of early-stage or seed funding or support, effective structured entrepreneurial program use, and the importance of peer learning. BI management's entrepreneurial skills and networking

abilities were highlighted as critical because of the impact that it has on other BI success factors. Despite some contradictory results, such as rating non-key factors from the literature as key factors, the questionnaire supported the interview findings.

The next section of this dissertation discusses the existing South African VC and BI literature, including a review of the state of small businesses in South Africa. The theoretical framework discussion follows the literature review, outlining how the engaged scholarship approach and entrepreneurial ecosystem theory ground the research. The methodology section is next, providing details about the research design, data collection, and data analysis techniques employed. The last section of this dissertation is the results and discussion section.

LITERATURE REVIEW

INTRODUCTION

This section discusses the literature on the South African VC market and the literature on South African BIs that has already been produced. The section commences with a brief overview of the South African economy as it relates to small and startup businesses, the failure rate of new businesses, and the sentiment for entrepreneurship in South Africa, followed by a description of the typical business cycle and the type of funding usually available. A discussion on the South African BI and Venture Capital market follows, relating these to the dynamic with entrepreneurs. Lastly, the section juxtaposes the role that South African BIs and VCs play to describe the gap in the literature.

THE SOUTH AFRICAN ECONOMY AND THE DEVELOPMENT OF SMALL BUSINESSES

According to the Global Entrepreneurship Monitor[1] (GEM) 2021/2022 report for South Africa, early-stage entrepreneurs perform relatively better than in past reports, showing a recovery from the COVID-19 pandemic (Bowmaker-Falconer & Meyer, 2022). Owner-managed businesses in South Africa that have survived for over three and a half years increased from 3.5% to 5.2%, showing a positive trend from past reports and a recovery since the COVID-19 pandemic. An increase from a small base is not enough, though, as South Africa only ranked 46 out of 49 countries analysed on the 2022 National Entrepreneurial Context Index (NECI) (GEM, 2023), and previously 45 out of 50 in the 2021 NECI and 49 out of 54 in 2019 (Bowmaker-Falconer and Meyer, 2022). Moving from fifth worst in 2019 to third worst indicates that South Africa is falling behind other countries participating in the NECI. This persistent bottom-of-the-log position indicates that more support is required to develop entrepreneurs to boost the economy and address the country's many obstacles.

Many South Africans still view entrepreneurship as an undesirable career path, where the fear of failure is a primary reason to instead seek or remain in employment (Bowmaker-Falconer and Meyer, 2022; Khuzwayo, 2015). The number of challenges

[1] The Global Entrepreneurship Monitor is a global research consortium that conducts surveys and studies to assess the level of entrepreneurial activity across countries.

entrepreneurs face, such as access to finance, mentors, and networking opportunities, raises the barrier to success (Khuzwayo, 2015). BIs aim to reduce these barriers and incubate entrepreneurs' businesses so that their businesses grow until they no longer need the services BIs provide (Khuzwayo, 2015). BIs provide business expertise, office space, and a supportive community so startups can rapidly grow their products and services and become profitable and investable businesses (Hackett and Dilts, 2004; Lalkaka, 2001).

A key obstacle identified in the literature to new South African SME growth is access to a variety of finance options, and other obstacles identified are economic policies, entrepreneurial attitudes and skills, and shared infrastructure, which lead to a high failure rate. An emerging nation like South Africa has infrastructure problems that affect the success of new SMEs (Olawale and Garwe, 2010). The South African government has prioritised SMEs as a key instrument in economic growth. The financial obstacle, however, extends beyond the direct financing of the SME. BIs, which provide legal and other business-related assistance to new businesses, also suffer. These incubators rely on funding from both the government and the private sector. The lack of funding for BIs has exacerbated the failure rate of SMEs in South Africa (Rens et al., 2021), demonstrating BIs' importance to the success of new small businesses and SMEs.

VENTURE CAPITAL'S ROLE IN INNOVATION AND THE ECONOMY

Venture Capital is seen as a key proponent for new companies' success and growth. South African VCs could enable early-stage businesses to contribute significantly to the South African economy. VCs can foster the growth of new businesses by encouraging and financing innovation. New businesses with the expertise and capital to innovate will likely survive and positively impact society (Arundale, 2018; Bowmaker-Falconer and Meyer, 2022; Olawale and Garwe, 2010). Increasing the chances that new businesses grow to maturity will likely create jobs and reduce unemployment. South Africa's National Development Plan (NDP) identifies innovation as a critical factor in the country's development goals to stimulate the economy and improve the living standards of all South Africans (South Africa National Planning Commission, 2012).

Research and Development (R&D) expenditure drives innovation, which has been shown to positively impact business performance (Matekenya and Moyo, 2022).

Innovation is vital to any business's creation of new products or services and its ability to go to market. Creating new products or services increases the firm's chances of success and improves profitability and sustainability (Matekenya and Moyo, 2022). New and smaller businesses are generally unable to invest in R&D expenditure as most budgets target costs for survival. R&D spending does not generate revenue directly, nor immediately, and only materialises if viable products are created. Sufficient cash flow is required for ongoing overheads and direct costs such as salaries and rent until the new product or service is developed.

Once a viable new product or service is developed, additional cash is required, generally through fundraising, to market the new product or service. The lack of funding for new businesses or SMEs could be a factor in the high failure rate discussed already. The implication is that investment in R&D is critical to the success and growth of new SMEs (Matekenya and Moyo, 2022). Investment in innovation can be supported by government policies such as tax credits. In the United States of America (USA), tax credits related to R&D have increased entrepreneurial activity and the success of startups (Fazio et al., 2020).

SOUTH AFRICAN GOVERNMENT INTERVENTIONS TO SUPPORT NEW BUSINESSES

The South African government implemented policies to enable VC investments in new businesses and SMEs. The South African government also implemented other policies to support new businesses and SMEs. Most programmes directed at SMEs that have been put in place are struggling to bring meaningful change (Madiba and Madikizela, 2022). One of the programmes implemented is the tax incentive, section 12J of the Income Tax Act of South Africa. Section 12J was aimed at addressing the funding obstacle experienced by SMEs. This tax incentive has been successful, but it had a sunset clause, which expired on 30 June 2021. The regime successfully contributed to reducing new business and SME failure rates and contributed to alleviating poverty by providing decent employment (Makhalemele, 2020).

The section 12J provision allowed a South African taxpayer to deduct the entire investment amount from their taxable income in the year of assessment that the investment was made. The investment must be made in a qualifying VC company, as defined in the South African Income Tax (IT) Act and receive a certificate validating

that investment. The VC in turn, as part of their qualification criteria, needs to invest in qualifying new businesses and SMEs. Should the investor hold the investment for five years or more, there will be no recoupment of the income when the investment is sold. Figure 1 below demonstrates the flow of funds, equity (in the form of shares), and a certificate between the VC and investor.

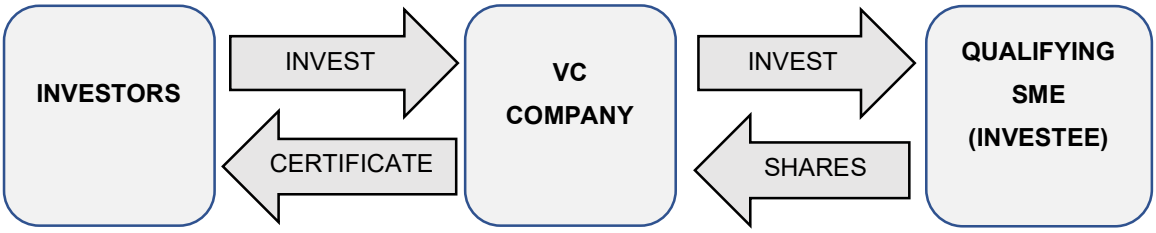

Figure 1: Summary of how section 12J works.

Source: adapted from South African Revenue Service[2] (2022)

The IT Act contains provisions limiting the qualifications of investors and VC companies. Additionally, there are qualifying criteria for the SMEs that VC companies can invest in. The Section 12J tax incentive could reduce up to 45% of a taxpayer's exposure to risk (assuming the highest tax bracket for an individual) (Makhalemele, 2020; South African Revenue Service, 2022).

The success of the tax regime had been tainted by perceived abuse of the income tax provision. Ultra-high net worth individuals were using the tax incentive to reduce their taxable income in years where they had significant capital gains tax or as a top-up to retirement savings. This perceived abuse hindered the fiscus' ability to collect tax revenue. A cap on investments was introduced in 2018 to mitigate the perceived abuse and was considered sufficient by the 12J Association of South Africa[3]. The 12J Association of South Africa believed the regime required more time to implement additional measures before retiring the provision (Visser, 2020). The South African National Treasury's[4] insufficient funds could be a potential explanation for the non-extension of the sunset clause on Section 12J (Visser, 2020).The regime's success proves that the government can implement policies to stimulate the growth of the VC industry in South Africa.

[2] The South African Revenue Service is the nation's tax-collecting authority.
[3] The 12J Association of South Africa is an independently constituted industry body which represents more than 25 12J asset management companies.
[4] The South African National Treasury manages the nation's national government finances.

ADDRESSING THE HIGH FAILURE RATE OF NEW SOUTH AFRICAN BUSINESSES

The failure rate of new businesses in South Africa has many causes. On the one hand, the policy position and changes by the South African government are contributing factors (Madiba and Madikizela, 2022). On the other hand, VCs in South Africa are potentially reluctant investors and are overly risk-averse (Makwinja, 2022). Research has shown that a strong relationship between VC investment, innovation, and financial development impacts long-term economic growth. Growth in the VC market depends on the growth of financial markets and innovation and vice versa (Pradhan et al., 2018).

The causes of insufficient VC funding and government policies in South Africa cannot be addressed in isolation. Essential preconditions for successful cooperation include the presence of quality entrepreneurs, pools of capital, and specialised financial institutions (Lingelbach et al., 2009). The South African government should work with fund managers to produce a sustainable VC pipeline for new businesses to flourish. One channel proposed for this cooperation is for fund managers, entrepreneurs, and scientists to have a more prominent voice in policy matters (Lingelbach et al., 2009). The South African SME (SASME) Fund is a private-sector-led fund that is financed with investments from the government through the Public Investment Corporation[5] (PIC) and private investors. The SASME Fund has an investment mandate to target specific businesses to encourage economic growth (SA SME Fund, 2022). The SASME is an example of the government and fund managers working together to address the failure rate of new SMEs.

An empirical literature review by Bushe (2019) focused on the causes and impact of South African small business failure found similar results to Lingelbach et al. (2009). Entrepreneur capacity, enterprise growth, and the financing environment have been identified as the main categories for small business failure in South Africa (Bushe, 2019). Public funding agencies in South Africa play a significant role in the funding cycle for new small businesses. BIs often play a role between small businesses and funding agencies. South African public funding agencies have, however failed small

[5] The PIC is a state-owned asset management firm that manages public sector funds.

businesses with complicated and delayed application processes and narrow funding requirements (Van der Spuy and Antonites, 2022).

Makwinja's (2022) study identified twelve areas in which South African technology startups require support in South Africa. These are networks, finance, collaboration, commitment, human capital, infrastructure, markets, testing, product packaging, personal aspects, and risk management. These identified areas laid the ground for a framework to guide mentors or other support structures to assist technology startups better. The author posits that mentors and support structures should include the development of business, project, product, and other management skills in their programs and thus improve entrepreneurial skills in the country (Makwinja, 2022).

Celliers et al. (2021) research from South African entrepreneurs' perspectives complements Makwinja's (2022) findings. Entrepreneurs find the relationship with VCs demanding and sometimes impossible to meet. Similarly, VCs focus on the quality of the entrepreneur when evaluating the potential investee's pitch. Motivation, commitment, industry experience, preparedness, and honesty are desirable traits in an entrepreneur (Celliers et al., 2021).

Lingelbach et al. (2009) and Bushe's (2019) findings highlight the need for quality entrepreneurs and sufficient financing to improve the chances of success of South African new businesses and SMEs. Makwinja (2022) and Celliers et al. (2021) show that support for those entrepreneurs and quality entrepreneurs is lacking in South Africa, which could be a critical factor in South Africa's high business failure rate.

BUSINESS STAGE AND TYPE OF EQUITY FUNDING AVAILABLE

Depending on the phase of the business, different types of equity funding will be available to that business, as illustrated in Figure 2 below.

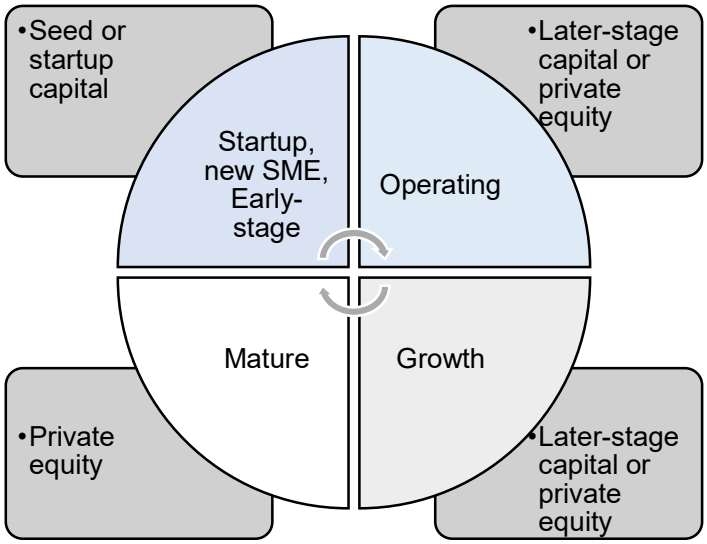

Figure 2: Business phases and related equity funding that are usually available.

Seed capital is provided to a business that has not built its product yet. Startup capital is provided to a business that has built its product but needs working capital to take the product to market. Later-stage capital is provided to a business that is operational but requires additional investment for a specific purpose, for example, a new product feature or design to be built. Growth businesses require later-stage capital or private equity, where the business wants to expand operations into a new market or region. Mature businesses require private equity to restructure or buy out a minority shareholder (SAVCA, 2022).

Seed and startup capital are typically funded by family, friends, and personal savings or by VCs. Banks usually cannot finance new businesses or startups because these businesses are unlikely to have a sufficient track record of revenue or tangible assets (Mlambo, 2013). VCs usually finance high-growth startup companies or new business entrepreneurs, supplementing their financing with mentoring and guidance to those entrepreneurs to aid the growth and success of the venture (Pradhan et al., 2018). VCs provide capital in exchange for equity in the companies they invest in and provide the entrepreneur who started or founded the business with experience, skills, and networking opportunities to facilitate the growth of the venture (Ogujiuba and Olamide, 2021; Pradhan et al., 2018).

VENTURE CAPITAL FOCUS IN SOUTH AFRICA

Literature on the South African VC industry is relatively minimal compared to developed countries like the USA or the UK. Prominent South African studies include Taylor (2001) and Portmann and Mlambo (2013), both of which looked at the decision-making processes which South African VCs apply and found that South African VCs focusing on the quality of entrepreneurs in their investment process is not unique to South Africa (Taylor, 2001). Other scholars have considered the demand side of the investment process or some of the factors entrepreneurs struggle with in obtaining finance from the VC sector (Celliers et al., 2021; Montchaud, 2018). The implication of the entrepreneurs' struggling to obtain VC financing seems severe, as evidenced by the high failure rate of South African businesses and its GEM 2021/2022 ranking.

The decision-making process of South African VCs values a strong management team more than any other factor in their investment process, and similar findings have been reported globally (Taylor, 2001). Various criteria are used to decipher the risks inherent in the investments analysed. Integrity is rated as the most important quality when determining the strength of management of the potential South African investee, whilst market and product or service issues are rated far less in comparison (Portmann and Mlambo, 2013; Taylor, 2001). Management of a later-stage business have a proven track record compared to management of a new business. An assessment of integrity and quality of management is more reliable in an established business than in a startup. The assessment's increased reliability could explain a bias by South African VCs towards investments in later-stage or established businesses over new businesses like startups (Portmann and Mlambo, 2013).

The most significant factors influencing VCs' investment decisions were quality entrepreneurs, the economic environment, and the product or service prospects. The other significant factors identified are market characteristics, management skills, the economic environment, and the institutional and regulatory environment (Dhochak and Sharma, 2016). Similarly, in South Africa, VCs' ranking of investment criteria are business readiness, management team preparedness, product or service prospects, management skills, fund-specific criteria, and deal attributes (Urban and Moreno, 2022). Urban and Moreno (2022) found understanding the VC investment criteria by

entrepreneurs and BIs beneficial. Entrepreneurs are then better able to pitch their businesses to VCs.

The quality of the entrepreneur has been identified as one of the most significant contributors to business success and the business' chances of raising financing. The question has been asked whether VCs influence the association between entrepreneurs and VCs or whether entrepreneurs moderate the relationship (Ogujiuba and Olamide, 2021). Using the Analysis of Variance technique, Ogujiuba and Olamide (2021) found that VCs moderate the association between entrepreneurs and VCs. The authors concluded that creating more financing opportunities and enhancing entrepreneurship skills should be a primary focus to improve entrepreneurship success.

Levin's (2014) study focused on corporate VCs and aimed to identify factors that inhibit their investments in South Africa. Corporate venture capital funds seek investments related to the Multi-National Corporations (MNCs) business (Levin, 2014). For example, Google[6] may seek to purchase a technology startup that operates in the digital maps sector. The factors that inhibit corporate venture capital investments are access to funds, Black Economic Empowerment (BEE), risk aversion, tax and regulatory matters, and cultural limitations (Levin, 2014). These factors are unlikely to be isolated to corporate VC funds and are similar to the research analysed in this dissertation.

Startups and early-stage companies depend on VCs because private equity, banks, and traditional finance firms generally finance the later stages of a company or an established business. VCs typically work alongside the entrepreneur to grow the business. VCs invest their time and expertise alongside their capital to increase their chances of success. South African VCs have robust, demanding, and expensive resources in their investment process, increasing an entrepreneur's burden. Typically, the South African venture capital investment process requires detailed information from the entrepreneur, making it difficult for entrepreneurs new to entrepreneurship to convince the VC to invest in them and their ideas (Celliers et al., 2021; Montchaud, 2018). The information required is somewhat legal and shows that even if the

[6] Google is a multinational technology company specializing in Internet-related services and products, including online advertising technologies, search engine, cloud computing, software, and hardware.

entrepreneur has access to finance, the legal burden hampers obtaining that finance. Another potential reason why VCs would prefer established businesses above early-stage businesses in South Africa could be their ability to provide the required detailed information to the VC. Celliers (2020) ultimately concludes that VCs only invest in entrepreneurs who are deemed competent and with whom VCs have a cultural fit.

EARLY-STAGE VENTURE CAPITAL FUNDING IN SOUTH AFRICA

Mature businesses in South Africa are supported by the later-stage VC market and private equity market, which are well-developed. In comparison, there is a shortage of early-stage VC funding, which impacts new businesses and is seen as one of the reasons for the new businesses' high failure rate. This lack of funding, specifically focused on early-stage businesses, is a major stumbling block for a South African entrepreneur looking to start and grow their venture (Mlambo, 2013). The chances of success of an early-stage venture are more difficult to estimate than a later-stage business. The product of an early-stage business might not have been sold to a customer yet. Without any revenue generated, there is no proof that the product is in demand and, in turn, that an investor could generate a return on their investment. Additionally, without a track record of operations over time, management has yet to demonstrate its competence and skill. Predicting the chances of a successful product and business to invest in requires a specific venture capital fund manager (Mlambo, 2013).

Mlambo (2013) conducted interviews and surveyed a sample of 19 South African Venture Capital and Private Equity Association[7] (SAVCA) member VCs to identify the challenges and prospects of the venture capital industry in South Africa, finding that the South African venture capital industry lacked funding and fund managers who focus on early-stage ventures (startups), and a low entrepreneurial skillset. Some respondents in Mlambo's (2013) interviews suggested that VCs formalise their networks and that BIs could fulfil that role.

Makwinja's (2022) framework aims to aid the South African technology innovator who creates new products to become a businessperson who embarks on starting a business. Makwinja (2022) posits that BIs and other cluster establishments in

[7] SAVCA is a non-profit industry association representing South African Venture Capital and Private Equity industry members.

developed nations nurture startups effectively, that those innovations eventually become successful businesses, and that this is not the case in South Africa. BIs can address many challenges South African entrepreneurs face. The scarcity of South African BIs is noted as a potential cause for the failure of startups that don't have access to this type of support (Makwinja, 2022).

The Venture Capital and Private Equity Country Attractiveness Index 2018 had South Africa placed 36 out of 125 and 40 out of 125 in 2021. The USA is ranked first in both indexes followed by the UK in second (Groh et al., 2018, 2021). The 2018 index analysed the BRICS (Brazil, Russia, India, China, and South Africa) nations, along with Turkey, Mexico, Indonesia, the Philippines, and Nigeria in detail. Table 1 below is a summary of the scores per country of the 2018 index. The table includes the BRICS nations because South Africa is part of the BRICS association, excludes Turkey, Mexica, Indonesia, the Philippines, and Nigeria because none of those nations are in the scope of this dissertation, and includes the USA (North America) and UK (Western Europe) because these ranked first and second and stand as a benchmark.

Six key drivers were measured to determine a country's attractiveness: Economic Activity, Depth of Capital Market, Taxation, Investor Protection and Corporate Governance, Human and Social Environment, and Entrepreneurial Culture. South Africa received green ratings in the first three drivers mentioned and amber ratings in the remaining three, where green is good, amber is average, and red is bad. The lowest rating received was in the human and social environment driver, where some of the factors measured are bribery and corruption and the labour market (Groh et al., 2018).

Table 1: Venture Capital and Private Equity Country Attractiveness Index 2018 six key driver scores per country

Country	Economic Activity	Depth of Capital Market	Taxation	Investor Protection and Corporate Governance	Human and Social Environment	Entrepreneurial Culture and Deal Opportunities
Brazil	Green 79.2	Green 74.9	Red 21.4	Amber 53.5	Red 35.8	Amber 54.9
Russia	Green 88.1	Amber 65.1	Green 97.9	Amber 57.2	Red 35.2	Amber 69.9
India	Green 105.1	Green 78.1	Green 101.3	Amber 67.7	Amber 46.6	Amber 65.1
China	Green 113.5	Green 89.4	Green 111.3	Amber 58.3	Amber 55.2	Green 81.4
South Africa	Green 48.5	Green 78.8	Green 110.9	Amber 71.1	Amber 40.1	Amber 66.3
North America	Green 95.4	Green 96.5	Green 103.2	Green 99.0	Green 99.6	Green 94.1
Western Europe	Green 78.5	Green 70.6	Green 112.7	Green 85.3	Green 83.0	Green 78.9

Note: The above table excludes Turkey, Mexico, Indonesia, the Philippines, and Nigeria as these nations are out of the scope of this dissertation. Includes North America and Western Europe as the scope of this dissertation includes the USA and UK. Source Groh et al. (2018).

The human and social environment driver comprises factors that the government is accountable for (rated as amber for South Africa) and could be considered high-risk factors by VCs. Like South Africa, Brazil's VC market is young, and Brazil is considered an emerging market which is still developing. Brazil scored less than South Africa in the 2018 index (Groh et al., 2018), but the Fonseca et al. (2014) study has shown that international VCs still enjoyed success in Brazil. Local Brazilian VCs invested alongside international VCs through syndication, when two or more investors pool their funds in one investment. The gross return to syndicated investors in Brazil averaged 22% from 1990 to 2008, outperforming a sample of USA funds over the same period (Fonseca et al., 2014). Syndication with international investors could be one way to address the financing gap that new South African businesses experience. Potentially rewarding international investors with desired returns, as was the case in Brazil, and rewarding South Africa with a strengthened VC market.

International syndication facilitates the spread of risk between local and international investors. Syndication could also diversify the knowledge and skills that could be shared with new SMEs. South African VCs are willing and ready to partner with international investors, however, there are a few problems to address before these partnerships become a reality (Causey, 2014). Policy and regulatory certainty are required, particularly because VC investment is usually a long-term investment and a country where policies could change or policies that are considered unreliable poses an increased risk. Smaller investments are not deemed valuable enough for international VCs to invest their time and effort in. The shortage of high-quality entrepreneurial teams is another factor noted as a hindrance to international VC investment in South Africa (Causey, 2014). Lastly, the international investor community has a negative view of South Africa and combined with the aforementioned factors, syndication with local VCs is seen as challenging at best (Causey, 2014).

There is an additional risk to international syndication to the sustainability of those arrangements. Simply copying and pasting the Silicon Valley approach will not work in emerging markets (Aksoy et al., 2020). Aksoy et al. (2020) compare the USA's famous technology hub, Silicon Valley, to the African market, using four metrics: Talent, Capital, Market, and Ideas. This comparison is summarised in Table 2 below.

Table 2: Comparison of Silicon Valley to the African market

	Silicon Valley	**African market**
Talent	Numerous talented and repeat entrepreneurs.	Talent is scarce (quality of entrepreneur).
Capital	Most significant venture and related capital in the world.	Insufficient and a shortage of capital exists.
Market	Large USA market, fast pace and online consumers.	Small and fragmented markets.
Ideas	Competition for new ideas.	Minimal competition for new ideas.

Source: Aksoy et al. (2020)

Aksoy et al. (2020) proposed a business builder model for VCs in emerging markets; this principle applies to South Africa to some extent because South Africa is an emerging economy. The business builder model is a slightly different approach to the venture capital approach that targets high-growth startups, considering the four metrics discussed above. The focus is on employees that are experienced operationally;

capital prioritised to projects that can reach break-even promptly, competitive products based on proven models rather than purely innovative models; and a focus on locally relevant ideas (Aksoy et al., 2020).

BI'S IN SOUTH AFRICA

BIs could be another avenue through which syndication between South African and international VCs can improve the early-stage business landscape in South Africa. Aimed at early-stage businesses, BIs provide expertise and a supportive community so that startups can grow their products and services rapidly and connect startups to growth funding, like VCs. Through BIs, international VCs could lend their experience and know-how to improve the quality of management teams and improve the view that international investors have on the South African entrepreneurial ecosystem.

Harper-Andersen and Lewis (2018) outlined the growth of BIs worldwide, starting with as many as a dozen in the 1980s and reaching over 7,000 by 2012. Despite the prolific number of BIs during Lalkaka's study (2001), BIs produced inconsistent results, and the business models of some BIs required constant sponsorship and funding. Lalkaka (2001) reviewed the operating experiences of BIs in the USA, Brazil, China, and Korea, cognisant of the different needs of developed and emerging economies, to identify best practices for BIs. Some BIs, according to Lalkaka (2001), were characterised by poor client selection and inexperienced management and support systems, where cheap office space was the main offering to budding entrepreneurs. In contrast to those BIs, best practices were characterised by careful preparation, committed and experienced management, and adequate funding (Lalkaka, 2001). Consequently, some of the best practices noted by Lalkaka (2001) include networking, leveraging government support, entrepreneurial management, excellent entrepreneur selection, and providing entrepreneurs with access to investment.

The South African context in the literature has similar findings, Buys and Mbewana (2007) analysed Godisa Trust[8] BIs in South Africa to determine success factors. The Godisa Trust merged with the National Technology Transfer Centre and Small

[8] The Godisa Trust was an initiative aimed at promoting technology-based small enterprises through incubation and technology transfer.

Enterprise Development Agency[9] (SEDA) to form the SEDA Technology Program in 2006 (Masutha and Rogerson, 2014). Representatives of the BIs were interviewed and answered questionnaires, resulting in eight key factors identified. The eight key factors identified are:

1. Access to relevant technical expertise,
2. Available funding,
3. Quality entrepreneurs,
4. Supportive stakeholders,
5. Enabling government policies,
6. Skilled and determined management,
7. Financial firmness, and
8. Networking.

These are similar to the best practices described by Lalkaka (2001), with entrepreneur selection as the exception. The other factors Buys and Mbewana (2007) considered were a comprehensive business plan, stringent selection criteria, and an advisory board.

These other factors were found insignificant in their research as those factors had a weak correlation to success (Buys and Mbewana, 2007). All 11 factors tested will form the basis of the questions for this dissertation's data collection procedures.

Harper-Andersen and Lewis' (2018) study considered whether the success of BIs might result from the macroeconomic environment they find themselves in. As an example, BIs in a more affluent city tend to outperform those in impoverished cities. Harper-Andersen and Lewis (2018) homed in specifically on whether the economic environment in various states had a greater bearing on the success of BIs than the quality of the BI in the USA.

Harper-Andersen and Lewis (2018) found that incubator quality had a more substantial influence on incubation outcomes than economic capacity and environment, thus suggesting that quality incubators can incubate successful businesses in deficient economic circumstances. Harper-Andersen and Lewis (2018) further suggest from the

[9] The SEDA is an agency within the Department of Small Business Development aimed at implementing the national government's small business plan by providing non-financial support.

literature that BIs increase private investment in entrepreneurs and create decent employment. The literature thus illustrates the potential for BIs to develop entrepreneurs to start businesses that attract private investment (such as VC funding), create jobs, and contribute to the South African economy despite the challenging economic environment. Thus, BIs' role in effectively developing entrepreneurs' preparedness for venture capital funding could be significant.

BENCHMARKING THE SOUTH AFRICAN VC MARKET TO THE USA'S MARKET

The USA has seen the fruits of a successful early-stage and overall, venture capital market system. The sector can be traced back as far as 1946 (Kato, 2021) and can be attributed to the success of large global corporations such as Intel and Microsoft. The ecosystem of investors, entrepreneurs, scientists, and managers has cooperated well to incubate garage startups into multibillion-dollar companies (Bartlett, 1999). South African VCs and the government could look to understand and adapt best practices to boost the venture capital industry's impact and performance. The USA can be used as a benchmark because of the long-term success of its venture capital industry. Researchers have explored the differences between Europe's venture capital market and the USA's market (Arundale, 2018). The differences are analysed to make improvements in their market.

Arundale (2018) documents returns for the USA venture capital industry over ten years in 2013 as 5.03%, compared to Europe's (including the UK) 0.84% for the same period. Reasons for the difference were described in his study that examined the difference in performance between European (including the UK) venture capital funds and USA venture capital funds. When analysing the underlying differences that explain the results, Arundale (2018) noted the contracts executed between VCs and entrepreneurs were markedly different between the USA and Europe. USA VCs' contracts tended to be more favourable towards the entrepreneur than European contracts. Other differences noted were the screening abilities of the USA VCs, which were superior to the Europeans', and the better use of networks and syndication by USA VCs. One screening strategy USA VCs particularly followed was a one-in-ten principle. The USA venture capital investor is willing to bet on a pool of ten investments in search of at least one that would generate extraordinary returns to offset the average or below-average returns of the other investments in that same pool (Arundale, 2018). This

principle demonstrates an attitude towards risk that accepts the losses or average returns to find an extraordinary investment that European venture capital investors veered away from.

Similarly, SAVCA perform a yearly survey of activity and sector focus of venture capital funds in South Africa and includes datapoints from the USA as a benchmark. In the 2022 report that analysed 2021 data, the report documents that the sector focus of South African VCs had broadly mirrored the sector focus of USA VCs. Early-stage investment or seed investment in South Africa, by the value of deals, focused more on early-stage capital than the USA (SAVCA, 2022). The difference in venture capital investment between the USA and South Africa may be attributed to the success of new businesses in the USA. Matured new businesses are more likely to apply for further VC funding, while the high failure rate of new businesses in South Africa does not allow for the same throughput. This necessitates more funds in early-stage investing to support these new businesses and help them succeed.

Arundale's (2018) study has been accepted and shared with the British Venture Capital Association[10] (BVCA) and the British Government. According to the South Africa 2021/2022 GEM report, 60.4% of participants perceived entrepreneurial opportunities and 69.7% believed to have the capabilities to pursue those opportunities. Sadly, 53% said they would not start a business due to fear of failure and only 20% had entrepreneurial intentions within the ensuing three years (Bowmaker-Falconer and Meyer, 2022). The sentiment of entrepreneurs in South Africa, according to the 2021/2022 GEM South Africa report (Bowmaker-Falconer and Meyer, 2022), indicates a desire for entrepreneurship but an unwillingness to do so.

Celliers et al. (2021), Mlambo (2013), and Makwinja's (2022) findings highlight the gap between the support available to entrepreneurs and the level of quality entrepreneurs that South African VCs are willing to invest in. This gap suggests an opportunity for research to clarify what specific support is needed to improve entrepreneurs' access to venture capital funding.

[10] The British Venture Capital Association is an industry body and public policy advocate for the Private Equity and Venture Capital industry in the United Kingdom

LITERATURE ADVANCEMENT

The literature on the South African VC industry and on BIs are often separate. Buys and Mbewana (2007) focus on the relationship between BIs and entrepreneurs but exclude VCs. Celliers et al. (2021), Causey (2014), and Lingelbach et al. (2009) analyse the relationship between VCs and entrepreneurs from the entrepreneur's perspective but exclude the BIs' perspective. Considering the overlap of VCs and BIs goals and the challenges entrepreneurs face (Buys and Mbewana, 2007; Celliers et al., 2021; Makwinja, 2022; Mlambo, 2013), a study that analyses the effectiveness of BIs in supporting entrepreneurs prepare for venture capital funding could benefit the South African entrepreneurial ecosystem, specifically businesses seeking early-stage funding such as startups and new businesses. From a literature perspective, it can act as a guide for other emerging markets to assess the role BIs can play in their markets and, importantly, to the growth of new businesses in other emerging markets. Therefore, this dissertation aims to investigate the effectiveness of BIs in supporting entrepreneurs preparing for venture capital in South Africa.

THEORETICAL FRAMEWORK

The literature on VCs and BIs in South Africa is limited (Mhlongo and Mzyece, 2023; Msimango-Galawe and Hlatshwayo, 2021), and some prominent studies, although their findings are practical and useful, fail to mention the theoretical framework applied. Mlambo's (2013) research on venture capital in South Africa did not specify a theory or framework employed, and Buys & Mbewana's (2007) study that found eight key success factors for South African BIs was performed without mentioning a theoretical framework.

Trethewey-Mould & Moos' (2024) study advocates for a stakeholder approach to measuring BI success is based on a stakeholder theory as the theoretical framework. Van der Spuy's (2024) study analysed South African BIs' types of services offered and development over four generations and was designed as exploratory-descriptive research. The study, however, lacked mention of a theoretical framework. This shows that the literature on South African VCs and BIs is evolving yet still limited. Therefore, this dissertation is exploratory in nature, leaning on existing literature and building from primary evidence (George, 2021; Swedberg, 2020).

Internationally, Agency and Real Options theories are widely applied in the VC literature (Arundale, 2018). Sahlman (2022) describes the agency problem between investors and VCs and the research also analyses the relationship between VCs and the ventures in which they invest. Separately, Piazza et al. (2023) lean on Real Option Theory to analyse the VC funding decision-making process. Turning to the BI perspective, the Resource-Based View (RBV) has been widely used in business incubator research, either as a signal to VCs or how the BIs use their resources to deliver services to startups (Lin et al., 2012; Manconi et al., 2022). Wu et al. (2020) used RBV as the theoretical framework to examine internal and external business incubator networks to support their entrepreneurs.

Celliers et al. (2021) relied on a descriptive research approach guided by interpretivist philosophy to analyse the entrepreneurs' perspective on obstacles to VC funding but also lacked theoretical underpinning. According to Arundale (2018), an interpretivist approach is a single-lens approach to venture capital, and Arundale (2018) argues that

the venture capital industry is complex and has several variables, therefore, an engaged scholarship approach is preferred over an interpretivist approach.

Van de Ven (2007) describes the engaged scholarship approach as examining different perspectives on complex problems, noting that reality exists independently of human research efforts, can be studied, and knowledge gained from research is determined by reality. As noted in the literature review, three groups, namely, BIs, VCs, and entrepreneurs will be interviewed to analyse different perspectives on the complex South African VC industry and entrepreneurial ecosystem. This approach allows one to assess the research question through a different lens to corroborate the evidence gathered, allowing for direct and indirect support for the main conclusions (Godden, 2010, 2014, 2019; Walton, 2009). For these reasons, the researcher employs Van de Ven's (2007) informed basic scholarship form of engaged scholarship, which relies informally on the stakeholders in the research process. This will be implemented by leaning on the relevant stakeholders in the South African venture capital industry, namely BIs, VCs, and entrepreneurs, as informal advisors in the research process (J. T. Mahoney, 2008; Simba and Ojong, 2017; Van de Ven, 2007).

Building on the engaged scholarship approach, with the entrepreneur as the ultimate stakeholder, the research design is grounded on entrepreneurial ecosystem theory. Entrepreneurial ecosystem theory has entrepreneurship at its core and views entrepreneurship as influenced by varying actors within six domains – Policy, Finance, Culture, Supports, Human Capital, and Markets (Fuerlinger et al., 2015; Hemmert et al., 2019; Isenberg, 2016; Stam & van de Ven, 2021; Wurth et al., 2022). Figure 3 below depicts the entrepreneurial ecosystem theory and its six domains.

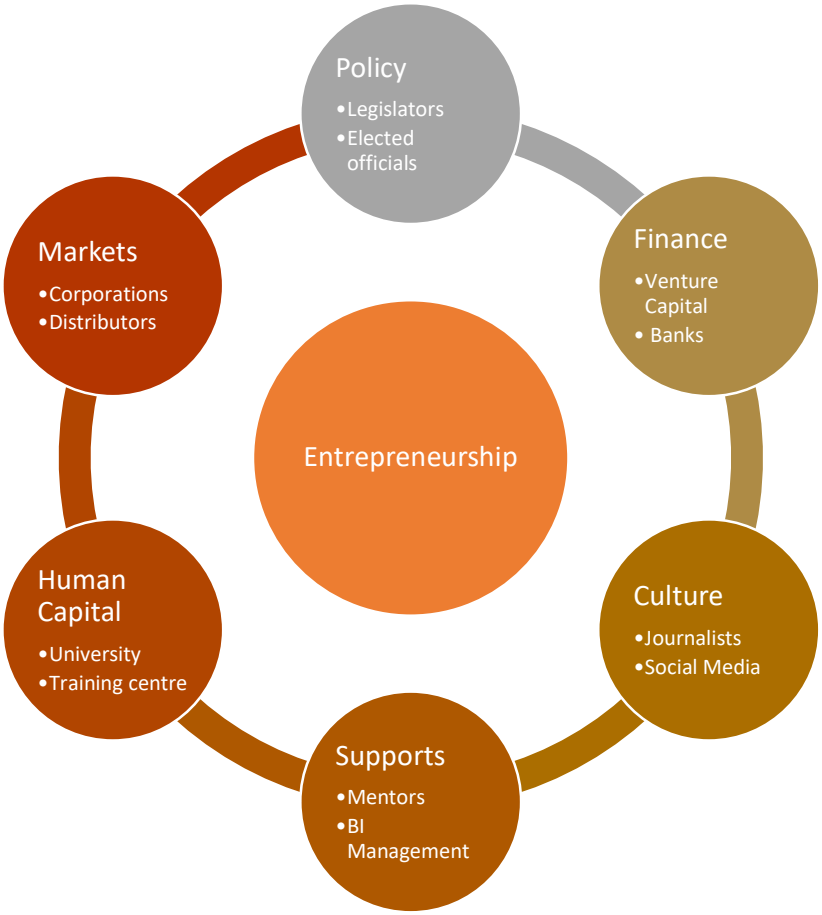

Figure 3: Entrepreneurial ecosystem theory's six domains

Source: Adapted from Isenberg (2016) and Hemmert et al. (2019).

The figure above illustrates certain actors within each domain. Isenberg (2016), one of the earliest sources of entrepreneurial ecosystem theory, according to Wurth et al. (2022), posits that entrepreneurs act within an environment influenced by many different actors, both at a micro and macro level, and that these relationships are dynamic and complex. He adds that when working well, these relationships create a conducive environment for self-sustaining and thriving businesses.

The key stakeholders, or 'actors', in this study's view are entrepreneurs, BIs and VCs with BIs acting as guides between the six domains as entrepreneurial support. Specifically, this study focuses on the intersection between BIs and VCs and the role BIs play in effectively facilitating entrepreneurs' preparedness for raising finance. This dissertation considers how BIs support entrepreneurs within each domain to build a business that VCs would be interested in funding. Thus, entrepreneurial ecosystem

theory and the engaged scholarship approach are adopted to guide the research process.

The research was conducted by interviewing South African VCs, BIs, and entrepreneurs and included a questionnaire at the end to supplement data collected from the interview process, like Arundale's (2018) approach to exploring the difference in performance between VCs in the United Kingdom, Europe and the USA. Similarly, Mlambo (2013) used interviews to supplement the data collected from surveys to triangulate the interpretation of results (Thurmond, 2001).

The researcher interviewed South African VCs, BIs, and entrepreneurs to understand how BIs support entrepreneurs in accessing venture capital funding. The insights drawn from the stakeholders interviewed may differ as their specific realities and experiences differ. Diverse stakeholders are a crucial feature of engaged scholarship, and the data collected from different perspectives, supplemented by a questionnaire, will allow the researcher to triangulate specific themes experienced in practice (Mahoney, 2008; Simba & Ojong, 2017; Van de Ven, 2007).

Critically analysing the different perspectives on the same complex problem is required to understand whether BIs support entrepreneurs sufficiently to access venture capital funding (J. T. Mahoney, 2008; Simba and Ojong, 2017; Van de Ven, 2007). The study's findings will be put forward to the South African venture capital industry, BIs, regulators, policy setters, and related government agencies (such as SEDA of the Department of Small Business Development[11] or the Industrial Development Corporation[12] of the Department of Trade and Industry[13]) and could lead to better outcomes such as potentially lowering the business failure rate in South Africa.

[11] The Department of Small Business Development is a national department established to lead and coordinate an integrated approach to the promotion and development of entrepreneurship, SMMEs, and cooperatives

[12] The Industrial Development Corporation is a national development finance institution established to promote economic growth and industrial development by funding and supporting industrial capacity

[13] The Department of Trade and Industry is a national department responsible for promoting economic development and industrial growth, formulating and implementing policies to stimulate trade, investment, and enterprise development.

METHODOLOGY

PROBLEM STATEMENT

BIs can play a critical role in effectively developing entrepreneurs by facilitating businesses' preparedness for venture capital funding (Buys and Mbewana, 2007; Pradhan et al., 2018). As noted in the literature, South African VCs state that entrepreneurs lack entrepreneurial skills and characteristics (Celliers et al., 2021). BIs' role in effectively developing entrepreneurs in practice is insufficient in preparing entrepreneurs for venture capital funding.

THESIS STATEMENT

South African BIs fail to provide entrepreneurs with the correct support to successfully access venture capital funding.

RESEARCH QUESTION

How successful are South African BIs in supporting entrepreneurs' preparedness for venture capital funding?

RESEARCH DESIGN

Given that the answer to the research question is not well established, and the area is still exploratory due to the lack of literature on the South African context, the researcher employed a qualitative approach using primary data to answer the research question. Data was collected through interviews and questionnaires and analysed using thematic analysis as the framework. The interview and questionnaire questions were derived from Buys & Mbewana's (2007) 11 success factors to bring their work to date and to build on their research in the following ways:

- Adding VC's perspective as a key stakeholder by employing the engaged scholarship approach and entrepreneurial ecosystem theoretical framework,
- Analysing the various views through data triangulation (Thurmond, 2001),
- Assess whether the situation has changed since the study was performed,
- Determine whether anything else was missing from the known factors.

Table 3 below provides one of the three aide-memoires used in the interviews for each stakeholder group. The questionnaire is included in Table 4 afterwards, has two sections to rate statements and the key factors separately using a Likert scale. Both tables show how the interview questions for entrepreneurs and the questionnaire for all stakeholders link to Buys & Mbewana's (2007) BI success factors. All three interview questions per key stakeholder group, indicating the link to Buys & Mbewana's (2007) BI success factors, are included in Appendix A and the questionnaire in Appendix B.

Table 3: Entrepreneur interview questions linked to Buys & Mbewana's (2007) BI success factors

Questions	**Success factors** (Buys and Mbewana, 2007)	**Notes**
Tell me about your experience with business incubators.		Introduction and Background, and to gain different perspectives to implement the engaged scholarship approach and assist in triangulation.
Tell me about your experience with venture capitalists.		
What support/information/guidance would have been helpful to obtain venture capital funding (or to get other financing if no VCs were approached)?	Facilitating Support: Quality Entrepreneurs, Access to Relevant Technical Expertise, Available Funding, Network, a comprehensive business plan, stringent selection criteria, & advisory board	Research question: How effective are South African BIs in supporting entrepreneurs' preparedness to access venture capital funding?
What funding/support/guidance did you get, and from where? (Financial or otherwise)		
What specific things did VCs look for when you approached them or in your proposal/pitch?		
What feedback did you get from VCs about your approach/proposal/pitch, and what changes were needed?		
What support can business incubators provide entrepreneurs with regarding their approach/proposal/pitch and access to venture capital funding?		
What skills should BIs be developing or supporting entrepreneurs with?	Quality Entrepreneurs	
What other key elements/factors contribute to the effectiveness of business incubators in supporting entrepreneurs' access to venture capital funding?	All success factors.	
Is there anything else business incubators could do to assist entrepreneurs in accessing venture capital in South Africa?	Closing remarks	

Table 4: Questionnaire linked to Buys & Mbewana's (2007) BI success factors.

Rated statements in the questionnaire	**Success factor** (Buys and Mbewana, 2007)
BIs are crucial for entrepreneurs' access to venture capital in SA.	
BIs should provide entrepreneurs access to relevant technical expertise to access venture capital funding.	Technical Expertise
BIs should provide entrepreneurs with various funding options and support, including venture capital funding.	Available funding
BIs should ensure alignment of their stakeholders' goals to best support entrepreneurs' access to venture capital funding.	Stakeholder support
BIs networks should be sufficient for entrepreneurs to access venture capital funding.	Networking
Government (National, Provincial, and Municipal) policies should be aligned and enable BIs support for entrepreneurs' access to venture capital funding.	Government policies
BIs executives should possess business and entrepreneurial skills.	Quality entrepreneurs
BIs management should be given specific key performance indicators that align with developing entrepreneurs to access venture capital funding.	BI management
BIs financial position and performance should be sustainable.	Financial firmness
BIs play a significant role in supporting entrepreneurs' access to venture capital funding.	
Rated Key Success Factors	
Access to relevant technical expertise	Technical expertise
Stringent entrepreneur (or startup) selection criteria	Stringent selection criteria
Entrepreneurial skill development capabilities	Quality entrepreneurs
Supportive Stakeholders	Supportive stakeholders
Enabling government policies (National, Provincial, and Municipal)	Government policies
A comprehensive business plan	Comprehensive business plan
Financial firmness	Financial firmness
Strong and broad networks	Networking
Available Funding	Available funding
An experienced advisory board	Advisory board
Skilled and determined management	BI management

Due to the diversity of the stakeholders interviewed, a semi-structured interview process was determined to be the best interview structure. Semi-structured interviews differ from structured and unstructured interviews in that the interviewer has an overview of the topic discussed and prepared questions, some of which are

open-ended (Alsaawi, 2014). Semi-structured interviews let the researcher delve into the nuances experienced by the different stakeholders while maintaining the focus of the interview on the research question (Alsaawi, 2014).

Flexibility in the questions, through semi-structured interviews, allows a researcher to potentially find new information that may not have been documented by prior research and can be added to the literature and assessed in future studies. Unstructured interviews would be too broad for the nature of this study and would invite opinions and biases from the participants (Taherdoost, 2022).

Questionnaires are low cost and low effort and allow the researcher to compare themes and questions asked in the interviews. Questionnaires produce quantifiable values that are objective, assisting the researcher in interpreting the interview data, which produces rich data but can be subjective (Asenahabi, 2019). Adding a questionnaire to the data collection method to supplement the interview data was deemed necessary due to the study's exploratory nature and interviewee diversity. Questionnaires add an additional layer of corroboration to themes established through thematic analysis. The research remains qualitative in nature as the questionnaire's results are used to corroborate the interview data only.

Thematic analysis requires the researcher to familiarise themselves with the data, generate initial codes, search for and review themes, define and name themes, and synthesise the information to produce a report (Braun and Clarke, 2006). The researcher draws on repeated topics or notions in the interviewee's responses and codes them into themes (Linneberg and Korsgaard, 2019). The themes are examined within the context of the existing literature and lessons learned described in the dissertation.

DATA COLLECTION AND PROCEDURES

This study's data collection procedures commenced with creating and submitting a Data Management Plan (DMP). The DMP details what type of data will be collected, how the data will be used and managed, and how the data will be stored (including after the research is complete). The supervisor reviewed the DMP, it was submitted through the University of Cape Town's DMP portal, and it guided the research process.

The researcher used a semi-structured aide-memoire approach, supplemented with a questionnaire, to interview stakeholders in the entrepreneurial ecosystem. Interviews allow for in-depth analysis and for the researcher to identify and understand the diversity of thought among stakeholders (Alsaawi, 2014). Before commencing the interviews, the researcher held a mock interview with multiple persons outside of the VC and BI spheres who were knowledgeable in those spheres but were not potential participants. Those mock interviews tested the understandability of the interview questions, the flow of the interview, the technology used (Microsoft Teams for a virtual meeting, and Microsoft Forms for the questionnaire), and the timing. The questions were refined, and the introduction was expanded before interviewing the first participant.

The researcher formally requested an interview by emailing the potential interviewee explaining the research problem and question. The request noted the ethical considerations of the process and confidentiality of the interviewees' responses at all times and that their participation was always voluntary. Participants were reminded of the ethical considerations and confidentiality of their responses before the interview commenced. Each venture capital firm represented by a participant in the study was corroborated to the SAVCA members list. SAVCA is an organisation that promotes the venture capital industry in South Africa (SAVCA, 2022).

All interviews were limited to one hour, and none were stopped short. All interviews used the same aide-memoire per stakeholder group. Interviews were recorded with the interviewee's permission for transcription purposes, and the researcher took notes to supplement the recording. Note-taking reduced the risk of the transcript conveying a different message, particularly with subtle points (Alsaawi, 2014). Each interviewee, firm or company name, and any other personal identifying information (for example, if the person mentioned their previous employer or a prominent person) were anonymised in the transcription process. The recordings were transcribed from the audio recording using a software platform initially and reviewed, corrected, and anonymised by the researcher.

Personally transcribing the interviews aided the researcher's ability to grasp an overview of the data collected and apply thematic analysis to identify relevant themes (Braun and Clarke, 2006; Linneberg and Korsgaard, 2019). Additionally, the

transcription process allowed the researcher to follow themes identified in the next interview and review previous transcripts to determine whether code saturation had been reached. Code saturation is when the researcher no longer identifies new themes from the last interview (Guest et al., 2006; Hennink and Kaiser, 2022). The recording and associated transcripts are stored in the University of Cape Town's cloud storage system assigned to the researcher's account.

A short electronic questionnaire followed the interview to collect static and objective responses from interviewees to triangulate the themes identified in the interviews (Asenahabi, 2019). The questionnaire results also aided the iterative process of determining code saturation (Hennink et al., 2017), as the researcher took a snapshot to confirm the eight key BI success factors after each interview.

Sample design and size

Hennink and Kaiser (2022) reviewed 23 articles that assessed sample sizes that used either empirical data or statistical modelling and found that saturation for studies using interviews to collect data was reached between nine and 17 interviews. They caveat their results by stating that the populations in those studies were 'relatively homogenous and that future research is needed to understand how specific parameters (saturation goal and type of data, for example) influence saturation. The population for this dissertation is within one country, South Africa, and specifically within one ecosystem or environment – entrepreneurship, therefore, is considered relatively homogenous.

Additionally, Guest et al. (2006) determined that saturation can occur between seven and 12 interviews and, similarly, Hennink et al. (2017) find that code saturation can be achieved in as few as nine interviews. This dissertation builds on existing themes already identified in the research, resulting in fewer interviews needed to obtain code saturation (Guest et al., 2006; Hennink et al., 2017). For this reason, the saturation goal is based on Guest et al. (2006), Hennink et al. (2017), and Hennink & Kaiser's (2022) findings and other studies within the same industry.

Other studies performed in the BI or VC industry in South Africa have a sample size range of between nine and 20 interviewees for qualitative studies. Mhlongo and Mzyece (2023) and Van der Spuy (2024) interviewed 16 participants, and Trethewey-

Mould and Moos (2024) ended with a sample size of nine participants. Mlambo (2013) received a response rate of 19 out of 54 requests, and Celliers et al. (2021) achieved a sample size of 20 participants, split equally between entrepreneurs and VCs.

The researcher utilised the Define, Explain, Justify, and Apply (DEJA) tool developed by Mthuli et al. (2022) as an approach to determining the sample size.

- Define the sampling strategy: A non-probability sampling method was employed until code saturation was achieved.
- Explain the associated technique(s): The snowball effect was determined as the best technique to execute the sampling strategy.
- Justify and Apply: The data population and depth of the study influence the sample size determination. This study's population consists of people involved in or with experience in the VC or BI industry in South Africa. The participants were interviewed for less than an hour and followed a semi-structured approach. The scope of the research is relatively narrow and aims to build on literature from primary evidence. As described from Hennink & Kaiser's (2022) research, saturation can be achieved with nine interviews, supported by the smallest sample size of other South African studies performed in the same industry. Therefore, the saturation goal is at least nine interviews because the participants are deemed experts in their field, the research's scope is relatively narrow, and the population is relatively homogenous.

Like Mlambo (2013) and Celliers et al. (2021), this dissertation's sample of interviewees was selected using a non-probability sampling method based on subjective judgment. Mthuli et al. (2022, p. 810) stated that a "fixed, predetermined sample size is not ideal in qualitative designs because the very essence of such designs is that they allow for flexibility in their design as the research progresses." This study aimed to maintain some flexibility due to its exploratory nature. Thus, a non-probability sampling method was considered appropriate and did not provide a minimum fixed sample size, and the sample was selected based on predetermined criteria (Guest et al., 2006). The criteria that were applied were as follows:

1. Validate that the South African venture capital firm is a SAVCA member as Mlambo (2013) and Celliers et al. (2021) did,

2. Entrepreneurs and BIs have experience or a working knowledge of the venture capital industry,
3. BIs are reputable and in good standing.

The sample selection method employed the snowball approach, as did Celliers et al. (2021). The researcher chose the first participants based on the defined criteria from the researcher's network, followed by asking those participants for contacts in the same or desired field (Creswell and Poth, 2016). The sample was obtained by contacting existing contacts who were entrepreneurs or worked at VC or BI firms, attended networking events, messaging through the Social Media application - LinkedIn, and sought introductions from existing and new contacts. All referrals were validated against the above-mentioned criteria before interviewing. The final sample size was determined when code saturation was reached.

After interviewing and transcribing a batch of three or four participants, depending on breaks between scheduling, the researcher reviewed the responses received to date to determine whether any new themes were identified. No new themes were identified after the third batch of interviews, which would have resulted in a sample size of eight participants. This would be one less than the saturation goal, and to ensure each group of key stakeholders is represented equally, additional interviews were arranged. Still, no new themes had emerged, and saturation was reached with a sample of ten participants. See Table 6, where themes covered in each interview are mapped to participants.

Two participants were able to answer for two roles, and one was interviewed twice, while the other had an interview close to double the average length covering the other role. Ultimately, all three key stakeholders (VCs, BIs, and entrepreneurs) were represented equally, and each stakeholder's perspective was discussed four times. This sample size allowed the researcher to obtain different perspectives on similar themes within South Africa's entrepreneurial ecosystem. A semi-structured aide-memoire approach supplemented by questionnaires to the interviews mitigated the risk of asking inconsistent questions and complimented the researcher's ability to identify the saturation point and relevant themes.

Sample selection

Out of the 12 respondents, four had an entrepreneurial role, four had a BI role, and four had a VC role at the time of interviewing. In addition to their main roles, some participants had previous experience in one of the other stakeholder groups. Two participants had detailed knowledge and experience of another role to respond from that perspective also: one works at a VC firm, and the other runs a BI, but both were entrepreneurs before their current roles. Those two participants were interviewed for both roles. The questions from both aide-memoirs were asked in these instances to ensure consistency and that the required information was gathered for both represented roles. For that reason, there are fewer responses to the questionnaires as the respondents were only required to complete it once.

Table 5 below shows the roles represented, the status of their venture, and their funding and BI experience. It also illustrates that the criteria mentioned before were applied when selecting the sample.

Table 5: Selected sample details

Sample	Role	Status	Funding Experience	BI Experience
1	Entrepreneur	Business closed	Raised Angel Funding	Contact with BIs
2 & 8	Entrepreneur & VC	Business closed; works at a VC firm (SAVCA member)	Raised VC Funding	Attended a BI; occasionally interacts with BIs
3	Entrepreneur	First-time founder	Unsuccessful Fund Raise	Attending a BI
4 & 9	Entrepreneur & BI	Some businesses closed, and others succeeded; incubating businesses	Raised Angel Funding for businesses; raised funding for the BI	Attended two and now runs one
5	BI	Mentor	Raised VC funding and is an Angel investor	Piloted, co-created, and currently works with BIs
6	BI	Incubating businesses	Non-Profit Organisation	Runs one
7	BI	Incubating businesses	Raised funding	Runs one
10	VC	Partner at a VC firm (SAVCA member)	N/A	Occasionally interacts with BIs
11	VC	Works at a VC firm (SAVCA member)	N/A	Occasionally interacts with BIs
12	VC	Works at a VC firm (SAVCA member)	N/A	Has a relationship with BIs

DATA ANALYSIS

The collected data from the interview process, including the questionnaire responses, were analysed using a thematic analysis framework. Many current studies in the BI or VC literature in South Africa also use thematic analysis to examine the data collected and determine the studies' results. Celliers et al. (2021), Makwinja (2022), Pardesi (2021), and Van der Spuy & Antonites (2022) employ thematic analysis in their studies.

Arundale (2018) coded the data collected manually, opting against a software package such as NVivo due to the number of categories and intricate differences tested in the research, as well as the limitations of the software in dealing with multiple categories. Arundale's (2018) scope included multi-country analysis, whereas this study focuses on South African participants only, resulting in fewer categories than Arundale's (2018) research. The researcher, therefore, used NVivo to assist the researcher's thematic analysis. Nvivo is a software program that is used to organise, analyse, and code data collected from primary research, such as text, audio, and video data (Kent State University, 2024). Initial themes were taken from Buys and Mbewana's (2007) 11 BI success factors identified in their research. Therefore, developing themes from initial codes was not needed in the same way that thematic analysis usually requires, starting with familiarisation, initial codes, developing themes, and finally reviewing themes (Braun and Clarke, 2006).

The researcher was present and interviewed all the participants, which formed the first step in understanding the data. The researcher then familiarised himself with the research by transcribing and coding the interviews according to the initial themes taken from the literature. During this process, the researcher noted that some additional concepts recurred through different interviews and thus developed new themes through this iterative step. Once all interviews were transcribed and coded to themes, the researcher reviewed all themes and the number of references to each theme to gain a deeper understanding of the results. Finally, the researcher recorded the results in this dissertation with reference to the questionnaire results to supplement the analysis in the results section of this dissertation. The entire thematic review process the researcher followed is mapped in Figure 4 below.

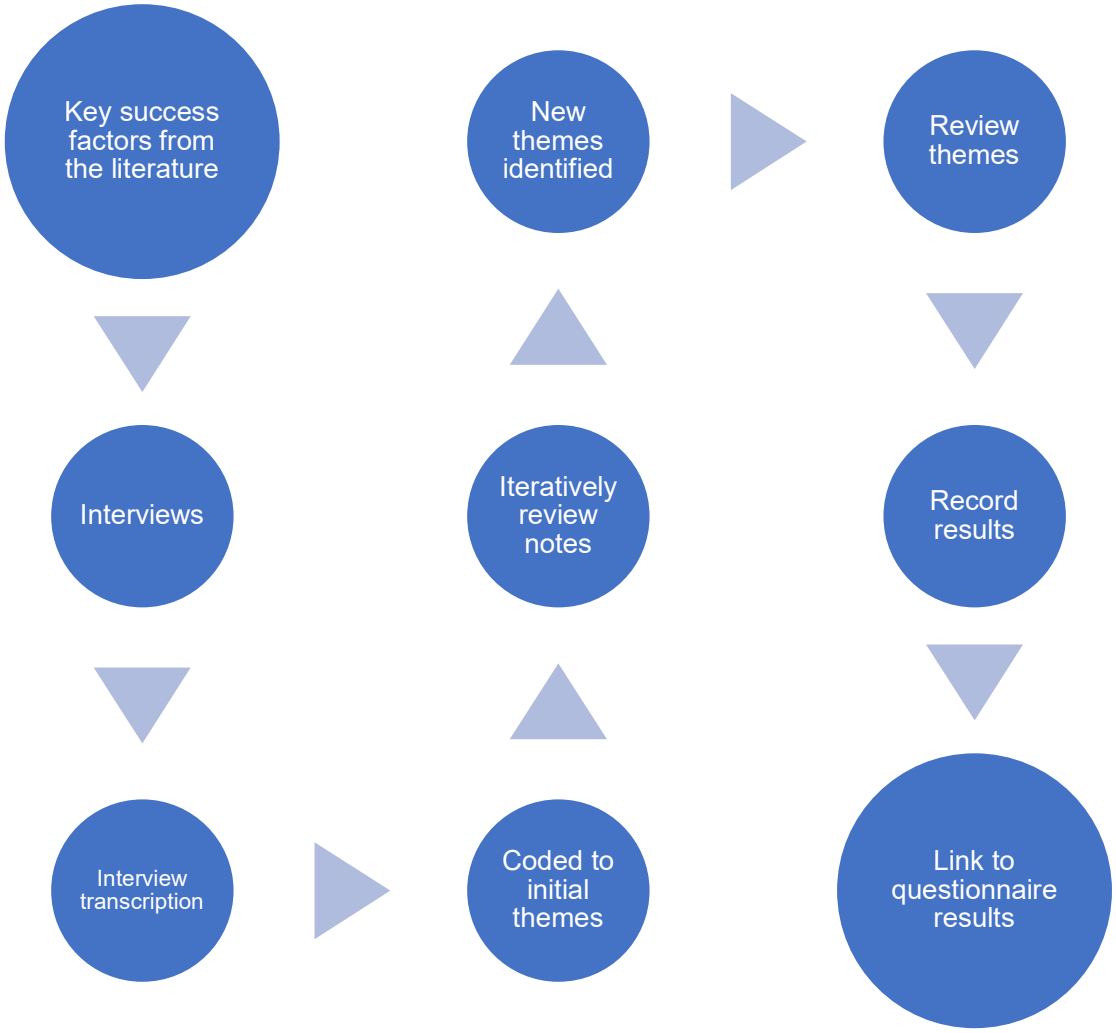

Figure 4: Thematic review process

ETHICS CONSIDERATIONS

The study received ethical clearance from the University of Cape Town's Commerce Research Ethics Committee before any stakeholder was contacted for an interview. The application included the proposed questions and questionnaire for the committee's approval, the clearance certificate is included in Appendix D. Throughout the data collection process, the approved ethical considerations were implemented.

RESULTS AND DISCUSSION

This study set out to answer the research question: How effective are South African BIs in supporting entrepreneurs' preparedness for venture capital funding? To answer this question, the researcher used Buys & Mbewana's (2007) BI success factors to derive initial themes for interview questions and a questionnaire. The data collected is summarised and discussed per theme, including new themes, below. The results section is laid out as follows: first, an overview of the themes discussed per sample is provided, followed by a discussion of each theme and a quote from the interview data. Then, the questionnaire results are presented and discussed to corroborate the interview data.

Appendix C links the themes to the transcripts by providing additional examples of what participants said about each theme.

RESULTS OVERVIEW

Table 6 below depicts each theme discussed per interviewee and references it to either Buys & Mbewana's (2007) BI success factors or a new theme identified. A count of the number of samples that discussed the theme is also provided to illustrate how often themes were discussed. The table also depicts how code saturation was reached and how most themes were discussed in samples one, two, and three, and by sample four, all themes identified in this research were discussed at least once. After sample five, all themes were discussed at least twice and only sample seven mentioned a non-key theme. This remained a non-key theme as none of the interviews following sample seven mentioned that theme and as such, saturation was reached. Samples two and four are recorded as samples eight and nine because these interviewees were interviewed for two roles. The one interviewee's roles were split after reviewing the interview transcript and confirming that it was sufficient for a second role's data collection and that a follow-up interview was unnecessary.

Table 6: Themes discussed by each interviewee.

Reference	Theme	Sample No.										Factors discussed count
		1	2 & 8	3	4 & 9	5	6	7	10	11	12	
		E	E & VC	E	E & BI	BI	BI	BI	VC	VC	VC	
New theme identified	Lack of early-stage funding/support	x	x	x	x	x						5
	Structured Program	x	x	x	x	x			x	x	x	8
	Peer learning	x			x	x	x	x	x			6
Buys & Mbewana's (2007) 11 factors tested, blue are key factors.	Access to technical experts	x	x	x	x				x			5
	Available Funding	x	x	x	x	x						5
	Quality Entrepreneurs	x	x	x		x	x	x	x	x	x	9
	Supportive Stakeholders	x	x	x	x	x		x				6
	Government policies				x	x	x			x		4
	BI Management skills	x	x	x	x	x	x	x		x	x	9
	BI Financial Firmness		x		x					x		3
	Networks	x	x	x	x	x	x	x		x	x	9
	Comprehensive Business Plan											0
	Advisory Board											0
	Stringent selection Criteria							x				1

Note: E - Entrepreneur

As noted in Table 6 above, the comprehensive business plan and advisory board themes were not mentioned at all, and the stringent selection criteria theme was only discussed by one respondent. This confirmed Buys & Mbewana's (2007) findings that these factors are not significant in the South African context. Those factors are, therefore, not discussed further in this research. Of the eight key factors Buys and Mbewana (2007) identified, nine of the ten interviewees discussed the quality entrepreneurs, BI management skills, and networks themes. Between three and six of the ten interviewees discussed the other key factors, and between five and eight of the ten interviewees discussed the three new themes identified in this research.

THEMES DISCUSSION

The BI management skills theme is discussed first as one of the most discussed themes, followed by the networks and available funding themes. Then, access to technical experts, supportive stakeholders, and BI financial firmness themes are discussed, followed by structured programs, quality entrepreneurs, and peer learning themes. Lastly, the government policies and lack of early-stage funding or support themes are discussed.

BI management skills

BI management plays an essential role in managing BI affairs. They should possess entrepreneurial experience and be compensated well, including appropriate performance-related remuneration (Buys and Mbewana, 2007). The study's results highlighted the importance of this factor, with nine of the ten respondents mentioning it in their interviews. Furthermore, other themes mentioned were discussed in light of BI management. For example, when talking about BI financial firmness, respondents noted that BI management drives the incubator's business model and, ultimately, its long-term financial feasibility.

All three stakeholder groups agreed BI management should possess entrepreneurial skills and be able to convey those skills to the entrepreneurs in their cohort. Respondents stressed how BI management should tailor their guidance to entrepreneurs' needs. This is a crucial start for the BIs' ultimate goal of developing entrepreneurs capable of raising investment (Ogujiuba and Olamide, 2021).

Sample 6, BI representative:

> *"There are some fundamental truths about entrepreneurs that make it very plain to see over time. One method cannot work for all. For example, one method would not be as applicable to one entrepreneur who comes from a particular region or sector or within a certain framework of thinking as it would for another, and that's hugely important. That's not to say that those methods don't work. It's just that they're not applicable to that particular individual.*
>
> *There may be some overarching and overall philosophies and guiding policies and principles that would work for everybody. For example, most entrepreneurs need to be resilient, they need to be anti-fragile. To grow stronger with the knocks and to surround themselves with people who support, understand, and empathise with the amount of challenges that they will face. Otherwise, they risk burnout. There's also the lean startup method; it's a scientific way which would*

apply to agriculture as much as it would to artificial intelligence. It doesn't matter with universal methods."

According to most respondents, BI management should provide agile, proactive, and specific support to entrepreneurs depending on their skill or experience gap. This is the only key factor that 80% of respondents strongly agreed on, based on the questionnaire results, refer to Table 7. This signals how crucial the skills transfer from BI management can be to entrepreneurial success and to raise funding (Guiso et al., 2021; Harper-Anderson and Lewis, 2018). The outcome of the questionnaire results on this factor also expresses the extent to which other key factors depend on this key factor. The BI management theme exists within the supports entrepreneurial ecosystem theory domain (Isenberg & Onyemah, 2016), but impacts every other domain through their actions and activities. The networks, BI structure and financial firmness themes can be directly linked to the strength and dexterity of BI management. The networks theme, in turn, is linked to the supportive stakeholders, technical experts, and funding relationships themes, further demonstrating how this theme underpins entrepreneurial success, including attracting investment (Celliers et al., 2021).

Networks

Strong and broad networks is another key factor that all respondents agreed is essential for entrepreneurs to raise VC funding. Respondents included mentors, building community and a strong culture in the BI, a market to sell to, advisors, and potential funders relationships as part of BI networks. The extent and quality of BI management's network influence the culture entrepreneurial ecosystem theory domain and is the link to the other domains. Respondents related the strength of the BI's networks to BI management's network and networking ability, referencing back to BI management skills. According to respondents, BI management's ability to network effectively can significantly increase the BI's entrepreneurs' venture capital fundraising success.

Sample 5, BI representative:

"The calibre of people we had direct access to through this [USA-based] accelerator meant that we could connect with people that otherwise would be impossible to be any quicker."

Sample 11, VC representative:

> *"Increasing an entrepreneur's exposure to a network where they maybe don't actually have exposure yet or where it's lacking."*

Sample 2, Entrepreneur:

> *"The ones [mentors] that were most valuable were brought in by our network outside of the accelerator."*

Respondents notated that the link between VCs and BIs can be significantly improved through better communication and BI management's greater desire to understand the investment thesis and priorities of VCs in their network. All VC respondents mentioned they meet only on occasion with BI management and that the connection could be better facilitated. VCs' investment thesis can be relayed to the BIs' entrepreneurs and improve entrepreneurs' venture capital fundraising efforts. A BI representative structured its entire business model around understanding various VCs' investment theses and matching businesses in their cohort and has seen great results. VC representatives also highlighted the networking gap between BIs and VCs as an area where the BI-VC relationship can be significantly improved and why VCs in South Africa tend to focus on later-stage investments with a proven track record above a business that has been through business incubation.

Sample 7, BI representative:

> *"I talk to everyone in our community, listen to what they need, and connect them to each other…before we connect them to the investors, we know what the various investors' investment thesis are."*

Sample 11, VC representative:

> *"I would like to be more on the receiving end of the interaction from the incubator side, to really understand and listen to what we're after, what our model is, what our thesis is, and be able to provide high-quality matches to that thesis."*

Sample 1, Entrepreneur:

"What would be valuable is knowing the ethos of the VC firm. Knowing where they stand, knowing the type of businesses they're involved in or are interested in pursuing, and knowing the background of the people who are part of the VC."

The above aligns with what was found in prior literature. Better communication and a stronger relationship between BI management and VCs should drive entrepreneurial growth and increase entrepreneurs' access to venture capital (Mlambo, 2013; Ogujiuba and Olamide, 2021; Urban and Moreno, 2022).

Available funding

The available funding theme falls within the finance entrepreneurial ecosystem theory domain, which includes all forms of capital providers: banks, angel investors, friends and family, public markets, etc. (Isenberg & Onyemah, 2016). Many respondents mentioned that mere access to capital is insufficient without understanding the investment philosophy behind the various capital providers. BIs should have a relationship with capital providers in their network and be able to introduce relevant businesses to the right capital providers. Respondents highlighted the need for BI networks to include capital providers such VCs who understand the investment risks related to early-stage investments (Huang, 2018).

Sample 5, BI representative:

"We don't have enough people who've sold companies and made millions that are reinvesting in future entrepreneurs."

Sample 1, Entrepreneur:

"Often, we felt that if we weren't getting access to funding or funding bodies or funders, then the benefit to us was minimal, and we might as well just keep going on our own."

The sampled respondents indicate that insufficient funders in South Africa understand the market they are funding. Sample 5 explained that entrepreneurs funding new entrepreneurs would understand the entrepreneur's plight because they are likely to have gone through a similar situation. A funder with only corporate experience is less likely to understand the entrepreneurial journey, offer sufficient support, and might overprice the risk. The capital provider with entrepreneurship experience, such as

early-stage investors, can potentially price the risk better, implement appropriate risk mitigation strategies, and offer effective support (Huang, 2018).

Access to technical experts

Funders are not the only relevant actors in a BI's network to gaining VC funding, technical experts also exist within the supports entrepreneurial ecosystem theory domain (Isenberg & Onyemah, 2016). Entrepreneurs indicated that BIs should provide access to other specific experts through their network, such as software engineers or developers, who are becoming increasingly important in the ecosystem, in addition to accounting, tax, and legal experts to increase their ability to access VC funding.

Sample 3, Entrepreneur:

> *"…the main challenge that we face, especially with any technological idea, is that we're [entrepreneurs] not skilled enough to build it ourselves and would have to outsource. As an early startup, you don't have money to outsource any part of the business."*

One of China's technology hubs in the Zhongguancun region of Beijing have incubators that focus on technology-based entrepreneurs (Tang et al., 2021). This focused attention demonstrates how critical technology support is to new ventures and new entrepreneurs. These technology-based incubators not only provide expertise as a resource, but access to venture capital that understands technology businesses, too (Tang et al., 2021).

Supportive stakeholders

Supportive stakeholders in a BI's network span all six entrepreneurial ecosystem domains. These could include multinational corporations in the markets domain, experienced entrepreneurs in the human capital domain, Non-Governmental Organisations in the supports domain, and government organisations in the policy domain (Isenberg & Onyemah, 2016). Some interviewees highlighted the need for supportive stakeholders such as large corporations, business partners, or a network of potential clients and suppliers to give a new business a foundation to help grow the business, improve entrepreneurial skill, and access VC funding.

Sample 9, BI representative:

"We have a client base that we maintain to ensure that those relationships are really warm and receptive to new solutions coming through the ecosystem [BI cohort]."

Sample 2, Entrepreneur:

"Accessing more venture capital is probably the key, and how they could do that is they could line up potential acquirers, business partners, or corporate partners to work with the startups earlier."

Sample 2 went on to talk about Corporate VCs that sponsor some BIs under a philanthropic guise. The interviewee noted that those Corporate VCs tend only to fund businesses they could potentially acquire in the future. The interviewee pointed out that the Corporate VC acts in their own best interest rather than the businesses in the BI cohort. The entrepreneur believes businesses in the BIs cohort should decide which partners to work with rather than be limited to one corporate company. This example Highlights a contextual effect on the entrepreneur journey and access to capital, including VC funding (Ogujiuba and Olamide, 2021).

BI Financial Firmness

Respondents discussed various sponsors and finance models which BI management employs to sustain their business. A few respondents highlighted that some BIs are self-funded, whilst others take equity in the businesses in their cohort in exchange for the services they offer. Other BIs are government-funded, have a non-profit structure, or are privately funded by corporates. There was consensus that whatever the funding model, the business model and potentially the outcomes of the business incubation process are influenced by it. This consensus highlights how a BI's financial model impacts the culture surrounding the entrepreneurs within their cohort, one of the six entrepreneurial ecosystem theory domains, and ultimately entrepreneurs' VC fundraising success.

Sample 9, BI representative:

"You can't afford to do one-on-one sessions, you get paid by a sponsor to run a program, and you have to find 12 businesses, because that's what you promised, and the 12 might not be of the same calibre. The economics drives a lot of these conversations, and that's not always in the best interest of the entrepreneur…I charge for my services. I don't give it away for free, because I

believe that I offer real value. I don't know if incubators are brave enough to say, 'We're going to charge you for our services. It's going to be more cost-effective for you than trying to get it from a third party, and it's going to be highly profitable for both of us.'"

Sample 8, a VC representative, referred to a South African BI that implemented a prominent USA BI business model. That prominent USA BI exchanges its services for equity, promising to grow the business significantly. The representative noted that most South African BIs lacked the experience and network to deliver that promise, echoing Aksoy et al.'s (2020) findings. BI respondents spoke about the small size of the South African market and the impact that has on achieving high growth rates that make such incubators and startups successful and viable. Without a sound financial model, BIs fail to support entrepreneurs' access to VC funding.

Structured programs

Various respondents noted that many South African BIs implement a structured program business model that is scalable and cost-efficient, that all businesses in their cohort go through. The businesses then graduate from their program, having raised VC funding or increased maturity to become self-sufficient. The BI respondents explained their philosophy, and some have a more nuanced approach, providing specific guidance and assistance to each business in their cohort alongside a structured program. Like BI financial firmness, structured programs also influence the culture of the entrepreneurial ecosystem domain, where programs could either enable or inhibit risk tolerance and influence entrepreneurs in a BI's cohort's attitude towards failure or mistakes (Isenberg & Onyemah, 2016). The culture thus either breeds further VC fundraising success or failure.

Respondents had differing views on whether BIs should have a structured approach, some advocating for more structure in programs and others for less. The consensus, however, is that either extreme would be destructive and that BIs should aim for a model in the middle of the spectrum to best serve entrepreneurs' access to VC funding.

Sample 12, VC representative:

"Thematic incubators could be valuable, for instance, focusing just on FinTech, waste management, climate tech, or the informal economy in terms of payments or medicine."

The interviewees' responses suggest that BIs require some standardisation in their approach to be financially sustainable and support entrepreneurs' access to VC funding at scale. The areas interviewees suggested that can be standardised are the universal business fundamentals, like the importance of and how to budget. BIs can be more targeted when selecting the businesses in their cohort, like targeting a specific sector, enabling the effectiveness of standardisation (Tang et al., 2021). BI management can focus on a specific sector, reducing the scope of knowledge and network required. This allows BI management to provide better guidance and assistance and ultimately increase the BI's success at supporting entrepreneurs' access to VC funding.

Quality entrepreneurs

Entrepreneurship is at the centre of all entrepreneurial ecosystem theory's domains, and entrepreneurial growth is the main focus (Isenberg & Onyemah, 2016). All respondents either strongly agreed or agreed that developing entrepreneurial skills is a key factor for BI success to support entrepreneurs' access to VC funding, as evidenced by the questionnaire results in Table 8. Furthermore, nine of the ten interviews mentioned this theme, and these views align with the literature. Makwinja (2022) found that mentors and support structures should focus on skill development, Celliers et al. (2021) found that VCs focus on funding quality entrepreneurs, and Bushe (2019) found that South Africa's entrepreneurial capacity is lacking.

More than hard technical skills that entrepreneurs could possess, interviewees describe quality entrepreneurs as people who are committed and passionate about their business, willing to improve and have a growth mindset, are deadline-oriented, and generally have a good attitude and character. VC respondents also mention industry experience as desirable, but experience can be overlooked if all the other qualities are present.

Sample 5, BI representative:

> *"Too many [entrepreneurs] are raising off an idea and not getting the evidence of the traction in order to actually justify the valuation that they're trying to raise for. So, they try to raise too much, too early, and they don't understand the disconnect between that.*

> *And one of the most common misconceptions is that they come up with an idea and want to raise funding. They think they can't do anything until they've got that money. Then, if they do raise the funding, they build this whole fancy thing, ship it, and it just doesn't work."*

Sample 10, VC representative:

> *"For me, personality traits and connections are far more important, and you pick that up quickly when talking to founders. For example, there's a founding group with very little experience in the field that they are in, they kind of stumbled into it. There are three or four in the founding team, but they are executing very well. They run a good process, have a good structure, and have good technology. They deal well with clients, they sell and design the product well. And these guys have not gone through an incubator. Actually, these guys haven't even worked outside of university in their life. So, you just find people that have it, and sure, there are going to be gaps that come up later, but we will be there to help them, but they're not lacking anything... The traits we've seen people that are most successful are those that we're able to work with, that are willing to ask for and listen to advice".*

The results of this study reiterate the importance of entrepreneurial skills to accessing VC funding and add to the body of literature. Celliers et al. (2021) found that VCs invest in quality entrepreneurs and turn away those who lack quality entrepreneurial skills. VCs investing in the entrepreneur and their ability outranks many other investing principles, and this practice is common globally (Dhochak and Sharma, 2016; Ogujiuba and Olamide, 2021; Portmann and Mlambo, 2013; Taylor, 2001; Urban and Moreno, 2022).

Peer learning

Entrepreneurship skills can be learned through many channels, not just a BI classroom environment. Respondents refer to peer learning as entrepreneurs within the same cohort at a BI, learning and supporting each other rather than only learning from BI management. Therefore, being surrounded by other quality entrepreneurs and forming a network within the BI is essential to supporting each other to access VC funding. Entrepreneurs helping other entrepreneurs as actors fall within the culture, supports, and human capital entrepreneurial ecosystem theory domains. Experienced entrepreneurs are a source of human capital by providing knowledge, a source of support through emotional and psychosocial support, and influence culture by modelling drive and ambition (Isenberg & Onyemah, 2016), qualities that VC's value highly (Celliers et al., 2021). A BI full of quality entrepreneurs will likely facilitate quality peer learning and be successful at supporting entrepreneurs' access to VC funding.

This was a particular focus of Sample 6, a BI respondent's business model, but other respondents also mentioned the power of peer learning.

Sample 6, BI representative:

> *"The thing that helps the most is to provide what we call peer support. We have a way of looking at the growth of entrepreneurs and the learning passage, in particular. We call it vertical and horizontal learning.*
>
> *Horizontal learning is the peer support - that's basically our entrepreneurs for entrepreneurs. Vertical learning is mentorship by top-level people, the real heavyweights who can provide valuable input and who have genuine domain expertise…*
>
> *I don't want to underplay this, because it's important, the concept of peer support, so entrepreneurs supporting other entrepreneurs. We've done a five-year research project in South Africa. From that, we have gleaned that the strongest predictor of entrepreneurs' success is the frequency and quality of interactions between entrepreneurs themselves. The only community that understands what you're going through are other entrepreneurs. So, if you cannot pay the bills, and yet you have this passion and this belief. The only person who will be empathetic and provide insightful perspective will be another person who's going through the same thing."*

Sample 4, Entrepreneur:

> *"I'm a big fan of a peer-to-peer forum for sharing one's journey and going deeper into one's challenges, personal business, and being in a room with people that know what it feels like and therefore can contribute to whatever challenges you're going through. So, sharing of contacts, sharing of stakeholders, whereas most business incubators' cohorts are so far apart, I don't see the point of those networking opportunities."*

The literature supports entrepreneurship peer-to-peer learning, going beyond only learning when one is already an entrepreneur. Guiso et al. (2021) found that people surrounded by entrepreneurs during adolescence are more likely to engage in entrepreneurial activity and possess quality entrepreneurial ability. This demonstrates that quality entrepreneurial ability can be learned socially and that BIs could act as a nest for entrepreneurs who have not had that opportunity in South Africa. Entrepreneurs helping entrepreneurs within a BI environment can be more successful at accessing VC funding.

Government policies

BIs are one actor within the broader entrepreneurial ecosystem, and government policies play a big role in setting the agenda of how BIs and VCs act (Fuerlinger et al., 2015). BI participants and one VC participant spoke about support, or lack thereof, from the South African government and other governmental departments. Sample 10, a VC respondent, presented examples of other African governments actively participating in the entrepreneurial ecosystem and suggested what the South African government can do better. Only one participant, Sample 9, noted that government policies have little influence on the support provided to businesses.

Sample 10, VC representative:

> *"I have seen, especially in North Africa, that Tunisia is doing well - its government is actively involved. They've got something like a startup act, and they've managed to raise funding around that sort of state guard rails, where their own local government is investing money."*

Sample 6, a BI representative agrees that government policies can be adapted to support starting and operating a new business:

> *"There are certain regulatory issues that need to be resolved. For example, small businesses should not be placed under the same regulatory requirements as big businesses. So, we should be able to hire and fire fast, under a certain threshold. It's unrealistic for [a small business] to afford the CCMA fees that big businesses can afford. So, if a small business finds a person who ends up being poisonous, for example, stealing from the business, you cannot just fire them. It ends up costing the small business a lot, either way. You sit in this unplayable situation where nobody wants to actually hire people because of the risk."*

Generally, the consensus is that the South African government can implement and change many policies that would significantly improve the conditions for small businesses and startups. Illustrating that procuring the capital to invest in South African entrepreneurs is not an issue, but that government policy is (Causey, 2014; Dhochak and Sharma, 2016; Groh et al., 2018; Levin, 2014; Madiba and Madikizela, 2022; Olawale and Garwe, 2010; Van der Spuy and Antonites, 2022; Visser, 2020). One respondent, Sample 5, spoke about how many startups with valuable ideas move headquarters early in the business journey to avoid the difficulties experienced with South Africa's business policies.

Lack of early-stage funding or support

Another benefit of moving headquarters for South African startups is access to early-stage funding or support. All entrepreneur respondents spoke about the lack of early-stage or VC funding in South Africa (Mlambo, 2013; Urban and Moreno, 2022). This is different from the available funding theme in that the available funding theme speaks to a BI's network and access to funders. In contrast, this theme speaks generally to the external factor of a lack of early-stage capital providers. One entrepreneur, Sample 3, spoke of their experience of applying for VC funding and said that even funds and incubators that call for and claim to focus on early-stage funding end up funding more mature businesses that have already started earning revenue, thus abandoning the early-stage funding pool.

Sample 3, Entrepreneur:

> *"To be honest, in terms of the South African market, there is not a lot of pre-seed funding and a lot of the time when I would apply, I would apply as an early-stage or ideation-stage applicant…Well, the ones that I have applied for, I feel like they say that they would like pre-seed [applicants], but it's never really pre-seed because when you see the businesses that are in the incubation, you see businesses that have been operating and are probably making money. Which is fair, but it's just never the support from actual ideation to launch. There is not as much support as the support that exists for growth to scale-up ventures."*

Sample 5, BI representative:

> *"Access to early-stage capital, specifically from people who understand smart capital. As I said, we don't have enough successful entrepreneurs [who can reinvest in the ecosystem, known as smart money]. We don't have enough people who've sold companies and made millions that are reinvesting in future entrepreneurs. There's a really small pool of people who've sold a company for over $20 million and have $1 million to invest in other startups.*
>
> *There are probably 20 or 30 people in the country who can do that. And until we've got like 10 times, 20 times or 100 times those numbers. Access to smart capital will always be hard, which means you get a lot of capital from financing institutions or corporates that don't inherently understand the risks involved. They try to put the risks through a spreadsheet instead of a gut feeling and the experience of knowing when something's working and when it's not…We do feel a shortage in early-stage capital and access to capital at idea stage and pre-seed stage."*

USA angel investors (a subset of early-stage investors) rely on their 'gut', backed by due diligence, to make investment decisions and were found to be very successful (Huang, 2018; Huang and Pearce, 2015). South Africa could benefit from more

investors with the relevant experience to understand and appreciate the risks involved in early-stage VC investing. Mlambo (2013) found that South African early-stage VC investors were too few at the time of the study. South African investors prefer later-stage investments, where the business has a track record (Portmann and Mlambo, 2013). These issues have not yet been resolved, as evidenced by the results of this dissertation.

Interview results summary

The BI management skills, networking, and the quality of the entrepreneur themes were discussed in most interviews, followed by structured program, peer learning, and supportive stakeholders themes. The interview results echo what the literature already discusses, including that BIs work more closely with VCs in their network (Mlambo, 2013; Ogujiuba and Olamide, 2021; Urban and Moreno, 2022) and the value of entrepreneurial skills acquired from BI management and peers (Guiso et al., 2021; Harper-Anderson and Lewis, 2018) to entrepreneurs' success in accessing VC funding. The interview results confirmed Buys & Mbewana's (2007) eight key and three non-key BI success factors. The researcher identified three new key themes:

1. Lack of early-stage funding/support,
2. Effectively structured programs, and
3. The power of peer learning.

Of the 11 key themes discussed, BI management directly or indirectly controls the activities of nine themes. Only government policies and early-stage funding are out of their control. Emphasising the vital role that BI management plays within the entrepreneurial ecosystem and in supporting entrepreneurs' access to VC funding.

QUESTIONNAIRE RESULTS

The aim of the questionnaire was to support the interview results, as discussed in the methodology section. The questionnaire results are not discussed statistically as a primary source of data, but rather to corroborate the interview results. Some questionnaire statement results contradicted the interview results on those themes, but none were substantial. The questionnaire results, therefore, reduce interview transcription and interpretation bias and increase interview results validity and reliability (Alsaawi, 2014; Lund, 2012; Taherdoost, 2022). The questionnaire

corroborates the interview results, which are not discussed statistically, but as insights into the themes tested and identified during the interviews. At the end of the interview, respondents were asked to rate their responses on a Likert scale to certain statements and how the key factors listed relate to BI success. The tables below, Table 7 and Table 8, demonstrate the questionnaire's results.

Table 7: Questionnaire statements rated.

Rated Statements	Theme	Agree (%)	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
BIs are crucial for entrepreneurs' access to venture capital in SA.		50%	0	5	3	2	0
BIs should provide entrepreneurs access to relevant technical expertise to access venture capital funding.	Technical Expertise	100%	1	9	0	0	0
BIs should provide entrepreneurs with various funding options and support, including venture capital funding.	Available funding	60%	2	4	3	0	1
BIs should ensure alignment of their stakeholders' goals to best support entrepreneurs' access to venture capital funding.	Stakeholder support	60%	2	4	3	1	0
BIs networks should be sufficient for entrepreneurs to access venture capital funding.	Networking	40%	1	3	4	1	1
Government (National, Provincial, and Municipal) policies should be aligned and enable BIs support for entrepreneurs' access to venture capital funding.	Government policies	70%	3	4	2	1	0
BIs executives should possess business and entrepreneurial skills.	Quality entrepreneur	100%	8	2	0	0	0
BIs management should be given specific key performance indicators that align with developing entrepreneurs to access venture capital funding.	BI management	90%	4	5	1	0	0
BIs financial position and performance should be sustainable.	Financial firmness	80%	3	5	2	0	0
BIs play a significant role in supporting entrepreneurs' access to venture capital funding.		40%	2	2	4	1	1

Table 8: Questionnaire key success factors rated.

Rated Key Success Factors	Theme	Agree (%)	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Access to relevant technical expertise	Technical expertise	100%	5	5	0	0	0
Stringent entrepreneur (or startup) selection criteria	Stringent selection criteria	80%	3	5	2	0	0
Entrepreneurial skill development capabilities	Quality entrepreneurs	100%	4	6	0	0	0
Supportive Stakeholders	Supportive stakeholders	90%	6	3	1	0	0
Enabling government policies (National, Provincial, and Municipal)	Government policies	60%	3	3	2	1	1
A comprehensive business plan	Comprehensive business plan	50%	1	4	3	2	0
Financial firmness	Financial firmness	60%	3	3	2	2	0
Strong and broad networks	Networking	100%	6	4	0	0	0
Available Funding	Available funding	70%	2	5	2	0	1
An experienced advisory board	Advisory board	80%	4	4	0	2	0
Skilled and determined management	BI management	100%	6	4	0	0	0

As seen in the tables above, the respondents primarily rated the various statements the same, with many agreeing or remaining neutral. A minority of respondents disagreed or strongly disagreed with some of the statements. Sample 5, a BI representative, noted that incubators should support small businesses, and that VCs inherently only invest in high-growth startups which do not require incubation. Although that statement is possibly a personal viewpoint, it has been noted that it affected the respondents reading the questionnaire statements and how those were ultimately rated.

When the statements rated alongside the key success factors (Table 7 and 8's results) are compared, only the networking factor's results are vastly different. The reason for the variance is understood to be the wording, with the BI having strong and broad networks as a key BI success factor compared to those networks being sufficient for entrepreneurs to access venture capital funding. The keyword noted in the success factor is 'sufficient'. The researcher's analysis and interpretation of the interview results corroborate that understanding because networking is noted as a major theme in this research.

Even though a few respondents disagreed with some statements, none of the questionnaire results significantly contradicted the key themes identified in the

interview data, reducing interview transcription bias and increasing the validity and reliability of the interview results (Lund, 2012). An example of a significant contradiction would be a key BI success factor receiving predominantly strongly disagree or disagree response ratings.

Of the three non-key BI success factors Buys and Mbewana (2007) identified, listed in Table 8, some contradictions to the interview data were found.

- All respondents agreed or were neutral that stringent selection criteria and an experienced advisory board were key factors.
- 80% of respondents agreed or were neutral on the comprehensive business plan factor, with only two disagreeing, Samples 2 and 5.
- An experienced advisory board and comprehensive business plan were not discussed during the interview phase, while Sample 7 discussed the stringent selection criteria factor.

It could be that respondents read the statement as success factors and missed the word ‘key’ in key success factors. As seen in the results table, 80% of respondents rated all 11 success factors as neutral or above. Acquiescence bias could be present in the questionnaire results, perhaps because this topic is not well researched in South Africa, and respondents do not answer these types of questionnaires often (Hill and Roberts, 2023). Overall, however, the questionnaire results do not contradict the overall interview results and provide objective results that corroborate the interview results, thus enhancing the reliability of the interview results.

Questionnaire results summary

The questionnaire supports the interview results, showing that most respondents strongly agree, agree, or are neutral to Buys & Mbewana’s (2007) BI key success factors as they relate to entrepreneurs’ access to VC funding. No inconsistencies between the different stakeholders were noted, no significant inconsistencies between questionnaire data and interview data were found, and the findings in the literature to date still exist in the South African context today.

CONCLUSION

Entrepreneurs face a high failure rate in South Africa due to the lack of business skills and access to finance (Bowmaker-Falconer and Meyer, 2022; Maduku and Kaseeram, 2021; Olawale and Garwe, 2010). BIs aim to support entrepreneurial success (Rens et al., 2021) and VCs specialise in funding businesses without a proven track record, like early-stage businesses (Pradhan et al., 2018). The link between BIs and VCs is understudied in South Africa, and a study looking at this link could provide insights to BIs to help the entrepreneurs in their cohort succeed in accessing venture capital funding. To build on Buys & Mbewana's (2007) eight key BI success factors by adding the VC perspective, this dissertation focused on the intersection of the BI-VC relationship within South Africa's entrepreneurial ecosystem.

This study aimed to explore the BI-VC relationship through multiple lenses and develop insights into the entrepreneurial ecosystem for South African businesses and startups to access VC funding and thrive. Semi-structured interviews were conducted and supplemented by a questionnaire with three essential stakeholders within South Africa's entrepreneurial ecosystem: entrepreneurs, BIs, and VCs. The primary data was analysed using thematic analysis to code themes and determine insights. The dissertation's results reveal recommendations for BI management and other key stakeholders in the entrepreneurial ecosystem to implement.

RECOMMENDATIONS

This study confirmed Buys & Mbewana's (2007) eight key BI success factors as they relate to entrepreneurs' access to VC funding and three more factors were found:

1. Lack of early-stage funding or support,
2. Effective structured programs, and
3. An environment that fosters peer learning.

A key finding was, *inter alia*, that the BI-VC relationship could be strengthened by BIs understanding the VCs' investment thesis in their network. Other areas BI management could focus on are creating a positive culture within their entrepreneurial cohort to learn and support each other, structuring their BI's programs and business model appropriately, and choosing and maintaining supportive stakeholders to support

entrepreneurs' access to VC funding. Another recommendation is that all spheres of the South African government improve policies that affect BIs and VCs to enable more VC investment. These additional areas should impact the entrepreneurial ecosystem positively and support entrepreneurs in running successful, sustainable businesses that can access venture capital as needed.

Practical implications and recommendations

BI management could take the initiative to meet regularly with VCs in their network to ask about what type of industries or companies they want to invest in and better understand their investment thesis. Additionally, BI management could form an effective network or association to share ideas and practices that worked or failed to assist entrepreneurs in accessing VC funding. This leverages peer learning amongst BI management and leads to better outcomes for South African entrepreneurs.

Other stakeholders, such as BI funders, could develop key performance indicators that align with the entrepreneurs in the BI cohort's long-term success and access to VC funding, such as demonstrable improved communication skills to increase VC pitching skills. The South African government could create environments for BIs to improve the relationship between BIs and VCs and incentivise more capital to flow to VCs, like reinstating the section 12J Income Tax provision, thus potentially increasing the early-stage VC investment pool.

STUDY LIMITATIONS

This study's findings could be limited by the participants' geography, primarily the Western Cape province of South Africa. Although many participants are active and experienced in other provinces of South Africa and countries globally, most focus on the South African market. This focus means that extrapolating the results to the rest of the South African context may be limited, and a broader population may provide additional findings.

Other limitations include the fact these interviews take place at a point-in-time, the study is qualitative in nature, excludes other entrepreneurial ecosystem actors, and ignores industry specific factors. Once-off interviews only provide information at the discussion date rather than follow-ups and changes over time. The qualitative nature

of the research prevents statistically generalising the insights. The study excludes other entrepreneurial ecosystem actors such as government officials and Angel Investors, who also typically invest in early-stage businesses (Urban and Moreno, 2022). The study is industry agnostic, whereas an industry specific study could yield deeper insights into that industry's specific features.

AREAS FOR FUTURE RESEARCH

The study's geographical limitations are an area for future research. The study could be repeated in other regions of South Africa or a broader sample that covers other provinces or incorporates other African countries. Other qualitative research agendas could narrow the topic to specific industries.

Other areas for further research could be a qualitative study, a longitudinal study, compare different BI business models, and broadening the investor pool beyond VCs. A quantitative study could analyse the outcome of incubated businesses to those not incubated in South Africa (Msimango-Galawe and Hlatshwayo, 2021). Repeat this study over an extended period to gather more insights from the same participants. Exploring different BI business models (Tang et al., 2021) or structured programs to understand and compare the effectiveness of the different models or programs. A study could incorporate Angel Investors, government officials, or other entrepreneurial ecosystem actors to gather their insights into the BI-VC relationship and explore BIs participation in the ecosystem from their perspective.

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APPENDICES

APPENDIX A: INTERVIEW QUESTIONS

Entrepreneurs

Questions	Success Factors	Notes
Tell me about your experience with business incubators.		Introduction and Background and to gain different perspectives to implement the engaged scholarship approach and assist in triangulation.
Tell me about your experience with venture capitalists.		
What support/information/guidance would have been helpful to obtain venture capital funding (or to get other financing if no VCs were approached)?	Facilitating Support: Quality Entrepreneurs, Access to Relevant Technical Expertise, Available Funding, Network, a comprehensive business plan, stringent selection criteria, & advisory board.	Tech: Universities/science institution; Entrepreneur development; Funding: incl. tax/risk mx support
What funding/support/guidance did you get, and from where? (Financial or otherwise)		
What specific things did VCs look for when you approached them or in your proposal/pitch? What feedback did you get from VCs about your approach/proposal/pitch, and what changes were needed?		
What support can business incubators provide entrepreneurs with regarding their approach/proposal/pitch and access to venture capital funding?		

Questions	Success Factors	Notes
Tell me about your experience with business incubators.		Introduction and Background and to gain different perspectives to implement the engaged scholarship approach and assist in triangulation.
Tell me about your experience with venture capitalists.		
What skills should BIs be developing or supporting entrepreneurs with?	Quality Entrepreneurs	Entrepreneur development
What other key elements/factors contribute to the effectiveness of business incubators in supporting entrepreneurs' access to venture capital funding?	All Success Factors	If still unclear from the previous questions.
Is there anything else business incubators could do to assist entrepreneurs in accessing venture capital in South Africa?	Closing Remarks	

BI Success Factors and Notes (Buys & Mbewana, 2007)

Venture Capitalists

Question	Success Factor	Note
Tell me about any interactions you have directly with business incubators.		Introduction and Background and to gain different perspectives to implement the engaged scholarship approach and assist in triangulation.
Tell me about your experience with entrepreneurs who have been to a business incubator.		
What key criteria do you look for in entrepreneurs' proposals for funding?	Facilitating Support: Quality Entrepreneurs, Access to Relevant Technical Expertise, Funding, Network, a comprehensive business plan, stringent selection criteria, & advisory board.	Tech: Universities/science institution; Entrepreneur development; Funding: incl. tax/risk mx support
What areas do you feel entrepreneurs lack most of the time?		
Was there a noticeable difference in readiness among entrepreneurs who have been to a business incubator when approaching you? (if they have experience with entrepreneurs that have been to a BI)		
How can business incubators provide comprehensive support to entrepreneurs to access VC funding?		
What skills should BIs be developing or supporting entrepreneurs with?	Quality Entrepreneurs	Entrepreneur development
What other key elements/factors/things contribute to the effectiveness of business incubators in supporting entrepreneurs' access to venture capital funding?	All Success Factors	If still unclear from the previous questions.
Is there anything else business incubators could do to assist entrepreneurs in accessing venture capital in South Africa?	Closing Remarks	

BI Success Factors and Notes (Buys & Mbewana, 2007)

Business Incubators

Question	Success Factor	Note
Tell me about your experience with venture capitalists. Tell me about your experience with entrepreneurs who apply for your support in accessing venture capital funding.		Introduction and Background and to gain different perspectives to implement the engaged scholarship approach and assist in triangulation.
What areas do you support entrepreneurs in accessing venture capital funding? What specific skills are key for entrepreneurs to raise venture capital funding successfully?	Facilitating Support: Quality Entrepreneurs, Access to Relevant Technical Expertise, Funding, Network, a comprehensive business plan, stringent selection criteria, & advisory board.	Tech: Universities/science institutions; Entrepreneur development; Funding: incl. tax/risk mx support
What support do you have/need to support entrepreneurs' access to venture capital funding? What external relationships do you have/need to support entrepreneurs' access to venture capital funding? What external or outside challenges do you face in supporting entrepreneurs' access to venture capital funding?	External relationships: Supportive Stakeholders, Networking	Stakeholders all on the same page; Network = market/wisdom
How important are government regulations and legislation to business incubators' ability to support entrepreneurs' access to venture capital funding? What changes need to be made for business incubators to better support entrepreneurs' access to venture capital funding?	External Factors: Enabling Government Policies	Economic and industry policy at all levels.

Question	Success Factor	Note
What internal factors aid/enable/assist or are preventing/stopping you from supporting entrepreneurs' access to venture capital funding?	Internal Factors: Skilled and Determined Management, Financial Firmness	Mx: Competent and entrepreneurial; Finances: self-sufficient/sustainable
What other key elements/factors/things contribute to the effectiveness of business incubators in supporting entrepreneurs' access to venture capital funding?	All Success Factors	If still unclear from the previous questions.
Is there anything else that business incubators could do to assist entrepreneurs' access to venture capital in South Africa?	Closing Remarks	

BI Success Factors and Notes (Buys & Mbewana, 2007)

APPENDIX B: QUESTIONNAIRE

Your responses to this questionnaire will be greatly appreciated. Your responses will only be used for the intended research purpose and will be anonymised in the dissertation. You can opt-out at any time and are not obliged to answer. Your participation will enrich the research process and results.

Please circle your rating between one to five, with one as *strongly disagree*, two as *disagree*, three as *neutral*, four as *agree*, and five as *strongly agree*.

No.	Statement	Likert scale
1	BIs are crucial for entrepreneurs' access to venture capital in SA.	1 2 3 4 5
2	BIs should provide entrepreneurs access to relevant technical expertise to access venture capital funding.	1 2 3 4 5
3	BIs should provide entrepreneurs with various funding options and support, including venture capital funding.	1 2 3 4 5
4	BIs should ensure alignment of their stakeholders' goals to best support entrepreneurs' access to venture capital funding.	1 2 3 4 5
5	BIs networks should be sufficient for entrepreneurs to access venture capital funding.	1 2 3 4 5
6	Government (National, Provincial, and Municipal) policies should be aligned and enable BIs support for entrepreneurs' access to venture capital funding.	1 2 3 4 5
7	BIs executives should possess business and entrepreneurial skills.	1 2 3 4 5
8	BIs management should be given specific key performance indicators that align with developing entrepreneurs to access venture capital funding.	1 2 3 4 5
9	BIs financial position and performance should be sustainable.	1 2 3 4 5
10	BIs play a significant role in in supporting entrepreneurs' access to venture capital funding.	1 2 3 4 5
	Rate how strongly you agree or disagree with the following business incubator success factors as areas for supporting entrepreneurs' access to venture capital funding. A successful business incubator has:	

	Access to relevant technical expertise,	1 2 3 4 5
	Stringent entrepreneur (or startup) selection criteria,	1 2 3 4 5
	Entrepreneurial skill development capabilities,	1 2 3 4 5
	Supportive stakeholders,	1 2 3 4 5
	Enabling government policies (National, Provincial, and Municipal),	1 2 3 4 5
	Financial firmness,	1 2 3 4 5
	Strong and broad networks,	1 2 3 4 5
	An experienced advisory board,	1 2 3 4 5
	Skilled and determined management,	1 2 3 4 5
	A comprehensive business plan,	1 2 3 4 5
	Available funding.	1 2 3 4 5

BI Success Factors (Buys & Mbewana, 2007)

APPENDIX C: ADDITIONAL QUOTES PER THEME

BI Management

Sample 5, BI representative:

> *"The biggest fundamental disconnect is in language and lexicon of understanding of what the terms startup, small business, venture capital, or tech-enabled mean and how they actually translate to setting people up to look for the wrong kind of advice. Often mentors don't distinguish that sort of stuff properly, and so they give not the right advice for the type of business they are, because there's that disconnect."*

Sample 11, VC representative:

> *"a clear focus and a clear brand behind what you're trying to achieve will also help attract the right attention on both sides of that value chain. I think sometimes incubators fall into the trap of trying to be everything to everyone and just follow the activity".*

Sample 12, VC representative:

> *"Business incubators already have some credibility with private sector investors. There's already a trusted relationship…good incubators are investors themselves. They have skin in the game."*

Sample 3, Entrepreneur:

> *"From the beginning, we are taught how to properly define the problem statement or idea, how to properly define the target market, how to do your market research properly, and how to present that in a document or a presentation. We'd need to submit individual and group prototypes… [a business model canvas is] probably the best thing they could have done to prepare us. It guides you on who your customer segments are, what your marketing channels are, what your distribution channels are, the key relationships that you need to uphold and create, how you are going to make money, and what all of those costs are. It's all on one document."*

Sample 1, Entrepreneur:

> *"The number one thing that an incubator should do is they should help you concretise the idea; secondly, they need to test whether it is a viable business. I don't know how many get you to that point of Minimum Viable Product (MVP). I know sometimes incubators will have a precondition that you should have at least an MVP that you can go to market with."*

Access to technical experts

Sample 9, BI representative:

> *"We provide generic services such as accounting, legal, marketing, and HR services that know how to support ventures. Every time we start a new company, we use the same blueprint for these generic services. We can focus on building products and establishing relationships with clients."*

Sample 10, VC representative:

> *"…focus on things like corporate governance, legal structuring, intellectual property, legal contracts and implications, the hard stuff."*

BI financial firmness

Sample 8, VC representative:

> *"The challenge we have [in South Africa] is that a number of the accelerators are built to copy the Y Combinator model, so they take equity upfront and whatever your starting point is, say it's 0.2, we can take you to one…And so you've got a mismatched value proposition, where you're giving away equity to an accelerator who, in some cases, hasn't got the experience, nor the network, etc."*

Sample 3, Entrepreneur:

> *"Business incubators are limited in numbers because resources are limited, so they probably want to take startups that have the likelihood of being able to raise funding. Those startups tend to be startups that have already started making money."*

Structured Programs

Sample 11, VC representative:

> *"With my limited experience, what I think incubators get wrong, and it's a really difficult task to be an incubator, the difficulty lies in scaling their business. To scale their product, the training, insights, or the knowledge they provide must be somewhat standardised."*

Sample 10, VC perspective

> *"…there is a significant difference between what all the business incubators actually do, and there is no standard or NQF-level exam, or anything that acts as a qualification."*

Sample 5, BI representative:

> *"The focus should be on the fundamentals that the business, at various stages, needs to get right, depending on what they're aiming for. If you create frameworks around what a business at particular stages is optimising for, you can then structure support, frameworks, and metrics appropriately…But too many people [BIs] lead with the framework and then try to shoehorn startups through it. It just doesn't work…you end up with some needing baseline education, some at the idea stage of a startup, and others were a 40-person events company that was generating millions in revenue in the same cohort. How do you possibly structure support, guidance, and advice sessions for those various companies in one program?"*

Sample 1, Entrepreneur:

> *"What is good is an incubation program that has a set structure to it, enabling you to work through various business divisions and making sure that you've got all your boxes ticked…initial fundamental things like: What is your vision? What is your mission? What are your objectives? What are your costs like?"*

Quality Entrepreneurs

Sample 7, BI representative:

> *"There are the universal and evergreen ones [desired entrepreneurial skills], like branding and brand identity. To create a brand resonant in an overcrowded world, something that they believe in, that they're passionate about, that they would wear on their sleeve and tattoo on their shoulder. I think that's really important.*
>
> *Another is sales. It doesn't matter how prevalent artificial intelligence may become. Sales is going to be important now, as it will be in 100 years. In order to sell your product, or your vision, or your service, you need to understand the fundamental principles of connecting with other humans, what makes them tick and what would actually be a persuasive way of conveying a message in a way that would help them make a decision to transact with you and believe in your product, or your service, or your vision… [and] there's an onus on the entrepreneur to understand basic entrepreneurial financial basis. For instance, the difference between a balance sheet and an income statement the difference between a creditor and a debtor."*

Sample 8, A VC representative:

> *"Every YC startup understands that the funders that they are going to have are going to want to help them change the business, and they see that as positive."*

Sample 1, Entrepreneur:

"We were comfortable asking for advice... business incubators should help you speak to people because that is what every business needs. Once you've got a concrete idea, every business needs financing and clients, so they need to train you to talk to those types of people. And then maybe have a slow-release mechanism where they give you access to the right people as you develop."

Peer Learning

Sample 7, BI representative:

"And then, finally… Everything always comes back to network, and that network effect is the gift that keeps giving because, through that network, you're able to keep your finger on the pulse in terms of the things you don't know. You're able to learn more about technologies.

In our community, while grabbing a coffee or participating in a cook-off, you meet different people, like OT21, who was the MD of OT22 Europe and then the Africa division who's venture initially failed but now is an avid investor, or OT23, who has a PhD in large language models.

These are the things that traditional incubators don't bring to the table because you're not there long enough and don't have the network under one roof where you can actually figure out what some people are doing.

We're not an incubator, a traditional incubator. It's not a traditional co-working space. It's a space where people come to irrigate their brains, learn more, meet other people, and get more done effectively by working together."

Sample 1, Entrepreneur:

"I think having referrals or access to other startups who have benefited from them [VCs] and finding out what their experiences were with the VC as part of an info pack would be really useful. Being able to sit down and engage with them. I think that would be helpful, just so that you can make an informed decision about who you partner with in the end."

Government policies

Sample 9, BI representative:

"We realized that one of the new solutions that we developed in the next six months should be a separate business, bought the domain, got the company registered, kicked off the brand process, and they'll start building the solution next week. Hopefully, it will be done in three months, and we can take it to market. So, nothing in that makes me concerned about the [government] regulation."

Sample 5, BI representative:

"There are tons of red tape and unnecessary complications around [starting and operating a legal business], starting at education of SARS and tax liabilities and company registration, and opening bank accounts is super risky and quite difficult. There's a whole bunch of stuff that I think can definitely be improved around business registration, business red tape, early-stage investment, investment tax incentives, exchange controls and then just general education.

Something like section 12J, that for some bizarre reason, [the South African government] ended. The tax incentives for angel investments into high-risk ventures or in the venture capital asset class, whether early-stage [venture capital] or later-stage [venture capital], definitely help. So, that kind of government incentive makes a massive difference.

It's relaxing exchange control laws. I don't know any founder that's building a company that could be a billion dollars that is registered in South Africa…There are a few examples off the top of my head that internationalised as soon as they got to any meaningful scale. They are registering in Mauritius, registering the UK, registering in Delaware… [South Africa's exchange control] regulations are incredibly prohibitive."

Sample 7, BI representative:

"We deal with tech businesses, and your tech is subject to [Intellectual Property rights]. That subjects you to exchange controls. So, we have to work with companies. I sit on the board of VC10, and half the time people are trying to figure out how they can get their structures internationalized.

The Nomad visa is another area that could assist. We don't have all these skills in the country. We should welcome these people, and they should upskill South Africans, this is what we need. We need to make sure that the right people get visas to help build the economy. So, there's a lot of work that needs to be done there.

Then there's [Broad Based Black Economic Empowerment (BBBEE)]. I mean, I believe that we need inclusion in society, but that must be organic. I don't see BBBEE helping me at all as a hub. I want inclusion as much as the policy suggests. I need to have inclusion, because in my own organisation, I talk about making sure that we have people from different backgrounds, people from different experiences, coming together and having that clash of ideas which turns into Innovative nuggets of gold that one could eventually make some money out of.

So, no, not much government legislation helps me do what I do."

Lack of early-stage funding or support

Sample 4 and 9, Entrepreneur and BI representative:

"The landscape is too small to have a large enough accelerator focused on the type of work that we were focused on. You wouldn't find two of us to put together

in any given year, so you immediately put together a whole bunch of other startups. These other startups are in different phases, have different focuses, different target markets, and have different challenges. There isn't much overlap and as such, not very beneficial to us."

The same entrepreneur spoke about how few investors are willing to invest in early-stage businesses.

"I haven't actually taken investment from VCs. I don't believe in the [venture capital] model and was never really interested in taking funding from VCs. The economics and incentives are misaligned to entrepreneurs' goals. Furthermore, there are actually very few people around who are willing to invest in early-stage businesses. Mostly angels and friends willing to do that at this point."

Sample 5, BI representative:

"The hard thing is our market, your total addressable market in South Africa is quite small. So, to try and build a traditional business rapidly is difficult, and a lot of people trying to raise venture capital funding are just getting frustrated by that. They're trying to raise the funding to help them grow a bit quicker, but they'll never grow at the rates which venture capital needs to get proper returns, which means the venture capitalists are pricing that risk into their term sheets and just taking ridiculous terms.

APPENDIX D

2024/05/17
COM00792/2024

RE: Research Ethics Committee Project Approval Letter

Dear Allistair Green,

Your application for ethics review of your project titled

EXPLORING HOW SOUTH AFRICAN BUSINESS INCUBATORS ASSIST ENTREPRENEURS IN ACCESSING VENTURE CAPITAL

has been reviewed and evaluated by the

Commerce Research Ethics Committee.

You may proceed with your research project titled:

EXPLORING HOW SOUTH AFRICAN BUSINESS INCUBATORS ASSIST ENTREPRENEURS IN ACCESSING VENTURE CAPITAL

Expiration date of approval: 2025/02/28

Please note that should:

(i) any serious or adverse effects to participants occur and/or,

(ii) aspect(s) of your current project change and/or

(iii) any unforeseen events that might affect continued ethical acceptability of the project occur then you should immediately report this to the approving REC. You may be required to submit an amendment to this application, in order to determine whether the changed aspects increase the ethical risks of your project.

Based on the information supplied your application has been successful and is approved.

Please note the following additional conditions associated with this approval:

(i) * approval granted through 28 February 2025

Regards,

Commerce Research Ethics Committee.