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COMPARISON BETWEEN SOUTH AFRICAN SERVICE INDUSTRY SECTORS' REQUIREMENTS FROM UNIVERSITY BUSINESS INCUBATORS

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─Abstract ─

The South African economy is in dire need of a boost as it is currently being characterised by low growth, high unemployment and poverty. The South African government has prioritised the development of small, medium and micro enterprises (SMMEs) as they are capable of stimulating the economy. However, small organisations face multiple challenges in the stringent economy. University Business Incubators (UBIs) offer support to small organisations and supplement their development to an extent where they may become self-sustainable in the market. UBIs offer incubation programmes, which include a variety of services ranging from physical facilities, general business services, management services, networking and professional services, financial consulting services and university services. To be successful, UBIs should create a balanced fit between their service offerings and the needs of small organisations, as a one-size-fits-all service offering may not succeed when considering different industries, countries and regions. The purpose of this study was to determine the difference between the service industry sectors, namely auto, estate agents and property management, health care and beauty, hospitality and accommodation and professional services, service offering requirements from UBIs. A descriptive research design was followed, whereby a non-probability judgment sample of 108 small service organisations (SSOs), situated in the Vaal Triangle region of South Africa, was taken. A structured self-administered questionnaire, containing the various UBI service offerings, was distributed to the owners or managers of the SSOs. The statistical analysis of the collected data included descriptive statistics and one-way ANOVA. The findings indicate that statistically significant differences were found between the service industry sectors, relating to the physical facilities and

networking and professional service offerings of the UBI. These statistically significant differences were found to have medium effect sizes, pointing towards practical significance. As such, it is recommended that UBIs utilise their service offerings to develop unique marketing strategies for the service industry sectors.

Key Words: Small organisations, SMMEs, University Business Incubators (UBIs), service industry, South Africa

JEL Classification: M, M3, M31

1. INTRODUCTION AND BACKGROUND

South Africa, a developing country, is currently experiencing socioeconomic, political and macroeconomic challenges that are largely related to slow economic growth, high unemployment rates, inequality and an unacceptable level of poverty (Meyer & Neethling, 2017:68; Ladzani, 2013:44). In order to revitalise the economy, the South African government has prioritised the development of SMMEs and entrepreneurship as a means to combat these challenges (Cant & Wiid, 2016:65; Olawale & Garwe, 2010:729; Herrington, Kew & Kew, 2009:12). Djip (2014:254) explains that new organisations are formed through entrepreneurship, which creates the linkage between entrepreneurship and SMMEs. SMMEs are known to uplift the growth of an economy through creating job opportunities, reducing the level of unemployment and poverty and stimulating innovation through entrepreneurial activity, which in turn indicates that SMMEs are vital to the development of a country (Sitharam & Hoque, 2016:227; Cant, Wiid & Kallier, 2015:621). In South Africa, SMMEs constitute about 91 percent of formal organisations and contribute, on average, between 51 and 57 percent towards the gross domestic product (GDP) (Cant & Wiid, 2016:65; Abor & Quartey, 2010:223; Kongolo, 2010:2288). GDP is used to measure the level of economic development by adding the value of the complete number of products and services produced within a specified period of time (Mohr & Fourie, 2004:63).

SMMEs are found in various industries of the economy, which include manufacturing, mining, agriculture and service industries, amongst others. However, the majority of SMMEs are found within the service industry, accounting for approximately two-thirds of the generated employment opportunities within most countries (Muriithi, 2017:38; Kamunge, Njeru & Tirimba, 2014:1). Worldwide, the service industry is recognised as one of the fastest growing industries and within developed countries they make up about 80 percent of the total workforce (Petzer, Steyn & Mostert, 2008:2). The service

industry is taking on a dominating approach in many economies as the industry is seen to generate employment opportunities and contribute towards the economic growth and development of developed and developing countries (Li, Clemes & Gani, 2015:199). In addition, Hipp and Grupp (2005:518) highlight that service organisations vastly contribute to the macroeconomic and social development of an economy. The service industry is one of the fastest growing industries in South Africa, contributing around 65 percent to the GDP (Bhorat, Steenkamp, Rooney, Kachingwe & Lees, 2016:8).

In spite of the multiple contributions SMMEs bring to the various industries, economies and countries, they face multiple challenges and it has been noted that their failure rate is one of the highest worldwide, whereby 75 percent of newly established SMMEs fail to become fully established organisations, (Cant & Wiid, 2016:65). Shockingly, as a result of the multiple challenges that SMMEs face, 40 percent of SMMEs fail within their first year of operation, 60 percent within their second year and approximately 90 percent in the first 10 years of operation (van Scheers, 2011:5048; Cant & Wiid, 2016:65). Moreover, Kamunge et al. (2014:1) and Muriithi (2017:40) highlight that three out of five SMMEs fail to continue with their operations within the first few months. In Africa and more specifically, South Africa, SMMEs are constrained by a limited access to finances and electricity supply, together with a lack of managerial skills, competency and capability, technological capabilities, access to reliable information, government support, crime and corruption, coupled with other challenges relating to political instability, labour issues, increased competition and violent destructions (Muriithi, 2017:40-43; Sitharam & Hoque, 2016:278-279). Furthermore, it has been noted that there are negative perceptions created around the support of SMMEs as the consumers perceive these organisations to lack the ability of delivering a quality service and as such, they prefer to provide their support to larger organisations (Muriithi, 2017:42; Kamunge et al., 2014:1).

Government agencies, institutions and certain private sectors in various regions of South Africa have developed programmes that are aimed at supporting SMMEs (Department of Trade and Industry, 2010:1). Worldwide, business incubators have been recognised as successful institutions that aim to lessen the failure rate of SMMEs by providing them with support to overcome the challenges they are confronted with and creating an environment that ensures growth and sustainability (Raheem & Akhuemonkhan, 2014:73; Al-Mubaraki & Busler, 2010:1; Buys & Mbewana, 2007:357). Business incubators offer entrepreneurs business incubation programmes that aim to conquer the barriers that stand in the

way of developing new organisations and provide these entrepreneurs with the necessary resources required to establish, grow and maintain their organisations (Meru & Struwig, 2011:113). According to Kuratko and Hodgetts (2007:264), typical incubator services include providing entrepreneurs, referred to as incubatees, with rental space, shared office services and business consulting support in order to accelerate growth within the early stages of development. Bridge, O'Neill and Cromie (2003:391) concur, indicating that incubation programmes are offered within incubator centres, which thereby enables incubatees to co-locate, rent space and distribute a variety of business services and equipment. Scaramuzzi (2002:4) emphasises that different types of incubators may be found for various reasons.

UBIs, which are formally supported by a university, are recognised as a separate type of business incubator that intends to nurture newly established SMMEs (Todorovic & Suntornpithug, 2008:390). Additionally, UBIs are mainly focused on development whereby new products and/or technologies are the result of transformed research and development outcomes (Bøllingtoft & Ulhøi, 2005:271). Adding to the common business incubator services, UBIs concentrate on offering services that are specifically associated to a university, for instance faculty advisors, student employees, improvement of reputation, library facilities, equipment, mainframe computers, research and development undertakings, technology transfer platforms, employee education and training and other social happenings (Grimaldi & Grandi, 2005:112).

2. PROBLEM STATEMENT

Traditionally, the manufacturing sector, followed by the agricultural sector, received primary attention in relation to the trade and industry policy literature and state departments for trade and industry. The service sector received the least amount of attention as it was non-tradeable and the outputs of this sector were largely determined by the demand of local industry, government and consumers (Hodge, 1998:3). Contractor, Kundu and Hsu (2002:9) concur, indicating that the growth in the service sector, which includes services rendered in the business categories of accountancy, advertising, banking, consultancy, hotels, insurance and legal, amongst other service sectors have reflected minimal research in academic studies. Research on the service sector has been conducted in the areas of performance (Yuliansyah, Rammal & Rose, 2016; Contractor et al., 2002; Brah, Wong & Rao, 2000); innovation (Sheehan, 2006; Hipp & Grupp, 2005; Czarnitzki & Fier, 2002) and growth (Li et al., 2015; Lee & Wolpin, 2006; Wirtz, 2000). However, Rudenko, Zaitseva, Larionova, Chudnovskiy and Vinogradova

(2015:224) highlight that the challenges facing small organisations and the support infrastructure thereof in the service sector, is a topic that is under researched in the current literature.

Jambulingam, Kathuria and Doucette (2004:4) indicate that the organisation categories within the service industry sectors are classified on a general basis. While this may seem necessary, generalisations are made about the particular service industry sector, without taking into account that differences may exist within the industry sector, amongst the organisational categories. Verma and Young (2000:646) concur, arguing that the unique attributes of services have been used to classify the entire service industry sector, failing to consider that the organisation categories within the service industry sector may differ from one another. For example, it would be impractical to assume that the organisation categories pertaining to the professional service industry sector, which include lawyers, accountants, doctors and even architects, are all set up in the same manner, require the same data, equipment or facilities and even experience the same challenges. Brandon-Jones, Lewis, Verma and Walsman (2016:9) highlight that the specific characteristics, namely excessive levels of customer engagement, extensive customisation, knowledge intensity and low levels of capital intensity that may be found amongst the professional service industry sector are not valid in generalising the service industry sector and creating a 'one-size-fits-all' approach. Moreover, the generalisation of the characteristics within the service industry sector may cause managerial challenges. As such, Contractor et al. (2002:9) emphasise that service industry sectors are not homogenous, therefore, the organisations within this sector should not be considered to be alike.

In order for business incubators to be effective, they should consider creating a balance between their service offerings, the needs of incubatees, the business conditions and the state and local culture as these variables may differ across industries, regions and countries; thus, implying that a one-size-fits-all approach is not particularly suited for the service offerings of a business incubator (Maital, Ravid, Seshadri & Dumanis, 2008:2). Colbert, Adkins, Wolfe and LaPan (2010:72) concur, indicating that the stage of the organisations development or industry sector can vastly affect the incubatee's needs and requirements. As such, it is critical that UBI managers investigate the needs of incubatees across industries to confirm that they align with the business incubator service offering.

3. PURPOSE AND OBJECTIVES

The purpose of this study was to determine the difference between the service industry sectors (auto, estate agents and property management, health care and beauty, hospitality and accommodation, and professional services) service offering requirements from UBIs. This was determined by the SSOs owners/managers within the five service industry sectors perceptions of the importance of UBI services.

4. RESEARCH METHODOLOGY

A descriptive research design was employed in this study in order to determine the difference between the service industry sectors' service offering requirements from UBIs. The service industry sectors considered for the purposes of this study included auto, estate and property management, health care and beauty, hospitality and accommodation, and professional services. The National Small Business Act (102 of 1996) indicated that, based on the number of full-time paid employees, medium-sized organisations employed between 100 and 200 employees, small organisations employ a maximum of 50 employees, very small organisations a maximum of 10 employees and lastly, micro organisations employ a maximum of five employees. As such, this study concentrated on small, very small and micro organisations, referred to as SSOs, which employed a maximum of 50 employees. The main concentration of this study was on SSOs, defining the target population to be any person currently owning or managing an SSO in the South African context. A list of registered SSOs within the Vaal Triangle region of South Africa was drawn from the Vaal Triangle Info Business Directory (Vaal Triangle Info, 2005), constituting the sample frame for this study. Non-probability judgment sampling was applied and 125 SSOs were selected from this list. Specific attention was given to ensure that the 125 SSOs formed part of the five service industry sectors selected for use in this study. A few other studies, such as Abduh, D'Souza, Quazi and Burley (2007:79) (sample size of 129) and Meru and Struwig (2011:112) (sample size of 124) were used to confirm that the sample size of 125 SSOs was adequate.

The literature on this topic was utilised to develop a scale for the structured self-administered questionnaire of this study. The questionnaire included a cover letter that explained the essential information relating to the study, confidentiality, consent and courteousness. Following the cover letter, demographic information was gathered from the participants within the first section of the questionnaire. The second section contained the 41 items of the scale measuring the SSOs

requirements from UBIs. The scale consisted of six constructs, specifically physical facilities (eight items), general business services (seven items), management services (five items), networking and professional services (seven items), financial consulting services (nine items) and university services (five items). A six-point Likert scale ranging from very unimportant (1) to very important (6) was used to measure the participants' responses for the constructs pertaining to physical facilities (i.e. telephone, computer and network equipment), general business services (i.e. receptionist or secretary, assistance services, inventory management), management services (i.e. business plan development, advertising, human resource management), networking and professional services (internal or external networks, legal counselling and representation), financial consulting services (i.e. financial management, access to bank loans, business taxes) and university services (i.e. student employees, faculty consultants, training and education).

The questionnaire was subject to a pilot test to confirm the reliability of the scale, whereby a convenience sample of 30 owners/managers of SSOs was selected. The selected 30 SSOs were situated in a different region and thus, were not included in the main sample of the study. The 41 itemed scale produced a Cronbach alpha value of 0.941. Malhotra (2010:319) suggests that an acceptable level for the Cronbach alpha value is 0.600, which was realised for each construct that returned values ranging from 0.651 to 0.889. Moreover, this represents internal consistency reliability the individual constructs contained fewer than 10 items each. The entire scale produced an average inter-item correlation value of 0.274, thus falling within the recommended values of 0.15 and 0.50 (Clark & Watson, 1995:316). The questionnaire underwent the procedure of ethical clearance (Ethics Clearance Number: ECONIT-ECON-2014-020), which was gained from the Ethical Committee of the North-West University (Vaal Campus).

The researcher personally visited the owners/managers of the SSOs to gain consent for the questionnaire to be collected, thus following an unsolicited calling approach. Once permission was gained from the owners/managers of the SSOs, the questionnaire was hand-delivered to the participants and a two-week period was allowed for it to be completed before it was collected again. The Statistical Package for Social Sciences (SPSS), version 22 was used to analyse the captured data. Moreover, one-way Anova was utilised to compare the five service industry sectors' requirements from UBIs based on the SSOs owners/managers' perceptions of the importance of UBI services.

5. RESULTS

A response rate of 86 percent was returned, signifying that 108 of the 125 questionnaires were suitable for use. The five industry sectors included auto, estate agents and property management, health care and beauty, hospitality and accommodation and professional services. The sample was split evenly across these five service industry sectors. Table 1 represents the sample participant's demographical information.

Table 1: Sample description

		Frequency (percentage)
Service industry sector	Auto	21 (19.4)
	Estate agents and property management	21 (19.4)
	Health care and beauty	22 (20.4)
	Hospitality and accommodation	20 (18.5)
	Professional	24 (22.2)
Gender	Male	41 (38)
	Female	67 (62)
Position in organisation	Owner	54 (50)
	Manager	54 (50)
Organisations' age	Younger than 5 years	40 (37)
	Over 6 years old	68 (63)
Number of employees	0 – 19 employees	96 (88.9)
	20 – 50 employees	12 (11.1)

The Cronbach alpha value and inter-item correlations were used to confirm the reliability and validity of the research scale. According to Malhotra (2010:319), the Cronbach alpha value should be above 0.600. The Cronbach alpha value returned for the overall 41-item scale was 0.928, with the individual constructs returning Cronbach alpha values of *physical facilities* at $\alpha = 0.695$, *general business services* at $\alpha = 0.688$, *management services* at $\alpha = 0.811$, *networking and professional services* at $\alpha = 0.832$, *financial consulting services* at $\alpha = 0.891$, and *university services* at $\alpha = 0.813$. These values surpassed the recommended value of 0.600. According to Clark and Watson (1995:316), inter-item correlation values between 0.15 and 0.50 approve convergent and discriminant validity. The entire scale returned an inter-item correlation value of 0.243. Furthermore, inter-

item correlation values for the individual constructs ranged between 0.229 and 0.471.

One-way Anova was utilised to compare the five service industry sectors' requirements from UBIs based on the SSOs owners/managers' perceptions of the importance of UBI services. A standardised significance level of $p<0.05$ was utilised. Table 2 provides an overview of the results.

Table 2: Differences between the service industry sectors' service requirements from UBIs

Construct		Sum of Squares	df	Mean Square	F-ratio	Sig
Physical facilities	Between Groups	10.485	4	2.621	4.577	0.002*
	Within Groups	58.988	103	0.573		
	Total	69.474	107			
General business services	Between Groups	3.084	4	0.771	0.803	0.526
	Within Groups	98.875	103	0.960		
	Total	101.958	107			
Management services	Between Groups	2.230	4	0.557	0.463	0.763
	Within Groups	124.050	103	1.204		
	Total	126.280	107			
Networking and professional services	Between Groups	18.846	4	4.711	5.168	0.001*
	Within Groups	93.891	103	0.912		
	Total	112.737	107			
Financial consulting services	Between Groups	10.543	4	2.636	2.138	0.081
	Within Groups	126.973	103	1.233		
	Total	137.516	107			
University services	Between Groups	5.460	4	1.365	0.913	0.459
	Within Groups	153.937	103	1.495		
	Total	159.397	107			

* Significant at $p < 0.05$

As depicted in Table 2, no statistically significant differences were found between the service industry sectors' requirements from UBIs pertaining to the general

business services, management services, financial consulting services and university services constructs. However, statistically significant differences were established for the physical facilities and networking and professional services constructs. The effect size for physical facilities and networking and professional services, calculated by using Eta squared (η^2), was 0.15 and 0.17, respectively. According to Pallant (2007:208), medium effect sizes, which point towards practical significance, are indicated for both the physical facilities and networking and professional services constructs. Post-hoc comparisons using the Tukey HSD test were utilised to analyse the variances further. As a result, it was indicated that the estate agents and property management service industry sector depicted significant values of $p < 0.05$; thus, indicating that there are differences in the perceived importance of UBI services, with estate agents and property management service sector accounting for the majority of the variances between the physical facilities and networking and professional services constructs.

6. DISCUSSION

The primary objective of this study was to determine the difference between the service industry sectors (auto, estate agents and property management, health care and beauty, hospitality and accommodation, and professional services) service offering requirements from UBIs. This was determined by the SSOs, within the five service industry sectors, owners/managers' perceptions of the importance of UBI services. UBIs are known to provide support to SMMEs so that these organisations can reach high levels of growth and be sustainable in the current market conditions. Subsequently, UBIs have focused their attention on marketing their service offerings to multiple industry sectors in the economy. However, UBIs should consider increasing their marketing approaches to the service industry sectors, especially in South Africa, where SMMEs constitute a large proportion of the service industry. By concentrating on the service industry sector, entrepreneurs can find new creative and innovative ideas that will continue to grow this sector and consequently, lead to increased employment opportunities, growth and development for the economy.

The results of this study indicate that the auto, healthcare and beauty, hospitality and accommodation and professional service industry sectors were in agreement with regards to the SSOs owners/managers perceived importance of UBIs services. However, there was a difference found between the estate agents and property management service industry sector relating to the SSO owners/managers perceived importance of UBI services, specifically within the physical facilities and networking and professional services constructs. This may

be attributed to the estate agents and property management service industry sector requiring more structured services relating to physical facilities and networking and professional services, when compared to the other service industry sectors. This is expectable given that individuals in this sector rely on networking to generate sales as well as leads. Furthermore, such individuals are more likely to require the services of people such as accountants and lawyers on a regular basis in order to complete transactions.

Rudenko et al. (2015:234) have identified that entrepreneurs of small businesses should have expanded knowledge on legal regulations. However, this poses a challenge as many entrepreneurs or owners of SSOs take on the role of a manager, economist, accountant, lawyer, marketer, human-resource manager, amongst others. In line with the results of this study, this may be evident from specific service industry sectors, for example the owner of a beauty salon may take on these various roles themselves, instead of outsourcing the services on which they may lack knowledge. However, with the estate agents and property management service industry sector, these owners or entrepreneurs have no other option but to appoint a professional such as a lawyer in order to complete the sale of a house, for example. Therefore, the importance of the professional services offered by UBIs may be more important to these owners/managers when compared to the other service industry sectors.

7. CONCLUSIONS AND MANAGERIAL IMPLICATIONS

Traditionally, UBIs have offered their services to multiple industry sectors within the economy. However, the service industry has expanded in South Africa with multiple entrepreneurs establishing their organisations within the lucrative industry. UBIs can provide support to these SSOs and develop their potential to become full-fledged organisations that contribute to the sustainability and growth of the South African economy.

On a micro-level, the managers of UBIs should market their services to the five service industry sectors identified in this study as the owners/managers of these SSOs perceived the UBI services as being important. As such, the UBI strategies should be focused on attracting SSOs within the service sector industries and this should be in line with the UBIs vision, mission, goals and objectives. Unique marketing strategies could be developed for the estate agents and property management service industry sector, whereby specialised services could be offered to this sector that will assist them in accessing professional services and establishing networks that will be sustainable for their operations. As such, UBIs

should tailor their service offerings to this specific service industry sector, but they should also focus on marketing their services equally amongst the other service industry sectors.

On a macro-level, business incubators and the government, alike, should increase their focus and support to the organisations developed within the service industry sector in South Africa as these organisations are proving to be a vital contributor towards the development and growth of the economy.

8. LIMITATIONS AND OPPORTUNITIES FOR FUTURE RESEARCH

While this study contributed to the limited literature on the service industry in South Africa, a major limitation is that it only included the service industry located within the Vaal Triangle region. As such, future research can include service industries located within other regions of South Africa, or even other countries around the world.

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