



The Role Of The Business Environment In Harvesting Strategies

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ABSTRACT

Harvesting is made up of many different strategies that can be used by entrepreneurs to exit their business. This is a long-term ambition to create real value to the business. In Beaufort West, a uranium mining development is going to take place and thus create opportunities for existing and new businesses. This study investigates how the changing business environment will influence this harvesting choice made by the entrepreneur. Recommendations indicate that entrepreneurs need more information and training regarding the specific harvesting concept and strategies that are available, because no specific harvesting strategy was noted as important by the entrepreneurial respondents.

Keywords and phrases: business environment; harvesting; exit; business; entrepreneur; uranium

INTRODUCTION / BACKGROUND

Levels of unemployment in South Africa have remained high over the past few years and have resulted in the creation of numerous social problems. South Africa has resources – infrastructure, businesses, people with knowledge and skills, institutions that contribute in building the country and significant financial resources. However, the current rate of the usage of these resources is not producing the annual growth rates needed to empower large numbers of people that are poverty-stricken and unemployed (Sapa, 2008). The lack of entrepreneurial and management skills is, above all, the main impediment to creating and establishing sustainable and distinctive businesses.

The Global Entrepreneurship Monitor (GEM) South African Report (2008), compiled by the Centre for Innovation and Entrepreneurship at the University of Cape Town, revealed that South Africa has a total entrepreneurial activity rate 50% lower than that of almost 40 developing and developed countries that participated in the GEM (Maas & Herrington 2006: 20). The GEM also found that people aged between 25 and 44 years were more involved in entrepreneurial activity, but people with low education levels (without matric) were less likely to perceive themselves as entrepreneurs.

One way to address the high rate of unemployment and maturing economy is to educate and assist people to create sustainable entrepreneurial ventures. When an entrepreneur starts a new business it is usually an attempt to utilize a market opportunity. In other words, there is a “gap” in the market to satisfy consumer’s needs, which are then not adequately satisfied (Money Biz, 2007). Existing firms also have to be on the look-out for new growth and expansion opportunities to ensure long-term survival and a return on investment. For some entrepreneurs, the primary source of returns may only occur at the end of their relationship with the venture, when they want to “cash out” and harvest the profit.

Some entrepreneurs do not like to think about the harvesting strategy. There are even entrepreneurs that do not know what the real meaning of harvesting is. Harvesting is a strategic method entrepreneurs and investors use to get out of a business and, ideally, reap the value of their investment (cash-out) in the business (Longenecker, Moore, Petty & Palich, 2006: 239; Faulkner, 2009: 22). It is similar to the concept of “Begin with the end in mind” in Stephen Covey’s book *The Seven Habits of Highly Effective People* (Covey, 1989). A harvesting goal is not just a goal of selling and leaving the business (Longenecker *et al.* 2006: 239). Rather, harvesting is part of a strategy and a long-term ambition to create real value for the

business and to gain from it (O'Hara, 2009: 60). It is more than just an exit strategy; it considers a process for achieving an end goal that will repay the entrepreneur for the hard work and inputs.

Research concerning the notion of harvesting is relatively scarce (DeTienne, 2010: 203). Because harvesting is such an important strategy and it has been neglected by the entrepreneur, the researchers saw an opportunity to gain some information regarding the strategies used with the establishment of a uranium mine in a relatively small town like Beaufort West. It has led to the very significant investigation beforehand, to determine the knowledge that the entrepreneur has of the strategic aspects of expanding an existing or establishing a new business in a changing business environment. Furthermore, the opinion of the entrepreneurs about the changing environment as a result of the impact that the mining activities may have on the business environment was determined. This would in turn also ultimately impact the harvesting strategies in the future.

LITERATURE REVIEW - HARVESTING

Retiring from a regular job seems to be well understood in the field of normal employment and life in general. It can generally be defined as an employee leaving his or her employment at the end of his or her career (MindBullets, 2003). Thus, if an employee terminates his or her working career, it ends a phase in such an employee's personal life. Likewise, a farmer sows maize seeds with the aim of harvesting a maize crop at a later stage. At the end of the harvesting process, the maize crop is sold to make a profit. The harvest is therefore the end goal of the whole strategic farming process. If the harvest was not successful because the yield was not good, the whole strategic objective of the farming process is defeated (Nieman & Nieuwenhuizen, 2009: 342).

Planning a business strategically is more or less the same as the example of farming mentioned above. In the back of every average business owner's mind lurk thoughts of eventually leaving the business. The owner also usually worries about who will carry on with the business, whether it can be sold at a profit and, equally important, how much of any profit from the sale or transfer of the business will remain in the owner's pocket (Battersby, 2008: 74; Faulkner, 2009: 22).

Harvesting is a strategic goal and requires a strategy for achieving it. For those business owners willing to engage in a little strategic planning, the answers to all these questions, and quite a few others the business owner may not have thought of, emerge (Robbins, 2008; Flanagan, 2009: 5). Best of all, planning a harvesting strategy may mean the difference between leaving your aggregate business on your

own terms or with a planned higher return (Battersby, 2008: 74; O'Hara, 2009: 60). Understanding the dynamics of the harvesting process brings insight to the entrepreneur in order to meaningfully anticipate, plan and execute a successful harvest strategy (Flanagan, 2009: 5).

Harvesting is a process to achieve an end goal that will repay the entrepreneur for the hard work and inputs (Longenecker *et al.* 2006: 239). The end goal is important for decisionmaking that is done during the life cycle of the business venture. The entrepreneur should understand that harvesting is part of the strategy for the business; it cannot happen overnight. The best harvesting strategy is the one that best fits each small business and the entrepreneur's personal goals (Ward, 2008a; Flanagan, 2009: 5). The entrepreneur must also monitor the process and adapt his or her strategy according to a changing environment.

It is thus important for any entrepreneur to know exactly what to plan for in terms of harvesting the business. When the entrepreneur has a clear understanding of this plan, he or she can then gain from additional environmental situations along the way to increase the planned profit-making goal a little further. A case study in Beaufort West, South Africa, is an ideal situation to test the harvesting knowledge of entrepreneurs and their thinking processes regarding harvesting.

Reasons for harvesting

Reasons for harvesting a business can vary widely (DeTienne, 2010: 210; Faulkner, 2009: 22). Harvesting depends on many aspects, ranging from personal to environmental issues, as well as the different harvesting strategies that exist (Nieman & Nieuwenhuizen, 2009: 342). When analysing the harvesting process, the following reasons are important for the entrepreneur to do his or her planning for the best harvesting result:

- Personal goals of the entrepreneur – this can be retirement at a planned age, succession of children (Quatre, 2007: 33; Houck, 2008: 32), what is being sold of the business and some other personal reasons like wanting to make a change in pursuing another opportunity that he or she identified (Pretorius, 2003: 291; Flanagan, 2009: 5).
- Financial reasons – the performance levels of a business plays an important part in the harvesting success. Lower performance is associated with a less beneficial harvest. The best opportunity to harvest is when the venture is performing well in terms of sales revenue and profits. A crucial part of the performance levels of a business is also stage of the life cycle. The stage of the life cycle in which the business is at harvesting time will also determine the success of harvesting.

- Environmental issues – environmental issues can be categorized into Micro-, Meso- and Macro-environmental aspects. Environmental issues may influence the planned strategy of the entrepreneur along the line of running and harvesting the business (BHP Information Solutions, 2009). It is thus important for the entrepreneur to stay in touch with these environmental issues and plan the outcomes of each environmental issue for the best harvesting strategy.

Harvesting strategies

Many different harvesting strategies exist for the entrepreneur and it is also essential that the entrepreneur knows the outcomes of each strategy to plan the best strategy for his or her business in terms of the harvest (Kensing, Martin & Petty, 2000; Battersby, 2008: 74–76; Holmes, 2007: 108; Nieman, Hough & Nieuwenhuizen, 2003: 291; DeTienne, 2010: 210; Houck, 2008: 32). Harvesting alternatives cannot be contemplated for a venture that has slipped down the failure road too far. This slip will drive the selling price down. Similarly, harvesting becomes difficult for a business that has moved to the maturity and especially the decline stage of its life cycle (Nieman & Nieuwenhuizen, 2009: 347).

Although many closely held businesses have buy/sell agreements already in place to provide a mechanism for valuing, few provide the exact strategy for the retirement of the owner, partner or principal shareholder (Robbins, 2008). The outright sale is the most obvious route to follow for the entrepreneur, but not always the best strategy (Ward, 2008b). The outright sale requires that the entrepreneur take a decision to sell the venture to any willing buyer. When a business is sold outright, the seller's goal usually is to reap as much of the proceeds as capital gains as possible. For individuals, including sole proprietors, net capital gains are subject to tax rate of 25% in South Africa. This forms the downside of any capital transaction in the outright sale strategy (Battersby, 2008: 74).

Often there are other businesses in the same or related industries that want to expand their operations and want to grow through acquisition (Robbins, 2008). Buying an existing business in a related industry could be beneficial and involves less risk for the buying entrepreneur. According to the theory of Porter (Ehlers & Lazenby, 2007: 112-119) it is important in this expansion process that the entrepreneur that wants to sell his or her business should enquire from suppliers whether they might be interested in forward integration. Other potential buyers may be some of the larger customers who are interested in backward integration.

Forming an alliance with another venture is different in that no one takes up equity in the other business, as with a merger or joint venture (Nieman, Hough & Nieuwenhuizen, 2003: 297). The entrepreneur can follow the alliance route as an

interim step that can lead to a complete takeover in the long run (Ward, 2008b). The merger is a quicker route than the alliance but is very similar. In the merger a formal combination of the two enterprises takes place either through forming a new enterprise or for taking up shares in each other's venture (Longenecker *et al.* 2006: 241). The "capital cow" strategy refers to the entrepreneur proceeding with the business but using the cash that it generates as capital to establish an alternative venture or use it as retirement funding (Nieman & Nieuwenhuizen, 2009: 351).

There are certain harvesting strategies that are not applicable to use by a small and some medium entrepreneurs in the Beaufort West area. The three strategies not applicable are:

- The management buyout strategy – not enough management staff that has the capital, knowledge and risk orientation to buy the business and make a success;
- Employee share strategy – not enough employees with capital, knowledge and risk orientation to buy the business; and
- Public offering strategy - not possible because of the size and the growth potential of the business (Battersby, 2008: 75-76).

It is questionable whether a change in the environment alone is sufficient to determine the best choice for harvesting. Normally, the strategies mentioned above interact with each other and a change in a few complementary factors may influence the harvesting strategy significantly. What entrepreneurs think and expect to do to make use of the environmental aspects to create the best strategy for the business harvesting process is noteworthy. The Beaufort West case has some significant factors that can have an influence on many entrepreneurial businesses harvesting strategy.

A new development has been initiated in Beaufort West – the mining of uranium. Beaufort West may become the centre of the uranium mining boom and its economy is expected to grow substantially. Rising property prices are already the first sign of the booming economy (Business Trust and Department of Local Government, 2007: 43). But the overall viability of mining operations in the district is heavily dependent on global commodity prices and the rand-dollar exchange rates. In terms of job creation, agriculture and tourism are the two sectors with the highest current potential, whereas mining is the sector with the highest future potential for significant economic growth within the entire town and surrounding area. Several companies are interested in mining the substantial uranium deposits around Beaufort West and the direct value of the uranium is estimated to be R620 billion (Business Trust and Department of Local Government 2007: 34). "The mining companies are serious

about their development plans and are currently investing 1 billion Rand in the region” (Business Trust and Department of Local Government, 2007: 9).

The development in the region will create many opportunities for existing and new businesses. The development will also have an impact on the business environment and especially the micro- and market environment. Foregoing opportunities and prospects that will develop in the next couple of years, will afford various new and existing business owners the opportunity to seize the occasion with both hands and expand their trading resources. The question that arises is whether these entrepreneurs truly realise that they are proceeding with development strategies accompanied by capital investment, or whether they are envisioning the end result, when the business is sold or ownership is changed and a return of investment capital occurs.

IDENTIFICATION OF PROBLEM

Because a harvesting goal is not just an aspiration to sell and leave the business, it is necessary to gain some understanding of the entrepreneurs’ comprehension of the harvesting concept and also the strategies that the entrepreneur implements to create real value for the business and also ensure a big enough retirement package. Since limited literature currently exists on harvesting, this study wants to contribute by determining if entrepreneurs in the Beaufort West area have a harvesting goal as part of their entrepreneurial process. If they have briefly thought of harvesting, it would be necessary to note what strategy they will consider. More specifically, the influence of environmental changes on the entrepreneurs’ judgment and their opinion or choice of their harvesting strategy should be investigated.

AIM OF STUDY

The main aim of this study was to investigate whether the entrepreneurs have any knowledge of harvesting and if so, to reveal the harvesting strategies that they may follow. The study also investigated how the business environment influenced this harvesting choice and ultimately how the environment impacts on harvesting in the future.

Ultimately, the following propositions could be investigated in the study:

P1: Entrepreneurs understand the concept of harvesting

P2: Entrepreneurs considered harvesting strategies during start-up

P3: Entrepreneurs think that it is important to consider a harvesting process

P4: The environmental changes influenced how entrepreneurs judged their opinion / choice of harvesting strategy

METHOD

This formal research study was exploratory in nature. This type of research is designed primarily to explore what is going on (Babbie & Mouton, 2001: 80; Trochim, 2006). In the present study the researchers wanted to observe and explore entrepreneurs in Beaufort West. A quantitative research approach was used because it implies an iterative process whereby evidence is evaluated, and theories and research questions are refined (Hancock, 1998: 2).

Measuring instrument

A survey was conducted as it gave the researcher a picture of what the people think (Neuman, 2000: 31). Face-to-face interviews with a questionnaire covering the micro-, macro- and meso-environment of the business were conducted with as many businesses in Beaufort West as possible. This questionnaire was developed by the researcher from several other example business surveys. The Community Development Workers from the Beaufort West District Municipality assisted as fieldworkers to gain experience and also gain access to information about the businesses in the area. Community Development Workers are a cadre of civil servants with specific and limited levels of training. They are deployed at the community level and are community-based resource persons for government. The researcher also tried to establish a database of businesses in Beaufort West that could possibly be used for further studies.

Sample

There is no list of businesses available in the small towns of the Karoo and therefore the Telkom (landline communication services in South Africa) Telephone book was used as a guideline for finding the businesses in the town. There are (according to the telephone book) approximately 330 businesses in Beaufort West. Convenience sampling was used because the list of businesses is very small and as many entrepreneurs as possible were interviewed. A total of 129 questionnaires were completed during the last week of November 2007. Therefore the response rate was 39,1%. Furthermore, there was no co-operation from (14,5%) of the businesses (for example, they repeatedly requested fieldworkers to "come back the next day"), the owner was too busy and did not have time to complete the questionnaire (10,1%), the owner was never available (9,6%), there was no responsible person at the office to leave the questionnaire with (8,1%) and many of the businesses are owned by the

same owner, and they had already completed a questionnaire (8,4%). The response rate is low for a business survey of a small town in the Karoo.

FINDINGS AND DISCUSSION

Demographic profile of respondents

The majority of the respondents (53,3%) that were interviewed were the owner and manager of the business. These people are responsible for building the harvesting strategy. Therefore, the results reflect the financial as well as the managerial views of business in the area. Eighty-five percent of the respondents were in their peak of their business career (between the ages of 26 and 55 years). A relatively even distribution of white (53,1%) and "black" (35,2% coloured and 10,2% black) owned or managed business people were interviewed. Almost 70% of the respondents received a good education (Matric (38%), diploma or certificate and even a degree (31%)). There were also entrepreneurs who received very little formal training (3,2% - no education, grade 1 and grade 2).

Although several respondents owned businesses in brick structures next to the home (6%), in shacks next to the home (3%) and working within the home (10%), respondents mostly owned or managed formal businesses that were located in the central business district (63%) and the industrial area (13%).

Respondents' harvesting strategies

This study's main aim is to explore the knowledge of the entrepreneur in terms of their choice of starting a business with a harvesting strategy in mind, the influence of some environmental aspects on harvesting as well as their choice of a harvesting strategy.

Harvesting strategy in this case considers the context or environment (micro, market and macro), as well as well as the business and its performance within the environment (Nieman, Hough & Nieuwenhuizen, 2003: 291). Table 1 shows the entrepreneurs' thinking on a harvesting strategy when starting their business.

Only 24% of the entrepreneurs from Beaufort West that were interviewed noted that they thought about a harvesting strategy when starting their business. A further 13,6% have thought of a harvesting strategy but are unsure of which strategy to use. The remaining 62,4% of the entrepreneurs mentioned that they have not thought about harvesting at all when starting their business. This is a worrying aspect because the entrepreneur should consider harvesting when they start up a new business. A strategy, even a broad one, will help the entrepreneur to be alert to any

opportunities that might open to optimise a potential harvest or to make the harvest more significant (Nieman, Hough & Nieuwenhuizen, 2003: 302).

Table 1: Thinking of harvesting strategy when starting the business

	N	%
Yes, sure I have	30	24.0
Yes, but unsure about strategy	17	13.6
No, not at all	78	62.4
Total	125	100.0

Above all, market environmental issues are the macro environmental aspects like the political, economical, social, technological, international and physical factors that govern the market environment. For the few entrepreneurs in Beaufort West that thought of a harvesting strategy when starting their business, the environmental factors as well as the severity of the situation may influence their chosen strategy when a harvest strategy is selected.

As soon as a macro-environmental factor like the economy of Beaufort West is going to change, some of these market factors mentioned are also going to change. The entrepreneur who is aware of the influence of the change on his or her harvesting strategy, can make some adjustments to gain the best benefits from their harvesting strategy. Those Beaufort West entrepreneurs (more than 75%) that are unsure of the harvesting strategy and do not think of any strategy, will not be making any adjustments to their current business or business strategy. Therefore, the entrepreneurs (in Beaufort West) have not clearly thought about the strategy they would use but only do that when prompted to give an opinion afterwards. Table 2 indicates their outlooks. Their harvest will be influenced negatively or positively according to the environmental changes, but because they did not make any planning adjustments, the end result could have been better.

Table 2: Respondents' awareness of the importance of harvesting strategies

Harvesting strategy	Very Important		Important		Less Important		Not at all important		Total	
	N	%	N	%	N	%	N	%	N	%
Outright sale	33	28.2	12	10.3	7	6.0	65	55.6	117	100.0
Looking for acquisition	11	9.6	15	13.0	14	12.2	75	65.2	115	100.0
Selling to competitor	7	5.9	12	10.2	9	7.6	90	76.3	118	100.0
Do a management buyout	5	4.3	14	12.0	8	6.8	90	76.9	117	100.0
Employee share option	6	5.2	11	9.5	11	9.5	88	75.9	116	100.0
Forming alliance with other venture	4	3.5	11	9.6	7	6.1	92	80.7	114	100.0
Merging with other venture	4	3.5	15	13.0	5	4.3	91	79.1	115	100.0
Proceed with professional manager	15	12.6	23	19.3	9	7.6	72	60.5	119	100.0
Capital cow	9	8.0	14	12.5	11	9.8	78	69.6	112	100.0
Public offering	11	9.6	14	12.2	2	1.7	88	76.5	115	100.0
Divestment alternatives	6	5.2	14	12.2	6	5.2	89	77.4	115	100.0

When asked which strategy they would follow, depending on the strategy, between 60 and 80 per cent of the Beaufort West entrepreneurs did not find the harvesting strategy important. Those that made a choice of which harvesting strategy to use seemed to prefer the outright sale (28,2%) (see table 2). In terms of theory, it can be seen that the entrepreneur that chooses outright sale as a strategy, is not well informed and needs to rethink his or her harvesting strategy.

Although 65% of entrepreneurs in Beaufort West showed no interest in an acquisition at all, they ranked it as an important choice. The entrepreneurs were also asked to rank their choice – an outright sale was ranked number 1 (No.1), looking for acquisition method as number 2 (No.2) and selling to a competitor, as well as capital cow as number 3 (No.3).

A strategy that can be of more importance for entrepreneurs who want to avoid the tax option in the shorter term is to plan in the long run to train and place an employee with enough knowledge as a manager to operate the business while the owner withdraws his or her involvement. This strategy was chosen by 12,6% of the respondents in Beaufort West. In most smaller and medium size businesses this strategy is workable for the owner that wants to retire but while the business and the environment around the business, like in Beaufort West, is positive. Use the growth of the business to earn more harvesting capital in the long run while in the meantime still making a profit and keeping the business going at the same level and quality.

The greatest number of entrepreneurs (80,7% and 79,1% alternatively) would not choose 'forming an alliance with other ventures' or 'merging with another venture' at all as a choice for a harvesting strategy.

The business community in Beaufort West seems to be very positive about the economy and trading conditions in the town of Beaufort West. This is possibly the influence of the uranium mine that should be opening soon. A total of 78,7% of the entrepreneurs stated that the economy of Beaufort West is improving. Over 63% of the entrepreneurs also thought that the general business conditions are good, the number of clients has increased (68,8%), sales have increased (69,8%) and their profitability has improved (60,7%). The entrepreneurs seemed more divided when asked whether the current trading conditions were good, fair or poor because 52% noted that the conditions were good and 42% recorded that these conditions were fair. The entrepreneurs also rated the confidence they have in their own business (average of 8,43) as well as the confidence they have in the Beaufort West economy (average of 7,97). Nearly fifty per cent of the entrepreneurs gave a rating of 10 out of 10 for the confidence they have in their own business and 62% gave a rating of between eight and 10 for the confidence in the Beaufort West economy. Therefore, a

change in the macro environment (uranium mine) could influence the optimism in the business community of a small town. When looking at harvesting strategies, entrepreneurs must not let only the macro environmental conditions such as the economy influence them to choose different harvesting strategies. This is now the time for every entrepreneur to strategically plan his or her harvesting strategies because in this positive climate and growth opportunities in Beaufort West, the best deal can be made. Look for acquisitions, alliances, train managers to run a specific strategic unit of the business with the aim to let him or her run the whole business over the long-term, look for a capital cow (a certain strategic business unit) that can be expanded to generate more profit with less input are some of the better strategies to be considered.

LIMITATIONS OF THE STUDY AND FUTURE RESEARCH

In general, entrepreneurs or business owners do not have a lot of background knowledge in terms of the harvesting concept and harvesting strategies. They are not always aware of the fact that harvesting should be planned when starting up the business. Therefore, it is often difficult to incorporate questions concerning harvesting in a business survey. The concept sometimes first has to be explained to the entrepreneur in detail before the question can be answered in full.

This study has a relatively small sample because there are usually only a few entrepreneurs in a small town. Often a single entrepreneur also owns several of the small businesses in the same town. Moreover, these entrepreneurs are not aware of the harvesting concept and do not have a strategy planned. Also, no comparative studies have been performed on this concept in South Africa. The knowledge of the entrepreneurs has not been tested and the research conducted in this field has been minimal. In addition, there is very little user-friendly information available for entrepreneurs or business owners to become acquainted with the concept. Ideally, the researcher should develop a longitudinal study by investigating the harvesting issue repeatedly in the study area.

Only descriptive statistics were reflected in the results because the study was purely explorative. It could merely give a “snap shot” of what the few entrepreneurs reported on (Aylmer & Gill, 2003: 4). If many more entrepreneurs were interviewed at certain intervals – more statistical analysis would be possible.

Ultimately, more research is required in terms of harvesting world-wide, but particularly in South Africa. This is necessary so that the entrepreneur and business owner can become familiar with the concept and recognise why certain strategies are better than others.

CONCLUSION

This project focused on the harvesting goal that is an alternative to simply selling and leaving the business. Harvesting is a strategy used by entrepreneurs to exit their business and, ideally, reap the value of their investment. In the Beaufort West area, a new mining development is currently underway that would generate many business opportunities for existing and new business owners. It was thus the ideal research environment in which to investigate the harvesting concept among the business people and to identify their perspectives on the impact of the environment on their harvesting strategies. This study indicates that entrepreneurs need more information and training regarding specific harvesting concepts and strategies that are available. One main reason for this is that between 60% and 90% of the entrepreneurs did not find some of the harvesting strategies important. Because the mine is coming, the entrepreneurs paint a positive picture for the future and do not think about or consider harvesting their business. Entrepreneurs also do not make use of the correct harvesting strategy. The outright sale is not always the best strategy (tax deduction) and this is the harvesting strategy that is opted for most often. Entrepreneurs in this case should rather have made use of the 'forming of an alliance' or 'looking for acquisition' approach with 'strategic businesses' or 'train an employee' to run and manage the business over the long run.

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