

## Chapter 28

# Creativity and Innovation for Entrepreneurs in the Circular Economy

Vannie Naidoo

*University of KwaZulu-Natal, South Africa*

### ABSTRACT

*SMEs uplift a country's economic wellbeing by creating jobs and alleviating poverty. Since poverty and job creation are so important to economies worldwide, policies and legislation have to be developed and implemented that encourage SME growth in world markets. It, however, does not stop there; SMEs have to use tools to strengthen their business operations. This is where the aspect of innovation and creativity is crucial. The researcher is of the opinion that many other theorists share, that is, SMEs cannot grow or sustain themselves without creativity and innovation.*

### INTRODUCTION

SMEs are fast becoming major players in the economy. They stimulate employment and growth and are instrumental in job creation within the world's economies. SMEs contribute substantially to a country's GDP. SME owners are vital social transformation agents who actively participate in the economy by selling their goods or services in a dynamic business environment. Due to the 4<sup>th</sup> industrial revolution the playing field for entrepreneurs has become more complex through globalization and the rapidly changing technological environment. SME owners have to constantly keep abreast of the changes in the technological environment. In order for SMEs to grow, develop and sustain themselves in the turbulent technological era entrepreneurs need to focus on creativity and innovation to remain competitive in their respective business sectors. This chapter will focus on SMEs that are registered business entities both in urban and rural South Africa. The aim of this chapter is to explore pivotal themes that relate to creativity and innovation for entrepreneurs' in a circular economy.

In the discussion that follows a background into the economic implications of SMEs in South Africa is explored.

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## **BACKGROUND INTO ECONOMIC IMPLICATIONS OF SMES IN SOUTH AFRICA**

The discussion will explore the economic relevance of SMEs in the South African economy. The South African economy is made up of large businesses and small and medium term businesses. SMEs within South Africa and the world at large have a direct impact on the economy. According to Statistics South Africa (Stats SA, 2015), the SMME sector currently contributes approximately 42% of South Africa's gross domestic product (GDP) and accounts for 60% employment, as well as provides an incubator and breeding ground for entrepreneurship and innovation. According to The World Bank (2010) they have introduced a pro-SME policy and this is based on three fundamental pillars. Firstly, SMEs have benefits to the economy such as efficiency, innovation and productivity growth; this is due to the enhanced competition and entrepreneurship that the SME sector brings with it. Secondly, SMEs are more productive than larger companies, despite this fact, the financial market and other institutional failure obstruct SME development.

South Africa has urban and rural SMEs. The statistics above relate to all SMEs that are registered business entities in South Africa. The statistics above clearly articulate the importance of SMEs in South Africa as they drive economic growth, and stimulate employment. The researcher would like to add that the government of South Africa believes in transforming both rural and urban SMEs landscape in South Africa. According to SEDA (2007) South Africa is equally promoting the growth and development of rural small businesses. Bates et al. (2005) argues that there are various government-initiated structures that contribute to the development and promotion of SMEs. Some of these structures are SEDA, Khula Enterprise Finance and the Umsobomvu Youth Fund to name but a few.

There are many challenges that are faced by SMEs in South Africa, but despite these constraints, SMEs which are growing have become successful and have been seen to be making a vital contribution to the government's policy objectives of poverty alleviation, employment creation and the promotion of economic growth (Rogerson, 2008). Research evidence by Hein (2010) further shows that rural SMEs have great potential and value in creating employment, achieving equitable income distribution, alleviating poverty, building a local technological base, promoting participation of vulnerable groups, providing training ground for entrepreneurial and managerial skills and providing opportunities for use of own capital resources.

A challenge that globalization has created is in regards to the economies of scales and research and development. These two factors are of utmost importance in order for a firm to be competitive in the global economy. It may seem as though SMEs are at a great disadvantage for both of these instruments of competitiveness, and many experts have predicted the demise of SME competitiveness as globalization increases as the years go by (Organisation for Economic Co-operation and Development, 2000).

Economist (2012) indicates that SMEs in South Africa, much like the rest of the world, are exposed to systemic factors. These systemic factors include contractual and informational frameworks and macroeconomic environment, social factors such as crime, corruption and ethics, technology and the regulatory environment. High interest rates, low growth rates (which results in low consumption), high inflation rates and declining exchange rates are but a few macro economic factors that are currently affecting the South African economic environmental climate. General investor confidence and consumer consumption have both decreased, resulting in firms getting reduced sales. In addition to this, the current South African unemployment rate is at an all-time high. These abovementioned macro environmental factors will adversely affect sales, revenues, market potential and any expansion plans of new and existing SMEs (Economist, 2012).

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