

AN EXAMINATION OF FACTORS HINDERING THE GROWTH OF MEDIA FIRMS IN CAPRICORN DISTRICT REGION OF LIMPOPO PROVINCE, SOUTH AFRICA

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ABSTRACT

All firms operate within the challenging macro- and micro-economic factors and internal and external environments. Media firms experience additional challenges from disruptive innovation. With this background, this article reports on a qualitative study that examined factors that hinder the growth of media firms operating in the Capricorn District of Limpopo Province, South Africa. Empirical data was collected by administering an interview guide through face-to-face interviewing with Chief Executives of media firms (n=20). Primary data obtained from the interviews was analysed using Qualitative Content Analysis (QCA). The researchers found that the main barriers of growth of media firms in Capricorn District are associated with political interference, sexual advances, and lack of financial capital.

1. INTRODUCTION

Neo-liberal economics argue that the benefits derived from the growth of firms will trickle down to the lower classes and solve the wicked problem of poverty and underdevelopment (Rittel & Webber, 1973). Private sector growth, away from 'big' government interference, is touted as a silver bullet for the development of poor countries. Media firms are also expected to play their role in this orchestra. However, the chink in this 'neo-liberal' armour is the various macro-economic and micro-economic factors and the internal and external environments that conspire to arrest the growth of the firm and diminish hopes that come with it. The most prominent of these challenges media firms face today is disruptive innovation of old technology by new ones. Hence, it is important to investigate the ever-changing barriers to growth of media firms—a task we take on in this article.

Our article is divided into three sections: Section 2 begins by mapping out the changing media landscape and establishes a theoretical framework that anchors our article in scientific literature and methodology. Section 3 briefly outlines the methodology used to collect field notes, and Sections 4, 5, & 6 discuss findings and make concluding remarks and recommendations.

2. THE MEDIA INDUSTRY

Zapiski (2003) states that the growth of media firms is an essential part of developing the media industry, as thus, will lead to positive economic contribution including job creation and a growing tax base. Despite their potential, media firms encounter growth challenges from the micro-economic (i.e. reliability of suppliers) and macro-economic (i.e. national legislation, disruptive technological innovation) factors and internal (i.e. organisational culture) and external (i.e. competition) environments. These factors have been explained extensively in the New Firm-Formation Theory (Karlsson, Johannisson & Storey, 2003) and Growth of the Firm Theory (Burns, 2001). We highlight these theories that were used to guide the process of this study in an attempt to arrive at our aim. But before this, we draw on the technological innovation changes sweeping the media industry. These changes, dubbed, disruptive innovation have a potential of decimating existing firms while

new ones that take full advantage might emerge from this trend.

2.1. Changing trends in the Media Industry

Changes in the media industry are mainly driven by technological changes. However, technological innovation in the media industry is not new. Newspaper circulation began to decline in Europe and North America with the introduction of television and radio over five decades ago. The decline of print media and a gradual migration to broadcast media was driven by technological advances. Today, both the broadcast (i.e. radio and television) and print media (i.e. newspapers and magazines) are in decline due to the emergence of the Internet in the 90s (Tandon, 2008). Nowadays, consumers prefer online media platforms such as news websites (such as News24), social network sites (mostly Facebook), and instant messaging (including WhatsApp) and so forth (Nutley, 2006; Tandon, 2008: 37-42; Cohen, 2012; Murray, 2012).

2.2. New-Firm Formation Theory

There are two approaches central to the New-Firm Formation Theory. One approach has focused on the organisation of the industry and examined the effect that market structure exerts on the ability of firms to enter an industry. A particular emphasis of the industrial organisation approach has been on identifying those characteris-

tics of market structure that either impede or facilitate entry (Karls-son, Johannisson & Storey, 2003: 40-41). The alternative approach focuses on economic conditions in the macro-economic labour market, and of particular interest to the labour market approach is the relative importance of push (i.e. large supply of unemployed workers) and pull (i.e. demand for goods and services) factors determining the aggregate amount of firm formation activity (Karls-son et al., 2003: 40-41). It is important to look at the abovementioned ap- proach in a serious light as the rea- son to start a firm determines the growth of the firm.

2.3. Growth of the Firm Theory

A point to be made here is to make differences between hin- drances that limits the growth of firm and approaches for growth and sustainability

2.3.1. Macro-economic and mi- cro-economic hindrances

McIntyre & Dallago (2003: 51) re- iterate that the growth of the firm is influenced by macro-economic and micro-economic factors and the internal and external environ- ments within which it operates. They point us to a case in Russia that reveals the following mac- ro-economic and micro-econom- ic conditions as barriers to growth, and these are: tax burden, gaps in legislation, limited access to fi- nance, administrative barriers,

business security, reliability of busi- ness partners, and access to infor- mation, training and counselling of entrepreneurs. Similarly, here in South Africa, the obstacles to the growth of firms include: access to finance, crime and corruption, electricity crisis, lack of skills, lack of access to land, and problems of transportation (Mengistae, Daniels, Habi-yarimana, Kaplan, Love, Ramachandran, Shah & Xu, 2010).

2.3.2. Internal and External hin- drances

Growth firms versus Static firms

There are other factors derived from the internal and external en- vironments that also influence the growth of the firm. Burns (2001: 40-72) maintains that there is an expectation for a small firm to transition or grow into a big one. However, small firms do not grow to any size because they are 'life style businesses' that provide the owner-manager with an accept- able income but, more important, a comfortable lifestyle. Burns con- tinues that, despite this, small firms must develop in the early stag- es to a certain size if they are to survive. Even 'growth businesses' often grow to a certain size and then falter or stagnate, usually at around five (5) to twenty (20) employees. Going beyond twenty (20) employees often means that the way business is organised has to change. To this end, Burns tabu- lated a typology of characteristics

that distinguish growth firms from static firms.

Table 1: Characteristics of Growth and Static firm characteristics

	Growth firm	Static firm
Objectives	Maximise profits Increases Sales	Less emphasis on profits More on independence
Organisational structure	'Tree' structure Development of 'teams' 'Clover leaf' (full-time, part-time and temporary) employee structure emerging	'Tree' in well established firms
Style of management	Autocratic to start Consultation emerging	Paternal
Structure of internal accounting	Strong movement to profit centres	Less emphasis on profit centres
Historical data	Strong on cash flow Trend to monthly forecasts	Very little
Key variables	Cash flow Profitability Sales	More emphasis on supplier relationships

Source (Burns, 2001: 41)

Purchasing power

The power of the buyers is determined by the buyer versus firm size and concentration, the volumes purchased, buyer information and switching costs, and their ability to backward integrate. Thus, a small firm selling large volumes to a big company buyer, where these volumes represent small volumes to the big company, is a priori, in a weak competition. The power of the market mix and its ability to differentiate the product and insulate it from price sensitivity will also have an effect. The power of

supplier is also affected by the relative size of the firm. Thus, a small firm buying from a big firm is relatively disadvantaged (Burns, 2001) and this might negatively affect its growth prospects.

Threat of New Entrants

The threat of new entrants: barriers to entry keep out new entrants to an industry. These can arise because of legal protection (i.e. patents and so on), economies of scale, proprietary product differences, brand identity, access to distribution, government policy, switching costs, capital costs and so forth. For example, a firm whose product is protected by patent or copyright may feel that it is relatively safe from competition (Burns, 2001: 50-51) leading to complacency resulting in stagnation.

Threat of substitutes

This revolves around their relative price performance, switching costs, and the propensity of the customer to switch. Thus, for example, a small firm selling a poorly differentiated product in a low-price fashion market should find it difficult to compete (Burns, 2001) and stagnate.

Intensity of Rivalry

The rivalry of an industry will depend on its newness and growth, its attractiveness in terms of profit and value addedness, intermit-

tent overcapacity, product differentiation, brand identity, switching costs, concentration, and diversity of competition and exit costs (Burns, 2001: 50-51). In the case of media firms, an old industry, the competition is fierce, with larger firms dominating the industry and smaller ones at their mercy, and this impact detrimentally on the growth of small firms.

2.3.3. Growth facilitators

Burns (2001: 54-56) argues that there are four fundamental ways of achieving sustainable competitive advantage necessary for growth. These are: Cost Leadership (i.e. via mass production), Differentiation (i.e. specialisation), Focus (i.e. Niche Strategy), and Diversification.

Cost Leadership

Cost leadership is where the firm sets out to be the low cost producer in the industry. This is often unattractive to small firm as it requires economies of scale, constant capital investment in new technology, substantial relative market share advantage and market power and experience curve effects.

Differentiation

Differentiation is whereby the firm sets out 'to be unique in the industry along some dimensions that are widely valued by customers'. This is called developing a Unique

Selling Point (USP). The firm sets out to establish itself as unique and different from its competitors in some ways. It can then charge a premium price for this unique service experience.

Focus

Focus is when the firm focuses on a narrow target market segment combined with either of the abovementioned strategies. If the firm adopts a strategy of 'focused differentiation' it is said to pursue a niche strategy. This is a very attractive option to smaller firms wishing to survive in the cut throat media industry.

Diversification

In search for further growth, a business has four options, illustrated in the product market mix and they are. Firstly, it can stay with its base product or service, and its existing market, and simply try to penetrate the market further. This involves selling more of the same product to the same market. This is dealing very much with the familiar and is normally the lowest risk option, although the point will come when further penetration is not possible or economic. Secondly it can develop related or new products for its existing market. Thirdly it can develop related or new markets for its existing products, and lastly, it might try moving into related or new markets with related or new products.

The strategies discussed above are called 'horizontal' strategies. Two further strategies for growth open to the small firm are 'backward vertical integration' where the firm becomes its own supplier of some basic raw materials and services, and 'forward vertical integration' wherein the firm becomes its own distributor or retailer. Synergy is often used as a justification for diversification, particularly through acquisitions or mergers. Synergy is concerned with assessing how much extra benefit can be obtained from providing linkages within the value chain (Burns, 2001).

Managing Growth

The process of how growth is managed also affects the development of the firm. Greiner's growth model shows each evolutionary phase dominated by a particular management style used to achieve growth. Each evolutionary period presents a management problem to overcome. Only phases 1 to 3 really apply to smaller firms. However, the model demonstrates how the management style adopted by the owner-manager must change if they are to pass successfully through the different phases of growth (Burns, 2001: 61-67).

- *Existence*: The strategy is to stay alive, and the company needs to find customers and deliver products/services. The organisation is simple. The own-

er does everything. Planning is minimal/non-existent.

- *Survival*: strategy is to establish the customer base and product portfolio. The company has to demonstrate that it has sufficient products and customers to be a viable business. It has control of its revenue and expenses to maintain a cash flow. The organisation is still simple and planning is, at best, cash flow forecasting. The owner is still "the business".
- *Success*: the company is big enough and has sufficient customers and sales to establish itself with confidence. The owner has acquired functional management and basic marketing, financial and operations systems. Planning is in the form of operational budgets. This company has two strategic options. The first option is disengagement. If it can maintain its market niche and/or, adapt to changing circumstances, the company can stay like this for a long time. If not, it will either fold or drop back to the survival stage. The second growth is if the owner consolidates the company, clarifies his vision and ensures that resources are diverted into growth, strategic planning is introduced to achieve that vision. The business, however, must remain profitable.

- *Maturity*: the firm begins to develop the characteristics of a stable company with professional management and formal information systems which inform planning.
- *Take-off*: this stage is critical but provided the owner-manager can ensure satisfactory finance and management, the firm can become very large.

3. METHODOLOGY

The use of a qualitative research design for this study is supported by Creswell (2013) and Patton (2001: 39). In line with this, the researchers administered an interview guide through face-to-face interviews with Chief Executives ($n=20$) of Media firms operating in the Capricorn District. Capricorn District includes Polokwane, the Capital City of Limpopo Province in South Africa. An equal number of male and female Chief Executives Officers were purposively sampled. A Qualitative Content Analysis (QCA) was used to analyse the rich text and talk emanating from the interviews with media industry executives (Bryman, 2008; Denscombe, 2010).

4. RESULTS AND DISCUSSION

First, the following key themes kept re-emerging: 'political interference', 'political appointments', 'sexual advances', 'being asked for sex', 'supply chain corruption', 'white monopoly capital', and

'businesses are held by whites'. Shockingly, all responses on 'sexual advances' were uttered by female respondents. This may suggest that the female media firm owners are asked to perform sexual intercourse with the government official and/or politicians in positions of power and influence in return for government tenders. We discuss these findings in more details later.

Second, the researchers' findings indicate that there is lack of growth of media firm in the Capricorn district region. This is despite the fact that most of these media firm owners are mostly young Black people that are favoured by the government's positive discrimination policies of Broad-Based Black Economic Empowerment (BBBEE) when allocating government tenders (RSA, 2003). Moreover, female business owners seem to be at more disadvantage than their male counterparts. Again, their disadvantage is despite the fact that they are favoured more than males by the government's positive discrimination policies. It would seem that the respondents' age, race, and gender does not have an impact on the growth of their business in this regard.

Third, this study attests to the fact that the level of education of an individual does not guarantee business success and even those with business qualifications strug-

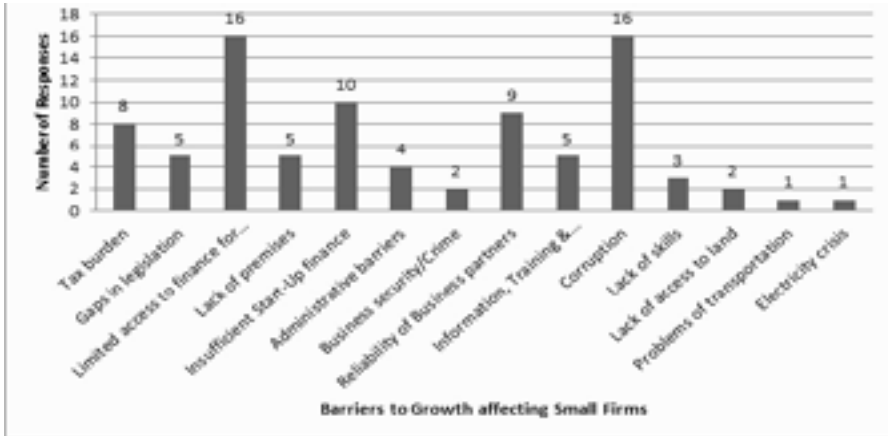
gle to grow their businesses. This makes sense because most of the respondents do business with the government that operates in a political environment that is much politicised. All the respondents complained about negative political interference from political party officials and government bureaucrats in the awarding of public tenders.

Fourth, and on the up side, previous work experience seems to benefit small business owners that worked for large media companies in Gauteng Province. Their exposure with those media houses outside the province assisted them to craft their strategies, and therefore, have different or competitive products and services to offer in the Capricorn district region.

Fifth, limited access to finance for growth and corruption seem to be dominating barriers for growth followed by insufficient start-up finance. Reliability of business partners and tax burden are also alarming when further analysing the barriers of growth of small business. These barriers are consistent with (McIntyre & Dallago: 2003)'s findings in the Russian case study.

Findings from this section are illustrated in Figure 1 below:

Figure 1: Distribution of responses to the barriers of growth affecting small businesses



Sixth, we also discovered that race has an impact on the progress of media firms in the Capricorn district region, with White-owned media firms such as Northern Media Group (NMG) dominating the Limpopo Province media industry. Most Black-owned media firms are mostly owner-manager run with little or no permanent staff and limited financial capital and technical knowhow, in turn, they rely heavily on White-owned media firms to service their client base. Inability to deliver to meet contractual obligations is another challenge brought about by limited financial capital by Black-owned media firms. In this context, Black-owned media firms receive government tenders but are not able to meet their contractual obligations due limited financial capacity resulting in terminated orders and legal action. On top of this, respondents indicated that they do not have social networks or safety nets that they can call upon for temporary financial loans. These social networks can assist in pooling resources through crowd funding and spreading the risk across the social network.

On the seventh point, answers from most respondents indicated that they started their media firms either to benefit financially from their own skills or to gain personal independence. It is not a surprise that limited access to finance for growth was listed overwhelmingly by the respondents as the major hindrance to growth. This is because most of the respon-

dents are the sole owners of their businesses and cannot raise financial capital from potential investors (in the form of shareholders), and also they have little social capital in the form of weak social networks that can act as guarantors for business loans from lending institutions. Revealingly, the respondents raised corruption as the second most important barrier to the growth of their media firms. Again, this does not come as a surprise because most of the respondents' firms trade with the government sector which is highly politicised.

On the last point, and from more theoretical perspective, most media firms in the Capricorn district region are relatively small with the firm having less than twenty (20) employees on a part-time basis. This scenario is indicative that the media firm is in the survival and existence stages (Burns, 2001) with little prospects of growing out of these critical phases. Despite their education, this might mean that Black-owners are not taking advantage of the knowledge provided in literature about avenues available for small firms to grow including differentiation (i.e. specialisation), focus (i.e. Niche Strategy), and diversification (Burns, 2001: 54-56). This is confirmed by the fact that during face-to-face interviews the researchers picked up that some of the respondents did not even understand the meaning of a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis. This finding is

quite concerning considering the complexity and fierce competitiveness of the media industry, and the fact that it is constantly in transitions. Players in this rapidly evolving industry should have the knowledge to deal with the complexities.

5. CONCLUSION

This article aimed at diagnosing the barriers to growth affecting small media firms in the Capricorn district region from theoretical and empirical perspectives. To achieve this end, theories on Firm Formation and Firm Growth informed the theoretical anchorage of this article. These theories list macro-economic and micro-economic factors and the internal and external environments as affecting the formation and growth of firms, in our context, media firms. To ascertain this, we conducted a fieldwork and administered an interview guide with twenty (20) leaders of big and small media firms operating in the Capricorn district region. These captain and pioneers of industry were distributed equally by gender between males and females. First, most respondents, particularly Black Africans, complained about the political interference with the awarding of government tenders and pointed to this as a barrier to growing their media firms. Second, female participants cried foul about requests to perform sexual favours as a precondition for awarding government tenders to their media firms. Third,

White-owned media firms perform way better than Black-owned media firms. Fourth, Black-owners do not have access to financial and social capital that might support the growth of their emerging media firms. Last, despite their decent levels of education, Black-owners seemed to be unaware of various scientific literatures on growth theories available at their disposal. Such literatures might improve the prospects of growing their media firms.

6. RECOMMENDATIONS

Informed by our findings, we recommend the following novel solutions:

A follow up study to conduct an in-depth investigation into the barriers of growth to media firms,

Since political interference and sexual advances are the foremost barriers, we call on government officials and political office bearers to abide by ethical and moral standards such as Ubuntu or Botho. A moral regeneration programme amongst the government officials and politicians is recommended.

Media firms should approach government and its business development sectors such as the National Youth Development Agency (NYDA) and Small Enterprise Development Agency (SEDA) for mentoring and counselling in business skills.

Black-owners of media firms should establish crowd funding and social networking initiatives to raise financial capital and create safety nets.

Small media firms cannot compete on Cost Leadership or Economies of Scale. However, they should specialise in a specific service through differentiation, focus, and diversification. This might improve their competitive advantage.

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