

**INTERACTION BETWEEN ETHNICITY AND ENTREPRENEURSHIP IN  
SOUTH AFRICA**

***CASE STUDY OF NALEDI MUNICIPALITY***

by

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## DECLARATION

I Akwasi Arko-Achemfuor, student number 207031347, do hereby declare that this research paper submitted to the Central University of Technology, Free State for the DTECH: Business Administration is my own independent work and has not previously been submitted by me at another university. I furthermore cede copyright of the dissertation in favour of the Central University of Technology, Free State.



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## **ABSTRACT**

### **INTERACTION BETWEEN ETHNICITY AND ENTREPRENEURSHIP IN SOUTH CASE STUDY OF NALEDI LOCAL MUNICIPALITY**

This study was carried out to examine the interaction between ethnicity and entrepreneurship in a South African setting. Specifically, a survey using a questionnaire was carried out to determine the influence ethnicity has on entrepreneurial behaviour and attitudes among the Tswana, Afrikaner, Coloured and Indian entrepreneurs in the Naledi Local Municipality in the North West Province of South Africa.

A literature review preceded the empirical study to fully comprehend the theoretical and conceptual underpinnings of the interaction between ethnicity and entrepreneurship among different ethnic groups. In the empirical study phase, a questionnaire was administered to 400 randomly selected entrepreneurs in order to collect data on their motives for starting business, source of start-up capital and their attitudes/behaviours regarding risk in business. Waldinger et al.'s (1996) structure, enclave, cultural and situation theories were used as the theoretical base. Out of a total of 400 questionnaires that were distributed, 338 were usable representing an 84.5% response rate.

The chi-square tests found significant differences ( $p < 0.05$ ) between the four ethnic groups on all the key dimensions of ethnicity on entrepreneurship and the success/performance of the four ethnic groups in business. The chi-square test shows that businesses operated/owned by Afrikaner and Indian ethnic groups are more likely to perform better than those owned and operated by their Tswana and Coloured counterparts.

## **DEDICATION**

I dedicate this study to the memory of my late mother, Madam Rose Annah Boateng, who supported and encouraged me during the tough days in school. She encouraged me to stay focused in life and instilled discipline, honesty and the fear of God in us. Secondly to my father, Opanin Kwabena Boffuor, a peasant farmer who never had the chance to attend school but ensured all his children went to school.

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- My father who never had the chance to go to school but told us that he would sell his clothes to take care of any of his children who wanted to study.
- My siblings, friends, colleagues and my other family members who have contributed in diverse ways in to my education

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Akwasi Arko-Achemfuor

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## CHAPTER 1: INTRODUCTION

*Different ethnic groups have different traditions and customs, and these are likely to contribute to differences in entrepreneurial behaviour and performance*

(Mungai & Ogot, nd)

### 1.1 BACKGROUND

Development and how to promote it is unarguably one of the most pressing issues facing all nations both developed and developing. This dissertation concerns the widespread development activity -*entrepreneurship* in South Africa, a multi-ethnic and multicultural society. In this study, the role of entrepreneurship in development and its associated problems of unemployment, poverty and inequality is not contested. Rather, matters of interest are questions such as, "Do individual characteristics such as a person's need for achievement, or locus of control, attitudes towards risk, and individual self-confidence make a difference to entrepreneurs of different ethnicities?"; "Do institutions with their focus on the role of economic, political, and legal issues promote or restrict ethnic entrepreneurship?", and "What are the socio-cultural variables that impact on ethnic entrepreneurship?"

That entrepreneurship development in South Africa should be the concern of this study is born out of the current socio economic problems facing the whole world but South Africa in particular. In a country (South Africa) where media reports trumpet worsening unemployment problems (some indicate that the official unemployment rate is around 37% if the broader definition of unemployment is taken into account), the promotion of small, medium and micro enterprises (SMMEs) and entrepreneurship to create the much needed jobs becomes urgent. Moreover, with the ever large numbers of South Africans living in poverty accompanied by the widening inequality gap, entrepreneurship is a possible remediation action through which to approach more closely what ideologues and scholars suggest is the best way to exercise development. Development is associated

with the mitigation of poverty, inequality and joblessness in the twenty first century. But with South Africa's unfortunate consistent poor showing in entrepreneurial activity as reported in the Global Entrepreneurship Monitor (GEM) reports since 2002, the vexing question that arises is, "Are South Africans loathe to engage in entrepreneurship?" In seeking an answer to this problem, factors relating to entrepreneurship need investigation.

Returning to South Africa's socioeconomic problems, it is paradoxical that for all the inequality and other elements of the socio economic malaise, reports suggest that in spite of the recent global economic problems, South Africa experiences economic growth. This means that growth is just too insignificant to have any real impact or that it is not trickling down to the ordinary people as expected. This again makes the case for self-employment through entrepreneurship as a possible solution.

In this study, the business and economic arena in which entrepreneurs operate is conceptualised as part of the complex systems of the biosphere, with all sorts of other relationships playing out in the entrepreneurship environment. Thus, if as Murray Gell-Mann (1994: 345-366) in his seminal work on complex adaptive systems (CAS) in relation to sustainability suggests, there are several dimensions of importance, other than simply economic growth in our environment, those dimensions have an impact. In this study, it is suggested that the link between economic activity (entrepreneurship) and ethnicity (as part of the CAS of the socio-cultural dimension) is significant. Scholars are acknowledging the value of seeing economic activity as part of a CAS, in which many dimensions are intimately linked to the economic one and influence it (Fabac, 2010; Xepapadeas, 2009; Miller & Page, 2007; Foster, 2004; Ramos-Martin, 2003). The impact of the socio-cultural norms, beliefs, attitudes and approaches of people on human activity in any dimension - economic, political, ideological, socio-cultural, demographic, informational or technological - is a sociological phenomenon which deserves investigation.

## **1.2 ENTREPRENEURSHIP, SMMEs AND SOCIO-ECONOMIC DEVELOPMENT**

The section which follows shows in brief what is understood by linking the concepts of entrepreneurship, the role of SMMEs and how they can play a part in socio-economic development.

### **1.2.1 ENTREPRENEURSHIP**

Entrepreneurship is generally defined by economists as the act of bringing factors of production together to create utilities in an economy. In doing this, the entrepreneur bears all the risks and reaps the rewards of his/her efforts. While the entrepreneur is usually regarded as an individual, they can be part of a team that develops new products, ideas and innovations and come from private, government or non-profit making sectors (Metcalfe, 2009: 62). Included in the idea of a multi-actor entrepreneurial business is corporate entrepreneurship, or what is commonly referred to as intrapreneurship, with less of the emphasis on the individual.

For entrepreneurship to thrive in an economy, there is the need for a well-developed culture of entrepreneurship to exist among a significant section of the society. Casson, Yeung, Basu and Wadeson (2009: 11) express the view that societies that are able to direct people or entrepreneurs into innovative activities rather than into depredation and crime, are likely to develop faster. This assertion points to the role of culture in entrepreneurship development in societies. Culture covers a broad area of life including the way members of a society are socialized into the way of life of the broader community. If there is a culture of entrepreneurship in significant sections of a population, economic growth can follow. However, as Soderbaum (2005:110) warns in speaking of regionalism in Southern Africa that:

Informal economic regionalism is often a survival strategy emerging within a context of economic crisis and state decay, and built on the entrepreneurship and creativity of

people on the ground. It occurs, to a large extent, because the formal sector is malfunctioning, which can be a deliberate strategy designed from above or as a consequence of failed economic reform programmes.

Although government is overtly supportive of entrepreneurial activity in South Africa, so many elements in other dimensions of the environment such as information transfer, demographics, corruption at institutional level and so on also impact on entrepreneurs. Reynolds (2002), in asking what makes some countries more entrepreneurial than others, suggests that significantly, people themselves make the difference in the following ways: taking up opportunities to access skills/education for entrepreneurship; an acceptance of income inequality with an intolerance for turning to crime, but having access to finance; more contact with other entrepreneurs for discussion and ideas; the knowledge of how to look for business opportunities; an expectation that one's family economic situation will be bettered because of the business activity; and accepting that there is a smaller role for government in the economy. When registration of new enterprises is discouragingly complicated, there is less opportunity for entrepreneurship and there is more necessity entrepreneurship when governments do not focus on the people's economic security. South Africa is highly regionalised and different groups of people in different places have differing attitudes. Various ethnic groups have their own cultural values that influence their attitudes, behaviours and performance in business. The influence of ethnicity on entrepreneurship behaviour and performance in the South African context is the focus of this study.

The entrepreneurial culture of South Africans is regarded as very low. GEM (2012), for example, found South Africa to be the least entrepreneurial among all countries surveyed. The same study indicates that most of South Africa's entrepreneurs are driven by necessity instead of preferably being opportunity entrepreneurs. The socio-cultural beliefs and attitudes of members of a society about what is legal and acceptable is shared by entrepreneurs (Shane, 2007:157). Shane (2007) states that the socio-cultural

environment affects the identification and exploitation of entrepreneurial opportunities, as well as the perceived risks and expected returns that are associated with their efforts. While many South Africans are now resorting to self-employment through SMMEs, the reported SMME failure rate is alarming, particularly with Black owned SMMEs. Recent media reports for example indicate that about 90% of the agricultural land given to Blacks in South Africa since 1994 has not been used productively. According to Moorcroft (2006:6), many farms given to Blacks under the redistribution programme have failed. Not much research has been done to determine the high SMME failure rates among the previously disadvantaged groups (PDGs) but it is probable that culture has played a part. One cannot discount the role played by the different ethnic groups, in their attitudes and behaviour towards entrepreneurship and SMMEs, in the South African context. There appear to be differences in the way the different ethnic groups in South Africa participate and perform in SMMEs and entrepreneurship which needs investigation.

It is interesting to note that unlike whites, most Black South Africans and Coloureds prefer paid employment to establishing their own businesses, despite the relatively poor wages and working conditions. The GEM (2009) report notes that most Black South Africans would prefer the security of a full-time job to the uncertainty of generating income from running their own businesses. It is possible that this observation has ethnic and cultural undertones. In support of this view, Herrington, Kew and Kew (2009:14) indicate that factors such as the institutional set up, the types and levels of education, the regulatory environment, national demographics and the socio-cultural set-up, all play crucial roles in shaping a country's entrepreneurial landscape. In this study, ethnicity is the national demographic variable that is investigated with respect to entrepreneurship and small business development. That ethnic attitudes sources of financing, motives for starting a business and attitudes towards risk impact on entrepreneurial orientation as a result of ethnic values, attitudes and behaviours is quite possible in South Africa. Spring and McDade (1998:6) point out that the entrepreneurial activity of a group of people is often influenced by a number of identifiable events. They add that the observed differences in

the levels of entrepreneurial behaviour among different ethnic groups in the same country are often the result of discrimination against one or more groups by the majority. Evidence (Coyne, Isaacs & Schwartz, 2009; Light, 1980) suggest that groups that are normally discriminated against tend to more entrepreneurial in their attitudes and behaviour, using entrepreneurship as one of the mechanisms through which to ameliorate discrimination. The situation becomes paradoxical in the South African context as entrepreneurship appears to be lower in the groups that were discriminated against in the past. In the South African context, the PDGs<sup>3</sup> were discriminated against and prevented from fully participating in the economy of the country by the white minority regime. Other theories (Chapter Two) are cited as reasons for differing entrepreneurial behaviour and performance.

### 1.2.2 SOCIO-ECONOMIC DEVELOPMENT

To contextualise the concept of "development" and how it is expressed economically as business activity in SMMEs, there is a need to return to the last century. When the right to development was recognised as a human right in the 1970s and later adopted as the Declaration on the Right to Development in 1986, development firmly entered the discourse of economics. The right to development was a means to offset anxieties amongst developing countries who feared for their just treatment in the international community's economic governance conduct (Fukuda-Parr, 2012). Although SMMEs have come to be seen as a potent means by which the much needed socio-economic development of South Africa can be achieved (Rogerson, 2010; Rodriguez-Pose & Tijmstra, 2007), their success is varying amongst different ethnic groups. The belief remains uncontested that SMMEs provide the most powerful means of addressing the problems of unemployment, lack of job creation, inequality and poverty (Nel & Rogerson, 2007; Malefane, 2009; Fukuda-Parr, 2012). The Small Enterprise Development Agency (SEDA, 2012) notes that SMMEs are recognised as important engines for economic development and job creation. In that context, SMMEs are particularly seen as the principal creators of jobs, their managers can adapt more easily to market conditions, are

typically involved in labour-intensive production processes, and have lower capital absorption costs, associated with job creation, when compared to large firms. In South Africa, SEDA (2012:5) intimates that the SMME sector accounts for 91% of all formal business entities in the country, contributing an estimated 51% to 57% to the gross domestic product (GDP) of the country, and providing approximately 60% of employment in the country. There appears to be a general consensus that development means economic growth of a country, accompanied by a qualitative change in the lives of the majority of the citizens. Growth arises out of economic activity of one sort or another. Herrington (2011:116) acknowledges that the South African economy has historically been dominated by large corporations with little attention paid to the promotion and development of small enterprises during the Apartheid era, especially for the PDGs. After the change to democracy the business horizon in South Africa changed. According to Ntsika (2002), growth of SMMEs is crucial to the upliftment of Africa and that in almost all African countries, SMMEs form the bulk of the overall private sector business.

Closer to home, Ligthelm (2006:30) reports that the need for employment generation received top priority in a recent survey undertaken by the City of Johannesburg, over HIV/AIDS, crime, corruption or housing. Unemployment as well as underemployment are the most direct causes of poverty. Of the three most pressing socio economic problems plaguing South Africa, unemployment, poverty and inequality, unemployment and job creation attract the most attention as they are considered a remediating solution to objective and subjective poverty (Stats SA, 2012:28). Nevertheless, unemployment and job creation though linked in an apparently close intuitive way, do not necessarily cancel each other out - job creation ends unemployment. Factors which are part of the "ordered complicatedness" (Foster, 2004:10) or complexity in the CAS of the economy must be added to the issue. One significant factor was the global financial crisis of 2007/8 which Suresh Kana, chairman of the South African Institute of Chartered Accountants (SAICA) (2009:20) points out for South Africa could mean:

- There will be continued pressure on companies due to the reduced availability of credit;
- Many companies will find themselves trapped between slower recoveries from debtors and payment pressure from suppliers;
- The global downturn has an effect on impairment calculations;
- Pension fund deficits may become more common;
- Acquisition activities will be on the decrease;
- Boards will need to pay close attention to finding growth opportunities and how to grasp them under situations where borrowings and working capital could come under pressure.

What was one of the results of the global financial crisis of 2007/8 was mentioned by President Zuma as the loss of about 900 000 jobs (Zuma, 2010:3). In addition, the crisis leaves many organisations with the choice of downsizing which leads to rationalization and eventual increased unemployment. What is significant for the SMME sector is that it becomes one of the most viable ways of surviving by absorbing retrenched/rationalised workers. SAICA (2009:20) points out that at the meta level, companies struggle and at the practical level a high number of people become part of the poverty stricken. Ligthelm (2006) notes the link between job creation, poverty, and inequality. According to Ligthelm (2006:30), by either losing a job or not having one, the prospect of lapsing into poverty increases, thereby widening the inequality gap. As stated earlier, recent reports in South Africa indicate that the official unemployment rate in the country is around 37%, if the broader definition of unemployment is taken into account. The role of SMMEs and entrepreneurship in creating the needed jobs and stimulating economic activity, thereby absorbing the increasing numbers of unemployed in South Africa and elsewhere, becomes a viable option.



The role of entrepreneurship in addressing some of the challenges in the country has been noted by many experts in the field. For instance, Metcalfe (2009:60) points out that any theory of growth and economic development cannot ignore the crucial role of entrepreneurship and small business development, for the reason that it is one of the motive forces for internal economic change. That a context of entrepreneurship and SMME development in a country can go far to ensure that factors of production (natural resources, labour and capital, for instance) are used to create utilities, is the assumption in the argument about the relationship between economic development and entrepreneurship. The conditions for releasing the creative potential of people to become entrepreneurs and engage in SMME business can be summed up as follows: there has to be a certain amount of finance available; government policies should be enabling; government programmes should be enabling; education and training has to support the continuance of entrepreneurship; a commercial and legal framework which works for SMMEs must be in place; internal market openness is a necessity; there has to be access to physical infrastructure; and finally, as pertains to this study particularly, cultural and social norms must be enabling (Reynolds, 2002). Thus, it is reasonable to say that if the benefits of economic growth reach more people in the economy, development can be ensured. But more people need to participate in the economy for substantial economic growth to be achieved and entrepreneurship and SMME development can be one of the vehicles for that participation.

There appears to be little difference between the two definitions or explanations of the two concepts of entrepreneurship and small businesses. While some argue for a thin line between the concepts entrepreneurship and small businesses they are not necessarily the same. A distinction is made by Ladzani (2012:24) between entrepreneurship and a small business. Entrepreneurship for him has to do with creating and building something of value from practically nothing in the midst of uncertainty and risk, and having the determination to succeed against all odds. Two of the key features of entrepreneurship include innovativeness and creativity that lead to growth. With those characteristics in

mind, entrepreneurship can be interpreted as happening in existing business which also is turned around in the creation of utilities. Small business, mostly classified under SMMEs, is defined by the South African National Small Business Amendment Act No. 29 of 2004 as:

... a separate and distinct entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy ... which can be classified as, a micro, a very small, a small or a medium enterprise.

Naude and Havenger (2007:29) argue for a perspective in which entrepreneurship is broader than small business promotion, and believe that in the African context the two concepts are closer as (SMMEs) predominate in all entrepreneurial ventures. The United Nations Development Programme (UNDP) (1999:1) refers to entrepreneurial development (ED) as the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes. The purpose of ED is to increase the number of entrepreneurs in a country so that the pace of venture creation which contributes to economic growth and employment creation can be accelerated. If SMMEs, which are dominated by small and informal enterprises are excluded as entrepreneurial ventures, most of the business activities in the developing world, including South Africa, will be overlooked and their role in the economy will not be given the deserved recognition. For an enterprise to be classified as entrepreneurial there is the need for it to be innovative and show growth. In the same way, for SMMEs to survive, they also need to innovate especially in today's competitive environment.

Some of the factors that have been identified as contributing to entrepreneurship include a strong economy, good governance, access to financial capital, a critical mass of human and social capital and a favourable socio-cultural perception of entrepreneurship (Newland & Tanaka, 2010:7). As mentioned in the previous section these factors can be

expanded in more detail (Reynolds, 2002). Newland and Tanaka (Tanaka, 2010:7) say that there is a positive relationship between entrepreneurship and economic growth. As to whether economic growth necessarily leads to development is not very clear. Biyase and Bonga-Bonga (nd) report South Africa's economy recorded sustained economic growth for over ten years after the demise of Apartheid but the growth that was recorded did not translate into a corresponding increase in employment, so the growth experience has been 'paradoxical' - it has coincided with an increase in unemployment. The expected trend is that economic growth is accompanied by increase in employment. The possible reasons for this paradox can be attributed to rationalisation and increasing mechanization in big businesses. In addition, inequality appears to be increasing as indicated by the country's Gini coefficient of 0.66 which one of the highest in the world.

In discussing entrepreneurship and socio-economic development, Hisrich and Peters (2002:15) note that entrepreneurship involves an increase in per capita output and income, initiating and contributing to change in the structure of business and society. They point out that this change is accompanied by growth and increased output, which allows more wealth to be divided between various participants. Hisrich and Peters (2002) add that entrepreneurship is currently believed to be the most effective method for bridging the gap between science and the market place, creating new enterprises and bringing new products and services to the market. This applies in the South African context, although it appears that most Black and Coloured ethnic group members operate in informal businesses which tend to be survivalist in nature with low growth potential.

The suggestion that entrepreneurship and SMME increase the economic growth of a country, and to a large extent result in per capita output and possibly income per capita, as suggested by Hisrich and Peters (2002) above, appears to be based on the assumption of a "trickle-down effect". This is not the case in certain instances. The concept of the "trickle-down effect" is based on the assumption that economic growth in

a country will automatically benefit the majority of the citizens of a country. This may not occur when the majority of the citizens, for one reason or the other, do not participate in the economy of the country. In addition to that, if the majority of the people who engage in entrepreneurial activities happen to be entrepreneurs only through necessity, their ability to innovate and create the growth that changes economic and social structures becomes limited.

As the nature of work and jobs undergo a metamorphosis worldwide with the enormous rate of change engineered not only by developments in the technological dimension of the environment, but in other dimensions as well, the role of SMMEs in development changes. Ilbury and Sunter (2001:66) state that the two greatest engines of job creation for the most part of the last century, the public sector and big businesses, have slowed down. Globalization has turned big businesses and the public sector into net job destroyers because of restructuring and rationalization. To stay competitive and meet the demands of shareholders, big businesses used strategies which have radically changed people's expectations of careers, jobs and the future. Rao (2004:51) describes small businesses as the engine of economic growth in the developed economies when compared to the large corporations. The latter have been described as something of 'dinosaurs' with bureaucratic organizations finding it increasingly difficult to compete in a post-industrial world. Ilbury and Sunter (2001) predicted that SMMEs will become the greatest area for potential future employment. This view is shared by Pozas (1998:6) who argued that globalization plays a significant role in reducing the number of jobs in the formal sector and as a result, increasing opportunities will come from the informal sector, where the SMMEs are located. He emphasises that job creation in many of the developing countries is increasing at a higher rate in the SMME sector as well as the independent sector. Incidentally, forty-five to sixty-five percent of exports from Italy, for instance, consist of products manufactured by SMMEs (Rao, 2004:52). Rao (2004) attributes the superior SMME performance to their ability to adapt to change quickly in both the internal

and external environments. These may be the reasons for the growing interest in SMMEs globally and in South Africa too.

On the contribution of SMMEs to national economic growth, Ntsika (2002:47) indicated that in 2001, the contribution of the sector (excluding survivalist and micro enterprises) to the GDP of South Africa was 31.6%. Ntsika (2002:47) added that SMMEs accounted for at least half of the GDP of the agricultural and construction sectors and more than 40% of GDP in trade, catering and accommodation as well as the transport, storage and communication sectors and stated that the SMME sector employed 68.2% of people engaged in the private sector. Ntsika (2002:48) contends that the growth in employment by SMMEs is considerably faster than the growth in the contribution by the sector to GDP. This by implication shows the high labour absorption capacity of the sector.

Some contributions SMMEs make to the country include creativity, innovation and competitiveness. Besides the job creation activities of the small businesses, Zimmerer and Scarborough (2008:27) suggest that the sector serves as the training ground where workers can acquire the needed skills for the economy. These authors point out that small businesses produce 51% of the country's GDP and account for 47% of business sale. According to the same authors, the sector creates 13 to 14% more innovations per research employee than large companies. Berry, *et al.*, (2002:3) outline the dynamic role SMMEs play in an economy that includes the contribution they make to the GDP of a country by either manufacturing goods of value, even including exports, or through the provision of services to both consumers and/or other enterprises. Berry, *et al.*, (2002:4) note that SMMEs in the South African context have the potential to generate employment and upgrade human capital. They cite examples from economic history which show the importance of this sector in Europe's industrialisation and eventual development of other emerging economies. An OECD report shows that SMMEs produce 25% of OECD exports and 35% of Asia's exports (OECD, 1997). According to Zimmerer and

Scarborough (2008:26), there are about 25 million businesses in the United States of which 24.92 million or 99.7% are considered “small”. They point out that 51% of the nation’s private sector workforce is employed by SMMEs, which are also the creators of two-thirds to three-quarters of the net new jobs in the US economy. This is attributed to the labour intensive nature of small businesses.

Another valuable contribution SMMEs can make for the country according to Abor and Quartey (2010:1) is that SMME development can encourage the process of both inter- and intra-regional decentralisation which means they can compete with large enterprises. They observe that the development of SMMEs generally in an economy can serve as a catalyst in achieving wider economic and social-economic objectives, including job creation and poverty alleviation. SMMEs perform useful roles in ensuring income stability, growth and employment as well as improving the efficiency of domestic markets and the productive use of scarce resources which can lead to economic growth (Abor & Quartey, 2010:223).

The South African government has focused its energies since the new political dispensation in 1994 on addressing most of the challenges that are similar to the Millennium Development Goals before the UN formally adopted them in 2000. Some of the development challenges in South Africa, as mentioned earlier, include reducing poverty, unemployment, addressing the question on inequality, the HIV/AIDS pandemic, crime, and housing among others. Akoojee and McGrath (2005:4) sum up the national development agenda 2014, which has been the ruling ANC’s main manifesto, as poverty reduction. Akoojee and McGrath (2005:4) surmise the main development objectives as stated by the ANC in its 2014 election manifesto for the next decade (which the party calls “the People’s contract”) as: "halving unemployment; halving poverty; accelerating employment equity; and improving broad based Black economic empowerment".

Akoojee and McGrath (2005) reiterate that Mr Thabo Mbeki, the then president of South Africa, in a State of the Nation Address, outlined a three-pronged approach to addressing these challenges as: "encouraging the growth and development of a First Economy, increasing its possibility to create jobs; implementing programmes to address the challenges of a Second Economy; and building a social security net to meet the objectives of poverty alleviation". Also, one of the strategies the government said it was going to use to address the issue of job creation in the First Economy was to renew the focus on formal SMMEs. The strategy was to serve as a catalyst for the growth of Black-owned small and medium enterprises as sub-contractors and service providers (Akoojee & McGrath, 2005).

The *second economy* or the *marginalised economy's* role in poverty alleviation and job creation cannot be overlooked. Ligthelm (2006:33) acknowledges that the Second Economy's contribution to the GDP of the country is minimal but at the same time it accommodates a high percentage of the population, especially the poorest of the poor. The contribution of the SMMEs helps in addressing poverty, inequality and unemployment through job creation.

How the different models, policies and initiatives have been able to address the nation's development challenges is difficult to assess, but different experts in the fields of development, entrepreneurship and research continue to suggest ways by which entrepreneurship can be developed in the country. Foxcroft, Kew, Herrington and Segal (2002:8) provide a model that shows the relationship between entrepreneurship, SMMEs and economic growth (Figure 1.1).

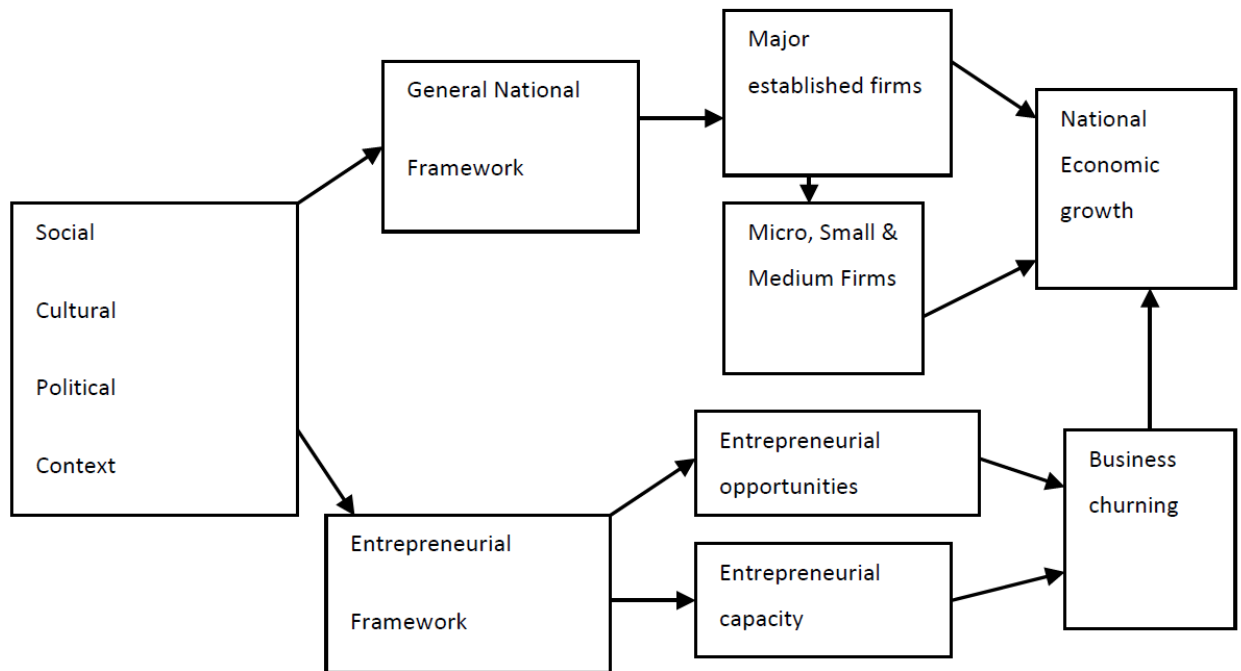


Figure 1.1 Entrepreneurship/economic growth model.

Source: Foxcroft, et al. (2002:8)

Figure 1.1 shows how entrepreneurship develops out of a country's different frameworks and how the different institutions and systems provide the conditions that pave the way for the development of entrepreneurship and SMMEs, including ethnic businesses. If the right conditions for entrepreneurship are available and nurtured, opportunities are created that individuals and businesses can exploit, which should result in economic growth. Ethnic entrepreneurship develops out of a socio-economic environment, which comprises the political, economic, social, demographic, informational, institutional and the legal framework of a country. Ethnic entrepreneurship is embedded in the social and cultural set up of a community or country. In the South African context, the socio-cultural set up for the different ethnic groups differ and this possibly contributes to the apparent



differences in the entrepreneurial attitudes, behaviour and performance of the different ethnic groups found in this investigation.

### **1.3 PROBLEM STATEMENT**

Entrepreneurship is increasingly seen all over the world as key to the economic participation of all people in their countries' economy and the South African government and policy makers view it in the same way. More and more countries, particularly ethnically diversified ones (both developed and developing, like South Africa), are now considering entrepreneurship among all ethnic groups as a major issue when formulating inclusive economic participation policies. To successfully promote entrepreneurship among diverse ethnic groups necessitates an understanding of the attitudes and behaviours of these ethnic groups towards entrepreneurship. Thus, to develop an effective environment in which entrepreneurs can thrive (all ethnic group entrepreneurs) in South Africa, there is a need for knowledge of how the ethnic background of citizens impacts on entrepreneurship. However, little is known about how this ethnic background influences entrepreneurial motives, behaviour, attitude and success in South Africa.

The problem focused on in this study is summarised by the question, *how does ethnicity influence the entrepreneurial attitudes, behaviour and performance of South Africa's ethnic groups in the Naledi Local Municipal area?* The four hypotheses of the study are:

- 1) There are significant differences in owner's motives for venturing into entrepreneurship based on ethnicity;
- 2) There are significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owners;
- 3) There are significant differences in owner's behaviour / attitude towards business risks based on the ethnicity of owners; and

- 4) There are significant differences in the performance of SMMEs on the basis of the ethnicity of owners in the Naledi Local Municipal Area.

The following specific questions emanate from the hypotheses:

- 1) Are there main motives assigned by ethnic groups for venturing into entrepreneurship?
- 2) Are the motives assigned by the various ethnic groups for venturing into entrepreneurship different?
- 3) Are the main sources of start-up capital for each ethnic group different?
- 4) Are there significant differences in sources of start-up capital based on ethnicity?
- 5) What is the general attitude of each ethnic group towards risk?
- 6) Are attitudes towards risk significantly different according to ethnicity?
- 7) What framework for entrepreneurship development would best serve the South African context (based on the answers to the above questions)?
- 8) Is there a difference in entrepreneurial performance based on ethnicity alone?

#### **1.4 OBJECTIVES**

Using Naledi Local Municipality in the North West province as a case study, the main objective of the study is to investigate whether and if so, how, ethnicity influences entrepreneurship in South Africa.

##### **Sub-objectives**

- 1) To identify the main motives assigned by ethnic groups for venturing into entrepreneurship;
- 2) To determine if there are significant differences in the motives assigned by ethnic groups for venturing into entrepreneurship;

- 3) To determine the main sources of start-up capital each for ethnic groups?
- 4) To determine if there are significant differences in the sources of start-up capital based on ethnicity;
- 5) To determine the general attitude of each ethnic group towards risk;
- 6) To determine if attitudes towards risk differ significantly based on ethnicity;
- 7) To develop a framework for entrepreneurship development will best serve the interest of all South Africa's ethnic groups.

## **1.5 GEOGRAPHICAL AREA OF THE STUDY**

This study was carried out in the Naledi Local Municipality (NLM) in the Dr R.S. Mompoti District of the North West Province of South Africa. The administrative capital of Dr R.S. Mompoti District and the NLM is located in Vryburg. This municipality [NW392] is approximately 7264 km<sup>2</sup> in area and occupies about 15.3% of the Dr R.S. Mompoti District Municipal Area and is the most urbanized in the Dr R.S. Mompoti district. The NLM includes the towns of Vryburg, Stella, Dithakwaneng, Devondale and the surrounding farms. According to Statistics South Africa (2011), the total population of the NLM is 66781, 74.0% Black African, 14.0% Coloured, 1.1% Indian and 9.5% White. Of the total population of NLM, 67.8% list Tswana as their first language, 23.4% Afrikaans, 3.3% English and 5.5% other. A map of North West showing Dr R.S. Mompoti District and NLM is provided in figure 1.2; a map of NLM is given in Figure 1.3 below.

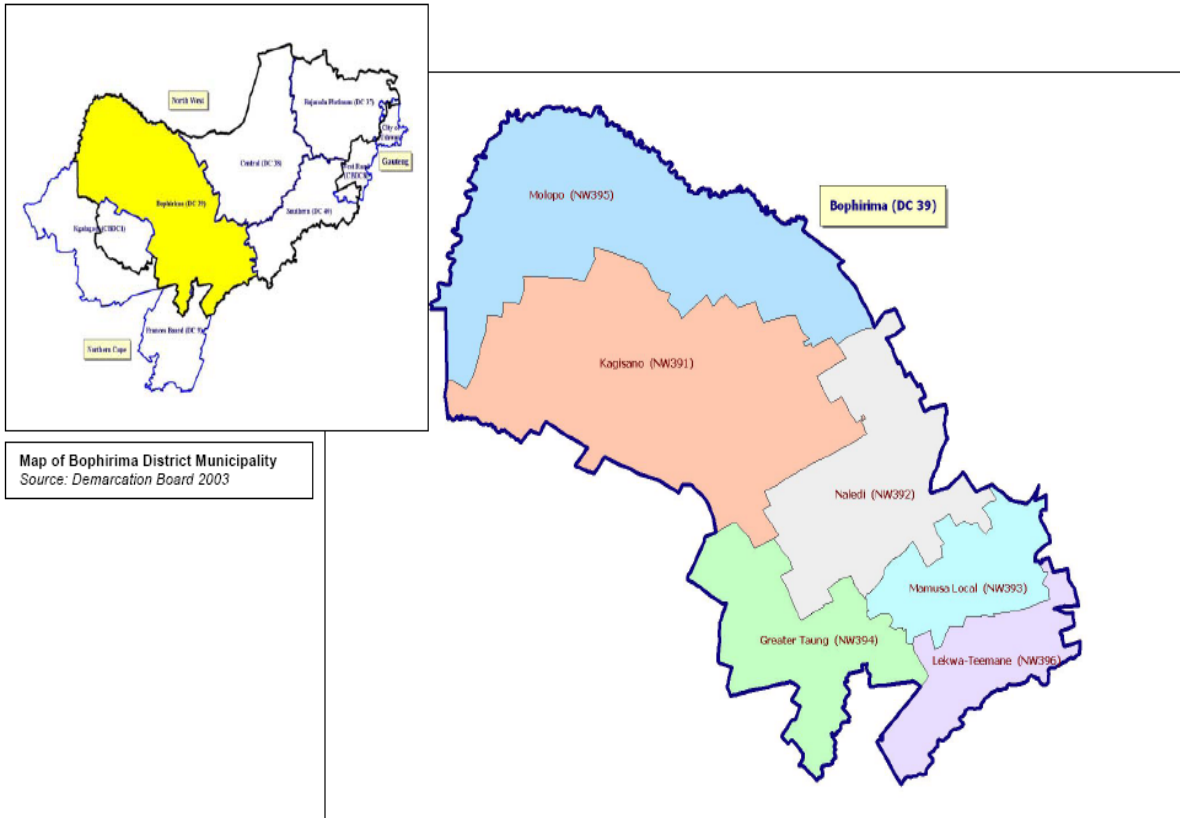


Figure 1.2: North West Province, Dr R.S. Mompoti District and Naledi Local Municipalities

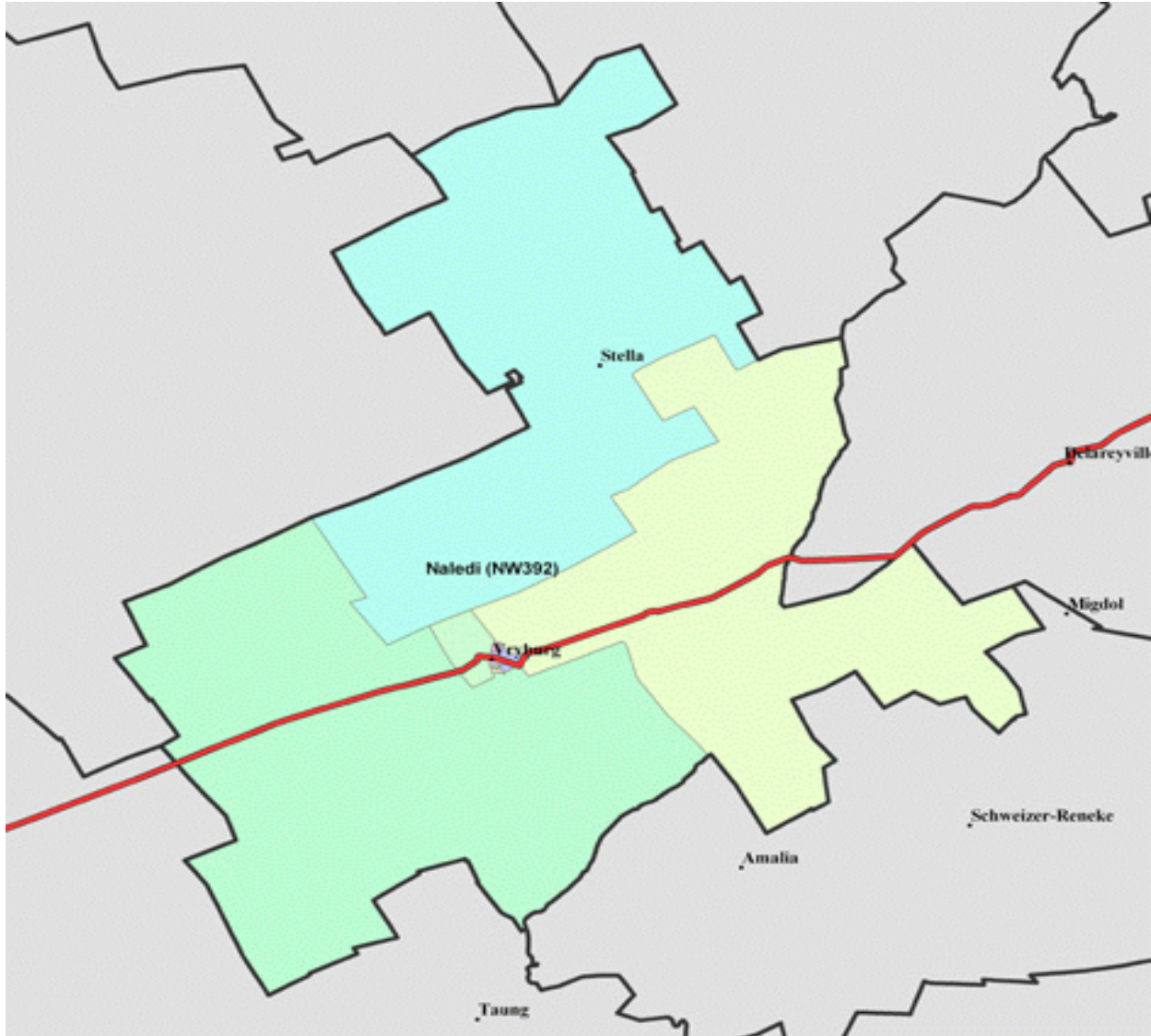


Figure 1.3 Map of Naledi Local Municipality

## 1.6 THE RESEARCH PROCEDURE AND TECHNIQUES

This study follows the positivist epistemology and, consistent with that paradigm, the current study was designed to be quantitative. A positivist epistemology requires deductive reasoning (Wilson, 2010:16) which means developing and testing hypotheses on the basis of a known theory (Wilson, 2010:16; Du Plooy, 2002:82). In this approach, quantitative sample data are used to determine relationships and make predictions about

the population (Wilson, 2010:16). This approach is used in this study because the researcher is interested in determining the relationship between ethnicity on the one hand, and entrepreneurial behaviour, attitudes and SMME performance on the other, among the four major ethnic groups in the Naledi Local Municipality.

The following specific procedures were adopted to verify the hypothesis put forward.

- 1) A literature study was undertaken to substantiate empirical data and findings on the influence of ethnic background on entrepreneurship.
- 2) A survey was done using questionnaires that were administered to entrepreneurs from the four ethnic groups.
- 3) Quantitative analysis of survey data was performed using the Statistical Package for Social Science Research (SPSS) computer package. The analysis involved the identification of different variables being explored in the study and assigning each variable a name that is used to describe the variable to the SPSS package. Details of the research methodology are discussed in Chapter 5.

## **1.7 DEFINITION OF KEY TERMS**

### **CAS:**

Complex adaptive systems is understood as a system which has many "independent entities, agents" (Fabac, 2010:35) which interact with each other but according to their own objectives. So this does not mean a simple reduction (as with any number of unconnected elements) and consequently the rules for a CAS in terms of behaviour are difficult to present in a satisfactory way.

***Collectivism:***

The habits and behaviour patterns of a society to adhere to group goals rather than pursuing individual achievements.

***Development:***

Economic growth that is accompanied by a qualitative change in the lives of the majority of the citizens of a country.

***Ethnicity:***

The classification of people according to their shared ancestry or history - characteristics, culture, beliefs, attitudes arising from the culture.

***Enterprising culture:***

“Is a commitment of the individual to the continuing pursuit of opportunities and developing an entrepreneurial endeavour to its growth potentials for the purpose of creating wealth for the individual and adding value to society” (Rao, 2004).

***Entrepreneurial behaviour:***

An entrepreneur’s decision to initiate the new-venture formation process.

***Entrepreneur:***

A person who looks for opportunities and mobilizes resources to create utilities, while bearing the risks associated with his/her efforts as well as the rewards that accrue from the efforts.

***Entrepreneurial culture:***

A way of life that is characterized by rent of resources, long-term perspective, and a strategic orientation driven by the perception of opportunity.

***Gross Domestic Product:***

The total output of goods and services produced within the borders of a country.

***Individualism:***

A social system that is characterized by loosely linked individuals who view themselves as independent, who focus on their individual needs, preferences and rights and put their personal goals above the goals of the group.

***Inequality:***

A situation in which members of a society do not have equal or fair treatment in accessing and sharing resources and opportunities.

***Necessity entrepreneur:***

A person who ventures into business out of necessity to eke out a living.

***Per Capita Income:***

Total national income of a country divided by the total population.

***Profit motive entrepreneur:***

An entrepreneur who ventures into business with profit as the main motive.

***Poverty:***

A situation in which individuals, households and communities are so poor that they are unable to afford the basic necessities of life. There is subjective and objective poverty.

***Sustainable development:***

Economic growth and development as it is understood according to the neoclassical economic paradigm - that meets the present needs of societies, and does not compromise the ability of future generations to meet their needs, in other words "weak sustainability" or "the triple bottom line" (Elkington, 1997).



***Sustainability:***

An overarching concept which takes account of all dimensions of the biosphere in which we live and strives to make them sustainable (Gell-Mann, 1994; Söderbaum, 2008; Speth, 2008) while we address social and environmental problems.

***Tenderpreneur:***

The practice where high-ranking members of a ruling party, and those close to them, benefit from decisions about government tenders in South Africa (Feisnstein, 2010).

***Uncertainty avoidance:***

The degree to which a society tolerates uncertainty or its willingness to take risk.

**1.8 LIMITATIONS OF THE STUDY**

All studies have limitations and the following limitations, which do not reduce the usefulness of the findings, are applicable to the current study. Firstly, the four ethnic groups studied constitute the majority of business operators in the Naledi Local Municipality. The four groups are nationally distinct ethnic groups namely Black, White, Coloured and Indian. The Tswana entrepreneurs represent the Black ethnic group and the Afrikaner ethnic, the Western or White culture. The information gathered from the four ethnic groups will go a little way towards contextualising their approaches to being entrepreneurs in relation to attitudes and beliefs, motivations for engaging in entrepreneurial activity, attitudes to risk, sources of start-up capital, values and levels of education. The many questions relating to one of the biggest challenges facing South Africa, sustainability on all fronts and the relation to global warming which threatens the biosphere in which economics is constructed, is not approached. The study does not contest the neoclassical assumptions of the economy in South Africa, nor its developmental aspirations.

The outcome of the study might be questioned on the grounds that acculturation has been taking place for years and this might influence the uniqueness of the ethnic groupings under study. It should however be noted that although cultural adulteration is always evident and particularly currently with globalisation as the new colonialism, contact with each of the four ethnic groups during the course of this study was illuminating. Each ethnic group, probably because of a shared *metahistory* and often because of shared place of origin, has maintained some unique aspects of their own culture to the extent that one can confidently differentiate each from the other in their business practices. This is in terms of locality chosen, clientele, types of business, and so on.

The research was not spread out among all ethnic groups in the area but focused on the dominant groups only. It would have been ideal to study all the ethnic and cultural groups in South Africa but the diversity and the numbers involved makes this impossible. The four ethnic groups however are a cross section of a number of cultures representing South Africa.

The study was conducted on a part-time basis, solely for academic purposes and there was no sponsor. Money and time restrictions have necessitated that the research is limited in geographical and conceptual range.

Finally, the agricultural sector was not included in this study as the sector's development appears to have more to do with past Apartheid policies than the farmers being entrepreneurial. The entrepreneurial prowess of South African farmers should not be overlooked despite this observation. However, as the farms are isolated in the district, they are difficult to reach. Furthermore the land question has become a very emotional issue of late and white farmers may take exception to being questioned about land and farming.

## **1.9 JUSTIFICATION FOR THE STUDY**

Much research has been done on ethnicity, culture and entrepreneurship in and between developed countries. However, the literature search shows that very little has been done on the ethnicity and entrepreneurship interface in developing countries. In South Africa, little is known about how the ethnic contexts of the different groups affect their entrepreneurial attitudes, behaviour and entrepreneurial performance. This study is intended to address this shortcoming.

From observation it appeared that some ethnic communities in the Naledi Local Municipality seemed to perform better in entrepreneurship than others. It appeared that White and Indian businesses seemed to thrive better than those owned by Blacks and Coloureds. Hence this study, which might throw more light on this phenomenon.

Many studies that have been carried out in the field of entrepreneurship have used the western cultural value systems to explain the concept.

## **1.10 ORGANISATION OF THE CHAPTERS**

Chapter 1 provides a background and orientation to the study, problem statement, and the main hypothesis of the study, the necessity of the study, delimitations and details of how the study is organised.

Chapter 2 gives a review of pertinent literature on the concept of entrepreneurship. Detailed studies are reported on for an operational definition for the concept. The typologies and theories that explain entrepreneurship are examined in detail. The factors that determine entrepreneurial attitudes, behaviours and performance are also discussed.

The chapter continues with the issues of entrepreneurship in South Africa with specific reference to ethnic participation in entrepreneurship and the practices that influence entrepreneurial behaviour, attitudes and performance. The chapter ends with a discussion on small business matters and ways of promoting SMMEs among South Africa's diverse ethnic groups.

Chapter 3 focuses on ethnic entrepreneurship as a domain in the field of entrepreneurship. A working definition of ethnic entrepreneurship for this study is adopted after analysing some of the different definitions that have been given by other scholars. This is followed by the conceptualisation of the concept ethnicity and its implications for entrepreneurship. The chapter also contains an examination of the evolution of the ethnic entrepreneurship as a concept and the theories underpinning it. A framework for promoting entrepreneurship is suggested. The chapter ends with a summary of all the concepts of ethnic entrepreneurship.

Chapter 4 presents the research design and the methodology. The sampling techniques, sample size, data collection instruments and the procedures are discussed in detail.

Chapter 5 centres on the data analyses including a discussion of the major findings. Different types of methods are used for different reasons. The results are presented in the form of tables and figures.

Chapter 6 presents a summary of the study, highlights its implications and makes recommendations.

## **CHAPTER 2: PERSPECTIVE ON ENTREPRENEURSHIP**

### **2.1 INTRODUCTION**

As stated in Chapter 1, this study is about the phenomenon of entrepreneurship as it is exercised among four major ethnic communities in the Naledi Local Municipality (NLM). The two key components of the study are *Entrepreneurship* on the one hand and *Ethnicity* on the other. Their close connection in terms of the economic and the socio-cultural dimensions of the biosphere are teased out at a micro-level. The previous chapter provided an overview of the study including the problem statement; aims and objectives; the research questions; and justification for the study. This chapter focuses on the first component of the study - *entrepreneurship*. In this chapter, there are three primary sections. Based on a literature review, a definition of entrepreneurship is developed. In the second section, there is a discussion about entrepreneurship in South Africa with particular reference to ways of developing entrepreneurship as a means towards growth. The third section is an examination of the related issue of small business in the South African context.

### **2.2 UNPACKING ENTREPRENEURSHIP**

To understand entrepreneurship, a working definition for the concept is a useful starting point. An operational definition is needed because the concept *entrepreneurship* is used to describe several things including an innovative approach to any sort of business, to a description of starting a business venture from nothing. Between these two extremes, there are also theoretical issues to consider. These include entrepreneurship theory, an evolutionary perspective, the issue at stake and others (Ricketts, 2008) resulting in definitions that differ depending on the perspective adopted. To establish a well-informed operational statement, extant definitions of the *entrepreneurship* concept are examined.

This is followed by detailed discussion of major theories and approaches to entrepreneurship.

### **2.2.1 DEFINING ENTREPRENEURSHIP**

Rwigema, Urban, and Venter (2012:6) define entrepreneurship as the process of conceptualizing, organizing, launching and, through innovation, nurturing a business opportunity into a high growth venture in a complex and unstable environment. Similar to Rwigema *et al.*, Drucker (1985) earlier defined entrepreneurship as a "systematic innovation, which consists in the purposeful and organised search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation". These two definitions both emphasize the role of innovation in the entrepreneurial process. A critical analysis of the definition by Rwigema *et al.* (2012) shows that it is based on the whole entrepreneurial process. The role small businesses play in the entrepreneurial process is not mentioned in either of these two definitions. Although a distinction is made between entrepreneurial ventures and small business, it can be argued that much of what we refer to as entrepreneurial ventures started as small businesses and developed into what they are today. For example Mark Shuttleworth's *Dimension Data* started as a small business in his garage and evolved to become a global entrepreneurial venture.

Shane and Ventakaraman (2000) express the view that entrepreneurship involves the study of the sources of opportunities; the process of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them. Kao, Kao and Kao (2002:396) refer to entrepreneurship as the whole process of incubating, creating a new venture, and managing it. A further point to be made has to do with corporate entrepreneurship (*corporate spin off*) as part of entrepreneurship. Klapper, Amit and Guillen (2010:131) define entrepreneurship as the activities of an individual or a group aimed at initiating economic activities in the formal sector as a legal form of

business. Shane and Ventakaraman (2006) and Kao *et al.* (2002) define the entrepreneurship process, from opportunity identification to establishing and managing a venture successfully. Klapper, Amit and Guillen (2010) shift the focus away from the economic processes to the participants and the form of ownership in the economic sphere. The role of innovation and the processes in entrepreneurship are not emphasised by Klapper *et al.* (2010) but these are important in entrepreneurship.

Kuemmerle (2009:312) defines entrepreneurship as any opportunity-driven behaviour in which the person/s are cognizant of the resources required to pursue the opportunity. The role of innovation again is not mentioned here but entrepreneurial ventures normally involve some kind of innovation. This definition is limited in scope as it mainly focuses on the identification of opportunity and the mobilisation of resources that are needed to pursue the opportunity. The risks involved and the legality of the opportunity are not discussed. Entrepreneurship according to Kuratko and Hodgetts (2007:729) is the process of organizing and managing a business, including taking risks. They identify four main areas of importance namely, the individual, the organization, the environment and the process itself. Identification of opportunity and the rewards that are associated with entrepreneurship are not mentioned in this definition.

Timmons and Spiineelli (2007:79) describe entrepreneurship as a way of thinking, reasoning and acting that is opportunity aware, holistic, and concerned with enhancement or realisation and renewal of value, not only for the owners, but for all participants and stakeholders. Innovation, creativity and the recognition of opportunities are at the core of this definition. There is the tendency for people to use the terms self-employment and entrepreneurship interchangeably. However, the terms are not necessarily the same. Solomon (1986:110) argues that small businesses are "bounded with family needs" whereas entrepreneurship has more to do with innovation and focuses on "profit and growth". Entrepreneurship is characterised by such behaviour as alertness to opportunity,

innovation, and "creative destruction". The assumption in the definition that a small business cannot grow to be an entrepreneurial venture is far from the truth. Ladzani (2012:42) points out that many small businesses are started every day in South Africa with some growing to become entrepreneurial firms. He notes how Raymond Ackerman started *Pick n Pay* and Anton Rupert the *Rembrandt Group* as small businesses in South Africa; they are now international companies. This makes it a bit difficult to demarcate the lines between entrepreneurial firms and small business at times.

Solomon's (1986) description of entrepreneurship above suggests that self-employment is not entrepreneurial and does not contribute to economic growth and innovation. In addition to that, entrepreneurship is viewed only from the profit perspective. This is however, not the case at all times as many entrepreneurial ventures start as small self-employed ventures and family businesses and end up becoming big and successful enterprises. Besides, not all entrepreneurial ventures are profit oriented. For example, Professor Yunus Mohammad started the *Grameen Bank* as a social enterprise in the 1970s in Bangladesh to help poor women escape poverty, but this has turned out to be a profitable entrepreneurial venture which is now a model across the world. Considering the numerous definitions discussed above, one cannot agree more with Rao (2004:46) that there is no consistent definition for entrepreneurship. This author adds that the definition of entrepreneurship can be likened to "a hat that has lost its shape because of overuse by people who pull it into their preferred fashion".

However, some key issues and concepts can be noted in the above definitions of entrepreneurship. Rao (2004:48) contends that a synthesis of various perspectives in entrepreneurship shows that (1) entrepreneurship is synonymous with new ventures, and (2) the term is applicable to both small as well as large enterprises. Nieman, Hough and Nieuwenhuizen (2003) cited in Dzansi (2004:13) state that the following key concepts apply to entrepreneurship and the entrepreneur:



- a) Identification of opportunity: real opportunity must exist;
- b) Innovation and creativity: something new and different is required;
- c) Getting resources: capital, labour, and equipment must be found;
- d) Creating and growing a venture: starting a new business or conversion of an existing one;
- e) Risk taking: personal and financial risk involved for the entrepreneur;
- f) Being rewarded: an essential element of the free market system; it can take the form of profit or an increase in the value of the business;
- g) Managing the business: this means that there must be proper planning, organizing, leading, and controlling of all the functions in the business for it to prosper.

Entrepreneurship includes the activities of non-profit organizations that use innovative ways to create utilities. In addition to the above characteristics of entrepreneurship, one could add that it is:

- a) A process and not an event or isolated events;
- b) Purposeful and well thought out and organised sets of activities which are aimed at creativity and change;
- c) Identified and conducted through scanning the environment for opportunities;
- d) Embarked on by individuals, government institutions, NGOs and other sectors of an economy;
- e) The combination of different resources (human, financial, technological, and natural) in certain proportions, in both large and small economic and non-economic activities;
- f) The involvement of activities such as the conception, creation and running of the enterprise.

Reviewing the definitions provided in the literature allows for an operational definition of “entrepreneurship” as, *"all creative and innovative human activities, for both profit and non-profit purposes, by an individual or as part of a group, to do something new and*

*different for self-interest, while bearing the associated risks and enjoying the rewards that accrue from the initiative which benefits others as well".*

Economies, both developed and developing, have come to need entrepreneurship as jobs and career paths of the labour force change. Innovation is valued as one of the means to stay competitive in the current fast changing business environment and in the ideological dimension, SMMEs are believed to ensure economic growth and development. So, understanding entrepreneurship can help policy makers and practitioners find ways to cultivate the phenomenon in the broader society; society's old ills of poverty and inequality, together with the 21<sup>st</sup> century's relatively new problem - unemployment - are believed to be ameliorated by entrepreneurial activity as the State is less and less a Nursemaid of its citizens (Chang, 2003).

In the context of this study, ethnic entrepreneurship is seen as important and necessary for the socio-economic development of South Africa, a means to change some of the past policies of the apartheid regime which marginalized a large section of the population by preventing them from participating fully in the economy of the country.

Ethnic entrepreneurship, which is the focus of the next chapter, refers to "a set of connections and regular patterns of interaction among people sharing a common national background or migration experiences" (Waldinger *et al.*, 1990a:3), a community of co-ethnics who start-up and manage businesses. The issue of ethnic entrepreneurship is to a large extent based on self-identification as belonging to a particular group or assigned to a group according to an ethnically identified surname (Chaganti & Greene, 2002:126). In South Africa, it has been noted by Preisendorfer and Bitz (2012) that compared to other ethnic groups, Blacks, who constitute about 80% of the population, have a low participation rate in entrepreneurial activities. Explanations that have been given for the

differences in entrepreneurship among the different ethnic groups include the Apartheid system, financial resources and shortage of human capital. In addition to that Preisendorfer and Bitz (2012:1) point out that two other explanations, mind-set and social network, deserve attention.

Chang (2008:201) argues that changes of a cultural nature take place when the underlying economic structures of a country change and new habits of thinking become culturally embedded. The concept entrepreneur is discussed in the next section.

## 2.2.2 THE ENTREPRENEUR

Having developed a working definition of the concept of entrepreneurship in the economic dimension, as "*all creative and innovative human activities, for both profit and non-profit purposes, by an individual or as part of a group, to do something new and different for self-interest, while bearing the associated risks and enjoying the rewards that accrue from the initiative which benefits others as well*", the next discussion is about the different perspectives of the "entrepreneur".

### 2.2.2.1 Who is an entrepreneur?

The term entrepreneur according to Cantillon (1755) cited in Deakins (1996:8) is French in origin and literally translates as "one who takes between". His emphasis was based on individual rights. Schumpeter (1934) refers to the entrepreneur as a special person who brings about change through innovation by introducing new technological processes or products. Drucker (1985:35) defines an entrepreneur as "an opportunity seeker". This definition is rather too broad as any person who engages in any opportunistic venture, be it legitimate or not, could be regarded as an entrepreneur. Not surprisingly Rao (2004:45) observed that, "newspapers and other commentators have referred to car hijackers, inner-city drug dealers, brothel keepers, and politicians etc. as entrepreneurs". It is

important to locate the entrepreneur in what will be termed a "legitimate" business venture. Smith, Dams, Mostert, Oosthuizen, Van der Vyer and Van Gass (1996:6) define the entrepreneur as a person who recognizes economic needs and combines production factors in order to fulfil those needs. Some economists define entrepreneurship as "what the entrepreneur does". The definitions of Smith *et al.* (1996) and Cantillion (1755) both focus on the functions of the entrepreneur in an economic situation, though which she/he coordinates the factors of utilities, innovation, management and decision making and takes risks, for the reward of making profits.

Antonites and van Vuuren (2005:257) consider the entrepreneur to be a person who is able to identify opportunity where other people see chaos, contradictions, ambivalence and confusion. They can innovate to develop a product or service by adding value, mostly motivated by profit. Entrepreneurs are rewarded not only by financial rewards, but also through personal satisfaction and independence (Antonites & van Vuuren, 2005:257). Decision making and risk taking, as well as receiving rewards for his/her efforts, are key attributes of most entrepreneurs. The functions such as management and organisation are not much emphasised in this definition.

Kuratko and Hodgetts (2007:727) describe the entrepreneur as an innovator or developer who recognises and seizes opportunities and turns them into workable/marketable ideas; adds value through time, effort, money, or skills; assumes risks of the competitive market place to implement these ideas; and realises the rewards from these efforts. This definition covers most of the different attributes and the functions of the entrepreneur. A summary of the definitions from literature suggest that a way of defining an entrepreneur is, an actor in the business environment who initiates and drives the entrepreneurial process; a creator of utilities; motivated by profit mostly but there can be other incentives as well; a person who accepts risks and failures; a strategist who develops and implements the vision and mission of an enterprise; a decision taker.

Taking all the above definitions into account, as well as bearing in mind the above operational definition of entrepreneurship, the entrepreneur for the purpose of this study is defined as: "*a person who identifies an opportunity in the market and uses creative and innovative methods to bring factors of production together to pursue the opportunity in an innovative manner, bearing all the risks that may be involved in the venture (for profit or not-for-profit) and also reaping any rewards that may accrue from his/her endeavours*".

Ethnicity amongst entrepreneurs might make differences to the choices of venture or how an opportunity is viewed, so one can generalise that in the South African context, there are certain businesses which are mostly dominated by a particular ethnic group. For example the operation of taverns and taxis is predominantly Black, whereas Indians and Afrikaners operate in the retail, wholesale and the hospitality sectors in the NLM.

#### **2.2.2.2 Typifying (typologies of) the entrepreneur**

Entrepreneurs have been classified within economic and sociological literature but this list is not exhaustive and there are no internationally accepted criteria for classifying entrepreneurs. An overview of the type of entrepreneurs can help researchers and policy makers in designing interventions for the development of entrepreneurs in general in an economy.

#### ***Social entrepreneur***

Rwigema *et al.* (2012:522) define the social entrepreneur as an individual who plays a role as an agent of change in the social sector by adopting a mission to create and sustain social value; the motive is not for profit making. They suggest that such individuals identify opportunities or gaps in the social sector, develop innovative responses and leverage resources in order to address the issue in an innovative way. There are a significant

number of such entrepreneurs around the world with one of the most famous (as already mentioned) being Muhammad Yunus who started the Grameen Bank in Bangladesh as a micro credit scheme to help the very poor to start and run their own businesses.

In the South African context, social entrepreneurs can play important roles in finding innovative ways to address some of the socio-economic problems. The need to develop a social entrepreneurship culture has been raised on various platforms. Urban (2007:361), for example suggests that the state has to play a more significant role in fostering a culture of social enterprise by raising awareness through education among students and by providing the needed resources and public education. The African philosophy of Ubuntu is quite in line with the concept of social entrepreneurship.

### ***Profit motive (opportunistic) entrepreneur***

Rwigema *et al.* (2012:41) define the profit motive entrepreneur as an individual who can access the market in order to set the selling price of goods sufficiently above the cost of production to make a profit. Profit is the main motive for their endeavours. Most entrepreneurs across the world fall within this category. Profit motive entrepreneurs, as the name suggests, establish businesses to make profit. Their operations and decisions have to be in line with a profit agenda. For them to succeed they have to make sure that their businesses are profitable in order to remain economically sustainable.

There are many sectors in the economy of South Africa that offer opportunities for ethnic businesses including growing fruit and vegetables, provision of pre-school education, building affordable houses for the low income earners and providing affordable transport for the poor. There are ethnic markets and sources of financing, such as the use of the credit rotating system popularly called *stokvels*, which can be tapped into by Black ethnic groups to develop profitable ventures.

### ***The intrapreneur (Corporate entrepreneur)***

Kroon (2004:24) uses the term "intrapreneur" to describe an individual who identifies an opportunity, reacts to it by creating an idea for a new product or service or process in a corporate environment and takes the risk of making it a success. Ireland, Hill and Simon (2003:963) are of the view that small enterprises are able to effectively identify opportunities but are less able to capitalise on them to gain competitive advantage in the market. On the other hand, large enterprises which are well established are able to develop competitive advantage but are less successful in identifying opportunities in the market (Ireland *et al.*, 2003:963). An *intrapreneurial* culture is one in which new ideas and creativity are expected, risk taking is encouraged, failure tolerated, learning promoted, and products and process innovations are praised. Continuous change is necessary to take advantage of opportunities (Ireland *et al.*, 2003:970). It is believed that it is important to develop such a culture in organizations to bring about innovation that will ensure economic growth. During the Apartheid era many white South Africans played this role in corporations.

### ***Necessity entrepreneur***

Some entrepreneurship researchers argue that people establish businesses out of necessity and end up becoming entrepreneurs. Some of these individuals happen to be minority groups and people who are normally disadvantaged in a system for one reason or the other. Storey (1996) calls these types of entrepreneurs "replacement entrepreneurs" and their businesses "trundlers" (Dzansi, 2004:119). These individuals most often operate in the informal sector of the economy. The Global Entrepreneurship Monitor report (2010) indicates that approximately one-third (about 26%) of South African entrepreneurs are necessity driven as opposed to opportunity-driven. Preisdorfer *et al.* (2012) assert that most businesses owned by the Black and Coloured ethnic entrepreneurs in South Africa operate in the informal sector and are "survivalist", which implies that they are very small-scale and volatile ventures that mainly serve to secure

the survival of a single person or family. Chang (2008) reminds researchers to revise their approaches to poverty and entrepreneurship and take note of how poverty can impact on every economic endeavour of people.

### ***The 'tenderpreneur'***

*Tenderpreneur* is a new term that has been coined in South Africa to describe individuals who use their political connections to win government tenders to amass wealth. Mncube (2012:1) uses the term *tenderpreneurship* to describe the situation in which government officials, politicians, business people and those who are politically well connected to the ruling party use their influence and secure lucrative state contracts and tenders. A tenderpreneur is a person who engages in tenderpreneurship.

Recent media reports point to a number of tenderpreneurship cases that have been referred to the office of the Public Protector for investigation. The fact is, the incidence of tenderpreneurship is increasingly becoming a business culture in South Africa. The researcher is of the view that there is the need by policy makers to discourage this phenomenon in trying to build an entrepreneurship culture as this system breeds patronage and corruption.

The above classifications are important as it is necessary for South African policy makers to have a good understanding of entrepreneurship in order to be able to identify genuine entrepreneurs who need assistance. Various approaches have been used in the study and understanding of entrepreneurship which are discussed in the following section.



### 2.2.3 THEORETICAL APPROACHES TO ENTREPRENEURSHIP

The aim of this section is to provide a theoretical base for understanding entrepreneurship among the ethnic groups under investigation in this study. The literature reveals that essentially the theories used by early and current scholars to explain the entrepreneurship concept can be termed discipline based. This discipline approach has led to divergent theories and views on entrepreneurship. Not surprisingly, Casson (2003:19) for example, observed that the multidisciplinary nature of the concept has contributed to the difficulty in finding uniformity in the theory of entrepreneurship. This section examines some of the main discipline based theoretical frameworks that have been used to explain entrepreneurship.

#### 2.2.3.1 Psychological/Traits theories of entrepreneurship

Entrepreneurship can be examined on the basis of a person's psychological and personal attributes. These attributes are regarded as the determining factors in the decision to seek and exploit entrepreneurial opportunity (Lanza, 2004:152). McClelland (1961) is credited with the pioneering work on personality traits, motives and incentives of individuals who take on entrepreneurial careers. According to Moore, Grabsch and Rotter (2010), McClelland (1961) found a strong association between successful entrepreneurship and a strong need for achievement. Davidson (1989:10) believes that achievement motivation is the most important factor that contributes to the explanation of growth rates and entrepreneurship. Similarly, Shaver and Scott (1991:31) state that achievement motivation is the only convincing *personological* variable that is associated with new venture creation. In spite of its strong following, an equally strong criticism has been levelled against this perspective. For example it is criticised for being one sided because it does not take into account important factors such as the social, economic and the legal frameworks that impact on entrepreneurship, even less does it take account of the interactions amongst the CAS of the environment in which such persons operate. A behaviourist approach to personality traits is outdated in the twenty first century with its extensive research in genetics, epigenetics and neurobiology (Robson, 2001). A more

inclusive definition of entrepreneurship such as that offered by Solymossy (1998:8), as a contextual phenomenon, affected by social, political, economic and cultural environments is closer to describing an entrepreneur as motivated by elements of culture and ethnicity.

In this study, the researcher believes that some psychological factors, modified by circumstance and epigenetics/context in the different ethnic groups could contribute to their entrepreneurial attitudes, behaviour and performance. The empirical study may throw light, for example, on the motives of most of the members from the different ethnic groups who embark on entrepreneurship.

#### **2.2.3.2 Economic theories of entrepreneurship**

Entrepreneurship can also be examined from a strictly mechanistic economic perspective. In fact, explaining entrepreneurship from the economic standpoint has been one of the oldest perspectives in dealing with the concept. Murphy, Liao and Welsch (2006) cited in Simpeh (2011:1), provide a very useful categorisation of economic theories on entrepreneurship namely *classical*, *neo-classical* and the *Austrian Market Process (AMP)* that are presented historically in the next sections.

#### ***Classical theories***

The classical economic theories of entrepreneurship are based on classical economics. By this is understood that the role of the entrepreneur in the creation of utilities in the market economy is significant. Classical theorists argue that natural resources, labour and capital are the main factors of production used for creating utilities. Further they suggest that substitution is possible between human-made, financial, human and natural capital but the exchange must be imputed as it the elements are not all the same (Blignaut & de Wit, 2004). The metric used for growth is monetary. Some of the notable classical

economists who theorised on entrepreneurship are Cantillon and Say in the eighteenth and early nineteenth centuries. Say (1803) placed emphasis on the coordinating role of the entrepreneur in the production and distribution of utilities in an economy (Praag, 1999:314). In much the same way, Cantillon (1860) focused on (1) land ownership (capitalist); (2) entrepreneurs (arbitrators); and (3) wage workers. This theory of entrepreneurship is relevant to understanding some of the factors entrepreneurs take into account in their activities. They may rely on the fact that substitution of capital is the main driver of such a position.

### ***Neo-classical theories***

According to Simpeh (2011:1) the neo-classical theories of persons like Schumpeter (1934) were based on the idea of economic actors who are involved in the creation of utilities in an economic system. As in classical economic theory, substitution is believed to be possible between human-made, financial and human capital, but the exchange value is real and should lead to greater efficiency; the metric is monetary. The theory of marginal utility is used to explain the motivation for entrepreneurship. Schumpeter (1934) for example identified the entrepreneur as the architect of innovation. He identified the entrepreneur as the leader of the firm (innovator) and therefore the prime mover of the economic system (Praag, 1999:314). Knight (1921) working in a neo-classical framework, placed emphasis on the risk bearing function of the entrepreneur. True uncertainty forms the bedrock of Knight's theory of profit, competition and entrepreneurship (Praag, 1999:322). He adds that the reward the entrepreneur receives for all his efforts is the residual income (profit) as well as the prestige of entrepreneurship and the satisfaction of being one's own boss.

The neo-classical theory of entrepreneurship could be used as a basis for understanding ethnic entrepreneurship as it places emphasis on the entrepreneur as an innovator who is able to add utility through innovative means which involves risk taking. In the end, the

ethnic entrepreneur, who normally operates in the ethnic economy, has to find a niche and exploit it innovatively to earn profit or residual income. It is, according to neo-classical economic theories, about outcomes, scarcity and constrained optimisation. However, as Foster (2004:2) argues,

Because economic behaviour is seen as uniquely different, many economists are happy to continue to work within the boundaries of modern economic theory, particularly since game theory entered the theoretical core of economics, rather than to attempt to rethink what they do from a complex systems perspective.

When economics is conceptualised as a CAS, as opposed to a theory of outcomes, "either in simple linear form or in complicated nonlinear form, is that they do not capture the *processes* that occur in the history of the economic system" (Foster, 2004:9). These processes cannot be represented by linear, monetary data used as a metric and predictor and can be connected in an unsatisfactory way such as the mathematical exercise of disequilibrium dynamics. Embedding economic systems in the theories of CAS, allows theorists to engage with the multiplicity and variety of processes and systems that impact economic behaviour (Foster & Metcalfe, 2001). The entrepreneur in such a view is a real live, social, psychological actor and his/her engagement in entrepreneurial activity is developed, constrained and steered by the CAS in the biosphere.

### ***Austrian Market Process theory***

The Austrian Market Process (AMP) theory, which deals with the "economies of market" (Daher, 2012: for which Kirzner (1973) gets credit, postulates that entrepreneurship is the driving force in the market-based economy. Economic knowledge is important in this theory for innovation which then triggers action in the market economy (Murphy, Liao & Welsch, 2006). Entrepreneurs according to Kirzner (1973) are people who are always alert to discover and exploit profitable business opportunities (Praag, 1999:324). Praag adds that entrepreneurs are the equilibrating forces in the market process. Contrasted

with the AMP is neoclassical market process theory, which differs from AMP theory, as "humans choose, the market exists, knowledge is imperfect, and money or production exists" (Daher, 2012). The role of entrepreneurs in market dynamics is based on assumptions that Daher (2012) describes as "three prevailing scenario[s] in market equilibrium are the perfect competition market, full monopoly market, and the imperfect competition market". These are theoretical constructs and do not relate to the reality of entrepreneurs in a rural community in Naledi. However, a deterministic or behavioural approach is avoided in the AMP theory as well as the market process theory with its emphasis on people.

### **2.2.3.3 Sociological theories of entrepreneurship**

Proponents of sociological theories of entrepreneurship stress the social dimension in which entrepreneurship takes place. Reynolds (1991), cited in Simpeh (2011:2), identifies social networks; life course stage; ethnic identification; and population ecology as the four social contexts for identifying and pursuing entrepreneurial opportunities. According to Simpeh (2011:4), *social networks* deals with social relationships that help build trust and cohesion that are essential for running a successful venture. The *life course stage* is about life experiences that make individuals decide on an entrepreneurial career while *ethnic identification* concerns one's ethnic or sociological background which serves as "push" or "pull" factor to seek entrepreneurship careers. *Population ecology* examines the environmental conditions, including political, legal and environmental ones, together with market environments, that impact on the survival of businesses.

Sociological theories are very relevant to explain ethnic entrepreneurship in the South African environment as social networks are used by the different ethnic groups in their business practices. For example, businesses operating in ethnic markets require trust on the part of both the business and its customers. All ethnic groups depend to a large extent on their networks to secure and maintain their markets. The life course idea can be used

to explain why some of the different ethnic groups in South Africa embark on entrepreneurship as a career choice. For the Blacks and Coloureds, the introduction of democracy has opened up the opportunity for them to engage in legitimate economic activities. The ethnic identification theory can also explain why people from the different ethnic backgrounds are either pulled or pushed into entrepreneurship. As discussed earlier, many Blacks and Coloureds are being pushed into entrepreneurship as a last resort, whereas whites appear to be pulled into entrepreneurship.

#### **2.2.3.4 Anthropological theories of entrepreneurship**

Anthropological theory of entrepreneurship provides the underlying theoretical framework for the current study. The anthropological theory of entrepreneurship is focused on cultural issues and matters of genesis, development, customs, values, beliefs and cultures of societies in the entrepreneurship process. This complements a CAS theory of entrepreneurship and although it is not explored in this study, could be broadened to include a biological approach to economic theory. An anthropological theorist argues that the choice of entrepreneurial career, and any success in it, is the function of the socio-cultural contexts and the other important systems and dimensions which impact the person's life in reality. But, as Aldrich (1992) said, "to generalize about entrepreneurs, individuals need to be studied" (Thornton, 1995:35). In support of an anthropological perspective, Baskerville (2003) notes that the ethnicity of individuals impacts on their attitudes and behaviour. He points out that the cultural environment can produce differences in attitudes as well as differences in entrepreneurial behaviour (Simpheh, 2011:4). According to Mitchell *et al.* (2002:98), the culture of the individual reflects particular *ethnic*, social, economic, ecological, and political complexities and attitudes in the individual. Accepting this viewpoint means that ethnicity is a component of culture, but culture itself is affected by ideological, institutional, economic, demographic, informational, social and technological dimensions (Gell-Mann, 1994).

As pointed out by Hodgetts and Kuratko (2007:37), entrepreneurship theory is not only discipline based. The concept can also be examined from the non-discipline approach with the so called "schools of thought" and the "process" approaches being the major ones.

#### 2.2.4 THE ENTREPRENEURIAL SCHOOL OF THOUGHT

To distinguish between theories of entrepreneurship and schools of thought, it was decided that the schools of thought could be said to look at entrepreneurship from the *macro* and *micro* perspectives (Hodgetts & Kuratko, 2007:37).

##### 2.2.4.1 The macro view

The macro view consists of three main schools of thought namely: the environmental school; the financial school; and the displacement school. The environment school of thought according to Hodgetts and Kuratko (2007:38), suggests that environmental factors (positive and negative) affect the potential entrepreneur's lifestyle and desires. These environmental factors may include institutions, values and mores, and social group issues which can influence entrepreneurial behaviour and attitudes in a positive or negative way. This view of entrepreneurship is very closely related to the anthropological theory of entrepreneurship discussed earlier, because entrepreneurship is viewed from a socio-cultural perspective. However the environmental school is wider as it includes broader social, political and economic aspects of society.

The financial school of thought examines the entrepreneurial process from a financial stand point (Hodgetts and Kuratko, 2007:38). This view suggests that the prosperity or otherwise of a business from start-up through growth stages is determined by cash management, investment, and financial analysis. In effect, the financial school of thought attributes the success or failure in entrepreneurship to financial strategies used. The

implication of this for the current study is that previously disadvantaged groups in South Africa, mostly Blacks and Coloureds, may not have the requisite financial resources and the financial skills to start and run successful enterprises. Although the financial school of thought provides a crucial perspective on entrepreneurial success, it appears too narrow when compared to earlier theories discussed.

The third school - the displacement school (also known as the refugee theory of entrepreneurship) is based on the idea that individuals pursue entrepreneurship because they are prevented or displaced from performing other activities. These displacements can be political, cultural or economic. Kirby (2003:39) notes that discrimination in society forces people from ethnic minorities to seek opportunities through self-employment. For example, as Stanworth and Curran (1976) state, the entrepreneurial proclivity of the Jews is partly but substantially in response to the discrimination they have experienced in society over hundreds of years (Kirby, 2003:39). From this perspective, one would have expected the levels of entrepreneurship among the previously disadvantaged (Blacks and Coloureds) to be high because of to their being prevented under the Apartheid regime from engaging in the formal sector and public institutions, but their formal education was impaired in the regime and the Bantustan policies ensured that they were kept largely as a labour force.

#### **2.2.4.2 The micro view**

Compared to the macro view in which specialists consider the meta picture of economics and entrepreneurs, the micro view of entrepreneurship is specifically about the nature of entrepreneurs, the factors that make up an entrepreneurial environment and the factors that lead to success or failure (Hodgetts & Kuratko, 2007:39). According to these authors, the individual has the ability to direct the outcome of a business venture depending on entrepreneurial traits, ability to spot an opportunity and ability to formulate appropriate



strategies. Thus the three perspectives of the micro view relate to entrepreneurial trait theory, the venture opportunity theory, and the strategic formulation theory.

The entrepreneurial trait school of thought suggests that successful entrepreneurs have certain characteristics in common. These include creativity, determination, achievement motivation, family development and technical knowledge (Hodgetts & Kuratko, 2007:29). The venture opportunity school of thought, on the other hand, focuses on the detection of opportunity in venture creation. This includes market awareness, creativity and development of the right idea for the market at the right time. The strategic formulation school of thought, according to Hodgetts and Kuratko (2007), emphasize the planning process in successful venture creation. Various strategies according to this perspective exist within the domain that include the mountain gap strategy, great chef strategy, better widget strategy, and water well strategy (Hodgetts and Kuratko, 2007).

The entrepreneurial trait school of thought is closely aligned to the psychological theories of entrepreneurship of McClelland (1961). The venture opportunity and the strategic view, on the other hand, are in line with the opportunity based theory of entrepreneurship as discussed earlier. Both the macro and micro perspectives are relevant to the current study as ethnic entrepreneurs operate at both the macro and micro levels when conducting their entrepreneurial activities. At the macro level, the socio-cultural factors serve as both pull and push factors that inform the decisions of some ethnic group members engaged in entrepreneurship. The micro factors that enable ethnic entrepreneurs to operate businesses include certain traits and management skills. It appears that some ethnic groups exercise more of these factors than others.

### 2.2.5 THE PROCESS APPROACH

Hodgetts and Kuratko (2007:42) point out that although there are numerous process approaches to understanding entrepreneurship, those that stand out are the entrepreneurial event approach and the entrepreneurial assessment approach.

The entrepreneurial event approach, according to Bygrave (1989), is based on the assumption that entrepreneurship is not an isolated event. Rather, it is a process during which an individual plans, implements and controls his/her activities. Important factors according to him include initiative, organization, administration, relative autonomy, risk taking, and the environment. The basic model for this is centred on innovation, followed by triggering events, implementation and finally growth (Hodgetts & Kuratko, 2007:43).

The entrepreneurial assessment approach places emphasis on the assessment by the entrepreneur, of the venture and the environment, using quantitative, qualitative, strategic and ethical tools to give a broader understanding of the entrepreneur's career stage position (Hodgetts & Kuratko, 2007:44).

### 2.2.6 OPPORTUNITY-BASED THEORY OF ENTREPRENEURSHIP

Some of those who use an opportunity-based theory to explain entrepreneurship include Shane (2007) and Simpeh (2011). Basically, the opportunity based theory postulates that entrepreneurs identify and exploit opportunities caused by changes in the system. Some of these changes include shifts in consumer taste and preference, and alteration in environment, technology and population dynamics. In effect, this theory looks at the entrepreneurship process as a whole, from the identification of opportunities in the environment to business strategies and management.

### 2.2.7 RESOURCE-BASED THEORY OF ENTREPRENEURSHIP

The Resource-based theory of entrepreneurship argues that access to the means of production is a good indicator of entrepreneurial opportunities. Honing (2003) in Simpeh (2011:5) points to financial, social and human capital as some key resources that individuals rely on to successfully exploit entrepreneurial opportunities. An apparent weakness of this theory is that it does not explain why not all people from the same environment are able to identify and access these resources.

### 2.2.8 THE MULTI-DIMENSIONAL APPROACH

Theorists using the multidimensional approach view entrepreneurship as a complex process that involves the individual, the environment, the organization, and the ventures. Essentially, the multidimensional approach covers most of the other perspectives that have been looked at separately. Bandura (1986) argues that entrepreneurship theories that have focused on one-sided determinism to predict entrepreneurship have failed to provide the necessary understanding (Urban, 2007:83).

Shane (2007:10) considers entrepreneurship to be multi-disciplinary. Shane (2007:9) suggests that entrepreneurship can be best explained by considering the nexus of the enterprising individual's characteristics, opportunities, acquisition of resources, entrepreneurial strategy, and organizing process, and so the activity of entrepreneurship is multidimensional in nature.

All the above theories about, and approaches to, entrepreneurship are important in understanding some aspect of entrepreneurship. However, for this study, they seem inadequate to explain the variations observed (even though casually) in the entrepreneurial performance among the four ethnic group members in the Naledi Local

Municipality. The ethnic perspective may be relevant in the current study and is therefore explored.

#### 2.2.9 DETERMINANTS OF ENTREPRENEURIAL BEHAVIOUR AND SUCCESS

Entrepreneurial behaviour has been described by researchers variously as including issues ranging from opportunity identification and exploitation to the creation and development of new ventures. Bird and Schjoedt (2009), for example, define entrepreneurial behaviour as the study of human behaviour involved in identifying and exploiting opportunities through creating and developing new ventures. Bird and Schjoedt (2009) and Buam (2012) add that it is important to refocus research attention towards concrete and observable human action in the creation and organisation of emerging ventures. The interest in the entrepreneurial behaviour, the researcher believes, could be an attempt by investigators to understand what entrepreneurs do, rather than explaining entrepreneurship on the basis of characteristics/traits. Gartner (1988:2) points out that research into leadership is now focusing more on the behaviour of leaders (that is, on what leaders do instead of what they are) and by determining what situational factors or conditions moderate the effects of their behaviour or performance.

A number of characteristics or behaviours are mentioned by different researchers as crucial for entrepreneurs. Simpeh (2011), for instance, suggests that the following are necessary for a person to be regarded as entrepreneurial. They must be: opportunity driven and like to 'nose around'; demonstrate high levels of creativity and innovation; show high levels of management skills and business know-how. They are frequently optimists, emotionally resilient and have mental energy, are hard workers, show intense commitment and perseverance, have a competitive desire to excel and win, tend to raise the bar all the time and not be satisfied with the status quo and have a desire to improve. They are also transformational in nature, lifelong learners who use failure as a tool and springboard. They tend to have self-control and integrity, and above all are visionary.

Gartner (1998) describes a new venture from the behavioural perspective as comprising the following: an independent entity; a new profit centre within a company which has other established centres or, a joint venture which satisfies certain requirements. These requirements are that its founders must acquire expertise in products, process, market and/or technology; that the results are expected beyond the first year in which the investment is made; it is considered a new market entrant by its competitors; it is regarded as a new source of supply by its potential customers.

Earlier research in entrepreneurship based on the traits approach suggests that becoming an entrepreneur is innate, and it is not easy to isolate these traits. One can only make inferences from the traits or innate behaviours in determining behaviour. If the behaviours that have been identified above are put into practice in business then this may lead to entrepreneurial outcomes which are discussed next.

Murtaza, Butt, Khalid and Khalid (2011) suggest that some factors that contribute to entrepreneurship include innovation, organisational structure, the use of technology, risk taking, defined resources and capabilities, the environment, organisational culture, maximum utilisation of resources, the location of a business, flexibility control, HRM practice, informal networks, management, staff turnover, training, performance appraisal, sales trends, marketing function and environment, values and resources (E-V-R) congruence.

Rwigema *et al.* (2012:51-57) point out that some of the concepts that have been linked to behaviour and motivation in entrepreneurship include achievement need, risk taking, tolerance of ambiguity and internal locus of control. They note that self-efficacy; commitment, self-reliance, persistence, achievement needs-orientation, problem-solving abilities, internal locus of control and high tolerance of ambiguity have been identified as critical key success factors in entrepreneurship.

Citing Bandura (2001), Rwigema *et al.* (2012:52) define self-efficacy as a person's judgement of their capabilities to organise and execute courses of action required to attain designated types of performance. A number of indicators, called the entrepreneurship self-efficacy (ESE) are used to assess the levels of entrepreneurial competency namely opportunity recognition, innovation, management, risk taking and financial control.

## **2.3 ENTREPRENEURSHIP IN SOUTH AFRICA**

South Africans have been involved in small business activities for as long as the country has existed, even in the seventeenth, eighteenth and nineteenth centuries, although only certain segments of the population were allowed to do so. But recent estimates of the country's total entrepreneurial activity (TEA) are said to be low when compared to countries on the same level of development (First National Bank (FNB), 2009:4). It is generally acknowledged that the TEA in South Africa is comparatively low at 7.8% as against that of Brazil and India at 12% and Colombia at 24.8% in 2008 (FNB, 2009). TEA measures entrepreneurial activity on the basis of the percentage of the economically active population who are entrepreneurs in a country at any given time. Some of the middle income countries in South Africa's range include India, China, and Brazil which are said to have higher TEA levels. Rwigema *et al.* (2012:110) state that South Africa's 2006 TEA index is 5.29, which is lower than the average score for comparative countries in the upper-middle income, where the average score is 7.79. Rwigema *et al.* (2012) add that South Africa has an over- abundance of necessity or survivalist enterprises that tend to operate in a small number of sectors, mainly in the retail and service industries.

### **2.3.1 ENTREPRENEURIAL ACTIVITY OF SOUTH AFRICA**

The Global Entrepreneurship Monitor (2011) suggests that before the advent of democracy in 1994, South Africa's economic landscape was characterised by a conspicuous absence of small enterprises in the dominant sectors of the economy, a situation that was worsened by prohibitive laws that made it difficult for people from previously disadvantaged groups to have businesses. Some of the factors that have

contributed to the apparent low levels of entrepreneurship, according to the FNB, are the lack of sufficient recognition of the contribution of entrepreneurs in South Africa, the lack of entrepreneurial skills coming from the formal education system and from informal education through home and social networks, the lack of supportive institutional frameworks for entrepreneurs, and crime.

Despite the fact that South Africa's TEA level is relatively low, as mentioned earlier, examples abound of how individuals such as Raymond Ackerman, Mark Shuttleworth, Patrice Motsepe and many others, in the past and present, have succeeded in international circles. Besides, the South African government is making efforts to encourage entrepreneurial culture by establishing institutions and putting policies that promote entrepreneurship in place.

### 2.3.2 EXPLORING ENTREPRENEURIAL CULTURE IN SOUTH AFRICA

A culture of entrepreneurship is unlikely to exist without supporting structures in the environment; these are not only economic structures. The theories about entrepreneurship discussed in the previous sections indicate that the environment in which entrepreneurs operate influences the decision to engage in entrepreneurial activities and eventual entrepreneurial success. Shane (2007:146) identifies three elements of the environment that influence entrepreneurship. The first is the economic environment which is about income, capital gains, economic growth and inflation, among other things. The second is the political environment which includes the freedom to engage in economic activities, the rule of law and protection of property, and decentralization. The third environmental factor focuses on the socio-cultural environment which is made up of the social desirability of entrepreneurship, the presence of entrepreneurial role models and specific cultural factors that foster or impede entrepreneurship. This section focuses on cultural determinants of entrepreneurship.

Much research and discussion on the relationship between cultural values and entrepreneurship has been associated with Hofstede's (1980, 2001) dimensions of culture which are summarised as follows: *Power distance* - concerns the different solutions to the basic problem of human inequality; *Uncertainty avoidance* - relates to the level of stress in a society in the face of an unknown future; *Individualism versus collectivism* - relates to the integration of individuals into primary groups; *Masculinity versus femininity* - relates to the division of emotional roles between men and women; *Long-term versus short-term orientation* - relates to the choice of focus for people's efforts: the future or the present (Hofstede, 2001:29). Some of these dimensions have been found to either negatively or positively influence entrepreneurship.

In the South African context, uncertainty avoidance, individualism versus collectivism and long-term orientation are factors which affect the entrepreneurial outcomes of the different ethnic groups in business differently because of the different cultural values to which they subscribe. Rwigema *et al.* (2012:90) consider that the African value system of Ubuntu, for example, is in conflict with the western value of individualism which has been found to promote entrepreneurship. Additionally, rural communities are more likely to subscribe to Ubuntu, whereas urban communities are more fragmented and less embedded in their own cultures, especially younger people who have to move between cultures. Herrington (2009) states that the fear of failure, which the researcher associates with uncertainty avoidance, is a barrier that negatively impacts on entrepreneurial behaviour. In South Africa, society is very harsh on legitimate businesses that fail to the extent that the entrepreneurs involved tend to lose not only the money they invest in their businesses but also their status and respect in society.

In respect of the long-term short term orientation, Herrington (2011:132) notes that South African small businesses and start-ups tend to have unrealistic expectations of both financial turnover as well as the time it takes to break-even. Youens (2003) adds that



South Africa's potential entrepreneurs have the expectation that their businesses will make money quickly and easily. Although the use of these dimensions has been criticised by various researchers and commentators because they are used to compare entrepreneurial cultures between nations, and are based on western cultural values which sometimes do not apply in other cultures, nevertheless the dimensions have been helpful in understanding entrepreneurship culture at national and group level. Rwigema *et al.* (2012:89) acknowledge that South Africa is not only a culturally varied society with diverse ethnicity, but that the proclivity towards entrepreneurship is partly due to the country's colonial and Apartheid past. A casual observation across South Africa in general and in the NLM in particular, clearly shows some trends in the entrepreneurial culture of the different ethnic groups.

### 2.3.3 ENTREPRENEURSHIP DEVELOPMENT FOR SOCIAL INCLUSION IN RSA

As previously stated, some of the main challenges facing South Africa as a country have been identified as high poverty levels, high rates of unemployment and increasing inequality. Most socio-economic challenges have been attributed to unemployment. Unemployment leads to people being excluded from meaningfully contributing to their own development and the development of the country at large. Recent media reports suggest that the official unemployment rate stands at 25.2% by the narrow definition whilst the broader definition of unemployment stands at 37.0%. The Gini co-efficient of South Africa also stands at 0.66 percent which makes it one of the most unequal societies in the world. Entrepreneurship development is one of the strategies that have been suggested by development practitioners and researchers for dealing with the issues of inclusivity in the socio-economic life of the country.

The Commission of the European Communities, Blackburn and Ram (2006:74) acknowledge that,

Entrepreneurship is a major driver of innovation, competitiveness and growth ... but entrepreneurship brings more than that to our societies. It is also a vehicle for personal

development and can harness social cohesion when the opportunity of creating one's own business is offered to everybody, regardless of background and location.

Blackburn and Ram (2006) aver that social and economic exclusion occur when people and areas suffer from a combination of problems that are inter-related such as unemployment, poor health, low income, poor housing, high crime environments, bad health and family breakdown. In the South African context, other factors include poor education and skills among large sections of the population, the HIV/AIDS pandemic, teenage pregnancy, alcohol and drug abuse among the youth and deliberate national policies in the past that denied a large section of the population access to the mainstream economy. Noya and Clarence (2008:4) argue that in most cases there is the tendency for people to focus on poverty and lack of income as a main issue of exclusion. But they are of the view that social exclusion should incorporate matters such as the inability of individuals and groups (disabled people, ex-inmates, long-term unemployed, etc.) to participate in the economic, social and cultural life of the community or society in which they live, as a consequence of a number of factors that combine to hinder their full participation.

Blackburn and Ram (2006:82) consider that ethnic disadvantaged groups can be encouraged to secure a real stake in their community to ensure future social stability. In rural areas, Stark, CFED, Markley and RUPRI (2008:1) argue that entrepreneurship development can be achieved through the triple bottom line principle of sustainable development strategies and wealth creation strategies. The triple bottom line practices in sustainability discourse are based on Elkington's 1997 definition of how to take the Brundtland Commission's (1987) call for sustainability forward. Three dimensions are proposed as essential for sustainability and those are the economic, the social and the environmental. The economic aspect of triple bottom line thinking according to Grant Thornton South Africa (2010) deals with the way organisations impact on the economic conditions of their stakeholders and the economic systems at local, national and

international levels. Some of the performance indicators of this aspect are performance, market presence and indirect impact on societies.

The environmental principle focuses on how businesses and organisations impact on living and non-living natural systems including ecosystems, land, air and water. The third leg of the principle is about the way in which organisations impact on the social environment in which they operate. Some of these social practices focus on issues of labour practices, human rights, and society and product responsibility. However, sustainability and sustainable development are contested ideas in the twenty first century (Söderbaum, 2008) and the triple bottom line approach to sustainability with Corporate Social Responsibility initiatives as a way of offsetting societal ills, no longer has the confidence of all theorists. In terms of economics the theory of Institutional economics which gives rise to Evolutionary economics and Neo-institutional economics, with its focus on the ecological crisis the entire biosphere is facing, has theorists looking at a fuzzy boundaries model of sustainability (Giddings, Hopworth & O'Brien, 2002) instead of continuing to repeat the shibboleths of the "triple bottom line" as the answer to an economically sustainable world (Cato, 2009; Cato, 2011). Unless natural capital is kept sustainable, the ecological crisis seems set to implode the biosphere, suggest some ecological economists.

A number of strategies can be used to ensure that ethnic disadvantaged groups are incorporated in the socio-economic life of their countries through entrepreneurship. Some of the strategies that have been suggested include Social entrepreneurship, in which guidance is provided to national, regional and local actors about the most effective ways of achieving this. Noya and Clarence (2008:7) state that some of the critical factors for social inclusion include the development of viable and active policies which enable increased access to economic opportunities. This includes addressing the challenges of education and training for adults and youth, provision of employment opportunities for those who are finding it difficult to secure employment etc. Blackburn and Ram (2006:76-

82) place emphasis on the role of small firms and entrepreneurship - on inclusion for empowerment through self-employment - which leads to economic autonomy especially for vulnerable groups. Historically self-employment and business ownership is a response to social and economic exclusion from the mainstream society, as witnessed by high proportions of certain ethnic disadvantaged groups who have their own business, such as Bangladeshi, Pakistani, Indian and Mediterranean groups in the United Kingdom. Blackburn and Ram (2008) suggest that small firms and entrepreneurs need to have a forum in government policy so interested groups who are socially excluded can express their hopes for being included in the economy.

## **2.4 SMALL BUSINESS ISSUES IN SOUTH AFRICA**

Entrepreneurship and small business management are different concepts but are intertwined. Any discussion of entrepreneurship is not complete until small business issues are also discussed. In the South African context, SMMEs dominate in the business sector with many of the businesses falling under the micro, very small and small enterprises. Some of the businesses that are found in the SMMEs are operated as ethnic enterprises making the discussion of small business issues relevant in this study.

### **2.4.1 NATURE OF SMALL BUSINESSES**

SMMEs are normally given generic definitions but individual countries normally have specific definitions for the enterprises they call SMMEs. Srinivas (nd) for example notes that the European Commission defines an SME as “an enterprise which employs less than 250 people; has an annual turnover of less than €50m and/or balance sheet assets of less than €43m; and has no more than 25% of its capital or voting rights owned by a larger firm or public body”. Srinivas isolates three key words that define SMEs namely "small", "single" and "local". "Small" here could be either in size, the number of employees, the capital and asset base, or the turnover. The "single" element could be the product line and usually a single owner, but it should be noted there can be more than one owner in a small business. Another main feature of SMMEs is that they are normally

"local "and tend to operate in the same city, region, district or state. These are general features of SMMEs but one should note that some SMMEs have wide product lines and have wider spread to the international market. SMMEs are defined in the next section.

It is difficult to identify a single universally accepted definition for small businesses because that the concept is multidimensional, hence the definition used will depend on the focus of the research (Naude & Havenger, 2007:28). This definitional confusion may also be due to the different criteria that are used by various countries and role players to define small business. For example, a "small" firm in the petrochemical industry will be, in all senses, a big firm in the motor repair sector. Story (1994:8) maintains that the categorization of firms is based on "objective" measures which take into account the size of the firm, number of employees, turnover, profitability, asset value, net worth, etc. Dzansi (2004) points out that even within a country like South Africa, one finds differing definitions for small businesses. A definition which makes the very small differences between small businesses and SMMEs will not make a substantial difference to the research in this study. The SMME label would appear to be another more refined way of describing small businesses.

Ntsika (2004:10) uses the following four main criteria to define and classify SMMEs according to size:

- a) Micro enterprises (employ 1-5 people).
- b) Very small enterprises (employ 6-20 people).
- c) Small enterprises (employ 21-50 people); and
- d) Medium enterprises (employ 51-200 people).

In effect, any business enterprise that employs over two hundred and fifty employees according to Ntsika's criteria will be classified as a large enterprise. It should be noted that the sectors in which businesses operate are diverse. Whilst some of the sectors are

labour intensive in nature, others are more capital intensive. The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa(1995:7) acknowledges the diverse and complicated nature of the sector which creates definitional problems for SMMEs.

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995) categorizes SMMEs in South Africa into: Survivalist enterprises; Micro enterprises; Small enterprises; Medium enterprises.

### ***Survivalist enterprises***

*Survivalist enterprises* are part of micro businesses which are formed usually by people who are not able to find paid employment in the formal sector of the economy (White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, 1995). Poverty and the need to survive are the main motivations for their establishment. The sector is characterized by incomes below the national minimum wage, low capital investment and low skill levels of the owners. These small businesses operate on pavements and in informal structures, mostly in the informal sector of the economy. The reasons for this may include the lack of capital, limited education, the high rate of unemployment and other socio-cultural factors.

### ***Micro enterprises***

*Micro enterprises* are small businesses owned by an individual, who may be assisted by some family members and sometimes employ one or two people. Most of such businesses operate in the informal sector, are usually not VAT registered, have no trading licenses, and keep no formal accounting records of their transactions (White Paper on National Strategy for the Development and Promotion of Small Business in South Africa,

1995). Incomes are generally low in the sector but some individuals are able to do well and manage to graduate to become small and medium enterprises. It appears that most of the businesses in this category belong to Blacks and Coloureds in South Africa.

### ***Small businesses***

*Small businesses* have been described as constituting the largest percentage of established businesses in South Africa, having between five and fifty paid employees. Such businesses are mostly owner managed/controlled and are likely to operate from business or industrial premises. Their turnover and asset values may vary depending on the sector in which such businesses operate.

### ***Medium enterprises***

*Medium enterprises* on the other hand are difficult to pin down when compared to small and big businesses because of their diversity. They are normally owner managed/controlled through the shareholding community and, in South Africa, are most likely to be Close Corporations or Limited Liability Companies. Some of their features include employing up to two hundred and fifty employees with capital assets (excluding fixed property) above R5,000,000 (White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, 1995).

The Bolton Committee's definition of small firms in the UK in 1971 remains one of the most widely quoted (Tonge, 2001:7). The committee came out with what it called "statistical" and "economic" definitions in an attempt to resolve the definition question for the SMME sector. According to Story (1994:10), the Bolton Committee recommended that, using the economic approach, any business that meets the following criteria may be classified as small: has a relatively small share of the market place; is managed by owner

or part-owners in a personal way and not through the medium of a formal management structure and is independent, in the sense of not forming part of a large enterprise. The statistical definition for a small business is: the size of the business and its contribution to economic aggregates such as Gross Domestic Product, employment, exports, innovation etc.; comparing the extent to which the small firm sector has changed its economic contribution over time, and enabling comparison to be made between the contributions between small firms in one country with that of other countries.

The latest definition and classification of SMMEs in South Africa is based on the Amended Small Act 102 of 1996. The Act bases the classification of SMMEs from the different industries on the number of employees, turnover and gross asset value. Table 2.1 shows the definition of SMMEs according to the Amended Small Business Act 102 of 1996.

In this study, SMMEs are defined as businesses that employ between one and 200 people. This definition may appear a bit simplistic but the use of other criteria like asset value and turnover are even more problematic as industries may be labour or capital intensive in nature for which the turnover and asset value criteria are not easy to assess. The diversity of SMMEs and the different criteria that are used for their classification has made it difficult to accurately estimate their numbers in South Africa. Table 2.1 supports this view.

Table 2.2 clearly shows the diverse nature of SMMEs in South Africa. The data collected and analysed in this study which support or refute these figures on a small scale are offered as part of an empirical exercise later in this study. An Eskom survey in 1999 estimated all SMMEs in South Africa to be around 3 million without indicating how many fall under each category.



Table 2.1: Amended Small Business Act 102 of 1996 (South Africa)

Sector/sub-sector	Size/class	Total full-time employees	Annual turnover	Total Gross Asset Value
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very small	10	R0.5m	R0.5m
	Micro	5	R0.2m	R0.10.
Mining and Quarrying	Medium	200	R39m	R23M
	Small	50	R10M	R6m
	Very small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	RR5m
	Very small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5.1m	R1.9m
	Micro	5	R0.20m	R0.i0m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very small	20	R3m	R0.50
	Micro	5	R0.20m	R0.10m
Retail and Motor trade and Repair services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very small	20	R4m	R0.60
	Micro	5	R0.20m	R0.10m
Wholesale trade, Commercial Agents & Allied services	Medium	200	R64m	R10m
	Small	50	R32m	R5.0m
	Very small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation & Other Trade	Medium	200	R3m	R3m
	Small	50	R1m	R1m
	Very small	20	R1.9m	R1.9m
	Micro	5	R0.10m	R0.10m
Transport, Storage & Communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance & Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social & Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

Source: National Small Business Act 102 of 1996, as amended in 2004.

Table 2.2 : The size of the SMME sector in South Africa

Source	Survivalist	Micro	Very small	Small	Medium	Large	Total	
Ntsika 1999	184400	466100	180000	58900	11322	6017	906739	
Ntsika 2000/ Stats SA 2000	Informal 1138854		330271	94804	52620	12249	1658797	
Business Partners	2.3 million		600000		35000	n/a	2.9 million	
Management Science Group Survey, 1999	Micro: 960740 "informal": 862580		Formal: 445880 (of which 357780 private)				2.3 million	
Eskom Survey, 1999	900000+ "in home business", Total 3 million if one includes farmers					n/a	3 million	
Global Entrepreneurship Monitor, SA 2001	Below 0.73 and 1.15 mil.		1709142				Between 2.44 and 2.86 mil.	

Source: Chalera (2007: 50)

#### 2.4.2 THE SMALL BUSINESS VERSUS ENTREPRENEURSHIP DEBATES

There has been a long standing debate as to whether or not entrepreneurship and small business are the same. Many commentators believe that there are differences between the two while others do not perceive any difference. The theories discussed in this chapter about the factors that drive entrepreneurial activities, provide some insight into perceived differences between entrepreneurship and small business management. For instance, some theories of entrepreneurship focus on achievement, motivation and the willingness to take calculated risks in business. Although these factors are necessary for entrepreneurial firms, the owners and managers of small businesses also need to apply these in one way or the other. One can argue that it may be the degree of the application of these values that distinguishes the two. For small businesses that are operated by ethnic entrepreneurs to succeed and grow into entrepreneurial and successful businesses, they need to aim high and take calculated risks before they can expect returns. Rwigema *et al.* (2012:5) define a small business as one whose size lies below a certain specified threshold. They add that entrepreneurship on the other hand puts emphasis on new venture creation and growth and continuously developing strategic objectives. The strategic objects normally involves obtaining sustainable competitive

advantage, growing and developing markets, increasing market share and market positioning.

#### 2.4.3 THE SOUTH AFRICAN SMALL BUSINESS ENABLING ENVIRONMENT

For SMMEs to be productive, the environment within which they operate should be conducive. The classical demarcation of the environment for a business includes the socio-economic regulatory framework, technological as well as cultural. The environment in which small ethnic enterprises are located and operate in the country needs to be examined as it has impact on the success otherwise of such businesses.

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995:11) points out that various institutions and programmes have been put in place in the past to support the development of SMMEs in South Africa. It notes however that most of the programmes have been fragmented, and to some extent have been in competition with each other instead of complementing one another. It looks at some of the policies and programmes that have been put in place before and after the new dispensation and acknowledges that, while some of the programmes have been successful, others have failed badly. Some support programmes identified are micro-enterprise lending; interest-subsidized loans; industrial hives; small business training and mentoring and subsidization of consultants.

Maasdorp (1998:755) states that there are a large number of bodies that are instrumental in assisting the small business sector in South Africa. He refers to programmes in government, provincial development corporations, SADC, the Independent Development Trust (IDT) and others. He intimates that the private sector also runs programmes in conjunction with the state to promote small businesses. The former Small Business Development Corporations (SBDC) rendered valuable services to small businesses with their registered consultants. Maasdorp (1998:756) also takes note of the contributions by

the universities that have been conducting research in SMME research and training for small business owners.

Berry, et al. (2002:31) identify various support networks that operate in the SMME sector. They mention organisations like Ntsika Enterprise Promotion Agency which was initiated by the Department of Trade and Industry (DTI) to implement the National SMME Strategy. Ntsika provides non-financial support to SMMEs through a range of programmes that are accessible through a network of retail providers, including Local Business Service Centres (LBSCs), which focus on assisting with business administration and providing general information.

Mavhandu (2011:6) points out that the establishment of the Small Business Council, Ntsika, Khula Enterprise Finance, and Local Business Support Centres (LBSCs) were the first attempts by the post-Apartheid government of South Africa in enterprise development. The National Small Business Act No 102 of 1996 is the legislation which deals with the development and promotion of small business in the new dispensation. A review of the National Small Business Act No 102 of 1996 resulted in the amendment of the Act to address implementation challenges. The Small Business Amendment Act, No 20 of 2004 repealed the 1996 Act with regard to Ntsika, the National Manufacturing Advice Centre Trust (NAMAC), the Community Public Private Partnership Programme (CPPP) and the Small Enterprise Human Development Programme, leading to the formation of the Small Enterprise Development Agency (SEDA) in 2004 (Mavhandu 2011:7).

The formulation for the implementation of National Small Business is contained in the ten year Integrated Small Business Development Strategy in South Africa: 2004-2014. The DTI (2003:13) outlines the strategy for the development of small business in South Africa over the ten year period (2004-2014).

For the purpose of this study, the support system is divided into four: public sector support, private sector support, support for NGOs and universities and lastly the media.

#### **2.4.3.1 Public sector support**

The DTI (2005:8) affirms its support for entrepreneurship and small businesses through easing the regulatory and compliance burden on small enterprises. In this aspect, the DTI notes that simplification has significantly improved the process of business registration. A review of the Basic Condition of Employment Act was carried out to assess its impact on small businesses. The possible reason was to minimize the negative impact that the policy has on SMMEs. In the area of tax and VAT, a process was initiated to establish a system of the regulatory impact (RIA) on businesses (DTI 2005). The South African Revenue Service (SARS) established a working group on tax compliance to reduce the compliance burden on small enterprises. SARS (2012:30) says that it has put measures in place which include the reduction in the administration burden on tax payers, including completing and returning forms and digitising trade, taxpayer and transaction records.

#### ***Access to finance***

The DTI (2005:8) also notes that various programmes have been initiated by the government through the DTI, which offer a wide range of products and services. These include loans and incentive grants that play an important role in ensuring that small enterprises have access to finance through the following institutions:

- The South African Micro-Finance Apex Fund (SAMAF) which aims to provide access to micro-loans and support to social capital mobilization.
- Khula Enterprise Promotion Agency discussed in detail in section 2.4.4.1 above.
- The National Empowerment Fund (NEF), still under the auspices of the DTI, is a body that offers a range of start-up, business growth, and rural and community

upliftment financing products, with a focus on Black economic empowerment (BEE) transactions.

- The Industrial Development Corporation (IDC) which, through its various units, provides sector specific products ranging from R1 million upwards designed for small business development.
- In addition to this, the fund has a range of sector focused access to credit instruments created by other departments and institutions, e.g. the Land Bank and Micro-Agricultural Finance Institute of South Africa (MAFISA), under the Department of Agriculture.

It should be noted that some new SMME financing initiatives have been established in the past year. A body called the Small Enterprise Finance Agency (SEFA) was announced by President Jacob Zuma in the State of the Nation Address in February 2011, culminating in the establishment of SEFA in April 2012. The establishment of SEFA is the result of the amalgamation of Khula, SAMAF and the IDC's small business funding portfolio. SEFA (2012) states its purpose as responding to the challenges of access to finance for the starting and expanding of SMMEs in South Africa.

Equity funds are also part of Khula's programmes in which, through the internet-based Emerging Enterprise Zones (EEZ) as part of the JSE, and SMMEs are expected to gain access to equity funding of (up to R250000). This must constitute less than 45% of total equity and be recapitalized within five years from private investors with whom Khula might partner.

Berry, *et al.*, (2002:32) identify the role the DTI plays in giving support to SMMEs. These support services include the Standard Leased Factory Scheme of the Industrial Development Corporation (IDC), which makes general purpose factory buildings available for lease to SMEs; a Small/Medium Manufacturing Development Programme

(SMEDP), which is made up of tax-exempt establishment grants as a percentage of investment for 2 years, and a Skills Support Programme (SSP).

### ***Business development services***

The National Directory of Small Support Programmes (2010:6) identifies business development services that help to create an environment for small enterprise development. It notes the establishment of the Small Business Enterprise Development Agency (SEDA), for the retail model of service provision. It adds that these services are being established in all provinces with the view of increasing access to business-development services. Some of the services SEDA offers to new and existing business include business registration, business planning, export development, access to internal and international markets, supporting cooperatives and access to technology, training and mentoring.

The DTI (2008:31) states that the Umsobomvu Youth Fund (UYF), since its establishment in 2001 as an agency, has dedicated its energies to youth development and has been providing various financial and business development products to the target market. Some of the UYF's services are offered in partnership with private sector financing institutions. It should be noted that the UYF, and some of the programmes that focused on the youth, have now been put under a new body called the National Youth Development Agency (NYDA). The International Finance Corporation (2012) indicates that the NYDA's aims to promote entrepreneurship among the youth by providing funding either directly or indirectly through partners.

The DTI also has programmes that target women-owned enterprises. These programmes support initiatives and measures that are aimed to increase women in business. Some of the support programmes for women include South African Women Entrepreneur's

Network (SAWEN) which is a network forum for individuals and organizations committed to the promotion and advancement of women entrepreneurs.

### ***Productivity enhancement measures***

There are various measures and programmes that have been put into place by various SMME support institutions to support them in enhancing their productivity. The DTI (2005:11) notes that the National Productivity Institute (NPI) was put in place by the Ministry of Labour, as an agency to support small enterprises to enhance their productive capacity through its capacity building programmes. It works with SEDA to train the service providers of small enterprises in productivity concepts such as entrepreneurship, life skills, economics and productivity improvement.

### ***Sector specific measures***

The National Small Business Advisory Council (NSBAC) (2010:10) notes that different government departments have various initiatives and programmes that focus on small business development, e.g. the Department of Environmental Affairs and Tourism (DEAT), in partnership with Business Trust, focuses on the development of SMMEs in the tourism sector. The Department of Public Works has initiated the Expanded Public Works Programme (EPWP) which has a learnership programme called Vuk'uphile which assists emerging contractors to execute labour-intensive work that emanates from the EPWP.

As a result of the public sector initiatives that have been put in place to support SMMEs, one would expect them to do better than they are currently doing. Some of the initiatives discussed include access to finance, business advisory services, and programmes targeting identified groups operating in the SMME sector such as the youth and women. It appears that the limited success that the SMMEs are achieving through the different



initiatives and programmes may be due to the uncoordinated nature of the support programmes, as well as the general lack of entrepreneurial culture among most of the people who venture into the field. The exact reasons for this state of affairs may have to be studied further to gain understanding to the phenomenon.

#### **2.4.3.2 Private sector initiatives**

There are also a number of private sector initiatives that support SMMEs. Various initiatives have been identified by the DTI which include the following.

##### ***Access to finance***

Herrington, *et al.*, (2009:50) state that there has been a partnership between certain private sector businesses, such as Business Partners, and the public sector, to provide support for small business, that has proved to be successful in the development of services.

A collaborative action by various banks, according to the DTI (2005:13), has created Sizanani to offer services to small business clients. Other specific programmes have been put into place by specific banks for clients, covering a range of products and services. It adds that some of the participating banks have established internal divisions for small business support, ranging from giving advice to planning and management. It mentions the role that is being played by Business Partners in mentoring SMMEs countrywide.

##### ***Fostering Business start-ups***

The DTI (2005:13) also notes that certain large corporations have initiated their own in-house programmes in support of SMMEs and their development. Examples of some of

these are the Youth Entrepreneurship Programme of South African Breweries (SAB Kickstart), Anglo-Zimele, and Shell Live Wire, which all provide training and support and run youth entrepreneurship awards. There are many other such programmes and initiatives in the private sector.

#### **2.4.3.3 NGO and universality programs**

The importance of the role that NGOs and institutions of higher learning are playing in supporting SMMEs is widely acknowledged. The NABAC (2010:16) identifies some of the NGO and university initiatives that support SMMEs, as the South African Institute of Entrepreneurship, Junior Achievement Southern Africa, the Foundation for Enterprise and Business Development, and others. It adds that a number of universities across the country are establishing centres of entrepreneurship or small business as part of their curricula. Support and services are also promoted through research, technology and knowledge transfers that ensure enterprise development.

#### ***Entrepreneurship and small business research***

Entrepreneurship research, according to the DTI (2005:14), is an area focused on in certain universities. A typical example is the University of Cape Town's *Centre for Innovation and Entrepreneurship*, which runs research and compiles the South Africa component of the Global Entrepreneurship Monitor (GEM) report. This centre also advises academics on the commercialization of their intellectual property as well as assembling a group of entrepreneurs in the Western Cape in order to finance and assist high-growth business ventures. The centre also offers coaching and mentorship services to entrepreneurs.

#### **2.4.3.4 The media**

The South Africa media is also playing a significant role in fostering a culture of entrepreneurship in the country. The print media, for example, has columns and supplements that report on entrepreneurial activities. The Sunday Times has the 'It's my business supplement'. The South African Broadcasting Corporation (SABC) has various entrepreneurship programmes like the Enterprise Zone and the Vuk'zenzele (DTI, 2005:14).

By all accounts, there are serious support programmes in place in government, the private sector, the NGOs, and universities, which are supposed to create a conducive and enabling environment for the development of SMMEs in South Africa. The question is, how effective have these been so far in the development of SMMEs in this country?

#### **2.4.5 CONTRIBUTION OF SMALL BUSINESSES IN SOUTH AFRICA**

Commentaries and recent media reports indicate that SMMEs are not addressing the problems they are expected to be able to approach effectively. Some of causes contributing to this state of affairs could be the lack of entrepreneurship knowledge, general business skills and low entrepreneurial culture among a large section of the South African population.

The apparent better performance of SMMEs in developed countries may be attributed to the infrastructure, policies and support structure that have been in place in these countries for years. Although the SMME sector is not performing as well as expected in addressing the socio-economic challenges facing South Africa, one should not downplay the important contributions it is making in the economy. The SMME sector makes substantial contributions to addressing the three main socio-economic challenges (unemployment, poverty and inequality).

Figures from DTI (2008:xxviii) for example, indicate that in March 2007, there were 2.43 million people older than 15 years in the country operating in small and big businesses in South Africa. Of this number, 1.69 million were operating in the informal sector of the economy. The same source reports that another 2.43 million people above the age of 15 years were engaged in some forms of economic activities that were not reported. SEDA (2009:12) summarises some of the contributions SMMEs make to the South African economy as relieving high unemployment rate in the country, stimulating economic growth and the redistributing of wealth within the country, thereby addressing the challenge of inequality and poverty alleviation. On the contribution of SMMEs to the country's economy Christianson (2005), cited by SEDA (2007:13), states that the sector contributes close to 60% of the country's GNP.

On employment, Ntsika (2002) points out that the SMME sector absorbs almost 57% of the people previously employed in the private sector. In addition to that Dobbs and Hamilton (2007), cited by SEDA (2002), notes that the SMME sector is responsible for 55% of the innovations and 95% of all radical innovations in South Africa to date. The DTI (2008:49) notes that the informal sector contributes significantly to the economy of the country as it serves as a safety net for many people who would not have been provided for by the formal economy. Citing Rogers (2007), the DTI (2008:49) declares that in 1997 for instance, it was estimated that 61% of the labour force in sub-Saharan Africa was active in the informal sector.

## **2.5 TOWARDS ENTREPRENEURIAL SMALL BUSINESS DEVELOPMENT IN RSA**

Entrepreneurship development, regardless of whether in small or big businesses in the private or public sector implies that certain principles are being applied to the venture. Some of the principles and factors that characterise the management of entrepreneurial ventures according to Rwigema et al. (2012:8) include the following: ability to detect and

exploit opportunities; ability to plan in detail and project into the future; greater bias creativity; multidisciplinary and process-oriented approaches; enhancement of entrepreneurial behaviour; fostering self-reliance; and bridging of gaps between functional areas of business. In effect entrepreneurial small business management incorporates high levels of innovation and creativity, moderate risk taking, opportunity oriented methods as well as a multi-dimensional approach to management. In addition to that for a small business to be truly classified as entrepreneurial, it has to ensure that the different functional areas work together effectively.

Since the advent of democracy, the government has deliberately put laws and policies in place to promote entrepreneurship and small business development in South Africa. Some of the reasons for this initiative are to address the socio-economic challenges that confront the majority of the population such as poverty, unemployment, inequality, crime and the HIV/AIDS pandemic. Another reason could be the lack of support for small businesses during the Apartheid era, most especially for Black owned businesses. The White paper (1995) on small business articulates the rationale for the promotion of small businesses as follows:

With millions of South Africans unemployed or under employed, the government has no option but to give its full attention to the fundamental task of job creation, and to generate sustainable and equitable growth. Small, medium and micro enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world, one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. We are of the view that – with the appropriate enabling environment - SMMEs in this country can follow these and make an indelible mark on this economy. The stimulation of SMMEs must be seen as part of an integrated strategy to take this economy onto a higher road – one in which our economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes.

The rationale above outlines the intention of the government in the development and promotion of entrepreneurship and small businesses. Since the White Paper (1995) was introduced, a number of policies and initiatives have been put into place to ensure that these are implemented. Some of the strategies and policies according to the DTI (2005:15) include:

1. The micro-economic reform strategy
2. The Accelerated Shared Growth Initiative South Africa (AsgiSA)
3. The Draft Regional Industrial Development Strategy (RIDS)
4. Broad-based Black economic empowerment strategy
5. The national strategy for the development and promotion for franchising in South Africa
6. The strategic framework on gender and women's economic empowerment
7. National youth enterprise strategy
8. The co-operatives policy and development draft strategy

A brief description of each of the strategies and policies follows below.

***The micro-economic reform strategy***, according to the DTI (2005:16): places emphasis on the development of small business by ensuring that there is equity through broad-based Black economic empowerment [B-BBEE] and gender initiatives which prioritises growth sectors in the economy, especially in poverty stricken and poor areas.

***The Accelerated and Shared Growth Initiative South Africa (AsgiSA)***: according to the DTI (2005:17), identifies relevant policies and support programmes in the acceleration of small business promotion and enterprise growth in the following areas: access to

procurement and opportunities for small enterprises in the state procurement system and the private sector; easing the regulatory burden on small enterprises in areas such as tax compliance, labour laws etc.; access to finance, particularly venture capital where the government and the private sector have establish new venture funds for SMMEs such as the establishment of the Small Enterprise Finance Agency (SEFA), and easing the cash-flow problems experienced by small enterprises doing business with departments by ensuring that they are paid promptly.

***The Draft Regional Industrial Strategy (RIDS)***: according to DTI (2005:17), proposes the establishment of special economic zones (SEZ) including industrial parks, logistic parks, industrial estates and innovation hubs and so on.

***Broad-based Black economic empowerment strategy***: The DTI (2005:18) identifies some of the objectives of B-BBEE for small business and enterprise development as: achieving substantial increase in the number of Black people who have ownership and control of existing and new enterprises; achieving a substantial increase in the number of Black people who have ownership and control of existing and new enterprises in the priority sectors of the economy, which government has identified in its macro-economic reform strategy; achieving a significant increase in the number of new Black enterprises; increasing the proportion of ownership and management of economic activities vested in community enterprises and co-operatives, and increasing the procurement from Black-owned enterprises, and strengthening the supply capacity of Black-owned firms.

***The national strategy for the development and promotion of franchising in South Africa***: This strategy according to the DTI (2005:19) seeks to: (1) promote the contribution to, among others, the economic empowerment of historically disadvantaged entrepreneurs through increasing their participation in franchising; (2) create an

entrepreneurial culture through franchising; (3) create an environment conducive for the growth of franchising; and (4) promote linkages between big and small enterprises in order to stimulate the creation of new franchise enterprises. Some of the proposed actions to achieve the objectives above include promoting access to finance through joint ventures between government, franchisors and investment companies; developing and implementing a communication and education campaign to stimulate awareness about franchising; educating and informing potential entrants to the industry; profiling franchise opportunities; providing support to potential entrants into franchising; providing training and entrepreneurship promotion through the stimulation of entrepreneurship through franchising.

***Strategic framework on gender and women's economic empowerment:*** The DTI (2005:20) identifies some of the strategies and initiatives for supporting women-owned businesses as follows: provision of business information through 'forum for women' programmes and an annual business symposium for women; financing initiatives such as gender budget analysis, finance quotas and a business development fund for women; international trade in the form of female quotas in foreign trade delegations, 'international linkages for women' programme and 'women in export' programme; science and technology fund for women in business and 'women and technology business awareness' programme; for rural women, the initiatives include an 'economic literacy economic capacity development programme', 'economic capacity development for women' programme, and 'co-operative capacity building training' programme.

***National youth enterprise strategy.*** The DTI (2005:20) outlines the three key objectives for the strategy: to ensure that entrepreneurial skills, talents and experience are nurtured among young people to enhance their capacity to participate in all aspects of the South African social, economic and community life; to ensure that young people are recognised as a key target group in need, and a resource in the development of small enterprises



within national, provincial and local economies; to maximise access to financial and non-financial resources for young women and men who are in business or planning to enter business. Some of the specific actions that are recommended in this strategy include the development of an entrepreneurship culture; to strengthen and expand successful youth enterprise-support schemes; training provision; addressing the financing needs of young entrepreneurs etc.

***Co-operative policy and development strategy:*** This policy is believed to help to ensure that all policies, strategies and support programmes for SMMEs are aligned to and support co-operative entrepreneurship, as well as stimulating the participation of co-operatives in the economy of the country. The DTI (2005:21) identifies some of the specific actions under this policy as support programmes, providing access to finance, technical skills and markets.

As can be seen from the above, there have been a number of good and well intentional strategies and policies that have been put into place by the government. However there has been a lot of criticism, that the implementation of the strategies has been poor. For example, a number of commentators and researchers consider that the B-BBEE strategy has only favoured a few politically connected individuals who have proximity to political power in the country, thereby leaving the majority of the population in the cold as far as SMME and economic participation is concerned. There is also the perception among a section of the population that the youth enterprise strategy has been politicised, which has left youth entrepreneurship in limbo.

## **2.6 CHAPTER SUMMARY**

The chapter focuses on entrepreneurship and small businesses in the South African context. Operational definitions are given for the concepts "entrepreneurship" and the

"entrepreneur". This exercise was necessary because the two concepts have many differing definitions. In this respect, extant definitions and theories of the two concepts were examined leading to the adoption of operational definitions. Thereafter, a review of the relevant literature was undertaken primarily to understand the concept "entrepreneurship" and to find out how researchers have approached the problem in the past. This was followed by discussion of the theoretical and conceptual frameworks underpinning entrepreneurship. The chapter continued with discussions on entrepreneurship in South Africa with particular emphasis on ethnic participation in entrepreneurship. The chapter ended with the examination of small business issues in the South African environment.

## **CHAPTER 3: ETHNICITY IN THE ENTREPRENEURSHIP DOMAIN**

*It would be a mistake to say that all ethnic groups act and perform in the same way. Some ethnic groups are more entrepreneurial than others.*

(Van Scheers, 2010: 20)

### **3.1 INTRODUCTION**

Chapter Two focused on entrepreneurship in general and as a phenomenon from a South African perspective. Chapter Three contains a discussion on ethnic entrepreneurship as a domain in the field of entrepreneurship based on relevant literature. A working definition of ethnic entrepreneurship for this study is adopted after examining some of the different definitions that have been given by other scholars. It is placed within the debates about social capital and this is followed by the conceptualisation of ethnicity and its implications for entrepreneurship. The chapter also gives a perspective on the evolution of ethnic entrepreneurship and the theories underpinning it. A framework for promoting entrepreneurship is suggested. The chapter ends with a summary of the concept of ethnic entrepreneurship.

### **3.2 UNPACKING ETHNICITY**

This section consists of a discussion about race, culture and ethnicity, definitions of ethnicity and its conception to clarify the researcher's understanding of ethnicity as a measurable for the data collection and analysis presented in the next chapter.

#### **3.2.1 RACE, CULTURE AND ETHNICITY**

The concepts *ethnicity*, *race* and *culture* are closely intertwined and it is difficult to clearly demarcate the lines between them. With the publication of Omi and Winant's (1994) "Racial formation in the United States", the traditional, static theories of race as biological, genetic and historically defined, were contested and race defined as a social concept.

Race, for Omi and Winant (1994:54) is not an "essence", nor is it an illusion. To think in that way about race takes one immediately to old debates about "ethnicity/assimilation, class/stratification and nation/colonialism" (Feagan & Elias, 2012:932-933). For Omi and Winant (1994:52) race should be seen as "an autonomous field of social conflict, political organizations, and cultural/ideological meaning". Silva (2011:501) speaking of folk conceptualisations in Brazil and South Africa says, "Folk explanations of racism are micro-level framings of racial orders that rely on available national repertoires, as well as on the growing globalized repertoire". This study attempts not to rely on "available national repertoires" which South Africans or other Africans might use to describe race, despite arguing that ethnicity seems empirically to be related to entrepreneurial activity in terms of its ethnic spread and success. Race as a categorisation then becomes a sliding concept changing in relation to the repertoires in which any definition is embedded and being contested as a concept again and again. For instance when race is believed to be about genetic and biological features or characteristics of people as Ballard (2002:2) suggests when he says the concept race has to do with forefathers and descent and is the consequence of human genetics, from a racial formation perspective the question arises - "In what cultural or ideological context is he making these statements?" The same can be asked in relation to another of the descriptions of race according to folk cultures - race as a sub-culture is characterised by specific features. What is the purpose of such a statement? What is the available repertoire of the one making such a statement? What political or social purpose does the statement serve? A sub-culture refers to the way people are divided into groups or populations according to some set of physical characteristics which are the result of their genetic ancestry, might be the first part of the answer, but there is another more likely reason. That reason has to do with power relations (Winant, 2000:182; Feagan & Elias, 2012:956).

Feagan and Elias develop Omi and Winant's formation theory as they expand on their systemic race theory. The systemic race theory seeks to explain racial oppression in the US. Feagan and Elias (2012:936) say, "Racial oppression is foundational to and deeply

ingrained in US history and is operational throughout societal levels - group relations, institutions, organizations, power structures". In the US the predominantly white dominant hierarchy is different to that in South Africa, where since 1994 there has been Black ruling elite. In this study Black and Coloured entrepreneurs, the previously disadvantaged business people, still underperform (according to the findings in Chapter Four), despite almost twenty years of Black rule. This leads to a question phrased in the language of systemic and formation racial theory, "Is racial oppression so deeply ingrained in group relations, institutions, organisations and power structures in rural areas that more than two decades are needed to change the available national repertoires in relation to race?" Many further questions can be raised but are beyond the scope of the present study. One critical question needs to be asked, however, "Are the standards against which performance in entrepreneurial activities is measured, an exhibition of a limiting repertoire by which to describe that performance?"

If ethnicity has to do with shared history and culture as well as place of origin, how is it different from racial theories about difference in biological or physical characteristics (based on essentialist racial biological theories made popular by Park in the 1920s)? Those theories of race sought to prove superiority and to entrench immoral subjugation of populations different from the ruling hegemony (Farber, 2011). Yinger (1985:27), for example, describes an ethnic group as "a segment of a larger society whose members are thought, by themselves or others, to have a common origin and to share activities in which the common origin and culture are significant". Hutchinson and Smith (1996) have a view on ethnicity which is similar to that of Yinger (1985) above, considering people who have a sense of kinship, group solidarity, common culture and self-identification to be an ethnic group. These definitions deal with ethnic groups, but once we are dealing with the concept "ethnicity" it is as slippery as "race". A widely quoted definition of culture is that of Hofstede (1991:5) who defines culture as "a collective programming of the mind which distinguishes members of one group or category of people from another". In effect, culture includes a set of shared values, beliefs, and norms of a group, society or

community. Such groups can be identified by self or others as ethnic groups. Basu (1998) and Hofstede (1991) both consider that culture is a group infrastructure that is shaped by social environment, not by genes. They maintain that some of the cultural differences are the consequences of national, regional, ethnic, social class, religious, gender, and language variations. However, there is an opposing theory about culture, an evolutionary one. That theoretical standpoint, based on research in the last two decades of the twentieth century but only being begun to be understood currently is that genes and culture co-evolve (Boyd & Richerson, 1985; Boyd & Richerson, 2005).

Over extremely long periods of time genes evolve to enable fitness for survival, but culture is a more rapid way for humans to adapt to their environment (Boyd & Richerson 2005). Because we need to learn to adapt rapidly using energy for the most urgent activities, "learning processes that generate new knowledge" for humans, cultural adaptation, are valuable (Boyd & Richerson 2005:44). These two scholars make the following important findings about culture.

- Culture is information that people acquire from others by teaching, imitation and other forms of social learning;
- Culture change should be modelled as a Darwinian evolutionary process;
- Culture is part of human biology;
- Culture makes human evolution very different from the evolution of other organisms; and
- Genes and culture coevolve.

(Boyd & Richerson, 2005:3-5).

The value of an approach like this one to culture is that one can avoid the trap of suggesting one ethnic group and its culture is better at doing something like entrepreneurship than another because of some essence, like a protestant work ethic, a white or Indian mind-set, basic inability to innovate or any of the denigrating conclusions people might come up with. While culture remains a successful adaptation to environment and there is no need to make new adaptations, people will not do much to change. As new demands are made on them by their environment and they can model new knowledge and generate it, the change in culture will happen.

### 3.2.2 DEFINING ETHNICITY/ETHNIC

Being a society made up of different ethnic communities each with their own ethnic characteristics is not unique to South Africa as many countries and societies comprise different ethnic groups. However, South Africa is interesting from an entrepreneurial perspective because of its recent Apartheid history, during which time only whites had access to all the benefits of entrepreneurship. In looking at different ethnic groups under the new dispensation, one would expect certain patterns to emerge. Studies on ethnicity and the social capital that has an impact on business suggest that ethnicity and social capital might be an important consideration for this study on entrepreneurship. The extent of the diversity of the ethnic groups, in race, language, history, migration patterns, and culture, to name a few elements, has an impact on entrepreneurial activity as all of those elements are intertwined in the dimensions of the biosphere. In South Africa the demographic dimension remains important twenty years after democratic rule was adopted because people do not easily relocate. The Bantustan segregation policies have had lengthy consequences. In the ideological dimension, ethnic differences remain; in the economic dimension there is great inequality, unlikely to be reversed after so short a time as twenty years in terms of transition theories which work on at least twenty five years for a transition to take place (De Bruijn, Van der Voort, Dicke, de Jong & Veeneman, 2004).

Ethnicity is a difficult concept to define because it is a construct viewed from different perspectives and has often been confused with race. The sensitivity in South Africa to that conceptualisation of ethnicity as race is high as a consequence of the nineteenth century ideologies which underpinned the idea of Apartheid. It encompasses aspects of culture, tradition and customs. It is argued that the ethnic backgrounds of people as individuals can contribute to their entrepreneurial behaviours, attitudes and entrepreneurial success/performance. Mungai and Ogot (2010:4) point out that Max Weber was one of the first people to suggest that the protestant work ethic, for example, encouraged a culture of entrepreneurship, rationality and self-reliance which were fundamental to the spirit of modern capitalism. Other researchers have found a relationship between ethnicity and the behaviours and attitudes of the members of those who belong to the group. What then is ethnicity?

Gray (2001:1) points out that the current Statistics New Zealand Standards defines ethnicity as "the ethnic group or groups that people identify with or feel they belong to". Ethnicity is a measure of cultural affiliation, as opposed to race, ancestry, nationality or citizenship. Thus, ethnicity is self-perceived and people can be affiliated with more than one ethnic group. This definition suggests a key issue or dimension of ethnicity, namely that people can decide to belong to an ethnic group or groups according their feelings, irrespective of their ancestry, race, nationality, history or experiences. However, the researcher is of the view that these latter factors can influence the decision to affiliate to an ethnic group. For Bulmer (1996),

An ethnic group is a collectivity within a larger population having a real putative common ancestry, memories of shared past, and a cultural focus upon one or more symbolic elements which define the group's identity, such as kinship, religion, language, shared territory, nationality or physical appearance. Members of an ethnic group are conscious of belonging to the group



This definition adds the issues of ancestry, shared past, shared physical appearance to the element of choice in the definition given by Statistics New Zealand Standards.

Berthoud, Modood and Smith (1997) define an ethnic group as:

... a community whose heritage offers important characteristics in common between its members and which makes them distinct from other communities. There is a boundary, which separates 'us' from 'them', and the distinction would probably be recognised on both sides of that boundary. Ethnicity is a multi-faceted phenomenon based on physical appearance, subjective identification, cultural and religious affiliation, stereotyping, and social exclusion.

Combining the three definitions above, the concept ethnicity includes the following: heritage; nationality; home language; race; country of birth; physical appearance and shared history. Because of the numerous factors and dimensions that are used, it is important to use more than one factor for defining ethnicity because any one of the factors alone may not fully capture the concept.

Hutchinson and Smith (1996) indicate that, "Ethnicity refers to a sense of kinship, group solidarity, common culture, and self-identification with an ethnic group". In this study, the definition of Blumer (1996) is chosen - he defines ethnic groups as *a collectivity within a larger population having a real putative common ancestry, memories of shared past, and a cultural focus upon one or more symbolic elements which define the group's identity, such as kinship, religion, language, shared territory, nationality or physical appearance. Members of an ethnic group are conscious of belonging to the group.* The reason for the choice of this definition is that the researcher believes that it includes the most salient features such as the belief of the members of the group as to shared common origins, a shared past, having a group identity and being conscious of belonging to such a group.

The following elements can be identified from the concept of ethnicity:

- Ethnic groups identify themselves as being different from the majority of the population
- Certain factors, which include language and religion, are important for belonging to the group
- Family origins and history are identified by ethnic groups as significant
- Ethnicity may change over time due to social and/or political situations

The concept of ethnicity can therefore be seen as subjective as it has to do with how a person defines himself or herself. It symbolically represents individuals or groups that are produced, reproduced and transformed over time.

### 3.2.3 CONCEPTUALIZING ETHNICITY

Various approaches have been used for studying ethnicity but two of them, the Primordialist and the Social Constructionist, are examined below as they are most frequently used by researchers.

#### 3.2.3.1 Approaches to studying ethnicity

##### ***The Primordialist approach***

The main assertion of the primordialist model suggests that individuals have a single ethnic identity which is deeply engrained in history and experience (Woff, 2006:33). This implies that ethnic bonds and affiliations are primordial and unlike other bonds have a dominant and overarching non-rational and emotional quality; are to a large extent inexplicable; are ancient, enduring and recurrent; are given, natural and immutable. In effect, the assumption underlying the primordialist approach is that an individual's ethnic identity is fixed, long before the consequences of any social, economic, cultural or economic factor intrudes.

The argument of the primordialist that ethnicity is fixed and does not change, has been challenged on different fronts. Chandra (2006) argues that “it can be easy for individuals to switch between ethnic identities within the constraint of underlying set of attributes”. He adds that some of the constraints as embedded in social categories are attributes associated with, or believed to be associated with, descent; but descent-based attributes can be genetically inherited (such as skin colour and physical features) or culturally and historically inherited (such as name, language, and origin of one’s parent and ancestors). The point of departure here is that the assumption that ethnicity is fixed and natural does not apply in all cases, most especially when issues such as culture are factored into the equation.

The researcher is of the view that since people can decide to belong to an ethnic group, and even to belong to more than one ethnic group, the primordialist assumption of permanent and fixed ethnic identity falls short of giving the full picture of the concept. Only when attributes such as descent are taken into account can the primordialist approach be used to explain ethnicity, as this cannot be changed.

### ***The social constructionist approach***

The social constructivist model asserts that ethnicity is socially constructed over time and suggests that individuals have multiple ethnic identities with which they can identify. Ethnicity, according to this perspective, keeps on changing according to any particular causal variable. Ethnicity is "foremost a resource in the hands of leaders to mobilise followers in the pursuit of other interests" (Woff, 2006:33). In effect ethnic bonds are closely related to some socio-economic phenomena, which are instrumentally mobilised as a means to an end, mostly for material gain. Nagel (1994) considers that one’s ethnic identity is a composite of the view one has of oneself, together with the views held by others about one’s identity. This implies that as a person has various experiences, his or her ethnicity can change depending on the type of audiences he/she comes across.

This researcher supports the social constructivist approach/model of ethnicity because, as has been discussed above, ethnicity appears to be more a social than a biological phenomenon, as one can belong to more than one ethnic group at a time depending on the individual's choice., The view of Woff (2003) that ethnicity is a resource which leaders can mobilise for their own interests has been richly demonstrated in Serbia, Albania, Rwanda and numerous other countries over thousands of years. The concept becomes complex because of the difficulty of separating race and culture.

The researcher concludes that ethnicity is a result of individual and group identity that is created in both the internal and external contexts, together with social interactions. Cultural behaviour is human behaviour that is acquired and modified in a group that allows its members to interact with each other and cope with present and future challenges. Race on the other hand can be seen as biological and genetic, or as a concept which is contested according to the repertoire of those using it as a categorisation. The dimensions of ethnicity and its measurement are discussed in the next section.

### **3.2.3.2 Conceptualising ethnicity for measurement**

#### ***Dimensions of ethnicity***

Several dimensions of ethnicity have been identified but the main ones are mostly examined at the individual or collective levels. The measurement of the concept according to Isajiw (1993) can be done either from an objective or subjective perspective. He adds that, methodologically, the difference between the objective and subjective dimensions relate to whether they are observed directly or indirectly. The primary ethnic identity dimension, according to Hirschman (1993:547), refers to an individual's primary identity among the major ethnic groups in society. This dimension, he adds, addresses the question of why ethnicity is important. The subjective dimension of ethnicity refers to attitudes, values and perceptions whose meaning have to be interpreted in the context of communication (Isajiw, 1993). Ethnicity here becomes significant when it has an

instrumental value (or disvalue) through an association with political, social or economic factors.

The second dimension of ethnicity is at the collective level which Isajiw (1993) regards as an objective aspect of ethnicity as it comprises observed facts, including those of kinship and descent, and overt behaviour patterns of individuals. Some other specific dimensions that have been used for measuring ethnicity, include country of birth, nationality, home language, parent's country of birth, national/geographical origin, and religion (Afkhani, 2012:12).

The researcher is of the view that although the two dimensions focus on different issues, the objective aspects of ethnicity which comprise institutions shape the values, attitudes and behaviours of the individuals within the group. Also; ethnicity develops from culture which is the outcome of people's adaptive responses to past experiences. Its product is a sense of unique peoplehood (Isajiw, 1993). It should be noted again that any proper measure of ethnicity should include both the subjective and objective dimensions.

### ***The chosen dimension***

The individual or primary dimension is used for this study for the simple reason that ethnicity is being used to explain the levels of entrepreneurship and entrepreneurial performance among four ethnic groups in South Africa. In effect, the instrumental value (or disvalue) is used to explain some socio-economic factors in this study. Constant and Zimmerman (2007:14) aver that ethnicity influences economic behaviour. Constant, Gataullina and Zimmerman (2006b) found a relationship between ethnicity and work; Zimmerman (2007b) relates ethnicity to earnings, and Constant, Robert and Zimmerman (2007) to home ownership. Constant and Zimmerman (2007:17) conclude that there is empirical evidence that economic behaviour, such as work participation, earning and

housing decisions, demonstrates significant relevance of ethnic identity in economic outcomes. This paper endeavours to establish this in the South African entrepreneurship context.

### **3.3 IMPLICATION OF ETHNICITY FOR ENTREPRENEURSHIP**

#### **3.3.1 LINKING ETHNIC ORIGIN TO ENTREPRENEURSHIP**

Ethnicity has been identified as important in the economic activities of migrant and minority groups. Researchers such as Aldrich and Ward (1990) and Light (1984), point out that ethnicity is instrumental in many immigrant economic activities. Ethnic identity constitutes what makes individuals the same or different to other identifiable groups. Constant and Zimmerman (2007) add that some of the factors that contribute to people regarding themselves as the same or different from other groups include their beliefs and values and these build and shape their lives. The issue of ethnicity and entrepreneurship have become topical issues across the world for various reasons. A study of ethnic entrepreneurship seeks to understand why some ethnic groups more than others are likely to choose entrepreneurial careers and engage in the entrepreneurial process (Levie, 2007).

Fairlie and Robb (2008) argue that entrepreneurial outcomes are the results of a complex interplay between social, economic and institutional processes which have been referred to as 'mixed embeddedness' rather than ethnicity *per se*. The concept of ethnicity and entrepreneurship has been observed over a long period of time. Max Weber (2002) for example found a link between Protestantism and modern capitalism in the *Protestant ethic and the spirit of capitalism* where he analysed the impact of religion and its influence on economic organisations in societies. Weber asserts that ethical values impact on entrepreneurial growth in societies. He argues that the followers of Protestantism advance faster in capitalism due to their ethical values which bestows rational economic attitudes.

This stance is supported by Robert (1976) who posits that entrepreneurship develops faster in those societies where ethical values support an independent capacity for decision making. In modern times, more evidence has been found about the differences in entrepreneurship among different ethnic groups in various countries. For example Levie and Smallbone (2006) and Smallbone, Bertotti, and Ekanem (2006) point out that in the United Kingdom in particular, there is the assumption that entrepreneurial activity among ethnic minorities is different from entrepreneurship in the rest of the population.

Constant and Zimmerman (2007:2) note that ethnicity, as assigned by birth, is usually associated with economic and social inequality between the dominant and minority groups, which can have political, economic and social consequences. This normally happens when the dominant groups use their power to deny the minority ethnic group members opportunity in the main stream economy. However, Constant and Zimmerman (2007:2) do aver that ethnicity and ethnic capital have been found to be positive factors that promote entrepreneurial spirit.

Despite the fact that there is evidence to suggest that ethnic minorities tend to be more entrepreneurial, this is not the norm in South Africa where some of the minority ethnic groups such as Coloureds have been found to be less entrepreneurial. Herrington *et al.* (2009) point out that Black South Africans and their Coloured counterparts are less likely to establish their own businesses when compared to Indians and Whites. In addition, the researcher considers that people from the same ethnic backgrounds normally exhibit different levels of entrepreneurship. The observation that members of the same ethnic group display different patterns of entrepreneurship in different places has generated interest in ethnic entrepreneurship.

### 3.3.2 ETHNIC ENTREPRENEURSHIP

Ethnic entrepreneurship is an area of research in which the activities relating to ethnic economies or ethnic businesses are examined. An ethnic economy refers to a group of businesses owned and operated by a particular ethnic group (Portes & Jansen, 1987). Zhou (2004:1040) adds that ethnic businesses are those owned by entrepreneurs “whose group membership is tied to a common cultural heritage or origin”. Ethnic entrepreneurship attempts to provide explanations for the nature, performance and involvement of ethnic group members in entrepreneurial activities. The interest in ethnic entrepreneurship has to do with the economic and social advancement of ethnic minorities. In the South African context, the history of colonialism and Apartheid has been blamed for the marginalisation of some ethnic groups from actively participating in the economy of the country, and has negatively impacted on their entrepreneurial behaviour, attitudes and performance. For example Ahwireng-Obeng and Piaray (1999:78) observe that the formal institutional framework exerted a powerful influence on entrepreneurship in South Africa, as the historical and political establishment promoted an anti-entrepreneurial culture, creating dependency on, or control of, the population by the state, which decreased the propensity for entrepreneurship. Iheduru (1998) cited in Mbaku (2000) points out that the South African government failed to create an enabling environment for the development of indigenous entrepreneurship and particularly the participation of Africans in national development. Various approaches have been used to analyse ethnic entrepreneurship - the two main approaches used by sociologists are from structural and cultural perspectives.

The structural perspective or approach explains ethnic entrepreneurship on the basis of the contextual and external dynamics of society. This perspective explains ethnic entrepreneurship as the filling in of a status gap created between the dominant and subordinate groups in society (Bonacich, 1973). The main determinants of ethnic entrepreneurship according to this approach are anchored in the market conditions,



opportunity structure, government policies, and taxes and their relationship to entrepreneurial development.

The cultural approach to ethnic entrepreneurship focuses on what is normally termed the supply side or internal resources that are indigenous to an ethnic group. Such resources are transplanted or imported as part of the cultural heritage of an ethnic group in terms of values, mores and beliefs that are being produced and reproduced to start and maintain ethnic business. This perspective of entrepreneurship puts emphasis on how and the extent to which ethnicity as a resource is tapped into in establishing and running businesses. Some of the ethnic resources that are used to establish successful business include cultural values and information channels, as well as skills, leadership potential, and solidarity (Light and Bonacich, 1988:18-19). Citing Coleman (1988) Valdez (2003:6) posits that class and ethnic resources combine tangible material goods which are related to class background such as property and wealth; individual-level human capital attainment such as education and work experience; and “intangible” social capital that emerges from group affiliation, and consists of “some aspects of social structures” that “facilitate actions within the structure”, such as group solidarity, trust, reciprocity (Portes & Sensenbrenner, 1993).

It is difficult to determine the extent of the influence of each of the two approaches (structural and cultural) on ethnic entrepreneurship, and this has led to what some commentators call an ‘integrated approach’ which assumes that there are certain characteristics in human behaviour which lead to entrepreneurship. This approach examines entrepreneurship from both the psychological and sociological perspectives (Udai Pareek & TV Rao (1991). A sequence of four events has been proposed the first of which is motivation; motive is the main thrust behind action. The second requirement behind entrepreneurial development concerns the long-term involvement of a particular action in which reinforcement is a key factor. Thirdly, a person needs input of resources,

cognitive, social and material. The fourth component comprises the socio-political framework which reinforces the individual's needs to establish, develop, maintain or expand his business activity.

The researcher concurs with the approach that examines entrepreneurship from psychological and socio-economic spheres as they both deal with certain aspects of entrepreneurship.

### **3.3.2.1 Defining ethnic entrepreneurship**

The concept *ethnic entrepreneurship* has been used interchangeably with minority entrepreneurship and immigrant entrepreneurship. Citing Chaganti and Green (2002), Basu (2006) argues that there are fundamental differences between the concepts. He refers to immigrants as recent arrivals in a country who most often get into business as a means of survival. This group he maintains may or may not be part of a network linking migrants, and former migrants and non-migrants, with common origin and destination. This study does not take immigrants into account as the study is about South African's ethnic groups and not migrants.

Minority entrepreneurs on the other hand, according to Basu (2006), are business owners who belong to the minority in a population. Basu (2006:582) asserts that an ethnic entrepreneur may or may not be an immigrant, but is likely to belong to a minority community. Ethnic entrepreneurship studies focus on ethnic group affiliation and its relationship to the opportunity structures of an economy in explaining entrepreneurial outcomes. Ethnic entrepreneurship is generally defined as business-ownership by immigrant and ethnic group members (Light & Bonacich, 1986; Waldinger, 1990). Basu (2006:582) attests that many researchers define ethnic entrepreneurship as belonging to a specific socio-cultural or ethnic background. The bottom line is that ethnic entrepreneurs

tend to be from minority groups and identify themselves as such. It should be noted that minority can also refer to a group's disadvantaged position.

Sonfield (2005) points out that Ethnic Minority Businesses, according to the USA government, are businesses 51% or more of which are owned or controlled by one of a minority disadvantaged group. In the UK, ethnic business is solely given to businesses within a broader mixed-embeddedness agenda including socio-economic, political and institutional issues (Kloosterman & Rath, 2001). This definition encompasses a number of issues under each of the institutions and the frameworks identified above. The angle with which the concept is approached makes a universal definition for ethnic entrepreneurship difficult. Basu (2006:582) attests that the exact definition of ethnic entrepreneurship remains open to interpretation by scholars since there is no universal agreement on the concept of 'ethnic' or 'entrepreneurship'. In this study, an operational definition for ethnic entrepreneurship *is the situation in which people belonging to a specific socio-cultural group engage in entrepreneurial activities within the larger population.*

### **3.3.2.3 Theories about ethnic entrepreneurship**

Various theories of ethnic entrepreneurship have attempted to explain why some ethnic groups tend to be more entrepreneurial than others. Waldinger *et al.* (1996) identified four main arguments, as most often used, as the structure, culture, ethnic enclave and situation theories. The structural perspective, which is also referred to as the 'middleman minority theory', examines ethnic businesses as a response by minorities and disadvantaged groups to alienation and exclusion in the host-country by dominant groups (Bonacich & Modell, 1980). In the South African context, the researcher is of the view that although Blacks form the dominant group, they were placed in a disadvantageous position in the past as the white culture alienated them from actively participating in the economy

of the country. Some ethnic businesses among Blacks include *shebeens* and taverns and the mini-bus taxi industry.

### ***Structural theory***

The structural theory of ethnic entrepreneurship focuses on the contextual and external forces of society. The structural perspective looks at opportunities and constraints on ethnic entrepreneurship. The structural view point attributes the development of ethnic enterprises to filling a status gap created by the dominant groups in society (Bonacich, 1973). The structural factors within the larger society such as racism, sexism and *credentialism* turn people into 'outsiders' through processes of exclusionary closure (Martinelli, 2004:60). This situation leads to marginalisation of certain people which forces them to look for other sources for survival and social recognition. Martinelli adds that such 'outsiders' often form 'feeder groups' from which new entrepreneurs emerge. The researcher believes that the structural context of the broader environment can offer market conditions, opportunity structures and policies, that the ethnic minority groups can take advantage of, to establish their own businesses.

In the South African context, the researcher believes that Apartheid policies contributed to some ethnic groups such as Indians forming their own businesses. Some businesses such as the operation of taxis mostly by Blacks were made possible because of the segregation policies the Apartheid system created.

### ***The cultural theories***

The cultural approach to ethnic entrepreneurship suggests that certain cultural resources or predispositions to them, can contribute to the success of a business. Some of such cultural resources, according to Light and Gold (2000), include ethnic networks that can ensure access to capital for start-up or labour, through ties or relationships based on trust

and obligation. The ethnic market partly depends on ethnic clients. One theory under the cultural argument according to Light (1980), normally referred to as the 'reactive cultural theory', argues that the alienation status of immigrant groups and marginalisation of minority groups prompts social solidarity and mutual co-operation in forming and supporting ethnic businesses.

### ***Ethnic enclave theory***

The ethnic enclave theory states that ethnic groups, especially migrants, tend to have certain specific needs, tastes and preferences, and certain social adjustment needs in the wider society, which non-ethnic members cannot satisfy. The enclave theory is based on the assumption that ethnic businesses most often start when entrepreneurs from an ethnic group establish businesses that serve members of that ethnic community (Green & Owen, 2004). Citing Light and Gold (2000), Volery (2007: 31) posits that ethnic entrepreneurs occupy a place in the ethnic economy which comprises "any ethnic or immigrant's self-employed group, its employers, their co-ethnic employees, and their family workers". Volery adds that the concept of an ethnic ownership economy is based on property rights and ownership and an 'ethnic economy whose basis is de facto control based on numbers, clustering, and organisation, the ethnic-controlled economy'. A typical example of the application of the ethnic enclave theory among Blacks in South Africa is the operation of mini-bus taxis which are operated and used by Blacks, as the system of Apartheid consigned them to locations where transport was limited.

The situational approach, also referred to as the interactive theory, focuses on the relationship between economic opportunity and the cultural resources of a group (Aldrich & Waldinger, 1990).

### 3.3.3 ETHNICITY IN ENTREPRENEURSHIP RESEARCH

In literature ethnic entrepreneurship is most often defined as the ownership of a business, small or medium-sized, by an individual belonging to a specific socio-cultural or ethnic background (Masurel *et al.*, 2002). A lot of interest has been generated in ethnic entrepreneurship research over the years. This emanates from diverse studies that have found different rates of entrepreneurship among various ethnic and cultural groups, where expanding globalisation has led to increased labour and capital mobility, and migration patterns, due to conflicts and other socio-economic instabilities in different parts of the world. Evidence shows that some minority groups tend to be disproportionately represented in the SMME sector, as entrepreneurs or self-employed (Ibrahim & Galt, 2011:608). For whatever the reasons, some choose self-employment while others enter it as a survival strategy.

Different variables have been identified as sources of entrepreneurship behaviour at the individual, organisational and societal levels. Some of the researches linking ethnicity to entrepreneurship are examined below. Some of the theories include entrepreneurship as firm behaviour, threshold of performance perspective, liability of newness and population ecology, Austrian theories, entrepreneurship as marketing knowledge, networking and relational capabilities and group characteristics.

Lanza (2004:149) intimates that entrepreneurship as a firm behaviour theory emphasises the nexus of relationship among three streams of research (the what, why, and how issues in entrepreneurship literature), in order to identify the source of entrepreneurial effectiveness amongst the strategic choices, namely organisational characteristics and internal and external factors. The entrepreneurial behaviour perspective of research looks at these external resources and strategic choices on which ethnic entrepreneurs rely to a large extent.

Entrepreneurship, from a marketing perspective, examines selling competencies as determinants of effective entrepreneurial behaviour. Research in this area, which includes ethnic entrepreneurship, highlights the importance of information and knowledge regarding market dynamics and customer needs (Morris & Paul, 1987). Ethnic entrepreneurs take advantage of their knowledge of the ethnic markets and find ways of satisfying the needs of the ethnic community.

Population ecology as a branch of entrepreneurship according to Romanelli (1989), places emphasis on the ability of people to tailor competitive strategies to environmental conditions. Ethnic entrepreneurs most often do scenario and environmental scanning to understand the environmental conditions and design competitive strategies and management behaviours to those conditions.

The Austrian stream of research places emphasis on opportunity recognition and exploitation. The theorists in this area of entrepreneurial research posit that there is disequilibrium in the market which provides opportunities for achieving equilibrium through human action (Shane, 2007). The researcher is of the view that entrepreneurship in general and ethnic entrepreneurship in particular has their origin in the context of disequilibrium.

The threshold performance perspective, according to Lanza (2004:149), compares the performance of new ventures taking into account threshold performance, human capital and personal economic factors, switching and opportunity costs. Ethnic entrepreneurship researchers use the threshold or new venture survival theory as a basis to explain behavioural attributes such as awareness, the human capital potential and the opportunity cost of venturing into entrepreneurship by ethnic group members.

The networking and relational capabilities stream of research is based on the entrepreneur's ability to tap into external resources by taking advantage of his/her social and relational networks (Dubini & Aldrich, 1991). Ethnic entrepreneurs to a large extent depend on networks and ethnic relationships when they venture into entrepreneurship. The mixed-embedded and the interactive models fit into this area of research in entrepreneurship.

The research into the ethnic position in the area of entrepreneurship is continuing. It emphasises the importance of some core societal values that see social approval as a prerequisite for entrepreneurship. It includes what has been referred to as the neo-Weberian approach, which to a large extent focuses on the degree to which the forces of rationalisation are responsible for dislodging individuals from their embeddedness in nature, religion, and tradition. These continue to shape economic growth and social modernisation.

#### **3.3.3.1 Contribution of different fields**

Basu (2006:581) asserts that ethnic entrepreneurship has been studied from several different perspectives which include the disciplines of anthropology, sociology, geography, politics, strategic management, economics, as well as psychology. The three mostly used, in the fields of sociology, anthropology and economics, are discussed below.

#### ***Sociology***

Weber (1930) points out that one of the issues that is central to the definition of ethnic groups "is a subjective belief in their common descent", even though "it does not matter whether or not an objective blood relationship exists". In sociological literature, ethnicity is often referred to in terms of kinship, group solidarity, common culture, and self-identification (Basu, 2006:582). Schermerhorn (1978:12) defines an ethnic group as "a



collectivity within a larger society having real or putative common ancestry, memories of shared historical past, and a cultural focus on one or more symbolic elements defined as the epitome of their peoplehood". The sociological approach is most often traced to the work of Max Weber. He analysed religion and its impact on economic organisation of society. Weber (1947) argues that religious beliefs are the driving or restraining force for generating entrepreneurial activity. These beliefs, he asserts, play a crucial role in determining economic behaviour or actions of the entrepreneur towards the generation or limitation of profit. Although many researchers have used this approach to explain entrepreneurship among groups and individuals, others argue that ethical values are not the only aspects that explain entrepreneurship.

Cochran (1968) uses another perspective in sociology which focuses on the role of cultural values, role expectations and social sanction to explain entrepreneurship. He posits that entrepreneurship should be seen in relationship to prevailing childhood practices. He adds that entrepreneurs are the 'model personality' of the society. Values and role expectations of a particular social group, which can be an ethnic group, can be the most important determinants in the performance of business entrepreneurial roles.

Another theory from the sociological perspective that has been used to explain ethnic entrepreneurship is what is often termed the 'disadvantage theory', which suggests that most ethnic and immigrant groups experience significant disadvantages which sometimes direct their behaviour. Volery (2007:32) argues that factors such as the lack of human capital, including language skills, education and experience, prevent immigrant and minority groups from securing salaried jobs, which then leaves self-employment as the most viable alternative. He adds that other major factors that impact negatively on immigrant and minority ethnic groups, which force them to resort to entrepreneurship and self-employment, include poverty, discrimination, and, for immigrants, the limited knowledge of the local culture.

## ***Anthropology***

Anthropologists use cultural factors to explain entrepreneurship. In his work “Protestant Ethic and the Spirit of Capitalism”, Max Weber considers the main elements of modern entrepreneurship. Based on the teachings of Calvin, Weber shifts the need for profit and survival to the issue of salvation of the individual. This ethic emphasises that new forms of production are based on hard work, frugality, individual accountability and reliability, restraint and personal drive.

Another anthropological argument examines entrepreneurship from non-economic factors such as social networks. It has been argued that some ethnic groups are endowed with social institutions and cultural norms (ethnic resources) that foster or limit entrepreneurial talents. Anthropologists consider that entrepreneurship, as well as other social processes, have cultural undertones. The crucial role of norms and traditions has been demonstrated, which, although they generally do not inhibit entrepreneurship, can do (Thornton, Ribeiro-Soriano & Urbano, 2011:109). The concept of ethnic resources is much related to some aspects of social capital according to Basu (2006:589). The notion of social capital takes into account the importance of social structure and framework (Lassalle, 2008). He adds that an individual is “embedded” in a web of social networks, providing resources or constraints to start up a business. Deakins *et al.* (2007) support the views of Lassalle (2009) of social capital as social networks in the form of family, community, and business clubs for example. Webner (1990) attests that social networks provide flexible and efficient possibilities for the recruitment of personnel, acquisition of capital and exchange of information on the basis of mutual trust among the members of the network.

## ***Labour economics***

There are several viewpoints that have been used to explain the economic theories of entrepreneurship in general and ethnic entrepreneurship in particular. Labour economics

in the field of entrepreneurship research focuses on the product market as well as the labour market. Parker (2006:435) notes that Knight (1921) pointed out that:

The labourer asks what he thinks the entrepreneur will be able to pay, and in case will not accept less than he can get from some other entrepreneur, or by turning entrepreneur himself. In the same way the entrepreneur offers to any labourer what he thinks he must in order to secure his services.

Parker (2006) identifies two main ways in which the entrepreneur engages in the labour market, firstly, participation in entrepreneurship (occupational choice); and, secondly, as an employer. Knight uses the utility expectancy theory to explain entrepreneurship. This theory suggests that individuals enter into self-employment only if the utility value exceeds paid employment or unemployment as the case may be. The utility value here can be pecuniary or non-pecuniary. Another explanation for an entrepreneur choosing self-employment is the occupational switching costs in the analysis of occupational choices (Parker, 2006). Parker (2006:435) avers that individuals to a large extent balance risks and returns when choosing to become entrepreneurs. He adds that higher returns, and/or lower income risk in entrepreneurship, increases the propensity for individuals to choose entrepreneurship instead of paid employment, all things being equal.

The entrepreneur as an employer argument by Jefferson (1997) proposes a credit-rotating system that suggests that individuals become entrepreneurs if they are non-rationed, and would like to lend to, and work for entrepreneurs if they are not entrepreneurs. Entrepreneurs are able to employ those who are not entrepreneurs by offering them returns that are lower than their output. Parker (2006) maintains that rationed individuals choose to be unemployed rather than work for entrepreneurs.

The author is of the view that both the perspectives above hinge on the returns the entrepreneur anticipates and this influence his decision to either become an entrepreneur

himself or to employ labour as one of the factors of production, if he/she can earn more than what he would as employee.

### **3.4 FRAMEWORKS FOR PROMOTING/ EXPLAINING ENTREPRENEURSHIP**

The concept of ethnicity in entrepreneurship has many dimensions, so researchers cannot make use of single sources to explain it. It has become increasingly necessary to look at a combination of theories in recent years. Most researchers are adopting more encompassing frameworks in the field which include the theory of opportunity structures and group characteristics as some of the emergent strategies.

#### **3.4.1 OPPORTUNITY STRUCTURES-ACCESS TO OPPORTUNITIES**

One common theory of ethnic entrepreneurship, referred to as “opportunity structure”, is traced to Fernandez and Kim (1998). Fernandez and Kim (1998) are of the view that ethnic based resources, such as immediate family members, relatives and friends, ethnic support and network, can provide useful opportunity structures for migrant and ethnic communities in business. The other opportunity structures that ethnic entrepreneurs can tap into include property, money to invest and human capital (Kim, 1998), Min and Bozorgmerhr (2003). Volery (2007:34) adds that some of the other opportunity structures for migrant and ethnic minority businesses include job market conditions, access to ownership, and the legal and institutional frameworks.

The opportunities that occur for minority and immigrant entrepreneurs in ethnic communities sometimes emerge from cultural differences that exist between an ethnic group and the dominant culture. The concentration of the dominant groups on satisfying the needs of their own people leaves a niche for non-dominant ethnic entrepreneurs. In South Africa for example, the dominance of Blacks in the taxi industry is the result of past segregation policies where Blacks lived in locations outside the main towns and cities

where they mostly worked. The market and other economic conditions did not allow most Blacks to buy their own cars to commute to work and towns.

The opportunity structure theory presents a major shift from the previous psychological theories of entrepreneurship which are based on individual characteristics and motivation. The author considers that the opportunity structure broadens the scope and understanding of entrepreneurship in general, and ethnic entrepreneurship in particular, to include the wider socio-cultural elements that contribute to ethnic entrepreneurship.

#### 3.4.2 GROUP RESOURCES-GROUP CHARACTERISTICS

The dependence on group resources/social capital is one of the main arguments that have been used to explain ethnic entrepreneurship. The crucial role of social networks and social capital in facilitating entrepreneurship among minority and immigrant entrepreneurs has been recognised by authors such as Fawcett (1989). Farote (1986) outlines the role of intra-group social capital in the formation of minority business from a sociological perspective. He refers to the manner in which social capital is made available and utilised by group members as “group self-help support networks”. He considers that the roles of the group self-help support networks include:

- Role models and shaping attitudes and values which encourage entrepreneurial activity within the ethnic community;
- Training, which is obtained through employment in the ethnic economy and “family apprenticeship”;
- Financial support, which is crucial in case of limited private resources;
- Reputation, as a positive ethnic signalling effect, which once established may for example enable newly established entrepreneurs to perform business transactions in the open market;
- Source of labour clientele; and
- Guidance and business contracts.

Social capital and social networks as group resources have been used by Greeve and Salaff (2005) in tracing ethnic enclaves among ethnic entrepreneurs. They are of the view that ethnic enclaves do not only apply to the physical location of where immigrants work and live but should also be recognised as networks of social and economic connections. Their concept of social networks include, firstly, clusters and forms of organisations which share tasks and resources and participate in exchanges in institutional fields; and, secondly, the relationship individuals have with each other which can be multiple in nature and embedded in different contexts.

The transactional cost approach is used in the social capital argument to explain ethnic entrepreneurship in Least Developed Countries (LDCs). Citing Landa (2004), Nestorowicz (2011:44) proposes that using ethnic economies and the diverse paths of development in ethnic entrepreneurship, which is mainly based on the inherent cultural characteristics of labour market discrimination, ethnically homogeneous middleman groups (EHMGs) can be considered from the perspective of transactional cost economics. Landa avers that ethnic groups play a crucial role in forming rules and decreasing the costs of their enforcement in economic transactions. This according to him, may be realised through the creation of informal institutions which are created among EHMGs where there are higher risks associated with starting a business in environments where formal enforcement of legal and formal contracts are uncertain.

The most salient proposition in the group resources/characteristics regarding ethnic entrepreneurship is the important role both formal and informal relationships provide for disadvantaged groups within societies to overcome some of the disadvantages they face.

The opportunity structure and group characteristics arguments, as frameworks for promoting ethnic entrepreneurship on their own, appear not to cover the concept of ethnic

entrepreneurship holistically. The situation has contributed to researchers and scholars in the field suggesting new models and perspectives that capture the concept holistically. The mixed embeddedness and the interactive models are some of the more holistic approaches that have been suggested in recent times.

### 3.4.3 EMERGENT STRATEGIES AND MODELS

A number of new perspectives are emerging in ethnic entrepreneurship research due to the loopholes and criticisms that have been found with some of the earlier theories and approaches in the field.

#### 3.4.3.1 The mixed embeddedness model

Kloosterman and Rath (2001) introduced the concept of "mixed embeddedness" in ethnic entrepreneurship which is a further development of the opportunity structures and ethnic resources propositions. They posit that ethnic entrepreneurship is not only embedded in immigrant networks and one's ethnicity but also in the "abstract embeddedness in socioeconomic and politico-institutional environment of the country of settlement" (Kloosterman & Rath, 2001:2).

The mixed embeddedness model of entrepreneurship examines the characteristics of the supply side of ethnic and immigrant entrepreneurs and the opportunities for starting a business (Kloosterman & Rath, 2004). Volery (2007) intimates that the mixed embeddedness model is premised on the following three assumptions:

- High barriers of entry or regulations should not block opportunities;
- The entrepreneur should be able to take advantage of the opportunity in a tangible way; and

- Opportunities must be recognised by the prospective entrepreneur as providing adequate return.

The foregoing implies that the mixed embeddedness model combines the socio-cultural and institutional frameworks of analysis with the previous frameworks (opportunity-structure and group resources).

### 3.4.3.2 The interactive model

The interactive model of ethnic and immigrant entrepreneurship was conceptualised by (Waldinger et al., 1990). The model suggests that ethnic businesses develop from interaction between opportunity structures and group resources (Volery, 2007). The model therefore combines many of the factors and characteristics of the economic environment in which the opportunities exist, with the socio-cultural factors that influence people to act. This is presented in Figure 3.1 below.

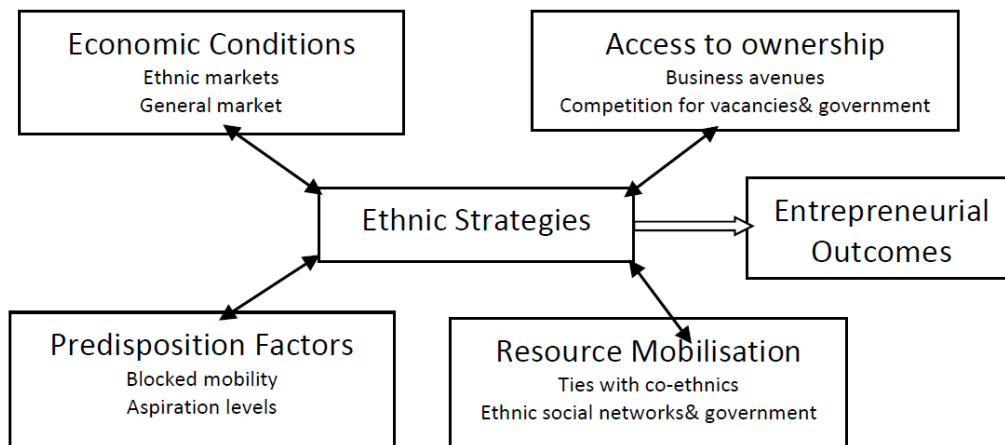


Figure 3.1 Interactive model of ethnic entrepreneurship development

Adapted from Waldinger et al. (1990) and Volery (2007).



Figure 3.1 depicts how the interaction between opportunities structures in an economy combine with the ethnic group characteristics and resources to provide avenues for the development of ethnic businesses. The upper part of the figure shows the available opportunities in the form of the prevailing market and economic conditions. Some of these factors include the market for co-ethnic goods and as well as the general niche market in the general population. The other component of opportunity structures deals with access to ownership of resources that are needed to be able to exploit the opportunities that are presented in the market environment, as well as the legal and institutional frameworks in the economy. The access dimension is defined in terms of the number of the available business-ownership positions, the competition in which the majority population vies for those positions and the government and institutional policy frameworks that exist with regards to ethnic minorities and migrant groups. In addition to this, the opportunities for ethnic business set ups are also influenced to a large extent by the number of the dominant group entrepreneurs. If the majority or dominant group members are not willing or interested in filling the business-ownership positions, then opportunities are created by ethnic minorities to occupy such positions.

The second dimension in Figure 3.1 relates to what has been referred to as group resources that are used by the different ethnic and immigrant groups to pursue the opportunities that exist in the economy or market place. Two of the group resources that are discussed below include those that fall under (1) predisposing factors (blocked mobility, aspiration levels, selective migration for example); and (2) resource mobilisation (co-ethnic ties, ethnic social networks, government policies for example).

In the group resource dimension, it is argued that co-ethnic group members tap into ethnic resources which are provided by their culture, informal networks and traditions to gain competitive advantage in the market. Some of the cultural predisposition factors include the aspiration levels of ethnic group members in the economy, selective migration and

blocked mobility. Some of the skills that minority and immigrants lack in order to compete for opportunities in the market place include the relevant skills needed in an economy and language to facilitate social and economic mobility. This leaves self-employment as one of the main options for minority and immigrant groups. Besides this, ethnic minorities and immigrants especially, have been noted to possess psychological characteristics that are associated with the willingness to take risk which is one of the main features of entrepreneurs. Some of the other characteristics of entrepreneurs include perseverance, willingness to work long hours and to work hard. The middleman theory for instance, also explains in part, that the need for economic mobility tends to be more important to minority and immigrant groups than social status.

The group resource or characteristics dimension in the interactive model indicates that ethnic communities possess and also develop the infrastructure and the resources for the establishment and promotion of ethnic businesses. Some of the common infrastructure and resources that are used for ethnic businesses comprise ethnic networks and interactions between group members, the feeling of commonality and interdependence for the provision of financial capital, business information and training, and ethnic labour.

Some of the other resources ethnic minorities and immigrants tap into are from state and institutional programmes which help minority and disadvantaged groups to establish and enter into self-employment. In South Africa for example the Broad-based Black economic empowerment (BBBEE) and preferential procurement policies are assisting PDGs to become entrepreneurs.

The two main dimensions (opportunity structures and the ethnic resources) are the key propositions of the interactive model of ethnic entrepreneurship. The researcher is of the view that both the social embeddedness and the interactive models touch on issues

relating to economic, social, political and cultural factors which entrepreneurs in general, and ethnic entrepreneurs in particular, use as strategies for establishing their business which leads to entrepreneurial outcomes (profitability, growth, customer satisfaction, longevity, size etc.).

### **3.4.3.3 Spatial approach in ethnic entrepreneurship**

One of the emerging perspectives in ethnic entrepreneurship examines the concept from a spatial angle. This perspective analyses ethnic entrepreneurship from the geographical perspective. Most of the models that have been used have been based on the input-output relationships to entrepreneurship. Basically, the interactive and social embeddedness models that were discussed earlier fall in this category. Wang (2012:97) argues that a lot of insights have been provided on the input-output variations in entrepreneurship but not much has been researched on how space, place and race/ethnicity interact in the process of entrepreneurship. Wang (2012:97) is of the view that in creating and sustaining particular business ventures, regardless of their technological forms, many entrepreneurs can bring economically viable and new ideas to a place and create significantly valuable changes in that place. The point of departure for this perspective is that entrepreneurship is rooted in the social-spatial process of entrepreneurship.

Ethnic businesses according to Zhou (2004:1040) are businesses owned by entrepreneurs “whose group membership is tied to a common heritage or origin”, and display patterns of entrepreneurship in different places (Wang, 2010). Other studies that have found a link between spatial clustering and entrepreneurship include the works of Portes and Jensen, 1987; Wilson and Portes, 1980 and Barrett et al., 2001. These studies have isolated ‘place’ as a major factor in the development of ethnic enterprises. The researcher is of the view that although ethnic origins and ethnic clustering relate to a geographical space, the possibility that this is the main factor in the equation cannot be

taken for granted. Other variables play significant roles in the development of ethnic entrepreneurship as well. Despite this drawback in the argument, one should not discount that ethnic entrepreneurs originate from a place and converge or cluster at new places to tap into the opportunity structures that this environment provides.

### **3.5 ETHNIC ENTREPRENEURSHIP IN THE SOUTH AFRICAN CONTEXT**

South Africa has been described as a rainbow nation by Archbishop Desmond Tutu for reasons which possibly include its diverse culture, ethnic and racial groups and eleven official languages. One also observes diversity in its dual economic make up as it exhibits the features of both a developed and developing economy. The nature of businesses and their performances between the different ethnic groups in the country also appear to vary. Whether ethnicity is the cause or a factor in this situation is part of the reason for this study. Herrington *et al.* (2009) point out in the 2009 Global Entrepreneurship Monitor (GEM) Report on South Africa that South African Indians and Whites are more likely to start businesses than Blacks and Coloureds. These businesses are most likely to survive the incubation period and tend to employ more people. Herrington *et al.* (2009) conclude that businesses that are initiated by White and Indian South Africans tend to mature into new firms more than those of any of the other racial or ethnic groups.

Van Scheers (2010) expresses the view that different ethnic group members act and perform in different ways. Citing Mitchell (2003), Van Scheers (2010) points out that some ethnic groups are more entrepreneurial than others. He identifies some of the differences in entrepreneurial behaviour and performance between different ethnic groups as including differences in beliefs, culture and social and economic structures. The observation could be true but one should not forget that the history of South Africa and the nature of the political, economic and legal frameworks, have possibly contributed to this state of affairs. This view is supported by Urban (2003) who avers that the different ethnic groups in South Africa historically had different levels of opportunities. A brief

discussion of ethnic entrepreneurship among the four ethnic groups under discussion are presented in the following sub-sections.

### 3.5.1 AFRIKANER ETHNIC ENTREPRENEURSHIP

Afrikaners as ethnic entrepreneurs control a sizable percentage of the South African economy. Their success in business has been considered by different researchers and commentators from different perspectives. Giliomee (2008:765) argues that Afrikaners belonged to an economically “backward” group before the National Party became the governing party in 1948. He suggests that entrepreneurs who belong to economically backward groups normally want to demonstrate to the economically dominant groups that they can succeed. He adds that the Afrikaner entrepreneurs did not only want to get rich, but also desired to help advance their people economically and promote a general sense of self-worth. Citing Horowitz (1985), Giliomee (2008:766) states that “if the need to feel worthy is a fundamental human requirement, it is satisfied in considerable measure by belonging to groups that are in turn regarded as worthy. Like individual self-esteem, collective-esteem is achieved largely by social recognition”.

Giliomee (2008) ascribes the economic empowerment of Afrikaners to a conscious general ethnic mobilisation through which the economic advancement of the group was inextricably linked to the pursuit of political power. The issue of group solidarity and the mobilisation of ethnic resources, coupled with proximity to political influence, appear to have contributed to the relative success of Afrikaner ethnic entrepreneurs in business in South Africa. Esterhuysen (1986:24) quotes Hertzog, the co-founder of Rembrandt who stated that “Our overriding concern was to prove that, by standing together; we [the Afrikaner] could take our place in the business world with dignity and honour”. Some of the other measures that were deliberately used by the Afrikaner leaders and intellectuals to encourage ethnic entrepreneurship according to Giliomee (2008:772) included:

- Conquering the capitalist system and transforming it to fit Afrikaner ethnic culture;

- Helping Afrikaners as a people to acquire a legitimate share of the economy; and
- Pressurizing the finance houses to meet the following three objectives namely making profit for its shareholders, promoting the collective advancement of the Afrikaners and helping poor Afrikaners by offering them respectable jobs.

Giliomee (2003:439) adds that the *Broederbond* even went to the extent of encouraging its members to support Afrikaner enterprises by listing ten economic duties of all “proper” Afrikaners which included the following:

- (1) Every Afrikaner must, even if it takes great sacrifices, become a shareholder in an Afrikaner credit institution, specifically mentioning the *Federale Volksbeleggings*.
- (2) Every Afrikaner must save and invest his savings in an Afrikaans institution such as *Sasbank* and *Volkskas*.
- (3) Every Afrikaner must be a policyholder of an Afrikaner insurance company.

Giliomee (2008:779) intimates that besides the private sector mobilisation of Afrikaners to support Afrikaner businesses, the government of the day also assisted other sectors in which Afrikaners dominated, such as the agricultural sector, by setting up marketing boards that initiated favourable prices for agricultural commodities. It can be seen here that ethnic entrepreneurship among Afrikaners was deliberately engineered and favoured after 1948, taking into account their disadvantaged position, group solidarity and the political system. This should not discount the progress in entrepreneurship this ethnic group has made over the years.

### 3.5.2 THE BLACK ETHNIC GROUP ENTREPRENEURSHIP

Preisendorfer, Bitz and Bezuidenhout (2012:1) note that the levels of entrepreneurship among the different ethnic groups differ with low participation rate among indigenous Africans. Co (2003:41) quotes Bank (1994) who noted that Black entrepreneurs in the

township in those days were probably the only businessmen in South Africa to be the hostile target of the community and held in contempt by family, especially by the youth. They became legitimate targets of theft and attack, along with white entrepreneurs and community councillors.

Kinunda-Rutashobya (1999:24) is of the view that entrepreneurial activities vary from one socio-economic context to another. He assigns these differences to the economic, political, historical and social circumstances, laws and the regulatory frameworks, policies and levels of state involvement, formal and informal socio-economic institution, type and distribution of resources and socio-cultural sectors. Citing Iheduru (1998), Mbaku maintains that the South African government failed to create and maintain a conducive and enabling environment for the development of indigenous entrepreneurship and the participation of Africans in national development.

Kinunda-Rutashobya (1999) found that both African and Indian entrepreneurs were subjected to the same discriminatory legislation but the Indians entrepreneurs were able to use family and community resources to succeed in business. He attributes the failure of most Africans in business to the limited networks they have, the low status of small business in the African communities and the few entrepreneurial role models in their communities. While these observations may be true to some extent, the researcher is of the view that other factors such as poor education and the lack of entrepreneurial role models in the Black community contributes to the low levels of ethnic entrepreneurship among Blacks.

### 3.5.3 THE COLOURED ETHNIC GROUP ENTREPRENEURSHIP

This ethnic group is the most difficult to discuss because of its composition and the fact that there is very little documented information about them when it comes to business and entrepreneurship.

Muller (1990:1) affirms that Blacks and Coloureds have been involved in contributing to the labour force of the economy, but their entrepreneurial activities are given little, if any, credit. Muller (1990) adds that the two ethnic/cultural groups were involved in some entrepreneurial activities during the early encounters with the colonists. He points out that Coloureds were involved in the economy as workers in agriculture, industry and trade and other endeavours in the Cape. Muller considers that the discriminatory laws and restrictions that were placed on the Coloureds and Blacks by the colonists to some extent contributed to killing entrepreneurial culture among this ethnic/cultural group.

Today one can still observe that most Coloureds are not much seen in the field of business and entrepreneurship but are mostly handymen, artisans and technicians. One should note that the challenges that are faced by Blacks to a large extent apply to Coloureds as well.

### 3.5.4 THE INDIAN ETHNIC GROUP ENTREPRENEURSHIP

Govindasamy (2010:5) considers that the Indian South African can be described as an ethnic entrepreneur. He argues that Indian South Africans are united as ethnic entrepreneurs by a set of socio-cultural connections and certain patterns of interaction among themselves, as they share a common national background and possibly migration experiences. Culture and value systems play an important role in an ethnic group's attitudes and orientation towards business, savings and lending, size and integrity of



groups' kinship systems, and the availability of rotating credit associations (Light & Gold, 2000:85).

Hart and Padayachee (2006:1) point out that, since the arrival of the Indians in South Africa, they have been victimized as non-whites (although not on the same terms as indigenous Africans), but yet they managed to build up a commerce which thrived within an inward looking economy. According to them, most of the businesses owned by these Indians have responded to global and local changing situations, to become world businesses by acknowledging the dual nature of the South African economy and by adopting old and new strategies of accumulation to survive and prosper. They conclude that the origins of Indian businesses in South Africa in general, and Durban and Natal in particular, lie with the Indian merchants and indentured workers who helped to build the imperial economy out of which modern state capitalism has grown, and like most people elsewhere, they bring to the world of the 21<sup>st</sup> century a rich cosmopolitan history of their own.

Basu and Altinay (2002:374) maintain that Asian communities have cultural traditions in business that enable them to access ethnic resources easily and provides them with a powerful sense of identity. They contrast this situation with the Afro-Caribbean who do not have a similar culture owing to their history of oppression, which destroyed their self-esteem and led to weak family and community ties, poor motivation and a lack of personal resources.

The researcher is of the view that it is not easy to ascertain whether the discriminatory legislations applied equally to all the different ethnic/racial groups. Also Indian entrepreneurs had access to wide networks in both national and international markets. In addition, one can state that there were very few entrepreneurial role models in the Black

community for potential entrepreneurs. Comparison of entrepreneurship in the four ethnic groups is difficult. The different theories and approaches such as the ethnic enclave, structural, and mixed embeddedness apply differently to the four groups. The state and deliberate private intervention in the creation of ethnic Afrikaner entrepreneurship cannot be taken for granted. In the case of Indian ethnic entrepreneurship in South Africa, although they faced discriminatory laws, the extent to which this compared to Blacks is not clear. Besides that, it is clear that Indian entrepreneurs had wide networks and systems to tap into.

Why ethnic Black South Africans and their Coloured counterparts have not been able to use their disadvantaged position and numbers to create successful enterprises needs to be further investigated.

### **3.6 CHAPTER SUMMARY**

Chapter 3 examined the concept of ethnic entrepreneurship as part of the broader concept of entrepreneurship. The conceptual and theoretical framework for ethnic entrepreneurship was discussed. The main theories reviewed were the structural and ethnic enclave theory, and the cultural and situational theory. The discussion continued with some of the fields/disciplines that have contributed to ethnic entrepreneurship such as Sociology, Anthropology and Labour Economics. The framework for promoting ethnic entrepreneurship such as opportunity structure, group resources, the interactive models and the spatial models are examined. A brief discussion of ethnic entrepreneurship with regard to the four ethnic groups involved in the study was also explored, indicating the differences between the four ethnic groups under study in the NLM. The next chapter will discuss the methodology underlying the study.

## **CHAPTER 4: METHODOLOGY APPLIED TO THE STUDY**

### **4.1 INTRODUCTION**

The previous two chapters were devoted to the review of the literature related to the study. Prior to that, Chapter 1 provided an overview of the entire study. This chapter presents a detailed description of the methodology followed in the study. This includes stating and justifying/explaining: the underpinning research philosophy, the research design, the research questions and how they were answered, the sampling procedure followed, how data were collected and analysed, the data collection instrument, and how validity and reliability were assured.

### **4.2 THE RESEARCH PHILOSOPHY UNDERPINNING THE STUDY**

Research philosophy relates to the philosophical assumptions and beliefs a researcher adopts in a research process. Philosophical assumptions or a theoretical paradigm about the nature of reality are crucial to understanding the overall perspective from which a study is designed and carried out (Krauss, 2005:758). Generally there are two main research philosophies which are used in the scientific process namely positivism and interpretivism. Briefly, the two philosophies can be broadly described as follows.

Taking up a positivist epistemological position advocates the application of the methods of the natural sciences to the study of social reality and beyond (Bryman & Bell, 2011:15). The ontological assumption for this position is that reality is quite objective and singular, apart from the researcher who makes it possible for data and its analysis to be value free and unbiased. Galt (2008) suggests that the positivist epistemology refers to how we gain knowledge about what we know. Positivists assume that the researcher is independent from the phenomenon being investigated. The use of the positivist paradigm allows the

researcher to make predictions based on the observed and explained realities and their inter-relationships. The process of research from a positivist perspective is based on deductive reasoning, cause and effect, the research design is static and categories are isolated before the study in an independent context. The approach enables the researcher to make predictions that lead to generalisations, explanations, and an understanding that is believed to ensure accuracy and reliability through validity and reliability testing.

An interpretivist epistemology enables one to adopt the perspective that the best way to understand a social phenomenon is to study it in its natural environment/setting since knowledge or reality is socially constructed. Interpretivists use a qualitative research approach which does not assume that there is a single unitary reality apart from our perceptions (Krauss, 2005:760). The ontological position in interpretivism is that reality is subjective and can be viewed from multiple perspectives by the participants in a study. The epistemological stance of interpretivism allows the researcher to interact with the phenomenon which is being researched. The axiological position of interpretivism assumes that it is value-laden and biased. The research process according to this approach is based on inductive process; mutual simultaneous shaping of factors; emerging design in which categories are identified during the research process; it is context bound; patterns and theories are developed for understanding; accuracy and reliability and are ensured through verification.

A research philosophy also guides the researcher about the relevant data to be gathered and how to use and analyse them. The researcher's philosophical stand point (theoretical lens) also plays an important role in the choice of methods because the underlying belief system (ontological assumptions) of the researcher largely define the choice of method (methodology) (Dobson, 2002). There is a relationship between epistemology, ontology and research methods. Epistemology is intimately related to ontology and methodology.

Ontology involves the philosophical understanding of what reality is, whilst epistemology addresses how we come to know that reality. Methodology identifies the particular practices used to attain knowledge of reality (Krauss, 2005:759). Alternatively, one can say that one's ontological standpoint (on the nature of reality) should enable one to raise the question of whether social entities we study or want to know about should be considered objective entities that have a reality different from the actors – *objectivism*. The further ontological question is whether entities can and should be considered social constructions built up from the perceptions and actions of social actors - *constructionism*. Epistemology refers to what can be regarded as acceptable knowledge (Bryman & Bell, 2011:21). There is a positivism versus interpretivism debate. Table 4.1 below illustrates the different philosophical orientations and the different research approaches and designs that accompany them.

This research is based on a positivist epistemology using hypothetico-deductive reasoning to come to conclusions about the population based on sample data. Therefore, the ontological position is an objective one. This philosophical leaning has a bearing on the type of research design followed in this study.

Table 4.1: Philosophical orientations and research approaches

PHILOSOPHICAL ORIENTATION/ COMMITMENT	STRATEGY/APPROACH/PARADIGMS/DESIGN	
	Quantitative	Qualitative
Role of theory in research	Deductive: testing of theory Hypothetico-deductive reasoning	Inductive: generating theory
Epistemological orientation	Natural science model: positivism	Interpretivism
Ontological orientation	Objectivism – value free	Constructionism

Source: Bryman and Bell (2011:27) with adaptations.

### **4.3 RESEARCH DESIGN**

A research design, sometimes called research approach or strategy is a detailed framework or plan guiding a researcher through the research process (Wilson, 2010:102). There are generally two broad design types – the so called quantitative versus qualitative designs. Wilson (2010:13) cites Lincoln (2000) to explain the essence of this divide as follows:

... the word 'qualitative' implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured (if measured at all) in terms of quantity, amount, intensity or frequency. Qualitative researchers stress the socially constructed nature of reality, the intimate relationship between the research and what is studied, and the situational constraints that shape inquiry. Such researchers emphasize the value-laden nature of enquiry. They seek answers to questions that stress how social experience is created and given meaning. In contrast, quantitative studies emphasize the measurement and analysis of causal relationships between variables, not processes.

Judging from the literature, it is fair to say that qualitative researchers believe that a researcher will best understand phenomena by getting closer to the subjects of enquiry through observation and interviews. On the other hand, the quantitative approach entails the collection of numerical data and the exhibition of the relationship between theory and research as deductive, a predilection for a natural science approach (and of positivism in particular), and having an objective conception of social reality. So, whilst the qualitative approach is subjective in nature, the quantitative design is based on objectivity and value-free enquiry.

### **4.4 RESEARCH QUESTIONS**

There are various theories that have been used to explain the relationship between ethnicity and entrepreneurship with the most popular being that of Waldinger *et al.* (1990) who point to ethnicity as comprising culture, structure, ethnic enclave and the situation.

The cultural approach places emphasis on cultural resources or predispositions among people that may lead to venturing into business and possible business success. Some of such cultural resources according to Light and Gold (2000) include ethnic networks, supply of capital or labour to ethnic business through the ties and relations based on trust and obligation, and partly depending on ethnic clients. The other cultural theory posits that the alien status of immigrants and social discrimination for disadvantaged groups facilitates social solidarity and mutual cooperation for the establishment and operation of ethnic businesses (Light, 1980). Citing Bonacich (1973), Mitchell (2003) notes that the structural approach which is also referred to as the 'middleman minority theory' views the establishment of ethnic businesses as a response by ethnic minorities and disadvantaged groups in an economy through the dominant groups' cultural isolation and exclusion. Wilson and Portes (1980) use the 'ethnic enclave theory' argument which states that economic niches in an economy that are left by the dominant groups create opportunities for immigrant and disadvantaged ethnic communities. Waldinger *et al.* (1990) argue that the interactive approach which is also referred to as the 'interactive theory' examines the relationship between the structure of economic opportunity to economic and cultural resources of an ethnic group. The four theories were explained in detail in Chapter 3. On the basis of these theories, hypotheses were developed in order to investigate the relationship between ethnicity and entrepreneurship, among Tswanas, Afrikaners, Coloured and Indians in the Naledi Local Municipality. The following items were tested in the hypotheses:

- 1) the motives for venturing into businesses,
- 2) the sources of business start-up capital,
- 3) risk taking positions,
- 4) entrepreneurial/business success

A casual observation of the four ethnic groups and their entrepreneurial behaviour and performance in business suggested that they differ and the difference might be explained through ethnic differences. All the four groups reside in the same municipal area but their

business practices, attitudes, behaviour and the performances in businesses appear to differ based on ethnicity. For example, most of the Tswana and their Coloured counterparts run very small and micro enterprises whereas the Indian and Afrikaner business are mainly small and medium enterprises. In addition to that, most Tswanas operate hair salons, taxi and tuck shops while Afrikaners and Indians operate technical and wholesale businesses. These casual observations needed systematic investigation in order to establish the true state of affairs. Consequently the following research questions were formulated accompanied by the rationale for each question.

H<sub>10</sub>: There are no significant differences in owner's motives for venturing into entrepreneurship based on ethnicity.

H<sub>1a</sub>: There are significant differences in owners motives for venturing into entrepreneurship based on culture ethnicity.

**Rationale:** It is important to establish the motives that different ethnic group members assign for entering into business because current findings are conflicting. For example Hamilton (2000) cited by Amir, Licht and Siegel (2009:514) point out that individuals sometimes pursue entrepreneurial venture for pecuniary motives while Amit et al. (2001) and Moskowitz and Vissing-Jorgen (2002) cite non-pecuniary reasons. Some of the motives such as choosing an entrepreneurial career as a last resort does not mean a person is an entrepreneur. Bearing in mind the cultural differences between the various ethnic groups and why people behave in a certain manner as has been discussed in the literature review, it is important to determine whether or not motives for entrepreneurship differ among the four cultural groups under investigation.



H<sub>20</sub>: There are no significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.

H<sub>2a</sub>: There are significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.

**Rationale:** This hypothesis addresses objective 2 which examine the sources of start-up capital used by members of the different ethnic in the NLM. Lanza (2004:15) argues that external financial support/venture capital plays an important role in the development of entrepreneurial activity. The lack of finance has been blamed by many interested parties in entrepreneurship research as a problem in venturing into entrepreneurship particularly for black previously disadvantaged people. Tengeh *et al.* (2011:9) affirm that findings from micro-enterprise surveys in South Africa indicate that inaccessibility to finance is a major constraint for small start-ups in general and for PDGs and immigrant entrepreneurs in particular. The question is, is the situation the same or different for all ethnic groups?

H<sub>30</sub>: There are no significant differences in owner's behaviour/attitude towards business risks based on the ethnicity of owner.

H<sub>3a</sub>: There are significant differences in owner's behaviour/attitude towards business risks based on the ethnicity of owner.

**Rationale:** This hypothesis attempts to determine whether significant differences exist between the entrepreneurs from the four ethnic group members on their attitudes and behaviours concerning risks that are associated with business. Hofstede (1980a) found a positive relationship between low uncertainty avoidance and entrepreneurship on the dimensions of culture (see Chapter 2). It is important to establish whether there are differences between the different ethnic group members as to risk.

H<sub>40</sub> There are no significant differences in the performance of SMMEs based on the ethnicity of owner.

H<sub>4a</sub> There are significant differences in the performance of SMMEs based on the ethnicity of owner.

**Rationale:** H<sub>40</sub> examines the performance of SMMEs based on the ethnic origin of the owner manager. The measure is important in the South African context as a casual observation suggests that business performance differs in ethnic groups. Some ethnic group members have been found to perform better in business than others. Mitchell (2003) cited in van Scheers (2010:23) notes that some ethnic group members tend to be more entrepreneurial than others. It is therefore important to find out whether there are significant differences between Tswanas, Afrikaners, Coloureds and Indians and their performance in business.

## **4.5 POPULATION AND SAMPLING**

The population and sampling procedures are discussed in this section.

### **4.5.1 THE TARGET POPULATION**

Israel (2008: xvi) defines a study population as the set of all items that are being considered for measuring some characteristics. This is the group of cases the researcher can draw on according to Wilson (2010:306). The target population for this study was all SMMEs in the Naledi Local Municipality in the North West Province of South Africa. It is from this population that a sample of 400 SMMEs was drawn. SMMEs have been defined by different interest groups around the world in diverse ways as has been indicated in Chapter 2 in the literature. Because informal traders have sometimes been classified among SMMEs, it is important to set some criteria for business that have to be included in the study. Such SMMEs should have some degree of permanency and a place for transacting their activities. It is important to define SMMEs in this study as the concept

has been used in diverse ways. Clarifying the concept will ensure that the reader understands what the operational definition is. In this study, SMME refers to a business that employs at least one other person in addition to the owner or manager and has a formal place of operation. The unit of analysis is the SMME.

#### **4.5.2 SAMPLING**

Sampling is a process of systematically selecting cases or respondents for inclusion in a research study which will be a representative of the entire population. As will be explained in a later section, the study used the stratified random sampling technique to select 400 respondents for the questionnaire.

##### **4.5.2.1 The sample frame**

Sample frame refers to the list of accessible population members from which a researcher can draw a sample (Wilson, 2010:307). Wilson (2010:191) rightly observed that researchers do not always have access to a concrete sample frame and they have to compile their own. The absence of a reliable database for SMMEs in the North West Province was confirmed by Africa (2007:6). To overcome this difficulty, the researcher employed matriculants from the different communities within which the study was conducted to draw up the sample frame. In all, a sample frame of 3522 SMMEs was compiled and used for the study.

##### **4.5.2.2 Sampling procedure/technique**

Although there are different sampling techniques for selecting a sample, these can be grouped under two main categories of probability and non-probability sampling. Probability sampling allows the researcher to ensure in advance that each element of the population under study has a known likelihood/chance of being selected (Leedy &Ormrod, 2005:199). Some of the specific types of probability sampling include: simple random

sampling; stratified random sampling; cluster sampling; systematic random sampling; and multistage-sampling. Nonprobability sampling on the other hand does not allow the researcher to ensure that each element of the population has a known chance of being selected (Leedy & Ormrod, 2005:206). Some of the types of nonprobability sampling include: convenience sampling; quota sampling; purposive sampling; snowball sampling; and judgement sampling.

In making the choice between probability and non-probability sampling, Dzansi (2004:183) cites Sekaran (1992) to make the point that the choice is eventually determined by the available time, resources, the population distribution, and the extent of generalisability required.

A non-proportional stratified random sampling technique was used for this study. Blumberg, Coopers and Schindler (2008:244) state that stratified random sampling allows populations to be segmented into several mutually exclusive sub-populations or strata. This technique allows for items to be selected from each sub group to ensure representativity (Wilson, 2010:196). In this study, the strata included four distinct ethnic groups - Tswanas, Afrikaners, Coloureds and Indians. The different ethnic groups differ in numbers, location of their businesses, culture and so on. It is therefore important that a technique that ensures that each segment of the sub-groups is represented is applied. There are two types of stratification namely proportional and non-proportional stratification. As said earlier, non-proportional stratified sampling was used. Was this not the case, there was the possibility that some of the groups could have been over represented while others would have very few or not feature at all. After the SMMEs belonging to the entrepreneurs from the four groups had been stratified with the names of the businesses into different boxes, an assistant was asked to pick a name from the box at a time. Each time a name was selected, it was not returned to the box until the required number for the group was obtained. The same procedure was used for the rest

of the groups in the other boxes until the required sample size for each ethnic group has been reached.

#### **4.5.2.3 The sample size**

Determining the sample size for research is complex and depends on a number of factors. Wilson (2010:201) for example points out that sample size to a greater extent is influenced by one's research philosophy. This author argues that if one adopts a positivist stance, then there is a need to select a large sample size enough to allow for statistical analysis. Wilson (2010:202) concludes that one's choice of sample size depends on:

- The confidence needed in the data, i.e. level of certainty that the characteristics of the data collected will represent the characteristics of the total population;
- The comparative sample size of earlier studies;
- The margin of error that can be tolerated, i.e. the accuracy one requires for any estimates made from the sample;
- The type of analysis to be done; and
- The size of the population from which the sample is being drawn.

Leedy and Ormrod (2005:207) suggest some guidelines when selecting a sample size. They recommend the following:

- Population of less than 100 (one should survey the whole population);
- If the population size is around 500, then 50% of it should be sampled;
- If the population size is around 1,500, then 20% is recommended and beyond 5,000 or more units, a sample size of 400 is regarded as enough.

The population in this study is 3522 which makes a sample of 400 to be considered large enough based on the suggestion above.

## 4.6 DATA COLLECTION

Three main tools of data collection employed in collecting primary data are interviews, questionnaire and observation but the questionnaire is by far the most common (Parente, 2000:57) because it can be sent to many people regardless of location. Parente (2000:57) adds that questionnaires are a powerful tool in survey research which allows one to measure a person's thoughts, attitudes, opinions, experiences, likes and dislikes, just to name a few. Another advantage of using questionnaires as a data collection tools is that it is cheaper than using telephones to make long calls or conduct interviews. One major disadvantage of using questionnaires is the low return rate in most instances (Leedy & Ormrod, 2005:185). A structured questionnaire was used in this study to collect primary data for analysis.

### 4.6.1 INSTRUMENT PILOTING

A pilot survey was conducted mainly to determine user-friendliness and time required to complete the questionnaire. The pilot study was conducted on two days in Vryburg with four trained assistants from the Tswana, Afrikaner, Coloured and Indian communities. Ten (10) Tswana entrepreneurs completed the questionnaire in *Huhudi* (the Black Township) in Vryburg, 3 Indian entrepreneurs at the Indian Centre in Vryburg, 3 Coloured entrepreneurs from *Colridge* (the Coloured location in Vryburg) and 4 Afrikaner entrepreneurs in Vryburg town. These respondents were not part of the investigation. These were the entrepreneurs from the different ethnic groups who were prepared to complete the questionnaire when the researcher went around with his assistants to their work places on those two days. On average, the completion of each questionnaire took about thirty minutes. This time was considered too long for busy business people. Revision of the questionnaire resulted in reduction of the completion time to about 20 minutes and the elimination of some of the items that appeared to address the same issues.

#### 4.6.2 ADMINISTERING THE QUESTIONNAIRE

The questionnaire was administered to each of the respondents through research assistants on the premises of the SMMEs at Vryburg, Stella and Dithakwaneng after prior arrangements had been made with the owner/managers. It was ensured that the research assistants from the four cultural/ethnic groups administered the questionnaire to the respondents from their respective communities. The reason for doing so on site was that the respondents would feel at ease in completing the questionnaire as well as getting maximum cooperation from them. The respondents who needed assistance because of language difficulties were assisted by the research assistants.

The strategy of making prior arrangements and using research assistants to administer the questionnaires in their own communities made it possible for almost all the questionnaires to be returned although it proved to be an expensive exercise.

#### 4.6.3 MEASURING ENTREPRENEURIAL BEHAVIOURS AND ATTITUDES

The questionnaire used to collect the data from respondents consisted of sections on biographical (background) information about owner/managers and the businesses; business practices concerning networking and types of people employed; entrepreneurial attitudes and behaviours such as motives for starting their businesses, sources of capital, attitude towards risk; and entrepreneurial/business performance. The non-demographic response items were framed in the Likert scale format. The response items were constructed in the Likert scale format. The implication of this for the selected statistical analysis tool is discussed in section below.

##### 4.6.3.1 Operationalisation of variables

Because of duplicity of meanings for concepts, there is the need for concepts and variables to be operationalised for measurement quantitatively. Operationalisation is the

term used to describe the criteria for measuring a concept (Blumberg *et al.*, 2005:308). The variables that were identified for operationalisation have to do with the sections in the questionnaire. Specifically, items were identified on biographical information about owner/managers as well as on the business practices (see Appendix A). A number of items were also identified concerning networking and types of people employed, the entrepreneurial attitudes and behaviours motives for starting their businesses, sources of capital, and attitude towards risk (see Appendix A). On entrepreneurial/business performance questionnaire items focused on gross turnover, gross profit margin, business longevity (number of years the business has been in existence) and growth in employee numbers (see Appendix A).

The choice of instruments to measure a concept depends on factors such as credibility, reliability, validity, measurability and cost (Rao, 2004:169). Some instruments that have been used to measure ethnicity and entrepreneurship have been used in other parts of the world but not much has been done to see how they are applicable in the South African context. The objective of this study was to assess how the ethnicity of the four main groups (Tswana, Afrikaner, Indian and Coloured) entrepreneurs in the Naledi Local Municipal area influences their entrepreneurial behaviour and performance.

#### 4.6.4 ENSURING CREDIBILITY OF THE RESEARCH

To ensure that the research and its outcomes were credible, the researcher ensured that the measuring instruments complied with what Cooper and Schindler (2001) cited in Dzansi (2004:187) referred to as “Good test”. Good test according to them is based on the *validity* and *reliability* of the instrument used. To ensure optimum reliability and validity, Rao (2004:173) suggests that multiple items should be used to measure the key constructs. In this study the questionnaires were in five parts which were:

- Part 1 covered the personal information of the entrepreneurs;
- Part 2 was on the background of their businesses, and



- Part 3 on business practices with the two sub sections:  
Part 3A - business networks  
Part 3B – employment practices
- Part 4 was on source of business finance
- Part 5 was on attitude/behaviour towards risk
- Part 6 measured business performance

#### **4.6.4.1 Ensuring validity**

Any valid study should represent the qualities of the larger population to which the final results are to be generalized. There are different forms of validity according to Blumberg, *et al.* (2008:447) but the main ones are external and internal validity. External validity according to them refers to the data's ability to be generalized across persons, settings and times. Internal validity which is being considered here, is the ability of a research instrument to measure what it purports to measure, i.e. does the instrument really measure what its designer claims it does? Some ways that are used to ensure/determine internal validity are to ensure content validity, criterion-related validity and construct validity.

#### ***Ensuring content validity (Experts and what they were asked to do)***

Blumberg *et al.* (2008:449) suggest that content validity refers to the extent to which a measuring instrument provides adequate coverage of the investigative questions guiding the study. They add that a researcher can reasonably assure validity by one's own judgment as well as using a panel of expert judges. The researcher used own judgment after careful literature review on the work of experts in the area of study as well as consulting three experts in the area of entrepreneurship. The instruments were also examined by external experts and the research supervisor who is an expert in the field of entrepreneurship research. This ensured that the most important aspects of entrepreneurship and ethnicity were covered by the research instruments used.

### ***Ensuing criterion-related validity***

Blumberg *et al.*, (2008:451) state that criterion-related validity reflects the success of measures used for prediction or estimation. Terre Blanche and Durrheim (2002:83) on the same matter refer to criterion related-validity as the degree to which a measure is related to some other standard or criterion that is known to indicate the correct construct accurately. Blumberg *et al.* (2008:451) indicate that one source suggests that any criterion measure must be judged in terms of four qualities which are:

- Relevance;
- Freedom from bias;
- Reliability; and
- Availability

This was ensured in this study by using different variables that have been proven to measure ethnic entrepreneurial behaviour on the basis of some of the cultural, middleman, ethnic enclave and interactive theories as Waldinger suggested (Waldinger *et al.* 1996). The questionnaire that was used to measure ethnicity and entrepreneurship in this study was adapted from Basu and Altinay (2004).

### ***Ensuring construct validity***

Leedy and Ormord (2005:92) define construct validity as the extent to which an instrument measures a characteristic that cannot be directly observed but must instead be inferred from patterns in people's behaviour. To ensure this, the concepts and variables were operationally defined. The researcher used questionnaire items which had been tested in other studies elsewhere and were adapted to the South African context.

## **Reliability of instruments**

Blumberg *et al.*, (2008:455) note that reliability means many things to many people but suggest that generally, a measure is reliable when it supplies consistent results. They note that reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error. Wilson (2010:117) identified subject error; time error; observer error; and observer bias as potential risks to reliability.

To minimize the above errors which could pose threats to the reliability in this study, the researcher ensured that the research assistants were properly trained and given specific instructions to minimize observer error. Also, the research assistants assisted entrepreneurs in filling the questionnaire where there was a need. The research assistants interpreted the questions to those who could not understand English well in their local languages thereby minimizing subject errors. Prior arrangements were made with the respondents about the time that would be convenient to them for the research assistants to meet them for them to complete the questionnaire. Choosing their own convenient time minimised time errors.

Table 4.2: Summary of reliability estimates

Coefficient	What is measured	Methods and type
Stability	Reliability of a test is inferred from subject scores. The same test is administered twice to same subject over a period less than six months	Correlation; test-retest
Equivalent	Degree to which alternative forms of the same measure produce same or similar results. Administered simultaneously without a delay.	Correlation, parallel forms
Internal consistency	Degree to which instrument items are homogenous and reflect the same underlying constructs	Specialised correlation: split half, KR20 and Cronbach's alpha

Source: Cooper and Schindler (2008:293)

Using Cronbach alpha, the reliability of the instrument for this study comprised 4 sections of the instrument having reliability values 0.715, 0.875, 0.898, 0.619 and 0.603. Some sections of the instrument especially in sections 1 and 4 had low Alpha values (see 5.2.4 and 5.2.5 in Chapter 5). From the general acceptability of Cronbach alpha value, the reliability coefficient of the overall instrument is taken to be high enough for the use of the instrument in this study.

### ***Factor analysis***

In this study, factor analysis was used to confirm the validity and reliability of the instruments (questionnaire). Factor analysis according Cooper and Schindler (2008:292) is firstly used to reduce the number of variables and secondly to detect structure in the relationship between variables as well as to discover the underlying constructs that explain the variance. The Cronbach alpha coefficient ( $\alpha$ ) provides a measure of internal consistency. It is able to estimate the proportion of true score variance that is captured by items comparing the sum of the item variance with the variance of the sum scale. It is computed as:  $\alpha = (k / (k-1)) [1 - \sum (S^2_{i}) / S^2_{sum}]$ .

If the score of the coefficient alpha will be zero there is no true score but error items that are uncorrelated across subjects. On the other hand if all the items are perfectly reliable and measure the same thing (true score), then the coefficient alpha is equal to 1 (Visser, 2002:195). Factor analysis according to Kim and Muller (1988:78) can be used to check the meaning of a particular variable or element to see if it fits the construct. If it does not fit, the element may be dropped.

## 4.7 DATA ANALYSIS

The under listed steps suggested by Cooper and Schindler (2008:476) were followed for the purposes of analysis.

Table 4.4: Steps in data analysis.

STEP	ACTIVITY
1.	Prepare data, clean & code
2.	Check reliability of instrument
3.	Establish $H_0$
4.	Choose test & select level of confidence
5.	Conduct the test
6.	Obtain critical value
7.	Interpretation of results

Source: Cooper and Schindler (2008:476) with adaptations

Data analysis refers to the breaking down data such that one is able to obtain answers research questions. The process leads to the production of statistics that can be descriptive or/and inferential statistics. In this study, both descriptive and inferential statistics were produced. Whilst the descriptive statistics were used in presenting information. Descriptive statistics enables one to describe (and compare) variables numerically (Saunders, Lewis & Thornhill 2007:434) and how certain measured characteristics appear to be “on the average”, as well as the variability among different pieces of data (Leedy and Ormrod, 2005:30). In this study frequency tables and percentages were the descriptive statistics. Inferential statistics enables one to draw conclusions about a population based on the sample data (Wilson, 2010: xvi). Techniques were employed to test for existence or otherwise of significant differences in factors being investigated across ethnic groups. They include the chi-square test and Kendall’s tau.

Testing hypotheses require the use of inferential statistical techniques broadly classified as either *parametric* or *non-parametric*. Data needs to comply with certain criteria for it to

be analysed by either statistics. A key issue is that parametric statistics can only be used when the data is at least interval data (Lind, Marchal, & Wathen, 2008). This means the instrument must be so constructed that it yields at least interval scale. In this study, a mostly five point Likert scale questionnaire was used. This naturally raises issues with conservative critics who unwavering follow Stevens (1947) as cited in Knap (1990) to suggest that the Likert scale cannot be regarded as interval scale. However, as suggested by “liberals” such as Baker, Hardyk and Petrinovich (1966) and Labovitz (1967) cited in Knap (1990) just to mention a few, and confirmed by Cooper & Schindler (2008:282), social scientists do accept the Likert scale as interval scale more so when random sampling was used in selecting sample elements as in the case of this research.

In an attempt to offer some direction, Cooper and Schindler (2008:282) provide guidelines as presented in Table 4.3 below to assist researchers. In spite of this and other attempts, the debate on the data type produced by the Likert scale is far from over with no clear winner emerging (Knap, 1990).

Table 4.3: Data types and their measurement characteristics

Data type	Characteristics of data	Example	Analysis to determine
Nominal	Classification	Gender (male of female)	Equality
Ordinal	Classification and order	Well, medium, rare	Greater or lesser value
Interval	Classification, order and distance	Temperature, Likert scale	Equality of intervals
Ratio	Classification, order, distance & origin	Age, employees	Equality of ratios

Source: Cooper & Schindler (2008:282)

So much is the difference of opinion regarding data produced by the Likert scale being interval data that in the final analysis, a researcher needs to convince him or herself that the Likert scale being used has been well constructed to assume equal intervals to allow

for parametric statistics to be used (Newsome, 2013). Based on the insights gained from the forgone arguments, the researcher, supervisors and statistician agreed that although the Likert scale used complied with minimum requirements to be regarded as an interval scale, it was best to be conservative hence employ non-parametric inferential statistics if only to avoid controversy. The specific non-parametric statistics used are the chi-square test and Kendall's tau. The results are presented and discussed in Chapter 6. It is however important to mention that incidentally, application of the parametric technique ANOVA produced identical results but these are not reported.

#### **4.8 CHAPTER SUMMARY**

This chapter presented the research methodology employed for the empirical part of the study. The chapter covered the underlying research philosophy, the research hypotheses that were tested, and the research design. The chapter also outlined and explained the sampling techniques, the data collection methods, data analysis as well as how validity and reliability were ensured. Chapter 5 presents the analysis, discussions and the findings.

## CHAPTER 5: RESULTS AND DISCUSSION

### 5.1 INTRODUCTION

As indicated in Chapters 1 and 4, the purpose of the study was to investigate the impact of ethnicity on entrepreneurial behaviour and attitudes and SMME performance in the Naledi Local Municipality in the North West Province of South Africa. The previous chapters served three purposes. Chapter 1 provided an overview of the entire study whilst Chapters 2 and 3 were devoted to the review of the related literature. Chapter 4 provided a detailed account of the research methodology followed. This chapter presents and discusses the findings of the empirical study.

In the data analysis that follows the researcher makes use of statistics to present the findings such as:

- Frequency tables;
- Chi-square test;
- Kendall's tau
- Factor Analysis;
- Cronbach's Alpha coefficient;
- Percentage analysis;
- Cross tabulation

### 5.2 FINDINGS

The findings are presented under the headings *response rate*, *demographics*, *variance analysis* and *factor analysis*.



### 5.2.1 RESPONSE RATE

As stated in Chapters 1 and 4, the study targeted 400 owners of SMMEs in the Naledi Local Municipal area. Of that number, 338 fully completed and correctly answered questionnaires were returned. This amounted to 84.5% response rate. Considering that the SMME literature usually indicates low response rate (OECD, 2004:13), the 84.5% response rate can be considered high.

### 5.2.2 DEMOGRAPHICS

The demographic variables considered were gender, ethnicity, economic sector of the business, ethnicity of owner, number of employees, age of the business, and form of ownership of business.

Table 5.1: Gender of owner/manager

Gender	Frequency	Percentage (%)
Male	257	61.83
Female	129	38.17
Total	338	100

Table 5.1 shows that whereas 61.83% of the respondents are males, only 31.17% are females. These figures do not reflect the general population characteristics of the country and that of the Naledi Local Municipality in the North West Province where the study was conducted. Statistics South Africa (2011:14) estimated that the total population of the North West Province to be 3,253,390 of which 49.8% was male and 50.2% female. If this represents the true gender composition of SMME ownership in the area, this picture should be of concern to local and national SMME development officials.

Table 5.2 : Ethnic group

<b>Ethnicity</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Tswana	257	76.04
Afrikaner	39	11.54
Coloured	20	5.92
Indian	22	6.50
<b>Total</b>	<b>338</b>	<b>100</b>

Table 5.2 shows that majority (76.04%) of the SMME owner/managers are Tswana, 11.54% Afrikaner, 5.9% Coloured and 6.5% Indian. These figures are somewhat in line with the demographic composition of the Naledi Local Municipal area. The only exceptions were the samples for the Indian and Coloured respondents because there are relatively few- Coloured owned businesses in the Naledi Local Municipality, whereas Indian owned businesses predominate. The latest figures from Statistics South Africa (2011:4) estimated the following racial composition for South Africa as follows: Blacks, 79.5%; Coloured, 9.0%; Asian/Indian, 2.5%; and White, 9.0%.

Table 5.3: Sectors of the economy

<b>Business sector</b>	<b>Frequency</b>	<b>Percentage</b>
Manufacturing	27	8.0
Wholesale	14	4.1
Retail	103	30.5
Transport	61	18.0
Catering	54	16.0
Other (hair salons, ITC centres, taverns, mortuaries etc.)	79	23.4
<b>Total</b>	<b>338</b>	<b>100.0</b>

With 30.5% market share, retail trading appears to be the most favoured type of business in the area followed by those classified under other activities (23.4%) in Table 5.3. Wholesale trade constitutes only 4.1% of SMME activities in the NLM area. The figures from Table 5.3 are not in line with the national average of businesses in the different

sectors of the South African economy. The DTI (2008:64) shows that in 2007 the manufacturing sector constituted 12.3%, wholesale, retail and the others 51.7% and transport, storage and communications 5.3% in the informal sector. In the formal sector the corresponding figures are 11.3% for manufacturing, 51.7 for wholesale, retail and the others, and 22.9% for transport, storage and communication. The dominance of retail and other may be assigned to the little capital and technical skills that are required to start and operate businesses such as shops, taverns, hair salons, and so on. It should be noted that this is in the North West province which is one of the rural provinces in the country where poverty levels are high.

Table 5.4: Number of employees

<b>Number of employees</b>	<b>Frequency</b>	<b>Percentage</b>
Up to 5	247	71.3%
6-50	86	25.4%
51-100	5	1.5%
<b>Total</b>	<b>338</b>	<b>100%</b>

The data in Table 5.4 indicates that an overwhelming majority (73.1%) of the businesses are micro and very small enterprises in nature according to the South African classification. This is not surprising because it is consistent with DTI (2008:xxvi) figures which indicate that in March 2007, 36% of businesses in South Africa were micro enterprises, 46% very small enterprises, 11% small, 4% medium and 3% large enterprises. Micro and very small businesses are only able to employ fewer than five people.

Table 5.5: Form of business ownership

<b>Form of ownership</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Sole trader	205	60.7
Close Corporation	78	23.1
Private company	55	16.3
<b>Total</b>	<b>338</b>	<b>100%</b>

The most common form of business ownership according to Table 5.5 is sole proprietorship which accounts for 60.7% of all the businesses surveyed. The share of private companies accounts for only 16.3%. This probably explains why most of the businesses are small and micro in nature (Table 5.4). The findings from the empirical study in Table 5.5 are in tandem with figures from the DTI (2008:57) which show that private companies, close corporations or incorporated professionals are well defined, but they represent only a small portion of small businesses in South Africa. Many other businesses are not registered, either because they are informal or because they operate as sole proprietorships or partnerships without limited liability of their owners (DTI, 2008:57). This is not surprising since most of the businesses belong to people from the PDGs, that is, Tswana, Coloured and Indians and who may therefore not have enough resources for bigger forms of business.

### 5.2.3 CONTINGENCY TABLES ANALYSIS

As stated in Chapter 4, the decision was made to utilise a non-parametric statistics since the Likert scale can be construed to produce ordinal data that violates the basic assumptions necessary for using parametric statistical techniques. The specific test statistics deployed were the Chi-square test and Kendall's tau. The Chi-square test was done to determine whether or not statistically significant differences exist among the dependent variables (attitude towards risk, motives for engaging in entrepreneurship, sources of start-up capital, firm performance) on the basis of ethnic origin (independent variable). That is - whether or not two variables are independent. However, it is important to point out that the chi-square test statistic only tells us that differences exist between the groups but it does not tell us about nature of relation. Kendall's tau fulfils this task.

Without going into much detail, it is important to mention that in the study, two hypothesis **H<sub>0</sub>** (null hypothesis) and **H<sub>a</sub>** (alternative – diametrically opposed to the null hypothesis) were formulated. The test statistics were then identified. Then significance levels were

set. The next stage was to calculate the value of the test statistics – in this case the chi-square that yields a “*P*-value”. This is then followed by calculation of Kendall’s tau “ $\tau_B$ ”.

Using chi-square test, the decision criterion was set that: if the calculated *P*-value is less than the assigned significance level, the null hypothesis would be rejected. On the other hand, if *P*-value was greater than significance level we do not reject the null hypothesis. The *P*-value which is a quantitative measure was then used in decision making process. In this study, the significant level was set at 0.05 with the interpretation of calculated *P*-values being:  $P < 0.05$  meaning evidence against  $H_0$  (reject  $H_0$ ); and  $P > 0.05$  means evidence support for  $H_0$  (accept  $H_0$ ). Once this was concluded, there was need to determine whether or not the variables are correlated. Kendall’s tau is a non-parametric statistics that is often used to test for correlation when categorical data is involved. In this study Kendall’s tau test was used where the null hypotheses were tested – the variables are not correlated when  $\tau_B = 0$ . The alternative hypothesis is that the variables are correlated when  $\tau_B \neq 0$ . That is,  $H_0: \tau_B = 0$ ; and  $H_a: \tau_B \neq 0$ .

To recapitulate, the range of hypotheses of the study are:

H1<sub>o</sub>: There are no significant differences in owner’s motives for venturing into entrepreneurship based on ethnicity.

H1<sub>a</sub>: There are significant differences in owners motives for venturing into entrepreneurship based on ethnicity.

H2<sub>o</sub>: There are no significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.

H2<sub>a</sub>: There are significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.

H3<sub>o</sub>: There are no significant differences in owner's behaviour/ attitude towards business risks based on the ethnicity of owner.

H3<sub>a</sub>: There are significant differences in owner's behaviour / attitude towards business risks based on the ethnicity of owner.

H4<sub>o</sub>: There are no significant differences in the performance of SMMEs based on the ethnicity of owner.

H4<sub>a</sub>: There are significant differences in the performance of SMMEs based

#### **5.2.3.1 Owner's motives for venturing into entrepreneurship based on ethnicity**

The researcher wanted to know whether ethnicity influences owner's motives for starting an own business. The researcher assigned ten items to entrepreneurial motives. Ethnicity is the predictor (independent) variable and entrepreneurial motive is the outcome (dependent) variable. The hypothesis tested was:

H1<sub>o</sub>: There are no significant differences in owner's motives for venturing into entrepreneurship based on ethnicity.

H1<sub>a</sub>: There are significant differences in owners motives for venturing into entrepreneurship based on ethnicity.

The statistical analysis using chi-square test statistic is presented in Table 5.6 below. The results from Table 5.6 indicate that there is a statistically significant difference between the four groups in terms of all the measures (items) of entrepreneurial as determined by the chi-square test where the P-values are less than the level of significant 0.05, thus there is enough statistical evidence that owners' motives for venturing into entrepreneurship differ based on ethnicity. Ten questionnaire items measured entrepreneurial motivation and all items returned significant differences. The results are presented for each item in Table 5.6 below.

**Item analysis on the factor: Motivation to start business**

**Motive: To gain recognition and have influence in community**

Table 5.6.1b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore, we conclude that there is a difference in level of agreement with *to gain recognition and have influence in community* as a reason for business between respondents from different ethnic groups. To examine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

Table 5.6.1a: Ethnic group of origin versus to gain recognition and have influence in community

Ethnic group of origin		To gain recognition and have influence in community					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	0	7	26	174	50	257
	% within Ethnic group of origin	0.0%	2.7%	10.1%	67.7%	19.5%	100.0%
Coloured	Count	0	0	11	9	0	20
	% within Ethnic group of origin	0.0%	0.0%	55.0%	45.0%	0.0%	100.0%
Afrikaner	Count	6	27	6	0	0	39
	% within Ethnic group of origin	15.4%	69.2%	15.4%	0.0%	0.0%	100.0%
Indian	Count	1	19	2	0	0	22
	% within Ethnic group of origin	4.5%	86.4%	9.1%	0.0%	0.0%	100.0%

Table 5.6.1b: Chi-Square Test for differences in to gain recognition and have influence in community

	Value	df	Asymp. Sig. (2-sided) - F value
Pearson Chi-Square	298.160 <sup>a</sup>	12	.000*
Likelihood Ratio	265.153	12	.000
Linear-by-Linear Association	196.908	1	.000
N of Valid Cases	338		

Table 5.6.1c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.685			.000
	Kendall's tau-b	-.644	.028	-12.370	.000*
Ordinal by Ordinal	Kendall's tau-c	-.436	.035	-12.370	.000
	N of Valid Cases	338			

Table 5.6.1c shows that the calculated tau value is  $\tau_B = -0.644$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that respondents from the Afrikaner and Indian group from the crosstab above disagree with *to gain recognition and have influence in community* as a reason for starting business while Tswanas and Coloureds groups from the crosstab above agree with *to gain recognition and have influence in community* as a reason for starting business. Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.6.1a). In conjunction with the Kendall tau results (Table 5.6.1c), one can say: for Tswanas, and to some extent Coloureds, gaining community influence and recognition is an important motivating factor for engaging in entrepreneurship while for Afrikaner and Indian this is not the case. One possible explanation is the role of community in the cultural settings of different groups.

**Motive: To promote welfare of my community and ethnic group**

Table 5.6.2b shows that the calculated P-value for chi-square test is less than the critical value of 0.05. So, it can reasonably be conclude that there is a difference in level of agreement with *to promote welfare of my community and ethnic group* as a reason for business between respondents from different ethnic groups. The nature of the observed are explored further through the Kendall's tau b.

Table 5.6.2a: Ethnic group vs to promote welfare of my community & ethnic group

Ethnic group of origin		To promote welfare of my community & ethnic group					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	0	3	41	176	37	257
	% within Ethnic group of origin	0.0%	1.2%	16.0%	68.5%	14.4%	100.0%
Coloured	Count	0	4	10	6	0	20
	% within Ethnic group of origin	0.0%	20.0%	50.0%	30.0%	0.0%	100.0%
Afrikaner	Count	10	25	4	0	0	39
	% within Ethnic group of origin	25.6%	64.1%	10.3%	0.0%	0.0%	100.0%
Indian	Count	0	10	8	4	0	22
	% within Ethnic group of origin	0.0%	45.5%	36.4%	18.2%	0.0%	100.0%



Table 5.6 2b: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	272.941 <sup>a</sup>	12	.000
Likelihood Ratio	234.789	12	.000
Linear-by-Linear Association	155.784	1	.000
N of Valid Cases	338		

Table 5.6.2c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.668			.000
Ordinal by Ordinal	Kendall's tau-b	-.599	.030	-12.123	.000
	Kendall's tau-c	-.403	.033	-12.123	.000
N of Valid Cases		338			

Table 5.6.2c depicts that the calculated tau value is  $\tau_B = -0.59$  with corresponding P- value equal to zero implying that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that most respondents from the Afrikaner and Indian group from the crosstab above disagree with *to promote welfare of my community and ethnic group* as a reason for business. Using percentage analysis one can notice the pattern in the rating for each group (Table 5.6.2a). In conjunction with the Kendall tau results in (Table 5.6.2c), one can say: for most Tswanas (82.9%) *to promote welfare of my community and ethnic group* is an important motivating factor for engaging in entrepreneurship while for most of the Afrikaner respondents and to some extent Indians this is not much the case. Coloureds do appear be influenced by community considerations. One possible explanation is similar to the argument advanced in 5.6.1a that culture could be a reason.

### **Motive: To achieve something**

Table 5.6.3b shows that the calculated P-value for chi-square test is less than the critical value of 0.05. So, it can be concluded that there is a difference in level of agreement with *to achieve something* between respondents from different ethnic groups. The nature of the observed differences are explored further through the Kendall's tau b.

Table 5.6.3a: Ethnic group of origin vs to achieve something

Ethnic group of origin		To achieve something			Total
		Undecided	Agree	Strongly agree	
Tswana	Count	6	219	32	257
	% within Ethnic group of origin	2.3%	85.2%	12.5%	100.0%
Coloured	Count	1	19	0	20
	% within Ethnic group of origin	5.0%	95.0%	0.0%	100.0%
Afrikaner	Count	0	17	22	39
	% within Ethnic group of origin	0.0%	43.6%	56.4%	100.0%
Indian	Count	0	13	9	22
	% within Ethnic group of origin	0.0%	59.1%	40.9%	100.0%
Total	Count	7	268	63	338
	% within Ethnic group of origin	2.1%	79.3%	18.6%	100.0%

Table 5.6.3b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	56.051 <sup>a</sup>	6	.000
Likelihood Ratio	50.698	6	.000
Linear-by-Linear Association	34.576	1	.000
N of Valid Cases	338		

Table 5.6.3c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.377			.000
	Kendall's tau-b	.285	.058	4.491	.000
Ordinal by Ordinal	Kendall's tau-c	.157	.035	4.491	.000
N of Valid Cases		338			

Table 5.6.3c depicts that the calculated tau value is  $\tau_B = 0.285$  with corresponding P-value equal to zero implying that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that respondents from the groups from the crosstab above differ with *to achieve something* as a reason for business. Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.6.3a). In conjunction with the Kendall tau results (Table 5.6.3c), one can say: for all the groups, *to achieve something* is an important motivating factor for engaging in entrepreneurship. However, Table 5.3.6a suggests that it is more important for Afrikaners and Indians than for Tswanas and Coloureds. It can therefore be concluded that Need for Achievement motivates the four ethnic group members to engage in

entrepreneurship. However, this need appears higher in Afrikaners and Indians than among Tswanas and Coloureds

**Motive: To develop an idea for a product/business**

Table 5.6.4b shows that the calculated P-value for chi-square test is less than the critical value of 0.05. So it is concluded that there is a statistically significant difference in level of agreement with *to develop an idea for a product/business* as a reason for entering into business between respondents from the different ethnic groups. To determine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

Table 5.6.4a: Ethnic group of origin vs to develop an idea for a product/business

Ethnic group of origin		To develop an idea for a product/business				Total
		Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	2	54	191	10	257
	% within Ethnic group of origin	0.8%	21.0%	74.3%	3.9%	100.0%
Coloured	Count	0	6	14	0	20
	% within Ethnic group of origin	0.0%	30.0%	70.0%	0.0%	100.0%
Afrikaner	Count	0	0	5	34	39
	% within Ethnic group of origin	0.0%	0.0%	12.8%	87.2%	100.0%
Indian	Count	0	2	14	6	22
	% within Ethnic group of origin	0.0%	9.1%	63.6%	27.3%	100.0%

Table 5.6.4b: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	194.745 <sup>a</sup>	9	.000
Likelihood Ratio	147.856	9	.000
Linear-by-Linear Association	64.171	1	.000
N of Valid Cases	338		

Table 5.6.4c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.605			.000
Ordinal by Ordinal	Kendall's tau-b	.396	.050	6.795	.000
	Kendall's tau-c	.237	.035	6.795	.000
N of Valid Cases		338			

Table 5.6.4c depicts that the calculated tau value is  $\tau_B = 0.396$  with corresponding P-value equal to zero implying that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that respondents from the Afrikaner and Indian group from the crosstab above agree more with *to achieve something* as a reason for business than Tswanas and Coloureds. Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.6.4a). In conjunction with the Kendall tau results (Table 5.6.4c), one can say: All the Afrikaner respondents followed by 90.9% of Indians agreed that, *to develop an idea for a product/business* is an important motivating factor for engaging in entrepreneurship. Although most of the Tswanas (78.2%) and Coloured (70%) either agreed or strongly agreed with the statement, the percentages are relatively smaller than for Afrikaners and Indians. The possible explanation for the higher percentages among Afrikaners and Indians is that survival is not a major motive for them.

### **Motive: To survive**

Table 5.6.5b shows that the calculated P-value for chi-square test is less than the critical value of 0.05. Therefore we conclude that there is a difference in level of agreement with *to survive* as a reason for business between respondents from different ethnic groups. To determine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

Table 5.6.5a: Ethnic group of origin vs to survive

Ethnic group of origin		To survive					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	0	0	3	155	99	257
	% within Ethnic group of origin	0.0%	0.0%	1.2%	60.3%	38.5%	100.0%
Coloured	Count	0	0	0	9	11	20
	% within Ethnic group of origin	0.0%	0.0%	0.0%	45.0%	55.0%	100.0%
Afrikaner	Count	18	17	4	0	0	39
	% within Ethnic group of origin	46.2%	43.6%	10.3%	0.0%	0.0%	100.0%
Indian	Count	0	7	12	2	1	22
	% within Ethnic group of origin	0.0%	31.8%	54.5%	9.1%	4.5%	100.0%

Table 5.6.5b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	411.738 <sup>a</sup>	12	.000
Likelihood Ratio	304.694	12	.000
Linear-by-Linear Association	174.540	1	.000
N of Valid Cases	338		

Table 5.6.5c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.741			.000
Ordinal by Ordinal	Kendall's tau-b	-.503	.041	-9.248	.000
	Kendall's tau-c	-.340	.037	-9.248	.000
N of Valid Cases		338			

Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.6.5a). In conjunction with the Kendall tau results (Table 5.6.5c), one can say: most of Tswanas and Coloureds agreed with the statement *to survive*. Very few Indians and no Afrikaner cited this as a motive for starting a business. The possible explanation for the higher percentages among Afrikaners and Indians is that survival is not a major motive for them.

### **Motive: to have access to resources**

Table 5.6.6b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *to have access to resources* as a reason for business between respondents from different ethnic groups.

Table 5.6.6a: Ethnic group of origin vs to have access to resources

Ethnic group of origin		To have access to resources				Total
		Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	0	14	228	15	257
	% within Ethnic group of origin	0.0%	5.4%	88.7%	5.8%	100.0%
Coloured	Count	0	1	19	0	20
	% within Ethnic group of origin	0.0%	5.0%	95.0%	0.0%	100.0%
Afrikaner	Count	1	0	13	25	39
	% within Ethnic group of origin	2.6%	0.0%	33.3%	64.1%	100.0%
Indian	Count	0	2	16	4	22
	% within Ethnic group of origin	0.0%	9.1%	72.7%	18.2%	100.0%

Table 5.6.6b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	115.229 <sup>a</sup>	9	.000
Likelihood Ratio	83.785	9	.000
Linear-by-Linear Association	27.384	1	.000
N of Valid Cases	338		

Table 5.6.6c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.504			.000
	Kendall's tau-b	.303	.062	4.436	.000
Ordinal by Ordinal	Kendall's tau-c	.143	.032	4.436	.000
N of Valid Cases		338			

Table 5.6.6c shows that the calculated tau value is  $\tau_B = 0.303$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that respondents from all the groups from the crosstab above agree with *to have access to resources* as a reason for starting business although the different groups differ in their rate of responses. Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.6.6a). In conjunction with the Kendall tau results (Table 5.6.6c), one can say: Most of the respondents from all the four groups agreed that *to have access to resources* is an important motivating factor for engaging in entrepreneurship. One possible explanation could be that having access to resources is natural for people from all backgrounds. There were differences between the groups however.

**Motive: to have greater flexibility in private life**

Table 5.6.7b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *to have greater flexibility* for my private life as a reason for business between respondents from different ethnic groups. To examine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

**Table 5.6.7a: Ethnic group of origin vs to have greater flexibility in private life**

Ethnic group of origin		To have greater flexibility for private life				Total
		Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	8	56	186	7	257
	% within Ethnic group of origin	3.1%	21.8%	72.4%	2.7%	100.0%
Coloured	Count	2	8	10	0	20
	% within Ethnic group of origin	10.0%	40.0%	50.0%	0.0%	100.0%
Afrikaner	Count	0	0	5	34	39
	% within Ethnic group of origin	0.0%	0.0%	12.8%	87.2%	100.0%
Indian	Count	0	2	14	6	22
	% within Ethnic group of origin	0.0%	9.1%	63.6%	27.3%	100.0%

**Table 5.6.7b: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	217.790 <sup>a</sup>	9	.000
Likelihood Ratio	163.667	9	.000
Linear-by-Linear Association	58.237	1	.000
N of Valid Cases	338		

**Table 5.6.7c: Symmetric Measures**

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.626			.000
Ordinal by Ordinal	Kendall's tau-b	.368	.052	6.276	.000
	Kendall's tau-c	.228	.036	6.276	.000
N of Valid Cases		338			

Table 5.6.7c shows that the calculated tau value is  $\tau_B = 0.36$  with corresponding P- value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that respondents

from the Afrikaner group from the crosstab above agree more with *to have greater flexibility for my private life* as a reason for starting business while for Tswanas and Coloureds and Indians, this is not a very important a reason for starting business. Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.6.7a). In conjunction with the Kendall tau results (Table 5.6.7c), one can say: *to have greater flexibility for private life* as an important motivating factor for engaging in entrepreneurship is cited by more Afrikaners and Indians than their Tswana and Coloured counterparts. One possible explanation is that Afrikaners are from cultural backgrounds that are known to subscribe to having private lives as compared to Blacks who tend to be more communal and collectivist in behaviour.

**Motive: to have freedom to adapt my own approach to work**

Table 5.6.8b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *to have freedom to adapt my own approach to work* among the ethnic groups. To examine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

Table 5.6.8a: Ethnic group of origin vs to have freedom to adapt my own approach to work

Ethnic group of origin		To have freedom to adapt my own approach to work				Total
		Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	8	55	189	5	257
	% within Ethnic group of origin	3.1%	21.4%	73.5%	1.9%	100.0%
Coloured	Count	1	7	11	1	20
	% within Ethnic group of origin	5.0%	35.0%	55.0%	5.0%	100.0%
Afrikaner	Count	0	0	2	37	39
	% within Ethnic group of origin	0.0%	0.0%	5.1%	94.9%	100.0%
Indian	Count	0	2	15	5	22
	% within Ethnic group of origin	0.0%	9.1%	68.2%	22.7%	100.0%



Table 5.6.8b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	247.520 <sup>a</sup>	9	.000
Likelihood Ratio	185.801	9	.000
Linear-by-Linear Association	66.277	1	.000
N of Valid Cases	338		

Table 5.6.8c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.650			.000
	Kendall's tau-b	.410	.050	7.049	.000
Ordinal by Ordinal	Kendall's tau-c	.252	.036	7.049	.000
N of Valid Cases		338			

Table 5.6.8c shows that the calculated tau value is  $\tau_B = 0.41$  with corresponding P- value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis, one can notice the pattern in the ratings for each group (Table 5.6.8a). In conjunction with the Kendall tau results (Table 5.6.8c), one can say: for most Afrikaners, *to have freedom to adapt my own approach to work* is an important motivating factor for engaging in entrepreneurship. Although, Indians, Tswanas and Coloureds agree with this statement, it is not at the same level as the Afrikaner group.

### **Motive: frustrated in my previous job**

Table 5.6.9b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *frustrated in my previous job* as a reason for business between respondents from different ethnic groups. To examine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

Table 5.6.9a: Ethnic group of origin vs frustrated in my previous job

Ethnic group of origin		Frustrated in my previous job					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	2	49	75	126	5	257
	% within Ethnic group of origin	0.8%	19.1%	29.2%	49.0%	1.9%	100.0%
Coloured	Count	0	1	6	13	0	20
	% within Ethnic group of origin	0.0%	5.0%	30.0%	65.0%	0.0%	100.0%
Afrikaner	Count	2	14	17	5	1	39
	% within Ethnic group of origin	5.1%	35.9%	43.6%	12.8%	2.6%	100.0%
Indian	Count	1	6	13	2	0	22
	% within Ethnic group of origin	4.5%	27.3%	59.1%	9.1%	0.0%	100.0%

Table 5.6.9b: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	40.066 <sup>a</sup>	12	.000
Likelihood Ratio	44.321	12	.000
Linear-by-Linear Association	20.507	1	.000
N of Valid Cases	338		

Table 5.6.9c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.326			.000
Ordinal by Ordinal	Kendall's tau-b	-.202	.046	-4.249	.000
	Kendall's tau-c	-.139	.033	-4.249	.000
N of Valid Cases		338			

Table 5.6.9c shows that the calculated tau value is  $\tau_B = -0.202$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that respondents from the Afrikaner and Indian group from the crosstab above disagree with *frustrated in my previous job* as a reason for starting business while Tswanas and Coloureds groups from the crosstab above agree with *frustrated with my previous job* as a reason for starting business. Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.6.9a). In conjunction with the Kendall tau results (Table 5.6.1c), one can say: for most Tswanas and to some extent Coloureds, *frustrated with my previous job* is an important motivating factor for engaging in entrepreneurship while for Afrikaner and Indian this is not the case. One possible explanation could be that necessity

drives most Coloured and Tswanas to entrepreneurship as compared with opportunity in the case of most Afrikaners and Indians.

**Motive: to give myself and my family security**

Table 5.6.10b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *to give myself and my family security* as a reason for business between respondents from different ethnic groups. To determine the nature of differences, the observed differences in motives are further explored through Kendall's tau b.

**Table 5.6.10a: Ethnic group of origin vs to give myself and my family security**

Ethnic group of origin		To give myself and my family security				Total
		Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	0	0	177	80	257
	% within Ethnic group of origin	0.0%	0.0%	68.9%	31.1%	100.0%
Coloured	Count	0	2	18	0	20
	% within Ethnic group of origin	0.0%	10.0%	90.0%	0.0%	100.0%
Afrikaner	Count	0	0	20	19	39
	% within Ethnic group of origin	0.0%	0.0%	51.3%	48.7%	100.0%
Indian	Count	1	0	9	12	22
	% within Ethnic group of origin	4.5%	0.0%	40.9%	54.5%	100.0%

**Table 5.6.10b: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	64.530 <sup>a</sup>	9	.000
Likelihood Ratio	41.068	9	.000
Linear-by-Linear Association	2.731	1	.098
N of Valid Cases	338		

**Table 5.6.10c: Symmetric Measures**

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.400			.000
Ordinal by Ordinal	Kendall's tau-b	.068	.057	1.182	.237
	Kendall's tau-c	.038	.032	1.182	.237
N of Valid Cases		338			

Table 5.6.10c shows that the calculated tau value is  $\tau_B = 0.068$  with corresponding P-value equal to 0.237 meaning that Kendall's tau  $\tau_B \neq 0$ . Therefore Kendall's tau does not provide in this case the information about nature of association between variables in Table 5.6.10a.

### ***Summary for hypothesis one***

The hypothesis one was about difference in owners' motives for venturing into entrepreneurship between owners from different ethnic groups:

H1<sub>o</sub>: There are no significant differences in owners' motives for venturing into entrepreneurship based on ethnicity.

H1<sub>a</sub>: There are significant differences in owners' motives for venturing into entrepreneurship based on ethnicity.

Ten different motives were used:

- To gain recognition and have influence in community.
- To promote welfare of my community & ethnic group.
- To achieve something.
- To develop an idea for a product/business.
- To survive.
- To have access to resources.
- To have greater flexibility for private life.
- To have freedom to adapt my own approach to work.
- Frustrated in my previous job.
- To give myself and my family security.

In each one, significantly different distinct pattern was found for owners from the different populations under study. Therefore we can conclude:

H1a: There are significant differences in owners motives for venturing into entrepreneurship based on ethnicity.

This finding is significant and consistent with a number of similar findings in the South African context. For example, Urban and Van Vuuren (2008) found significant differences in the entrepreneurial motivation of 210 MBA students from various South African ethnic groups. Similarly, Van Scheers (2010) also found motivational differences among South Africans of Asian, Indian and Black ethnicity. Lately, Farrington, Gray and Sharp (2012) also found that ethnicity influences choice of entrepreneurial career in South Africa. It is interesting to note that Basu and Altinay (2012) also found differences in entrepreneurial motives among six different ethnic groups of entrepreneurs from East Africa and East Asia in London. These differences could possibly be due to the different ethnic groups having different traditions and customs which are likely to contribute to differences in entrepreneurial behaviour (Mungai & Ogot, nd).

***Item analysis on the factor: Sources of business start-up finance***

The second aim was to determine whether there are significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of the owner. Eight sources of start-up capital were examined. The hypotheses used to achieve this purpose was:

H2o: There are no significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.

H2a: There are significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.

**Source: Bank loans**

Table 5.7.1b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that statistically significant difference exist on the item *Loans –banks*. To examine the nature of differences, the observed differences in sources of start-up capital are further explored through the Kendall’s tau b.

Table 5.7.1a Ethnic group of origin vs Loans –banks

Ethnic group of origin		Loans –banks					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	78	111	28	39	1	257
	% within Ethnic group of origin	30.4%	43.2%	10.9%	15.2%	0.4%	100.0%
Coloured	Count	4	8	6	2	0	20
	% within Ethnic group of origin	20.0%	40.0%	30.0%	10.0%	0.0%	100.0%
Afrikaner	Count	0	1	0	21	17	39
	% within Ethnic group of origin	0.0%	2.6%	0.0%	53.8%	43.6%	100.0%
Indian	Count	3	6	3	10	0	22
	% within Ethnic group of origin	13.6%	27.3%	13.6%	45.5%	0.0%	100.0%

Table 5.7.1b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	193.004 <sup>a</sup>	12	.000
Likelihood Ratio	152.560	12	.000
Linear-by-Linear Association	72.738	1	.000
N of Valid Cases	338		

Table 5.7.1c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.603			.000
Ordinal by Ordinal	Kendall's tau-b	.385	.042	7.909	.000
	Kendall's tau-c	.279	.035	7.909	.000
N of Valid Cases		338			

Table 5.7.1c shows that the calculated tau value is  $\tau_B = 0.385$  with corresponding P- value equal to zero meaning that Kendall’s tau  $\tau_B \neq 0$ . It is therefore more likely that respondents from the Afrikaner and Indian group from the crosstab above are more likely to agree with

*loans from banks* as a major source of business start-up. Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.7.1a). In conjunction with the Kendall tau results (Table 5.7.1a), one can say that: Afrikaner and Indian use bank loans as are major sources of business start-up. On the other hand, bank loan is not a major source of start-up capital for Tswanas and Coloureds. A possible explanation could be the stringent requirements the banks demand before granting loans as well as the collateral security they require which most Blacks and Coloureds do not have.

### **Source: loan from friends**

Table 5.7.2b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *loans from friends* as a source of business start-up between respondents from different ethnic groups. To examine the nature of differences, the observed differences are further explored through the Kendall's tau b.

**Table 5.7.2a: Ethnic group of origin vs loans – friends**

Ethnic group of origin		Loans – friends					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	16	70	73	90	7	256
	% within Ethnic group of origin	6.2%	27.3%	28.5%	35.2%	2.7%	100.0%
Coloured	Count	1	7	7	5	0	20
	% within Ethnic group of origin	5.0%	35.0%	35.0%	25.0%	0.0%	100.0%
Afrikaner	Count	6	12	12	9	0	39
	% within Ethnic group of origin	15.4%	30.8%	30.8%	23.1%	0.0%	100.0%
Indian	Count	0	1	2	17	2	22
	% within Ethnic group of origin	0.0%	4.5%	9.1%	77.3%	9.1%	100.0%

**Table 5.7.2b: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	32.003 <sup>a</sup>	12	.001
Likelihood Ratio	33.452	12	.001
Linear-by-Linear Association	2.029	1	.154
N of Valid Cases	337		

Table 5.7.2c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.294			.001
Ordinal by Ordinal	Kendall's tau-b	.034	.051	.663	.507
	Kendall's tau-c	.024	.036	.663	.507
N of Valid Cases		337			

Table 5.7.2c shows that the calculated tau value is  $\tau_B = 0.034$  with corresponding P- value equal to 0.507 meaning that Kendall's tau  $\tau_B = 0$ . Therefore Kendall's tau does not provide in this case the information about nature of association between variables in Table 5.7.2a. Table 5.7.2a clearly shows that only one ethnic group - Indians (with 86.4% saying agree or strongly agree), can be said to rely on loans from friend as a start-up capital. It is however difficult to assign any meaning to the figures for Afrikaners, Tswanas and Coloureds.

**Source: loan agencies**

Table 5.7.3b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore, we conclude that there is a difference in level of agreement with the use of *loan agencies* as a source of business start-up between respondents from different ethnic groups. To examine the nature of differences, the observed differences in sources of business start -up are further explored through the Kendall's tau b.

5.7.3a: Ethnic group of origin vs Loan – agencies

Ethnic group of origin		Loan – agencies				Total
		Strongly disagree	Disagree	Undecided	Agree	
Tswana	Count	76	115	45	21	257
	% within Ethnic group of origin	29.6%	44.7%	17.5%	8.2%	100.0%
Coloured	Count	7	12	1	0	20
	% within Ethnic group of origin	35.0%	60.0%	5.0%	0.0%	100.0%
Afrikaner	Count	5	12	13	9	39
	% within Ethnic group of origin	12.8%	30.8%	33.3%	23.1%	100.0%
Indian	Count	8	11	3	0	22
	% within Ethnic group of origin	36.4%	50.0%	13.6%	0.0%	100.0%



### 5.7.3b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	26.962 <sup>a</sup>	9	.001
Likelihood Ratio	28.722	9	.001
Linear-by-Linear Association	1.402	1	.236
N of Valid Cases	338		

### 5.7.3c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.272			.001
Ordinal by Ordinal	Kendall's tau-b	.059	.049	1.197	.232
	Kendall's tau-c	.041	.034	1.197	.232
N of Valid Cases		338			

Table 5.6.1c shows that the calculated tau value is  $\tau_B = 0.059$  with corresponding P- value equal to 0.232 meaning that Kendall's tau  $\tau_B = 0$ . Therefore Kendall's tau does not provide in this case the information about nature of association between variables in Table 5.7.3a. Using percentage analysis one can say: None of the Coloured and Indian respondents indicated the use of this source as business start-up. Few Afrikaners and Tswanas cited this source for business start-up. This observation needs further investigation as media and government sources repeatedly describe various agencies that offer support and business start-up for SMMEs.

### **Source: loans from relatives**

Table 5.7.4b shows that statistically significant difference exist on the item *loan- relatives* since the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *loan- relatives* as a reason a source of business start-up between respondents from different ethnic groups. To determine the nature of differences, the observed differences are further explored through the Kendall's tau b and contingency table.

### 5.7.4a: Ethnic group of origin vs loans – relatives

Ethnic group of origin		Loans – relatives					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	10	55	68	107	17	257
	% within Ethnic group of origin	3.9%	21.4%	26.5%	41.6%	6.6%	100.0%
Coloured	Count	0	1	10	9	0	20
	% within Ethnic group of origin	0.0%	5.0%	50.0%	45.0%	0.0%	100.0%
Afrikaner	Count	6	8	11	12	2	39
	% within Ethnic group of origin	15.4%	20.5%	28.2%	30.8%	5.1%	100.0%
Indian	Count	0	2	1	16	3	22
	% within Ethnic group of origin	0.0%	9.1%	4.5%	72.7%	13.6%	100.0%

### 5.7.4b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	32.950 <sup>a</sup>	12	.001
Likelihood Ratio	34.177	12	.001
Linear-by-Linear Association	.903	1	.342
N of Valid Cases	338		

### 5.7.4c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.298			.001
Ordinal by Ordinal	Kendall's tau-b	.038	.050	.762	.446
	Kendall's tau-c	.027	.035	.762	.446
N of Valid Cases		338			

As Table 5.7.4c shows, the calculated tau is  $\tau_B = 0.038$  with corresponding P- value equal to 0.446 meaning that Kendall's tau  $\tau_B = 0$ . Therefore Kendall's tau does not provide in this case the information about nature of association between variables in Table 5.7.4a.

Using percentage analysis one can say: respondents from the four groups use 'Loans – from relatives' as business start-up capital although not at the same level. One can infer from Table 5.7.4a that Indians (86.3%) use loans from relatives the most followed by Coloureds (45%), Tswanas (41.6%) and Afrikaners (30.8%) in that order. One possible reason could be that trust and a sense of ease exists with family.

**Source: Own savings**

Table 5.7.5b shows that statistically significant difference exists on the item *own savings* because the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in the level of agreement with *own savings* as a source of business start- between respondents from different ethnic groups. To determine the nature of differences, the observed differences are further explored through the Kendall's tau b.

**Table 5.7.5a: Ethnic group of origin vs own savings**

Ethnic group of origin		Own savings					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	0	11	40	179	27	257
	% within Ethnic group of origin	0.0%	4.3%	15.6%	69.6%	10.5%	100.0%
Coloured	Count	0	1	1	17	1	20
	% within Ethnic group of origin	0.0%	5.0%	5.0%	85.0%	5.0%	100.0%
Afrikaner	Count	1	0	0	15	23	39
	% within Ethnic group of origin	2.6%	0.0%	0.0%	38.5%	59.0%	100.0%
Indian	Count	0	0	0	17	5	22
	% within Ethnic group of origin	0.0%	0.0%	0.0%	77.3%	22.7%	100.0%

**5.7.5b: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	77.493 <sup>a</sup>	12	.000
Likelihood Ratio	68.940	12	.000
Linear-by-Linear Association	25.788	1	.000
N of Valid Cases	338		

**5.7.5c: Symmetric Measures**

	Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal    Contingency Coefficient	.432			.000
Ordinal by Ordinal    Kendall's tau-b	.289	.045	5.762	.000
Kendall's tau-c	.173	.030	5.762	.000
N of Valid Cases	338			

Table 5.7.5c shows that the calculated tau value is  $\tau_B = 0.289$  with corresponding P- value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice

the pattern in the ratings for each group (Table 5.7.5a). In conjunction with the Kendall tau results (Table 5.7.5c), one can say: *own savings* as business start-up capital is a common practice by all the four groups although not at the same level. One can see that the level of usage is highest among Indians with (100%) closely followed by Afrikaners (97.5%), Coloureds (90%) and somewhat distant by Tswanas (80.1%). The most possible reason for the high level of own resource usage could be that people from all backgrounds would want to use their own resources for their businesses if possible. Circumstances force those who do not have or do not have enough to look elsewhere.

**Source: Credit rotation (stokvel)**

Table 5.7.6b shows that statistically significant difference exists on the item *credit rotating associations (stokvel)* since Table 5.7.6b shows that the calculated P-value for chi-square test is less than the critical value 0.05. To examine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

Table 5.7.6a: Ethnic group of origin vs credit rotating associations (stokvel)

Ethnic group of origin		Credit rotating associations (stokvel)					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	2	20	42	127	66	257
	% within Ethnic group of origin	0.8%	7.8%	16.3%	49.4%	25.7%	100.0%
Coloured	Count	1	10	4	5	0	20
	% within Ethnic group of origin	5.0%	50.0%	20.0%	25.0%	0.0%	100.0%
Afrikaner	Count	25	14	0	0	0	39
	% within Ethnic group of origin	64.1%	35.9%	0.0%	0.0%	0.0%	100.0%
Indian	Count	3	11	6	2	0	22
	% within Ethnic group of origin	13.6%	50.0%	27.3%	9.1%	0.0%	100.0%

Table 5.7.6b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	256.050 <sup>a</sup>	12	.000
Likelihood Ratio	223.979	12	.000
Linear-by-Linear Association	142.490	1	.000
N of Valid Cases	338		

Table 5.7.6c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.657			.000
Ordinal by Ordinal	Kendall's tau-b	-.557	.027	-12.736	.000
	Kendall's tau-c	-.406	.032	-12.736	.000
N of Valid Cases		338			

Table 5.7.6c shows that the calculated tau value is  $\tau_B = -0.557$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.7.6a). In conjunction with the Kendall tau results (Table 5.7.6c), one can say: The practice is mainly with Tswana respondents followed by Coloureds. Table 5.7.6a shows that stokvel is a very popular source of financing among Tswanas (75% say either agree or strongly agree). On the other hand it can be seen from Table 5.7.6a that this source is unpopular among the other three ethnic groups. In fact no Afrikaner respondents use this as a source for business start-up. The stokvel system has been a mechanism South African Blacks have depended on over the years to pool resources so as to deal with issues such as adversity and celebrations, and for business lately. The communal way of life for most Africans probably makes stokvel a viable source as business start-up capital.

### **Source: Trade credit**

Table 5.7.7b shows that statistically significant difference exists on the item *trade credit* as Table 5.7.7b shows that the calculated P-value for chi-square test is less than the critical value 0.05. To determine the nature of differences, the observed differences are further explored through the Kendall's tau b and the cross-tab.

Table 5.7.7a: Ethnic group of origin vs trade credit

Ethnic group of origin		Trade credit					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	57	96	66	37	1	257
	% within Ethnic group of origin	22.2%	37.4%	25.7%	14.4%	0.4%	100.0%
Coloured	Count	0	4	12	4	0	20
	% within Ethnic group of origin	0.0%	20.0%	60.0%	20.0%	0.0%	100.0%
Afrikaner	Count	0	0	2	17	20	39
	% within Ethnic group of origin	0.0%	0.0%	5.1%	43.6%	51.3%	100.0%
Indian	Count	0	1	0	19	2	22
	% within Ethnic group of origin	0.0%	4.5%	0.0%	86.4%	9.1%	100.0%

Table 5.7.7b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	247.171 <sup>a</sup>	12	.000
Likelihood Ratio	208.012	12	.000
Linear-by-Linear Association	122.124	1	.000
N of Valid Cases	338		

Table 5.7.7c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.650			.000
Ordinal by Ordinal	Kendall's tau-b	.516	.028	11.864	.000
	Kendall's tau-c	.382	.032	11.864	.000
N of Valid Cases		338			

Table 5.7.7c shows that the calculated tau value is  $\tau_B = 0.516$  with corresponding P- value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.7.7a). In conjunction with the Kendall tau results (Table 5.6.1c), one can say: that whilst trade credit is popular among Indians (100%) and Afrikaners (94.6%), it is quite unpopular among Tswanas (14.8%) and to some extent Coloureds (20%). A possible explanation could be Afrikaners and Indians have networks that enable them to access this source for business.

Table 5.7.8b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with

*lease of equipment* as a source of business start-up between respondents from different ethnic groups. To examine the nature of differences, the observed differences in this source as business start-up are further explored through the Kendall's tau b.

Table 5.7.8a: Ethnic group of origin vs lease of equipment

Ethnic group of origin		Lease of equipment					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	89	101	39	28	0	257
	% within Ethnic group of origin	34.6%	39.3%	15.2%	10.9%	0.0%	100.0%
Coloured	Count	0	4	10	5	1	20
	% within Ethnic group of origin	0.0%	20.0%	50.0%	25.0%	5.0%	100.0%
Afrikaner	Count	0	2	7	12	18	39
	% within Ethnic group of origin	0.0%	5.1%	17.9%	30.8%	46.2%	100.0%
Indian	Count	0	1	10	10	1	22
	% within Ethnic group of origin	0.0%	4.5%	45.5%	45.5%	4.5%	100.0%

Table 5.7.8b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	210.935 <sup>a</sup>	12	.000
Likelihood Ratio	181.212	12	.000
Linear-by-Linear Association	113.505	1	.000
N of Valid Cases	338		

Table 5.7.8c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.620			.000
Ordinal by Ordinal	Kendall's tau-b	.508	.027	12.215	.000
	Kendall's tau-c	.374	.031	12.215	.000
N of Valid Cases		338			

Table 5.7.8c shows that the calculated tau value is  $\tau_B = 0.508$  with corresponding P- value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.7.8a). Table 5.7.8a shows that equipment lease is unpopular with Tswanas (73.9% either disagreed or strongly disagreed). One can say: most Tswanas and to and Coloureds disagreed with *lease of* as sources of start-up capital. On the contrary, most of the Afrikaner respondents (77%)

use this source followed by 50% of Indians who agreed or strongly agreed they use this source as business start-up and. The situation for Coloureds is not clear. One possible explanation could be Afrikaners and Indians have networks that enable them to access this source for business.

### ***Summary for hypothesis two***

The hypothesis two was about difference in owner's sources of start-up capital of surveyed SMMEs between owners from different ethnic groups:

H2<sub>0</sub>: There are no significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.

H2<sub>a</sub>: There are significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.

Eight different sources were used:

- Loans –banks
- Loans – friends
- Loans – agencies
- Loans – relatives
- Own savings
- Credit rotating associations (stokvel)
- Trade credit
- Lease of equipment

In each one significantly different distinct pattern was found for owners from the different populations under study. Therefore we can conclude:

H2<sub>a</sub>: There are significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owner.



This finding is significantly consistent with Mutezo (2005) who found differences in sources of start-up finance among entrepreneurs in Tshwane based on ethnic origin. In a similar study on London's immigrant entrepreneurs, Basu and Altinay (2002) found differences in sources of start-up finance among entrepreneurs of different ethnic communities. In that study, Basu and Altinay (2002) found that ethnic cultural tendencies like family ties dictated that entrepreneurs of Turkish Cypriot ethnic background only sought funding from family members rather than elsewhere. These differences show that the different ethnic groups having different traditions, customs and beliefs contribute to differences in entrepreneurial behaviour as suggested by Mungai and Ogot (nd). Thus the observed differences among the four ethnic groups in this study could be ascribed to Tswanas, Coloureds, Indians, Afrikaners having different traditions, customs and beliefs which influence where they obtain start-up finance from.

***Item analysis on factor: Attitudes/behaviour towards risk***

The researcher wanted to ascertain whether there were significant differences in entrepreneurial behaviour (attitude toward risk). The researcher randomly retained five groups of attitude towards risk. The following hypotheses were used:

H<sub>30</sub>: There are no significant differences in owner's behaviour / attitude towards business risks based on ethnicity of owner.

H<sub>3a</sub>: There are significant differences in owner's behaviour / attitude towards business risks based on the ethnicity of the owner

**Attitudes/behaviour towards losing personal assets**

Table 5.8.1b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *starting a business means a risk of losing your assets* as a business risk between

respondents from different ethnic groups. To examine the nature of differences, the observed differences in attitudes/behaviours towards risks in business are further explored through the Kendall's tau b.

Table 5.8.1a: Ethnic group of origin vs starting a business means a risk of losing your assets

Ethnic group of origin		Starting a business means a risk of losing your assets					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	0	6	64	164	23	257
	% within Ethnic group of origin	0.0%	2.3%	24.9%	63.8%	8.9%	100.0%
Coloured	Count	0	0	11	9	0	20
	% within Ethnic group of origin	0.0%	0.0%	55.0%	45.0%	0.0%	100.0%
Afrikaner	Count	2	26	11	0	0	39
	% within Ethnic group of origin	5.1%	66.7%	28.2%	0.0%	0.0%	100.0%
Indian	Count	1	8	12	1	0	22
	% within Ethnic group of origin	4.5%	36.4%	54.5%	4.5%	0.0%	100.0%

Table 5.8.1b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	201.517 <sup>a</sup>	12	.000
Likelihood Ratio	183.608	12	.000
Linear-by-Linear Association	132.196	1	.000
N of Valid Cases	338		

Table 5.8.1c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.611			.000
	Kendall's tau-b	-.545	.033	-11.049	.000
Ordinal by Ordinal	Kendall's tau-c	-.366	.033	-11.049	.000
N of Valid Cases		338			

Table 5.8.1c shows that the calculated tau value is  $\tau_B = -0.545$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that respondents from the Afrikaner and Indian group from the crosstab above disagree with *starting a business means a risk of losing your assets* as a business risk while Tswanas and Coloureds groups from the crosstab above agree with the view to a large extent.

Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.8.1a). In conjunction with the Kendall tau results (Table 5.8.1c), one can say: Most Tswanas and to some extent Coloureds agree that *starting a business means a risk of losing your assets* as against few Indians and none of the Afrikaners sharing this view. This view as a risk to be avoided by Black South Africans could be possible reason for the low levels of entrepreneurship among the previously disadvantaged groups in the country although there could be other factors as well.

### **Attitude towards risk to psychological health**

Table 5.8.2b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement with *starting a business means a risk to psychological health* as a business risk between respondents from different ethnic groups. To examine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

Table 5.8.2a: Ethnic group of origin vs starting a business means a risk to psychological health

Ethnic group of origin		Starting a business means a risk to psychological health					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	0	8	78	154	17	257
	% within Ethnic group of origin	0.0%	3.1%	30.4%	59.9%	6.6%	100.0%
Coloured	Count	0	0	11	9	0	20
	% within Ethnic group of origin	0.0%	0.0%	55.0%	45.0%	0.0%	100.0%
Afrikaner	Count	2	25	12	0	0	39
	% within Ethnic group of origin	5.1%	64.1%	30.8%	0.0%	0.0%	100.0%
Indian	Count	0	10	12	0	0	22
	% within Ethnic group of origin	0.0%	45.5%	54.5%	0.0%	0.0%	100.0%

Table 5.8.2b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	184.628	12	.000
Likelihood Ratio	173.019	12	.000
Linear-by-Linear Association	122.399	1	.000
N of Valid Cases	338		

Table 5.8.2c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.594			.000
Ordinal by Ordinal	Kendall's tau-b	<b>-0.521</b>	.034	-10.756	<b>.000</b>
	Kendall's tau-c	-0.351	.033	-10.756	.000
N of Valid Cases		338			

Table 5.8.1c shows that the calculated tau value is  $\tau_B = -0.521$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that respondents from the Afrikaner and Indian group from the crosstab above disagree with *starting a business means a risk to psychological health* as a business risk while Tswanas and Coloureds groups from the crosstab above agree with the view to a large extent.

### **Run own business at higher risk than work for someone at lower risk**

Table 5.8.3b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we can conclude that there is a difference in levels of agreement with business risk "*I would rather run my own business and face 50% chance of bankruptcy than work for another firm*" between respondents from different ethnic groups. To examine the nature of differences, Kendall's tau b and contingency table are used.

Table 5.8.3a: Ethnic group vs risk 'I would rather run my own business and face 50% chance of bankruptcy than work for another firm'

Ethnic group of origin		I would rather run my own business and face 50% chance of bankruptcy than work for another firm					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	19	64	125	48	1	257
	% within Ethnic group of origin	7.4%	<b>24.9%</b>	48.6%	18.7%	0.4%	100.0%
Coloured	Count	0	5	14	1	0	20
	% within Ethnic group of origin	0.0%	<b>25.0%</b>	70.0%	5.0%	0.0%	100.0%
Afrikaner	Count	0	0	1	22	16	39
	% within Ethnic group of origin	0.0%	0.0%	2.6%	<b>56.4%</b>	<b>41.0%</b>	100.0%
Indian	Count	0	1	0	21	0	22
	% within Ethnic group of origin	0.0%	4.5%	0.0%	<b>95.5%</b>	0.0%	100.0%

Table 5.8.3b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	223.652 <sup>a</sup>	12	.000
Likelihood Ratio	189.411	12	.000
Linear-by-Linear Association	90.458	1	.000
N of Valid Cases	338		

Table 5.8.3c: Symmetric Measures

	Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal    Contingency Coefficient	.631			.000
Ordinal by Ordinal    Kendall's tau-b	.446	.036	9.537	.000
Kendall's tau-c	.316	.033	9.537	.000
N of Valid Cases	338			

Table 5.8.3c shows that the calculated tau value is  $\tau_B = 0.446$  with corresponding P- value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.8.3a). Based on Table 5.8.3a, one can say: Indians and Afrikaners (90.5% and 96.4% respectively agreeing or strongly agreeing) are very tolerant of risk of bankruptcy associated with running own business. On the other hand, only few Tswanas (18.7%) and Coloured (5%) agree with this view. Tswanas and Coloured are therefore demonstrating risk averseness. One reason that has been assigned for this state of affairs is the observation by some commentators that Black and Coloured South Africans prefer to be employed by others rather than establishing their own businesses.

**Work for commission at higher risk with chance of making more money than safety of a fixed salary**

Table 5.8.4b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we can conclude that there is a difference in levels of agreement with business risk "I would rather work on commission which is somehow risky but where I would have the possibility of making more than on a fixed salary" between respondents

from different ethnic groups. To determine the nature of differences, the observed differences are further explored through the Kendall's tau b and cross-tab.

Table 5.8.4a: Ethnic vs rather work on risky but bigger commission than on fixed salary

Ethnic group of origin		I would rather work on commission which is somehow risky but where I would have the possibility of making more than on a fixed salary					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	21	60	126	47	3	257
	% within Ethnic group of origin	8.2%	23.3%	49.0%	18.3%	1.2%	100.0%
Coloured	Count	0	2	16	2	0	20
	% within Ethnic group of origin	0.0%	10.0%	80.0%	10.0%	0.0%	100.0%
Afrikaner	Count	0	0	1	11	27	39
	% within Ethnic group of origin	0.0%	0.0%	2.6%	28.2%	69.2%	100.0%
Indian	Count	0	1	0	21	0	22
	% within Ethnic group of origin	0.0%	4.5%	0.0%	95.5%	0.0%	100.0%

Table 5.8.4b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	286.705	12	.000
Likelihood Ratio	216.617	12	.000
Linear-by-Linear Association	98.998	1	.000
N of Valid Cases	338		

Table 5.8.4c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.677			.000
Ordinal by Ordinal	Kendall's tau-b	.469	.032	10.564	.000
	Kendall's tau-c	.335	.032	10.564	.000
N of Valid Cases		338			

Table 5.8.4c shows that the calculated tau value is  $\tau_B = 0.469$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.8.4a). From (Table 5.8.4a), one can say: with high percentages of Indians (95%) and Afrikaners (97.4%), either agreeing or strongly agreeing and only 19.5% of Tswanas and 10% of Coloureds disagreeing or strongly disagreeing, to the above statement, Afrikaners and Indians

exhibit high risk tolerance whilst Tswanas and Coloureds show high risk averseness. One reason that has been assigned for this state of affairs is the observation by some commentators that Black and Coloured South Africans prefer to be employed by others rather than establishing their own businesses as in 5.8.3a above.

### **Uncertainty associated with starting business adds excitement to life**

Table 5.8.5b shows that statistically significant difference exists on the item *uncertainty associated with starting business adds excitement to life*. Table 5.8.5b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore we conclude that there is a difference in level of agreement *with uncertainty associated with starting business adds excitement to life* as a business risk between respondents from different ethnic groups. To examine the nature of differences, the observed differences in this attitude/behaviour are further explored through the Kendall's tau b.

Table 5.8.5a: Ethnic group of origin vs uncertainty associated with starting business adds excitement to life

Ethnic group of origin		Uncertainty associated with starting a business adds excitement to life					Total
		Strongly disagree	Disagree	Undecided	Agree	Strongly agree	
Tswana	Count	7	44	146	60	0	257
	% within Ethnic group of origin	2.7%	17.1%	56.8%	23.3%	0.0%	100.0%
Coloured	Count	0	5	14	1	0	20
	% within Ethnic group of origin	0.0%	25.0%	70.0%	5.0%	0.0%	100.0%
Afrikaner	Count	0	0	1	18	20	39
	% within Ethnic group of origin	0.0%	0.0%	2.6%	46.2%	51.3%	100.0%
Indian	Count	0	0	4	17	1	22
	% within Ethnic group of origin	0.0%	0.0%	18.2%	77.3%	4.5%	100.0%

Table 5.8.5b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	214.121 <sup>a</sup>	12	.000
Likelihood Ratio	172.809	12	.000
Linear-by-Linear Association	83.742	1	.000
N of Valid Cases	338		

Table 5.8.5c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.623			.000
Ordinal by Ordinal	Kendall's tau-b	.409	.040	8.355	.000
	Kendall's tau-c	.279	.033	8.355	.000
N of Valid Cases		338			

Table 5.8.4c shows that the calculated tau value is  $\tau_B = 0.409$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.8.5a). In conjunction with the Kendall tau results (Table 5.8.5c), one can say: for most Indians and Afrikaner *uncertainty associated with starting business adds excitement to life* as an attitude towards risk in business is an important motivating factor for when establishing own business. One reason that has been assigned for could be the lack of business culture and role models among people from the Black and Coloured community.

### **Summary for hypothesis three**

The hypothesis three was about difference in owner's behaviour/ attitude towards business risks between owners from different ethnic groups:

H3<sub>o</sub>: There are no significant differences in owner's behaviour/ attitude towards business risks based on the ethnicity of owner.

H3<sub>a</sub>: There are significant differences in owner's behaviour / attitude towards business risks based on the ethnicity of owner.

Five different business risks were used:

- Starting a business means a risk of losing your assets.
- Starting a business means a risk to psychological health.



- I would rather run my own business and face 50% chance of bankruptcy than work for another firm.
- I would rather work on commission which is somehow risky but where I would have the possibility of making more than on a fixed salary.
- Uncertainty associated with starting a business adds excitement to life.

In each one significantly different distinct pattern was found for owners from the different populations under study. Therefore we can conclude:

H3a: There are significant differences in owner's behaviour / attitude towards business risks based on the ethnicity of owner.

This finding is significant and consistent with a number of similar findings in the South African context and elsewhere. For example, Van Scheers (2010) found differences in risk taking attitude among South Africans of Asian, Indian and Black ethnicity. Urban (2006) also found that differences in risk taking attitude of 150 MBA students correlated positively with entrepreneurial proclivity when ethnicity is used as a basis of analysis. It is also interesting to note that Basu and Altinay (2012) also found differences in risk taking behaviour of six different ethnic groups of entrepreneurs from East Africa and East Asia in London. These differences could possibly be due to the different ethnic groups having different traditions and customs which are likely to contribute to differences in entrepreneurial behaviour (Mungai & Ogot, nd).

***Item analysis on factor: business/entrepreneurial success/performance***

The researcher was interested in determining whether there are differences in the performance of SMMEs based on the ethnicity of the owner. The following hypotheses were used:

H4o: There are no significant differences in the performance of SMMEs based on the ethnicity of owner.

H4a: There are significant differences in the performance of SMMEs based on the ethnicity of the owner.

### **Business performance: Longevity of business**

Table 5.9.1b indicates that there is statistically significant difference between groups as indicated in the chi-square test; p-value for chi-square test is less than 0.05 level of significance. To examine the nature of differences, the observed differences in motives are further explored through the Kendall's tau b.

**Table 5.9.1a: Ethnic group of origin vs age of business**

Ethnic group of origin		Age of business					Total
		up to 1 year	2 - 5 years	6 - 10 years	11 - 20 years	21+	
Tswana	Count	39	123	69	25	1	257
	% within Ethnic group of origin	15.2%	47.9%	26.8%	9.7%	0.4%	100.0%
Coloured	Count	1	13	3	3	0	20
	% within Ethnic group of origin	5.0%	65.0%	15.0%	15.0%	0.0%	100.0%
Afrikaner	Count	0	9	14	12	4	39
	% within Ethnic group of origin	0.0%	23.1%	35.9%	30.8%	10.3%	100.0%
Indian	Count	0	5	12	3	2	22
	% within Ethnic group of origin	0.0%	22.7%	54.5%	13.6%	9.1%	100.0%

**Table 5.9.1b: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	60.384 <sup>a</sup>	12	.000
Likelihood Ratio	58.846	12	.000
Linear-by-Linear Association	39.092	1	.000
N of Valid Cases	338		

**Table 5.9.1c: Symmetric Measures**

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.389			.000
	Kendall's tau-b	.279	.042	6.017	.000
Ordinal by Ordinal	Kendall's tau-c	.195	.032	6.017	.000
	N of Valid Cases	338			

Table 5.6.1c shows that the calculated tau value is  $\tau_B = 0.279$  with corresponding P- value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . It is therefore more likely that businesses belonging to Afrikaner and Indian group from the crosstab above have survived longer than those of Tswanas and Coloureds. Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.9.9a). In conjunction with the Kendall tau results (Table 5.9.1c), one can say: Most of the businesses belonging to Tswanas and Coloureds have been in existence for less than 6 years. For businesses that have survived over 10 years, most of them are Afrikaner and Indian. The reason could be the lower survival rates of businesses in the very small and micro categories in which most of the businesses belonging to Blacks and Coloured are located.

### **Business performance: Number of employees**

Table 5.9.2b indicates that there is statistically significant difference between groups as indicated in the chi-square test; p-values for chi-square testis less that 0.05 level of significance. Table 5.9.2b therefore shows that statistically significant difference exists on the item *number of employees*. To examine the nature of differences, the observed differences in the number of employees are further explored through the Kendall's tau b.

Table 5.9.2a: Ethnic group of origin vs number of employees

Ethnic group of origin		Number of employees			Total
		up to 6	6 - 50	51 – 100	
Tswana	Count	227	30	0	257
	% within Ethnic group of origin	88.3%	11.7%	0.0%	100.0%
Coloured	Count	16	4	0	20
	% within Ethnic group of origin	80.0%	20.0%	0.0%	100.0%
Afrikaner	Count	0	34	5	39
	% within Ethnic group of origin	0.0%	87.2%	12.8%	100.0%
Indian	Count	4	18	0	22
	% within Ethnic group of origin	18.2%	81.8%	0.0%	100.0%

Table 5.9.2b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	189.501 <sup>a</sup>	6	.000
Likelihood Ratio	176.524	6	.000
Linear-by-Linear Association	143.695	1	.000
N of Valid Cases	338		

Table 5.9.2c: Symmetric Measures

	Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal      Contingency Coefficient	.599			.000
Ordinal by Ordinal      Kendall's tau-b	.614	.044	9.855	.000
Kendall's tau-c	.369	.037	9.855	.000
N of Valid Cases	338			

Table 5.9.2c shows that the calculated tau value is  $\tau_B = 0.614$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.9.2a). One can therefore say: businesses belonging to Tswanas and Coloureds employ fewer people than Afrikaner and Indian businesses.

**Business performance: gross turnover for last 3 years**

Table 5.9.3a: Ethnic group of origin vs business turnover for last 3 years

Ethnic group of origin		Business turnover for last 3 years							Total
		Declining (21%+)	Declining (11-20%)	Declining (1-10%)	No change	Increasing (1-10%)	Increasing (11-20%)	Increasing (21%+)	
Tswana	Count	1	8	49	114	79	6	0	257
	% within Ethnic group of origin	0.4%	3.1%	19.1%	44.4%	30.7%	2.3%	0.0%	100.0%
Coloured	Count	0	0	3	15	2	0	0	20
	% within Ethnic group of origin	0.0%	0.0%	15.0%	75.0%	10.0%	0.0%	0.0%	100.0%
Afrikaner	Count	0	0	1	4	18	12	4	39
	% within Ethnic group of origin	0.0%	0.0%	2.6%	10.3%	46.2%	30.8%	10.3%	100.0%
Indian	Count	0	0	1	5	12	4	0	22
	% within Ethnic group of origin	0.0%	0.0%	4.5%	22.7%	54.5%	18.2%	0.0%	100.0%

Table 5.9.3b: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	115.276 <sup>a</sup>	18	.000
Likelihood Ratio	95.642	18	.000
Linear-by-Linear Association	51.029	1	.000
N of Valid Cases	338		

Table 5.9.3c: Symmetric Measures

	Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal    Contingency Coefficient	.504			.000
Ordinal by Ordinal    Kendall's tau-b	.312	.043	6.461	.000
Kendall's tau-c	.220	.034	6.461	.000
N of Valid Cases	338			

Table 5.9.3b shows that the calculated P-value for chi-square test is less than the critical value 0.05. Therefore, there is a very strong evidence against  $H_0$  so we conclude that there is a difference in level of increases in the business turnover for businesses belonging to respondents from different ethnic groups. Table 5.9.3c shows that the calculated tau value is  $\tau_B = 0.312$  with corresponding P- value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.9.3a). In conjunction with the Kendall tau results (Table 5.9.3c), most of the businesses that have been recording increases in turnover of over ten percent over the past three years happen to be Afrikaner followed by Indian businesses. Only few Tswana businesses fall in this category. The reasons could be the lack of capital and business skills among Coloured and Black entrepreneurs.

### **Business performance: gross profit for last 3 years**

Table 5.9.4b shows that the calculated P-value for chi-square test is less than the critical value 0.05. We conclude that a significant difference exist on the item *gross profit/loss for past three years* for different population groups. To examine the nature of differences, the observed differences in performance are further explored through the Kendall's tau b.

Table 5.9.4a: Ethnic group of origin vs gross profit/loss for past three years

Ethnic group of origin		Gross profit/loss for past three years						Total
		Declining (11-20%)	Declining (1-10%)	No change	Increasing (1-10%)	Increasing (11-20%)	Increasing (21%+)	
Tswana	Count	6	42	107	98	4	0	257
	% within Ethnic group of origin	2.3%	16.3%	41.6%	38.1%	1.6%	0.0%	100.0%
Coloured	Count	0	0	11	7	1	1	20
	% within Ethnic group of origin	0.0%	0.0%	55.0%	35.0%	5.0%	5.0%	100.0%
Afrikaner	Count	0	0	4	17	9	9	39
	% within Ethnic group of origin	0.0%	0.0%	10.3%	43.6%	23.1%	23.1%	100.0%
Indian	Count	0	2	4	11	5	0	22
	% within Ethnic group of origin	0.0%	9.1%	18.2%	50.0%	22.7%	0.0%	100.0%

Table 5.9.4b: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	127.854 <sup>a</sup>	15	.000
Likelihood Ratio	104.957	15	.000
Linear-by-Linear Association	56.486	1	.000
N of Valid Cases	338		

Table 5.9.4c: Symmetric Measures

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Nominal by Nominal	Contingency Coefficient	.524			.000
Ordinal by Ordinal	Kendall's tau-b	.349	.041	7.280	.000
	Kendall's tau-c	.244	.034	7.280	.000
N of Valid Cases		338			

Table 5.9.4c shows that the calculated tau value is  $\tau_B = 0.349$  with corresponding P-value equal to zero meaning that Kendall's tau  $\tau_B \neq 0$ . Using percentage analysis one can notice the pattern in the ratings for each group (Table 5.9.4a). In conjunction with the Kendall tau results (Table 5.9.4c), one can say: Most of the businesses that have been recording increases in gross profit over ten percent over the past three years happen to be Afrikaner, followed by Indian businesses. Very few businesses belonging to Tswanas and Coloureds are experiencing this rate of growth over the past three years. The reasons could again be the lack of capital and business skills among Coloured and Black entrepreneurs.

### ***Summary for hypothesis four***

The hypothesis four was about whether there are differences in the performance of SMMEs based on the ethnicity of the owner. The following hypotheses were used:

H4<sub>o</sub>: There are no significant differences in the performance of SMMEs based on the ethnicity of owner.

H4<sub>a</sub>: There are significant differences in the performance of SMMEs based on the ethnicity of owner.

Four different performance measures were used:

- Age of business
- Number of employees
- Business turnover for last 3 years
- Gross profit/loss for past three years

In each one significantly different distinct pattern was found for owners from the different populations under study. Therefore we can conclude:

H4<sub>a</sub>: There are significant differences in the performance of SMMEs based on the ethnicity of owner.

Like motives for entering self-employed business, this finding is significant and consistent with a number of similar findings in the South African context. For example, Van Scheers (2010) found differences in the performance among small businesses owned by South Africans of Asian, Indian and Black ethnicity. Amoakoh (2012) differences in the performance of hair salons owned by people of different ethnic backgrounds in the Bophirima District Municipality whilst Okyere (2012) found a similar trend among small business owners in the small industrial estate in Botshabelo. Farrington, Gray and Sharp (2012) also found that ethnicity influences small firm performance in South Africa. It is interesting to also note that Basu and Altinay (2012) also found differences in

entrepreneurial performance among six different ethnic groups of entrepreneurs from East Africa and East Asia in London.

#### 5.2.4 FACTOR ANALYSIS

As a statistical technique, factor analysis allows a researcher to discover simple patterns in the relationship among the variables. In particular, it enables the discovery, if the observed variables can be explained, of much smaller numbers of variables called *factors*.

A typical factor analysis suggests answers to two major questions: (i) how many different factors are needed to explain the pattern of relationships among these variables? (ii) What is the nature of those factors?

Kaiser-Meyer-Olkin (KMO) and Bartlett's test of Sphericity produces the KMO measure of the sampling adequacy of how the correlations are for factor analysis. Kaiser (1970 and 1974) indicated that a value of 0.70 or above is considered adequate while Bartlett's test provides a test of the following hypotheses:  $H_0$ : the variables are not correlated, versus  $H_a$ : the variables are correlated. Reject  $H_0$  when p-value is less than 0.05 level of significance, this means we do not proceed with the factor analysis. The Scree plot will provide the information for the researcher to determine the number of factors or components.

The researcher wanted to investigate various theories that have been used to explain the relationship between ethnicity and entrepreneurship. This would illustrate whether the ethnicity of the four groups would affect the items tested such as the motives for venturing into business, the sources of business start-up capital, risk taking position and the



entrepreneurial success. This implied the need to measure the main ethnic group in relation to the four items cited above.

To separate factors for the variables involved, factor analysis was used to identify the underlying evaluative dimensions. Specific items that correlate highly are assumed to be a “member” of that broader dimension. These problems are common in psychology and natural science and are the reason for factor analysis being so popular in these fields. Therefore factor analysis presents one such possible methodology which can be used to a great extent in the human sciences.

**5.2.4.1 Principal component analysis formotives for venturing into business**

The assessment of the results of the KMO (.733) and Bartlett’s test of sphericity ( $P < .05$ ) in Table 5.11 looks good. With the KMO value higher than the heuristic of 0.70 it indicates that the correlations matrix is adequate for factor analysis and principal component analysis. Likewise, a significant Bartlett’s test ( $P < .05$ ) also enabled one to reject the null hypothesis  $H_0$  of the lack of sufficient correlation between the variables. This result gave the confidence to proceed with the analysis.

Table 5.11: KMO and Bartlett’s test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.732
	Approx. Chi-Square	593.962
Bartlett's Test of Sphericity	Df	45
	Sig.	.000

Table 5.12 below indicates that four factors accounted for about 64 % of the total variance. In practice, a robust solution should account for at least 50% of the variance (Tabachnick & Fidell, 2001b).

Table 5.12: Factors accounting for total variance

Component	Initial Eigenvalues			Extraction Sums of Sq. Loadings			Rotation Sums of Sq. Loadings		
	Total	% Variance	Cum%	Total	% Variance	Cum %	Total	% Variance	Cum %
1	2.882	28.822	28.822	2.882	28.822	28.822	2.479	24.793	24.793
2	1.269	12.694	41.516	1.269	12.694	41.516	1.473	14.728	39.521
3	1.130	11.304	52.820	1.130	11.304	52.820	1.313	13.135	52.656
4	1.105	11.053	63.873	1.105	11.053	63.873	1.122	11.217	63.873
5	.848	8.477	72.350						
6	.729	7.288	79.638						
7	.666	6.661	86.299						
8	.580	5.799	92.098						
9	.442	4.422	96.520						
10	.348	3.480	100.000						

Extraction Method: Principal Component Analysis.

Figure 5.4 below shows the Scree plot for the initial solution. This graphical method helps the researcher to determine how many components or factors should be included in the solution. The curve turn is at component 4, indicating a transition point between components with high and low Eigenvalues. This confirms the previous observation, derived from the total variance explained in Table 5.12 that four components best describe our principal components solution.

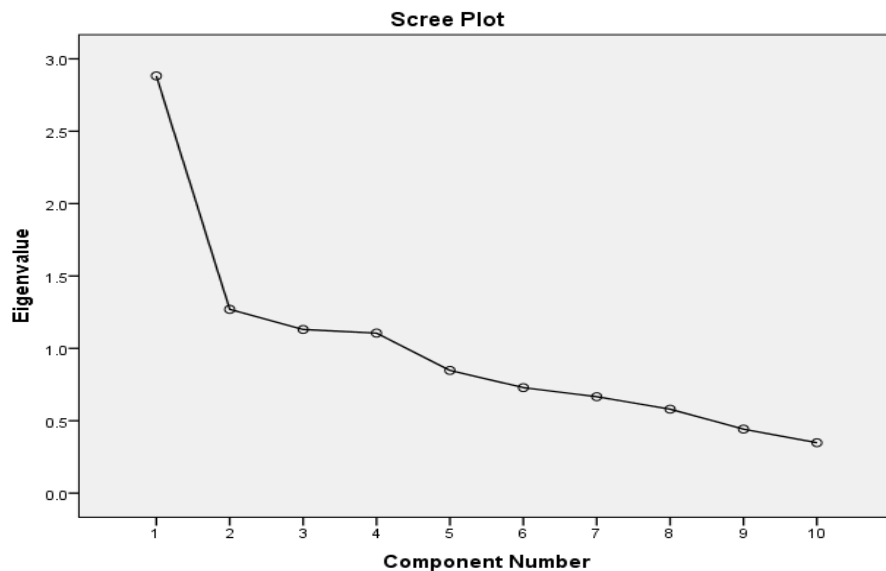


Figure 5.5: Scree plot for principal components on motives

The rotated component matrix presented in Table 5.12 displays variables ordered by correlations within each of the component as follows:

- Component 1: had four items; (1) to have access resources (0.639), (2) to have freedom to adapt my own approach to work (0.710), (3) Frustrated in my previous job (4) to give myself and family security (0.743).
- Component 2: had two items; (1) to develop an idea for a product (0.822), (2) to have greater flexibility for private life (0.688)
- Component 3: had two items; (1) to promote welfare of community and ethnicity group (0.836), (2) to survive (0.526)
- Component 4: had two items; (1) to gain recognition and have influence in community (0.716), (2) to achieve something (0.767)

The first three items were found to correlate with the first component. These items seem to be related to a motive to have independence; the second component had two items that were all related to innovation and flexibility and the third component had two items that appear to be related to survival and community-oriented motives.

The goal of data reduction has been achieved by reducing an array of nine motives for starting own business factors into four uncorrelated principal components. These new composite variables can now be used as dependent variables for further statistical analysis.

Table 5.13: Rotated Component Matrix for motives

	Component			
	1	2	3	4
To gain recognition and have influence in community	.153	.336	-.193	.716
To promote welfare of community & ethnic group	.066	-.015	.836	-.045
To achieve something	-.194	-.319	.188	.767
To develop an idea for a product / business	-.089	.822	-.012	.018
To survive	.444	.132	.526	.102
To have access to resources	.639	-.170	.246	-.064
To have greater flexibility for private life	-.451	.688	.107	-.027
To have freedom to adapt my own approach to work	.710	.013	-.283	.043
Frustrated in my previous job	.735	-.198	.142	-.019
To give myself and my family security	.743	-.154	.305	-.032

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

#### 5.4.3.2 Principal component analysis for source of start-up capital

The assessment of the results of the KMO and Bartlett's test of Sphericity in Table 5.14 looked good. Since KMO value (.717) is greater than the heuristic of 0.70, this shows that the correlations matrix is adequate for factor analysis and principal component analysis. The significant Bartlett's test ( $P < .05$ ) also enables one to reject the null hypothesis  $H_0$  of the lack of sufficient correlation between the variables. This result gives the confidence to proceed with the analysis in Section 2.

Table 5.14: KMO and Bartlett's Test for source of start-up capital

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.717
Approx. Chi-Square	831.400
Bartlett's Test of Sphericity	Df
	28
	Sig.
	.000

Table 5.15 below indicates that two factors accounted for about 57 % of the total variance. In practice, a robust solution should account for at least 50% of the variance (Tabachnick & Fidell, 2001b).

Table 5.15: Factors accounting for total variance for start-up capital

Component	Initial Eigenvalues			Extraction Sums of Sq. Loadings			Rotation Sums of Sq. Loadings		
	Total	% Variance	Cum%	Total	%Variance	Cum%	Total	% Variance	Cum %
1	3.055	38.187	38.187	3.055	38.187	38.187	2.956	36.956	36.956
2	1.509	18.869	57.056	1.509	18.869	57.056	1.608	20.100	57.056
3	.950	11.869	68.925						
4	.917	11.468	80.393						
5	.562	7.023	87.415						
6	.395	4.932	92.347						
7	.336	4.195	96.542						
8	.277	3.458	100.000						

Extraction Method: Principal Component Analysis.

Figure 5.6 shows the Scree plot for the initial solution. The curve of this graphical method turn is at component 2, indicating a transition point between components with high and low Eigenvalues. This confirms the above observation, derived from the total variance explained Table 5.15, that two components best describe the principal components solution.

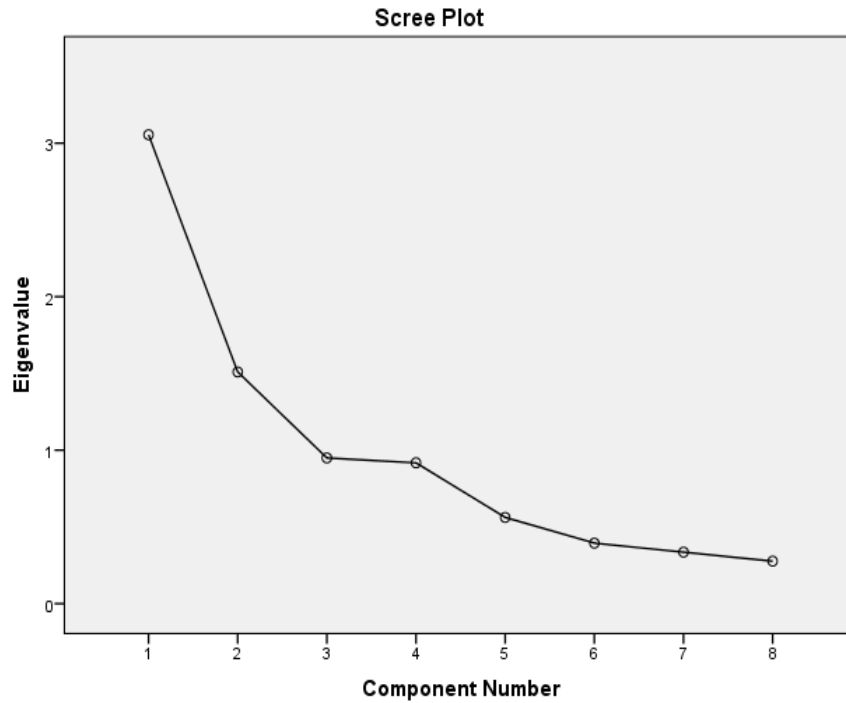


Figure 5.6: Scree plot for principal component factors for start-up capital

The rotated component matrix presented in Table 5.16 displays variables ordered by correlations within each of the component as shown below:

- Component 1: had four items; (1) loans banks (0.643), (2) loans agency (0.788), (3) trade credit (0.771), (4) lease of equipment (0.826).
- Component 2: had three items; (1) loans friend (0.679), (2) loans relative (0.617), (3) credit relating association (0.733)

The first four items were found to correlate with the first component. These items seem to be related to formal sources of business financing; and the second component had three items that are all related to informal sources of business finance.

The purpose of data reduction has been achieved by reducing an array of eight source start-up capital factors into two uncorrelated principal components. These new composite variables can now be used as dependent variables for further statistical analysis.

Table 5.16: Rotated Component Matrix for source of start-up capital

	Component	
	1	2
Loans banks	.843	-.214
Loans friends	-.265	.679
Loans agency	.788	.210
Loans relatives	-.417	.617
Own savings	.287	.354
Credit rotating associations	.148	.733
Trade credit	.771	-.096
Lease of equipment	.826	-.074

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

\* Rotation converged in 3 iterations.

### 5.4.3.3 Principal component analysis for attitude towards risk

The assessment of the results of the KMO and Bartlett's test of Sphericity in Table 5.17 looked good. This meant that the KMO value was higher than the heuristic of 0.70 indicating that the correlations matrix was adequate for factor analysis and principal component analysis. The significant Bartlett's test also enabled us to reject the null hypothesis  $H_0$  of the lack of sufficient correlation between the variables. This result gave us confidence to proceed with the analysis.

Table 5.17: KMO and Bartlett's Test for attitude/behaviour towards risk

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.760
	Approx. Chi-Square	1039.813
Bartlett's Test of Sphericity	Df	10
	Sig.	.000

Table 5.18: Factors accounting for total variance in attitude towards risk

Component	Initial Eigenvalues			Extraction Sums of Sq. Loadings			Rotation Sums of Sq. Loadings		
	Total	% Variance	Cum %	Total	% Variance	Cum %	Total	% Variance	Cum %
1	2.834	56.685	56.685	2.834	56.685	56.685	2.390	47.796	47.796
2	1.381	27.624	84.309	1.381	27.624	84.309	1.826	36.513	84.309
3	.468	9.365	93.674						
4	.188	3.753	97.427						
5	.129	2.573	100.000						

Extraction Method: Principal Component Analysis.

Two factors accounted for about 84 % of the total variance in the attitude/behaviour towards risk as Table 5.18 above indicates.

The curve of the scree plot turn is at component 2 as Figure 5.6 below depicts, indicating a transition point between components with high and low Eigenvalues. This confirms the previous observation, derived from the total variance explained Table 5.18, that two components best describe our principal components solution.



Figure 5.7: Scree plot for principal component factors for risk towards business



The rotated component matrix presented in Table 5.19 below displays variables ordered by correlations within each of the components as follows:

- Component 1: had three items; (1) I would rather run my own business and face 50% chance of bankruptcy than work for another firm (0.926), (2) I would rather work on commission which is somehow risky but where I would have the possibility of making more than on a fixed salary (0.918), (3) Uncertainty associated with starting a business adds excitement to life (0.802).
- Component 2: had two items; (1) Starting a business means a risk of losing your assets (0.935), (2) Starting a business means a risk to psychological health (0.943)

The first three items were found to correlate to the first component. These items seemed to be related to low uncertainty avoidance; and the second component had two items that were all related to high uncertainty avoidance. The goal of data reduction had been achieved by reducing an array of five entrepreneurial behaviour factors into two uncorrelated principal components. These new composite variables could now be used as dependent variables for further statistical analysis.

Table 5.19: Rotated Matrix Component for attitude/behaviour towards risk

	Component	
	1	2
Starting a business means a risk of losing your assets	-.174	.935
Starting a business means a risk to psychological health	-.133	.943
I would rather run my own business and face 50% chance of bankruptcy than work for another firm	.926	-.134
I would rather work on commission which is somehow risky but where I would have the possibility of making more than on a fixed salary	.918	-.162
Uncertainty associated with starting a business adds excitement to life	.802	-.135

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

\* Rotation converged in 3 iterations.

#### 5.4.3.4 Principal component analysis for business success/performance

The assessment of the results of the KMO and Bartlett's test of Sphericity in Table 5.20 looked good. This meant that the KMO value was higher than the heuristic of 0.70 indicating that the correlations matrix was adequate for factor analysis and principal component analysis. The significant Bartlett's test also enabled us to reject the null hypothesis  $H_0$  of the lack of sufficient correlation between the variables. This result gave us confidence to proceed with the analysis. Table 5.21 indicates that three factors accounted for about 70% of the total variance.

Table 5.20: KMO and Bartlett's Test for business success/performance

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.789
	Approx. Chi-Square	1480.923
Bartlett's Test of Sphericity	Df	36
	Sig.	.000

Table 5.21: Factors accounting for total variance in company demographics

Component	Initial Eigenvalues			Extraction Sums of Sq. Loadings			Rotation Sums of Sq. Loadings		
	Total	% Variance	Cum %	Total	% Variance	Cum %	Total	% Variance	Cum %
1	3.942	43.803	43.803	3.942	43.803	43.803	3.444	38.267	38.267
2	1.367	15.188	58.991	1.367	15.188	58.991	1.786	19.847	58.113
3	1.013	11.256	70.248	1.013	11.256	70.248	1.092	12.134	70.248
4	.941	10.461	80.708						
5	.597	6.629	87.337						
6	.508	5.647	92.984						
7	.329	3.655	96.639						
8	.175	1.949	98.588						
9	.127	1.412	100.000						

Extraction Method: Principal Component Analysis.

Figure 5.8 showed the scree plot for the initial solution. This graphical method helped the researcher to determine how many components or factors should be included in the solution. The curve turn is at component 3, indicating a transition point between components with high and low Eigen values. This confirmed the previous observation,

derived from the total variance explained in Table 5.21, that four components best describe our principal components solution.

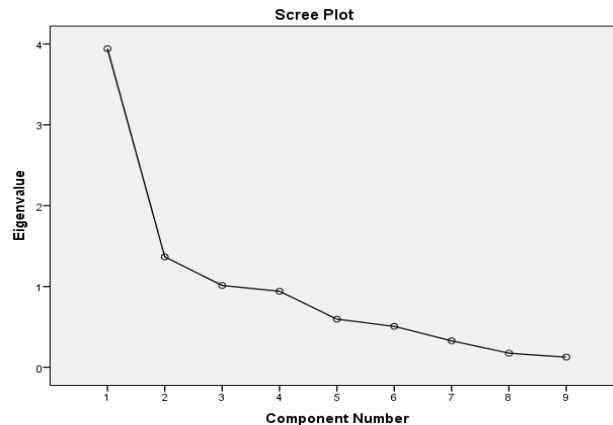


Figure 5.8: Scree plot for component factors for business success/performance

The rotated component matrix presented in Table 5.21 displays variables ordered by correlations within each of the component as follows:

- Component 1: had five items. (1) How do you describe the success of your business during the past year? = (-0.683). (2) How do you expect your business's success to be this year? = (- 0.710). (3) How is your business performing on the average? = (-0.848). (4) How has your business turnover been over the past 3 years on the average? = (0.896) (5) The trend of your gross profit/loss over the past 3 years on the average = (0.899)
- Component 2: had three items. (1) Number of years your business has been in existence = (0.771). (2) How many people do you employ? = (0.767). (3) Form of business = (0.654).

The first five items were found to correlate to the first component. These items seem to be related to performance and the second component had three items that are all related to size and longevity. The third component had one item that was eliminated.

The goal of data reduction had been achieved by reducing an array of nine company demographics factors into two uncorrelated principal components. These new composite variables could now be used as dependent variables for further statistical analysis.

Table 5.22: Rotated Matrix for business success/performance

	Component		
	1	2	3
Number of years your business has been in existence	-.032	.771	-.040
Business sector	-.018	-.108	-.849
How many people do you employ?	.194	.767	.030
Form of business	.322	.654	.097
How do you describe the success of your business during the past year	-.683	-.259	.426
How do you expect your business's success to be this year?	-.710	-.236	.392
How your business is performing on the average?	-.848	-.109	.020
How your business turnover has been over the past 3 years on the average?	.896	.114	.123
The trend of your gross profit/loss over the past 3 years on the average	.899	.126	.089

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

\* Rotation converged in 4 iterations.

### 5.2.5 RELIABILITY TESTS

Reliability is used to measure the consistency of a questionnaire. From the tables, Cronbach's  $\alpha$  (Alpha) are presented based on the four sections as follows:

- Section 1: Motives for venturing into business, four reliability statistics are presented according to the four components

Component 1: Alpha = 0.619, Component 2: Alpha = 0.603, Component 3: Alpha = 0.401, Component 4: Alpha = 0.189. These values are quite low compared to the cut-off of 0.7;

it implies that the overall, this part of the questionnaire is not so reliable. However, components 1 and 2 are relatively high (0.619) and (0.603) which suggest that probably removing an item might improve their overall reliability.

- Section 2: Sources of start-up capital, two reliability statistics were retained.

Component 1: Alpha = 0.715, this indicates that the overall reliability of a questionnaire is on the reliable scale. Component 2: Alpha = 0.534 this value violates reliability model assumptions as it is well below the cut-off of 0.7. Therefore the items of Component 2 could be considered to have problems.

- Section 3: Entrepreneurial behaviour, two reliability statistics were calculated.

Component 1: Alpha = 0.875, Component 2: Alpha = 0.898. These values are high compared to the cut-off of 0.7. It means that the overall reliability of this section of the questionnaire is high.

- Section 4: Business performance. Two reliability statistics are presented.

Component 1: Alpha = -0.578, the value is negative due to a negative average among items but it is below the cutting point therefore it is not good. Component 2: Alpha = 0.601, this value is below the rounded off therefore adding items could improve the overall reliability.

### **5.3 SUMMARY**

This chapter addressed the descriptive and inferential statistics. The biographical information of the respondents was first analysed. Secondly the chi-square tests for the four factors showed significant differences among the four ethnic groups on their motives for starting businesses, sources of start-up capital, attitudes/behaviour towards risk and their entrepreneurial success/performance. The factor analysis that was performed confirmed three factors that influence ethnic differences in entrepreneurship in the NLM that possibly contribute to success in business. In Chapter Six, the main findings will be

summarised. Conclusions and recommendations will be presented for policy making and areas for further research suggested.

## **CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 INTRODUCTION**

As stated in earlier chapters, the hypothesis of the study was that ethnicity has an influence on entrepreneurship in the South African setting. The specific objectives of the study were to determine how ethnicity influences the entrepreneurial motives, use of start-up capital, attitudes and behaviour towards business risk among Tswanas, Afrikaners, Coloureds and Indians and the performance of small businesses owned by the same ethnic groups in the Naledi Local Municipality in the North West Province of South Africa. All of this was research done towards providing suggestions for enhancing entrepreneurship development in South Africa bearing in mind their ethnic differences. These objectives were achieved by testing four hypotheses using a positivist approach. This chapter concludes the report on the study by presenting conclusions and recommendations based on the literature study and empirical findings of the study.

### **6.2 CONCLUSIONS BASED ON THE LITERATURE REVIEW**

The literature study leads to the following important conclusions. It is abundantly clear from the literature that ethnicity has many dimensions which influence entrepreneurial attitudes, motives, behaviour and outcomes of individuals and different ethnic groups in the NLM, however one defines ethnicity. This view is proposed most clearly by van Scheers (2010:20) who points out that research has found that there is a positive relation between the ethnic background of individuals and groups and their entrepreneurial success in South Africa. It is therefore concluded that this has implications on entrepreneurial behaviour and outcomes of the four ethnic groups (Tswanas, Afrikaners, Coloureds, and Indians) in the Naledi Local Municipality. The theory-based conclusion of van Scheers was empirically tested and confirmed in this study. This conclusion is consistent with Mitchell (2003) cited in van Sheers (2010:23) who suggests that some

ethnic groups tend to be more entrepreneurial than others; some of the reasons are related to different cultural beliefs; different socio-economic structures; different ethnic niches and enclaves they focus on. The chapter summarises the literature review and the conclusions are discussed below.

### 6.2.1 ETHNICITY AND ENTREPRENEURSHIP

The literature indicates that various theories can be used to explain the relationship between ethnicity and entrepreneurship. Ethnic entrepreneurship can be viewed from different disciplines but the most widely used are the sociological and anthropological perspectives which this study used. Waldinger's (1986; 1996) argument that some ethnic groups are more entrepreneurial than others because of culture, structural and ethnic enclave factors was used as the theoretical base for this study. The need for the development of entrepreneurship among the different ethnic groups and entrepreneurial culture in a multicultural society such as South Africa becomes imperative as policy makers and practitioners should understand the crucial role ethnicity can have on entrepreneurship development in South Africa. The following conclusion is drawn on the basis of the literature study that entrepreneurship is a complex, multi-disciplinary and multi-dimensional concept which needs to be understood to be able to apply its principles in specific socio-cultural contexts.

### 6.2.2 THE SOUTH AFRICAN SMME ENVIRONMENT

SMME development is generally believed in the literature to be one of the effective ways by which some of South Africa's development challenges (poverty, unemployment, inequality and the HIV/AIDS pandemic) can be addressed. Entrepreneurship and small business development, if undertaken in a responsible way, can contribute to advancement that can reach many members of our society. The growth of an economy through entrepreneurship and small business development will enable many of the citizens of a country who are living in poverty and deprivation, to be able to participate in



the system and share in the national income of a country. Most of the ethnic businesses in the NLM happen to be SMMEs which are owned and operated by the four ethnic groups under discussion.

It is concluded therefore that there is the need to understand the SMME sector as it has the potential to be used as a vehicle for addressing some of the developmental challenges the country faces most especially among people from previously disadvantaged groups. There are many ethnic businesses run in the SMME sector. Besides that there are certain ethnic resources, such as the use of money from stokvels, which could be more widely used as a means of addressing business start-up challenges among Blacks in South Africa.

### **6.3 CONCLUSIONS BASED ON THE EMPIRICAL FINDINGS**

In the empirical study, all the four hypotheses that emanated from the research problem were tested. On the basis of the chi-square tests the following conclusions were arrived at.

#### **Conclusion on hypothesis 1**

H<sub>10</sub>: there are no significant differences in owners' motives for venturing into entrepreneurship on the basis of ethnicity. H<sub>1a</sub>: there are significant differences in owner's motives for venturing into entrepreneurship based on ethnicity. The findings reported in Table 5.6 in the previous chapter indicate significant differences in motives since the P-values from the chi-square test is less than the 0.05 – the critical value. This means the null hypothesis is not supported. The alternate hypothesis is therefore accepted. **Consequently it is concluded that motives for venturing into entrepreneurship differ among the four ethnic groups Tswanas, Afrikaners, Coloureds and Indians**

and these possibly impact on their entrepreneurial attitudes, behaviours and performance.

### **Conclusion on hypothesis 2**

H<sub>20</sub>: There are no significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owners. H<sub>2a</sub>: there are significant differences in sources of start-up capital of surveyed SMMEs based on the ethnicity of owners. The findings in Table 5.7 in Chapter Five found significant differences between the four ethnic groups and their source of start-up capital for business in the NLM. The p-value of the chi-square test for all the items was less than 0.05 level of significance. The null hypothesis is therefore not accepted. The alternative hypothesis is accepted. **It is concluded then that the four ethnic group members use different sources of start-up and working capital for their businesses. The different sources of capital used by entrepreneurs appears to impact on the performance of the four ethnic entrepreneurs in the NLM.**

### **Conclusion on hypothesis 3**

H<sub>30</sub>: there are no significant differences in owner's behaviour/attitude towards business risks based on the ethnicity of owners. H<sub>3a</sub>: There are significant differences in owner's behaviour/attitude towards business risks based on the ethnicity of owners). In Table 5.8 in Chapter Five, the p-value of the chi-square test on the attitude/behaviour on risk was less than 0.05. The alternative hypothesis is therefore accepted and the null hypothesis rejected. **The conclusion then is that the four different ethnic groups differ in their behaviours and attitudes as far as risks in business are concerned.** It was discussed in the literature Chapter 3 of this study that high risk aversion on the part of individuals and groups negatively impacts on their entrepreneurial behaviour.

## **Conclusion on hypothesis 4**

H<sub>40</sub>: there are no significant differences in the performance of SMMEs on the basis of the ethnicity of the owners. H<sub>4a</sub>: there are significant differences in the performance of SMMEs on the basis of the ethnicity of owners. The significant tests from the chi-square in Table 5.9 and Figure 5.4 in Chapter Five indicate that there are significant differences between the four ethnic groups and their performance in business. The p – values of all the variables that were tested were less than 0.05. The null hypothesis which states that there are no significant differences between the four ethnic group members and business success/performance is not backed by the findings. The findings rather support the alternative hypothesis. **It is concluded therefore that the ethnic background of an entrepreneur from the NLM can be used to predict his/her business performance.**

## **6.4 IMPLICATIONS AND RECOMMENDATIONS OF THE STUDY**

As stated elsewhere in this study, the objective of the study was to determine the impact (if any) which ethnicity has on the entrepreneurial behaviour, attitudes and performance among the different ethnic groups in the Naledi Local Municipality in the North West Province of South Africa and to make suggestions for enhancing ED in the multicultural South African setting. The differences that were found in entrepreneurial attitudes, behaviours and business performance of the Tswana, Afrikaner, Coloured and Indian entrepreneurs have both policy and research implications.

### **6.4.1 POLICY IMPLICATIONS AND RECOMMENDATIONS**

There are a number of issues that have policy implications for ethnicity and entrepreneurship and the impact it has on socio-economic development at both the national and local government levels. Taking into account the findings, the following recommendations flow from this study.

1. In the first place the dominance of very small and micro enterprises in the SMME sector (most especially by the previously disadvantaged) which has been identified as one of the vehicles for addressing some of the socio-economic challenges is of concern as it suggests survival entrepreneurship in the face of unemployment, underemployment and poverty. It is suggested that the government and interested SMME practitioners put measures in place to support the micro and very small enterprises to be registered as legal personalities as most of them are not so that they can become formal businesses and tap into the support programmes in place.
  
2. Taking into account the urgency of addressing socio-economic challenges through entrepreneurship and the support structures the government and other interested parties are putting in place, there is the need to provide means and ways to inculcate a culture of entrepreneurship into the South African population, especially among those from the PDGs for whom entrepreneurship has not been part of their culture. The study found Afrikaners and Indians to be more entrepreneurial and more successful in businesses than their Tswana and Coloured counterparts, possibly because of the way they inculcate entrepreneurial values into their children, a history of trading and business (especially among Indians) and privileged education from the Apartheid era for the children of Afrikaners. Entrepreneurship education is recommended for all facets of South African society especially for Black and Coloured ethnic groups.
  
3. Another important area that policy makers should examine critically relates to the financing of SMMEs in South Africa among the different ethnic groups. Tswanas and Coloureds indicated that they mostly use the credit rotating system as a source of start-up and working capital whereas the Afrikaners and Indians relied to a large extent on bank loans and trade credit as some of their sources of SMME finance. It is suggested that the government and the SMME development practitioners

should find a way to encourage owners of SMMEs to form stokvels and channel part of their funds into SMME activities by giving incentives to those who do that.

4. The empirical study found that 61.83% of the entrepreneurs are men whereas 38.17% are female in the NLM. This is a concern as it indicates gender imbalance in entrepreneurial activities in the NLM. This defeats the government's policy of ensuring gender equity in all the spheres of life. A possible reason could be that most of the women in the NLM who engage in entrepreneurial activities are in the informal sector where their businesses are not registered and do not have permanent places of operation. This was one of the criteria used for inclusion in the sample. The involvement in informal activities makes it difficult for people to earn anything up to the recommended minimum wages. In addition, getting support from the different forms of formal support systems becomes impossible as documents like business registration, business plans, bank accounts and bank statements are required in the first place by all support institutions. Policy makers should educate women to endeavour to register their businesses to enable them to tap into the support structures in place.
  
5. It was also found that there is high representation of Indians in the SMME sector in the NLM whereas Coloureds are under represented on the average. The higher numbers of Indians in the SMME sector could be attributed to family traditions and culture and education. Why most Coloureds are not involved in entrepreneurial activities in the NLM should be taken forward for further investigation. The shedding of jobs and rationalization as well as increasing global competition all suggest that entrepreneurship is the way through which most future jobs will come. It is recommended that the government mobilise successful entrepreneurs from the disadvantaged communities for them to educate members of their communities and mentor those who show interest and potential in entrepreneurship.

6. Most of the businesses are small retail outlets in the NLM whose capacity to add value is negligible. Efforts should be made by the government, NGOs and the private sector to support them with businesses such as tenders and mentorship programmes that will enable them to grow to become small and medium enterprises.
  
7. The success and performance of SMMEs between the ethnic groups in the NLM are not the same. Afrikaner and Indian businesses showed considerable growth and success as against businesses owned and managed by their Tswana and Coloured counterparts. There may be a number of factors that contribute to this phenomenon but the aspects of the cultures that promote or discourage entrepreneurship should be examined critically.
  
8. The role of education in SMME development emerged clearly in the study which showed that the majority of entrepreneurs in the NLM have matriculation and lower qualifications. Most of those in this last category are Blacks and Coloureds but the role of education in the success of entrepreneurship has been discussed in Chapter Two. Rwigema, Venter and Urban (2012:22) suggest that the different levels of entrepreneurship among people can be explained by their levels of education. They add that people with higher education and from households with higher incomes are more likely to pursue opportunity entrepreneurship than their poorly educated counterparts from poor households. This has policy implications for interested parties in entrepreneurship in South Africa and the other developing countries as to what can be done to increase the basic education levels of people who have little or no education in the SMME sector of their economies.

9. The entrepreneurial outcomes of Tswanas, Afrikaners, Coloureds and Indians in the NLM differed between the groups in terms of their motives for starting business and sources of start-up capital. Afrikaner and Indian respondents to a large extent indicated that they were motivated more by the need to innovate; having the freedom to do what they enjoy and the flexibility entrepreneurship offers them to make more money. They found the business risks in entrepreneurship part of the normal processes of business. The Tswana and Coloured entrepreneurs on the other hand were mostly motivated by need to survive (entrepreneurship is the last resort) as they had nothing else to fall back on. They were also prepared to take up paid jobs if they could not find work anywhere rather than starting their own businesses. In addition to that, most of the Tswana and Coloured respondents indicated that they found entrepreneurship stressful and believed that it negatively affected their psychological and physical well-being as persons. This may explain why most of the Coloured and their Tswana colleagues are survivalist as against the much needed profit motive oriented entrepreneurs.

10. The issue of business start-ups and capital for starting and running businesses among the four ethnic group members showed significant differences in the sources by which they financed their businesses in the NLM. All the groups indicated that they relied more on their own savings as one main source of start-ups but the Afrikaners and Indians also used bank loans and leasing of equipment from other businesses. The likelihood is that they had collateral security required by the financial institutions and companies as well as the connections and contacts that facilitate the deals. Most Tswanas and Coloureds, because of their economic circumstances, do not have collateral security for loans as well as the connections with big businesses and suppliers. Tswanas especially relied more on the credit rotating system (stokvels) which they used to help each other. How these stokvels can be used as a means of mobilizing capital for SMMEs can be considered by policy makers.

11. The study also showed that the four ethnic group members showed differences in their attitudes and behaviour in uncertainty avoidance as far as establishing and running businesses are concerned. Afrikaner and Indian respondents showed behaviours that are consistent with the tolerance for risks in business that lead to innovation. Mr Ray Ackermann of Pick n Pay and Mr Mutton of Capitec Bank got fired by their employer for their gambles in innovation at their workplaces but they have turned out to be some of the most successful business people in South Africa today. Blacks tend to be more cautious in business risk taking as they are most likely to discuss with family members because of the group/collective value systems. Cautioned by their family and extended families to be careful, they often felt de-motivated enough to abandon their ideas. Dealing with such value systems requires investigation and policy innovation.

12. It was discussed in detail in Chapter Two that ethnicity has great influence on entrepreneurship. Loucks (1981) for example, noted that entrepreneurship is culture embedded, and as a result called on researchers on entrepreneurship to be more interested in the cultural distinctions of the entrepreneurship phenomenon, and differences in how values, beliefs, attitudes, shared norms and particularity of conditions, influence what people do. The observation of Loucks is closely related to the views of Morrison (2000:64) who states that there is a significant relationship between entrepreneurship and cultural specificity, and if the discipline is to make progress, researchers should search more deeply into the differences, rather than focusing on similarities. The potential for and frequency of entrepreneurship has been shown to be associated with the occurrence of certain culture specific variables (Thomas & Muller, 2000).

13. The use of networks in ethnic entrepreneurship has been identified as a resource for ethnic entrepreneurship development (Basu & Altinay, 2002; Muhanna, 2007;



Urban, 2003) but the empirical study found that Blacks and Coloured entrepreneurs in the study had fewer networks and spent limited time on developing and maintaining those networks. The possible reasons can be the limited number of entrepreneurial role models within the Black and Coloured communities as well as the few entrepreneurs from their ethnic groups who can trust and assist their fellows. Entrepreneurs from all the different ethnic groups should be trained and their awareness be raised about the importance of networking and in gauging and assessing opportunities from those networks. Entrepreneurs, entrepreneurship educators and trainers, consultants and development practitioners should be encouraged to factor in the use of networking into their entrepreneurial endeavours.

Various models of entrepreneurship have been suggested but this study examined entrepreneurship from the ethnic perspective. From the discussions above and conclusions drawn from the study, there is the indication that ethnicity influences entrepreneurship among different ethnic groups in a country. To clarify how an ethnic entrepreneurial model for entrepreneurship might be developed there is a graphic illustration of in Figure 6.1 below showing the matters of importance to be considered as well as their relationships.

#### 6.4.2 A MODEL FOR UNDERSTANDING AND PROMOTING ETHNIC ENTREPRENEURSHIP

A conceptual model for an ethnic approach to entrepreneurship development in South Africa with possible application elsewhere is offered as part of the recommendations based on findings in the literature and those of this study.

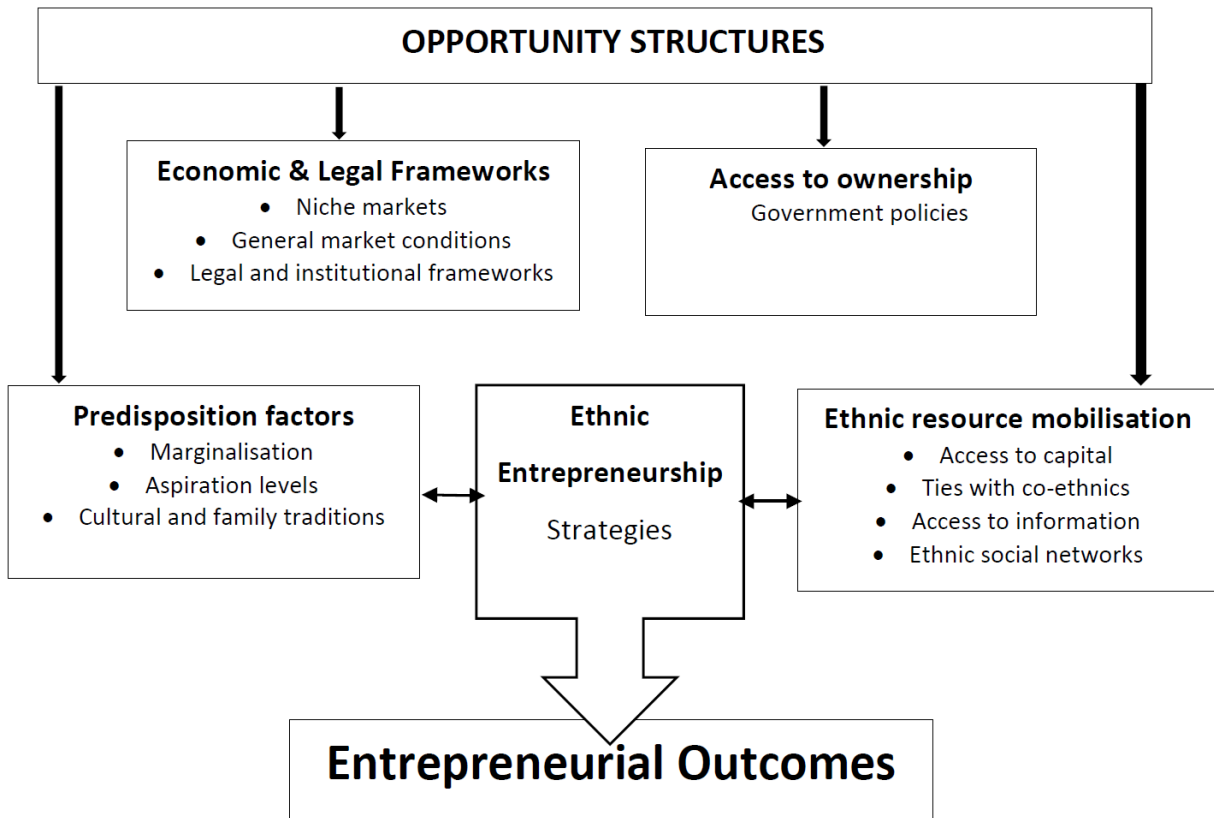


Figure 6.1: Model for ethnic entrepreneurship development in South Africa

Adapted from Waldinger *et al.* (1990) and Volery (2007).

The ethnic model of entrepreneurship as proposed in Figure 6.1 above attempts to present the key areas and factors which impact on ethnic entrepreneurship and its outcomes which policy makers and academic should take into account when attempting to promote entrepreneurship in ethnically diverse communities, regions and countries.

### ***Group characteristics***

Group characteristics refer to predisposing factors which ethnic entrepreneurs tend to have that enable them to do business through the use of informal ethnic resources and

which gives them a competitive advantage. Some of the predisposing factors according to Waldinger *et al.* (1990) are a complex of interacting economic, social, and psychological phenomena such as blocked mobility, unfamiliar labour market, inadequate or inappropriate skills and discrimination and their experience of risk aversion. The other aspect of group characteristics relates to the mobilisation of resources from the ethnic community for business. Some of the specific ethnic resources include close ties between *coethnics*, ethnic social networks which provide the confidentiality and social control that is required for types of informal credit-raising mechanisms as well as the trust that is needed by acquaintances to obtain information about permits, laws and so on. Other factors include the use of labour from coethnic group members. The last section of the diagram, "resource mobilisation" deals with government policies that sometimes provide leverage for targeted ethnic groups to start and operate businesses such as the Broad-Based Black Economic Empowerment (BBBEE), affirmative action, and preferential procurement and so on in South Africa.

The approach used above is what has been termed the "***interactive approach***" which is derived from the ***ethnic resources and opportunity structure*** model. A mixed embeddedness structure is proposed which Kloosterman and Rath (2001) refer to as the relation between actors and environment (or opportunity structure or system). The opportunity structure as Figure 6.1 depicts, comprises the specific market conditions and access to ownership that gives rise to the development of ethnic businesses. Some of the factors under the market conditions are the demand for ethnic consumer products, gaps left for small niches in the open market, underserved markets, markets that are not suitable for economies of scale and markets which are characterised by uncertainties. Access to ownership according to Waldinger *et al.* (1990) for immigrant and minority entrepreneurs is needed to access ownership opportunities in the existing market. In the current model, PDG entrepreneurs is substituted for immigrant and minority entrepreneurs with the ability of PDGs to enter into business depending to a large extent on the policy of government towards PDGs.

The interactive approach shows which combinations of opportunity structure and group characteristics are used by ethnic entrepreneurs to increase success of their strategies in the economy. The strategies cut across the whole entrepreneurial process which includes opportunity recognition, opportunity evaluation and opportunity exploitation. This process takes into account 1) individual characteristics such as a person's need for achievement, one's locus of control, attitudes towards risk, and individual self-confidence; 2) the institutional perspective which focuses on the role of economic, political, and legal institutions promoting or restricting ethnic entrepreneurship, and 3) the socio-cultural variables that impact on ethnic entrepreneurship. This perspective emphasises the role of values, social networks etc. Waldinger *et al.* (1990) identified the following as some of the common challenges that confront entrepreneurs: 1) acquiring the information that is needed for the establishment and survival of their businesses; 2) obtaining the capital that is needed to establish or expand their businesses; 3) acquiring the training that is needed to run small businesses; 4) recruiting and managing efficient, honest, and cheap workers; 5) managing relations with customers and suppliers; 6) surviving strenuous competition, and 7) protecting themselves from political attacks.

The interactive model can be explained as illustrating the different strategies ethnic entrepreneurs use to address all the seven challenges which enable them to achieve the desired outcomes in the form of turnover (sales) and profitability, longevity or survival of business, number of full-time employees, customer-base and so on. However, behind all this is the need for research to understand ethnic group dynamics so as to identify correct strategies specific for ethnic groups.

#### 6.4.3 FURTHER RESEARCH IMPLICATIONS AND RECOMMENDATIONS

Firstly, further research is recommended on the differences in the motives the four ethnic groups assign for starting their businesses.

Secondly, it is recommended that further investigation be conducted on how Blacks, especially, can use the *stokvel* system which is well entrenched in their communities as a source of SMME finance.

Thirdly, policy makers, the private sector and other development institutions should investigate the possibility (feasibility and viability) of establishing an SMME development bank which will be devoted to financing SMME activities especially among the PDGs as there is the evidence that Blacks are to a large extent unable to access loans and credit from the banks as start-up and working capital. The normal commercial banks appear not to be much interested in financing SMME activities probably because of the risks involved as the SMMEs owned by the PDGs do not have the necessary credit history and collateral security that banks require to advance credit to individuals and businesses.

Fourthly, it is recommended that further investigations be carried out to find out why some of the ethnic groups appear to be more risk averse in business than others.

In the fifth place, further investigation is needed to determine why some of the ethnic groups in the study perform better than the others.

Finally, education was identified as a major contributory factor to the growth and success of businesses. This was found to be a major factor in the success of Afrikaner and Indian businesses. Therefore the need to address the low levels of education among Black and Coloured entrepreneurs is pressing and could be addressed through Adult Basic Education and Training by policy makers. The training of the entrepreneurs in basic literacy, numeracy, life skills and business management skills can go a long way to

improving the success rates of SMMEs among the previously disadvantaged. Further research is needed on the role of education on entrepreneurship.

## **6.5 CONTRIBUTION TO ETHNIC ENTREPRENEURSHIP RESEARCH**

Most ethnic and cultural aspects of research in entrepreneurship have been carried out at country level and most often in the West. In the South African context some studies have been conducted by researchers such as Mitchell (2003), van Scheers (2011) and Urban (2011) but they were mostly done in selected urban settings. This study examined the phenomenon in a predominantly rural local municipality.

Some measures and concepts used in ethnic entrepreneurship research are not applicable to an ethnically diverse country such as South Africa. The diversity measures that were used in this study included motives, risk/uncertainty avoidance and the use of certain sources of start-up capital. Most ethnic researches across the world have focused on minority and immigrant entrepreneurs whereas in the South Africa context the issues have to do with other factors such as a disadvantaged position, race, cultural and other related issues.

There is need to look at entrepreneurship as a social activity embedded in a social context in a multi-ethnic and multicultural society such as South Africa and how the socio-cultural systems and norms in the society promote or impede entrepreneurship among the different groups, as well as how factors in the CAS of other dimensions make a difference. This study fulfils that need.

The study de-contextualises the general assumption of universality in entrepreneurship and also looks at aspects that deal with ethnicity and indigenisation.

The level of assistance needed by the different ethnic businesses may differ as they appear to have different characteristics, skills, education, intellectual and personality traits, family, social origins, social networks, values and beliefs. Their perceptions of the institutional, social, economic, ideological, informational, demographic and technical dimensions of the environment as a consequence all differ, but that was not part of the study.

Most researches in entrepreneurship have focused on economic/financial explanations. This study examined the concept of entrepreneurship from another perspective, ethnicity, which includes cultural and social factors, shared history, beliefs arising from the culture and history that promote or impede ethnic entrepreneurship.

## **6.6 LIMITATIONS OF THE STUDY**

Cooper and Schindler (2008:585) point out that all research studies have limitations and this study is no exception. Firstly, since the current research is cross-sectional, issues such as firm performance would need a longitudinal study to be more insightful. Secondly, the study was conducted in a small local municipality and for only four ethnic groups which does not allow for an unrestricted generalisation of the results. Thirdly, only three factors were used to explore ethnic entrepreneurship in the study. More dimensions and factors could have been investigated. Also, the use of only the quantitative approach prevented the researcher from probing deeper into some of the motives, the use of certain start-up sources and some entrepreneurial attitudes and behaviours of the ethnic entrepreneurs in the area of study and how they were affected by other systems in the economic dimension of the country. These limitations were unavoidable because of the practical limitations that studies for degree purposes impose. In the end, all these shortcomings cannot detract from the fact that this study has in its own right enlightened and enriched

our understanding of entrepreneurship and how to promote it among the ethnic communities of South Africa.

## **6.7 CHAPTER SUMMARY**

This final chapter on the influence of ethnicity - shared history, shared beliefs arising from culture, shared attitudes - on entrepreneurship presents conclusions that there are differences between Tswana, Afrikaner, Coloured and Indian ethnic entrepreneurs in the Naledi Local Municipality in the North West Province of South Africa where the study was conducted. In the dimension of the socio-cultural and the economic one, the impact of ethnicity revealed that people of different ethnic backgrounds had differing histories, education and motivation levels which made them start entrepreneurial businesses for different reasons. They showed differences in their toleration of risk, their sources accessed for start-up funds and consequently whether they sustained the business or not. Deep inequalities in education and well-being were revealed. Other factors contribute to the success in business but how exactly and what the most influential factors are, could not be isolated. A socio-cultural model to explain ethnic entrepreneurship is recommended. A number of recommendations are made to enhance entrepreneurship and SMME development among South Africans by considering the ethnic backgrounds of prospective entrepreneurs. Some areas that need further research are also suggested.



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## APPENDIX A: QUESTIONNAIRE

Dear Sir/Madam,

My name is Akwasi Arko-Achemfuor. I am studying for the Doctorate degree in Business Administration at the Central University of Technology (CUT), Bloemfontein under the supervision of Professor Dennis Yao Dzansi who can be contacted on 0515073218 or ddzansi@cut.ac.za.

My study involves research on the impact of culture on entrepreneurship in the Bophirima Region.

I am now collecting data for my study and will be very grateful if you could spare about 30 minutes of your time to complete the questionnaire below.

I promise that the data collected on your business will be treated confidentially and solely to be used in the research only.

Yours faithfully

Akwasi Arko-Achemfuor

PLEASE ANSWER ALL PARTS OF THE QUESTIONNAIRE AS TRUTHFULLY AS POSSIBLE

<b>SECTION 1: DEMOGRAPHIC DATA</b>							
<b>SECTION 1A: BIOGRAPHICAL INFORMATION OF OWNER/MANAGER</b>							
1. Gender	1 Male			2 Female			
2. Age	1 (20 yrs&less)	2 (21–30 yrs)	3 (31-40 yrs)	4 (41 -50 yrs)	5 (51 – 60 yrs)	6 (60+ yrs)	
3. Marital status	1 Married		2 Divorced		3 Widowed		
4. Highest level of education	1 None	2 Primary	3 Matric & below		4 Tertiary certificate		
5. Type of education	1 None	2 Business		3 General		4 Engineering	
6. Mother as entrepreneur	1 Yes			2 No			
7. Father as entrepreneur	1 Yes			2 No			
8. Indicate if any of your other family members are entrepreneurs	1 No one		2 Uncles		3 Aunts		
9. Main ethnic group	1 Tswana	2 Afrikaner	3 Coloured	4 Indian	5 Other Black (specify)		
10. Your religious denomination	1 Christian		2 Muslim		3 Hindu		
<b>SECTION 1B: COMPANY DEMOGRAPHICS</b>							
11) Please indicate the number of years your business has been in existence	1 (Up to 1 yr)		2 (2-5 yrs)		3 (6-10 yrs)		
12) Business sector	1 Manufacturing		2 Wholesale		3 Retail		
13) How many people do you employ? Please indicate	1 Up to 5 employees		2 6-50 employees		3 51-100employees		
14) Form of business ownership	1 (Sole-Trader)		2 (Close Corporation)		3 (Private Company - PTY)		
15) Please indicate how you will describe the success of your business during the past year.	1 Considerable profit		2 Some profit		3 Broke-even		
16) Tick how you expect your business's success to be this year.	1 Considerable profit		2 Some profit		3 Break-even		
17) Tick how your business is performing on the average.	1 (Growing)			2 (No change)		3 (Shrinking)	
18) Indicate how your business's turnover has been over the past 3 years on the average.	Declining by		No change			Increasing by	
	1 (21%+)	2 (11-20%)	3 (1-10%)	4 No change		5 (1-10%)	6 (11-20%)
19) Indicate the trend of your gross profit/loss over the past 3 years on the average	Declining by		No change			Increasing by	
	1 (21%+)	2 (11-20%)	3 (1-10%)	4 No change		5 (1-10%)	6 (11-20%)

<b>SECTION 2: RESOURCES</b>					
<b>SECTION 2A: BUSINESS NETWORKING</b>					
20) How many people did you discuss your business idea with?	1 (Nobody)	2 (1-5 people)	3 (6-10 people)	4 (11+ people)	
21) How many hours/week do you spend on developing business contacts	1 (Less than 1 hour)	2 (2-3 hours)	3 (4-5 hours)	4 (6 hours plus)	
22) How many hours/week do you spend on maintaining already existing contacts?	1 (Less than 1 hour)	2 (2-3 hours)	3 (4-5 hours)	4 (6 hours plus)	
23) Indicate which of the following are employed in your business	1 (Parent)	2 (Siblings)	3 (Aunt & uncle)	4 (Spouse)	5 No one
24) Do you employ other ethnic group members?	1 (Yes)		2 (No)		
<b>SECTION 2B: SOURCE OF START-UP CAPITAL</b>					
25) Loans –banks	1 Not used		2 Minor source		3 Major source
26) Loans – friends	1		2		3
27) Loans – agencies	1		2		3
28) Loans – relatives	1		2		3
29) Own savings	1		2		3
30) Credit rotating associations (stokvel)	1		2		3
31) Trade credit	1		2		3
32) Lease of equipment	1		2		3
<b>SECTION 3: MOTIVES FOR STARTING YOUR OWN BUSINESS</b>					
33) To gain recognition and have influence in community	1 Strongly disagree	2 Disagree	3 undecided	4 Agree	5 Strongly agree
34) To promote welfare of my community & ethnic group	1	2	3	4	5
35) To achieve something	1	2	3	4	5
36) To develop an idea for a product/business	1	2	3	4	5
37) To survive	1	2	3	4	5
38) To have access to resources	1	2	3	4	5
39) To have greater flexibility for private life	1	2	3	4	5
40) To have freedom to adapt my own approach to work	1	2	3	4	5
41) Frustrated in my previous job	1	2	3	4	5
42) To give myself and my family security	1	2	3	4	5
<b>SECTION 4: ENTREPRENEURIAL BEHAVIOUR (ATTITUDE TOWARDS RISK)</b>					
43) Starting a business means a risk of losing your assets and I am prepared to bear this risk	1 Strongly disagree	2 Disagree	3 undecided	4 Agree	5 Strongly agree
44) Starting own business is a risk to psychological health that I am prepared to bear	1	2	3	4	5
45) I would rather run my own business and face 50% chance of bankruptcy than work for another firm	1	2	3	4	5
46) I would rather work on commission which is somehow risky but where I would have the possibility of making more than on a fixed salary	1	2	3	4	5
47) Uncertainty associated with starting a business adds excitement to life	1	2	3	4	5

THANK YOU