

IN SEARCH OF BLACK ENTREPRENEURSHIP: WHY IS THERE A LACK OF ENTREPRENEURIAL ACTIVITY AMONG THE BLACK POPULATION IN SOUTH AFRICA?

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Received February 2011

Revised December 2011

Compared to other ethnic groups, the black population of South Africa has a low participation rate in entrepreneurship activities. The research question of this article is to explain this empirical fact. Based on twenty-four expert interviews, five patterns of explanation are presented and elaborated: a historical apartheid explanation, a financial resources explanation, a human capital explanation, a traits and mindset explanation and a social capital and network explanation. The historical apartheid explanation cannot be qualified independently of the other explanations as a distinctive explanation of its own. Although missing financial resources and shortages of human capital are the factors most often mentioned by the experts, and probably the most important ones, the remaining two explanations (mindset and social network) also deserve attention. A point argued in the conclusion of this article is that socio-cultural values, and the concept of “social capital” in particular, merit further investigation with respect to the question of why there is a lack of black entrepreneurship in South Africa.

Keywords: Entrepreneurship; self-employment; black entrepreneurship; South Africa; apartheid; human capital; personality traits; social capital; entrepreneurial mindset.

1. Introduction

In most countries, economic policy makes provisions for the attainment of a high level of entrepreneurial activity and a dynamic sector of small businesses. The reason for this is that entrepreneurship is usually associated with some far-reaching expectations pertaining to economic and social well-being. New enterprises create new jobs and reduce unemployment, stimulate competition, efficiency and innovation, and contribute to economic growth and prosperity (Birch, 1987; Storey, 1994; Audretsch *et al.*, 2006; Parker, 2005, 2009). In addition to these favorable economic outcomes, positive social and societal effects should also be mentioned. The creation of a new business enables opportunity for

upward social mobility, particularly among underprivileged groups. If the majority of people in a country believe “everybody can make it,” that everyone through hard work has a chance to climb the social ladder and improve his or her fate, then existing poor living conditions and observable inequalities — for example, the unequal distribution of income — tend to be accepted and are more likely to be judged as legitimate (Bechhofer and Elliott, 1985; Brüderl *et al.*, 2007).

These and similar positive consequences of entrepreneurship and small business ventures seem to be of particular importance for what are known as transition countries, i.e., countries such as Brazil or China that are attempting to catch up with the rich, highly industrialized countries. The transition period is normally accompanied by strong inequalities in income and other monetary resources, and this may endanger social and political stability. Furthermore, an improving standard of living produces rapidly rising aspirations that often cannot be fulfilled. This may also result in feelings of dissatisfaction, disappointment and frustration, which in turn may lead to political unrest. Concerning these societal risks, viable opportunities of entrepreneurship may help to legitimize the social order and may give the political system more time to surpass typical transition problems.

This article focuses on South Africa — a prominent example of a country in transition. Since the end of apartheid in 1994, South Africa has undergone rapid socioeconomic and political change and development and is striving to achieve the Millennium Development Goals underscored by the United Nations member states and specific international organizations. However, the official unemployment rate is around 25 percent (see www.statssa.gov.za), signaling serious economic problems. South Africa is a country with a First and Third World socioeconomic character in which the distribution of wealth and income is heavily skewed — the Gini coefficient (measuring income inequality) is one of the highest in the world. Compared to other African countries, South Africa may be categorized as a relatively affluent and politically stable country. However, its social and political stability is somewhat fragile. Crime remains a dominant issue, violent local riots persist and the leading political party, the ANC (African National Congress), has a strong radical wing that often directs its anger and frustration at the white elite. Pessimistic observers predict the economy will “go down” and follow the same route of economic and political destruction as some other countries on the African continent.

When it comes to entrepreneurship in South Africa, two basic facts are important to note: (1) the total number of new business start ups shows a significant increase over time; and (2) compared to other ethnic groups, blacks (almost 80 percent of the population) have a low participation rate in entrepreneurial activities (see Sec. 2 for further detail). Although the former fact is in line with what would be expected for a growing economy in a country undergoing transition, the latter is a peculiar feature of South Africa, and deserves attention because the standard of living of blacks is extremely low and urgently requires to be improved. Entrepreneurship may be a promising route out of poverty, unemployment and social exclusion. Therefore, the idea of “being one’s own boss” should not be confined to the political realm but also spill over to the economic sphere. The current South African government aims at developing a stronger small business sector and has implemented

numerous measures to activate and strengthen entrepreneurship, especially black entrepreneurship (Parliament of the Republic of South Africa, 1996, 2003; Bradford, 2007).

In an attempt to stimulate more (and more successful) black business ventures, it is important to understand and explain why there is a lack of black entrepreneurship. This is precisely the main research question of this paper. On the basis of expert interviews conducted in the Port Elizabeth metropolitan area in 2007 and in 2009, several reasons will be discussed as to why black South Africans have a low entrance rate into entrepreneurship.

The article is structured as follows: Sec. 2 will give a brief outline of entrepreneurship activities in South Africa, organized around the two basic facts mentioned above. Section 3 then provides information about the data obtained through expert interviews. Section 4, being the main thrust of the paper, discusses statements and judgments made by the experts. Section 5 summarizes and concludes the article.

2. Basics About Business Start Ups and Entrepreneurship in South Africa

Encouraged by an expanding economy, an ever-increasing number of new businesses have been founded in South Africa in the last decade. An analysis of the number of official business registrations, as indicated in Table 1, reveals that more than twice as many businesses were registered in 2009 as compared to 2000.

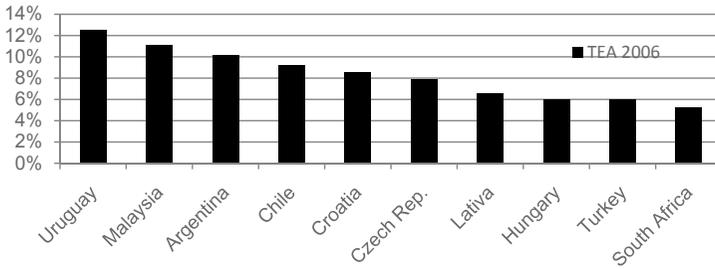
Although Table 1 offers information on the raw number of new business registrations, there remains a need for further data to enable an informed analysis of entrepreneurship in South Africa. First, there is a need for additional statistics about the proportion of the population involved in business-founding activities. Second, the informal business sector must be taken into account. It is well known that, in South Africa (and other developing countries), this sector, including start ups of informal and unregistered businesses, constitutes a considerable part of entrepreneurship activities (Morris *et al.*, 1996; Malagas, 2002; Pali, 2002; Babo, 2005; Woodward *et al.*, 2011). And third, the mere fact of the establishment of new ventures does not say anything about their chances of survival and success.

With respect to the first two of these limitations, the GEM study provides further information. The Global Entrepreneurship Monitor (GEM) project is an international trend study that has been carried out every year since 1999 in the form of representative surveys,

Table 1. Numbers of new business registrations in South Africa 2000–2009.

Year	Number	Year	Number
2000	107,886	2005	229,838
2001	115,590	2006	266,839
2002	138,791	2007	260,305
2003	142,234	2008	293,421
2004	164,475	2009	255,383

Source: Calculated on the basis of statistics of CIPRO (2010).



Source: Computed on the basis of figures provided by Maas and Herrington (2006).

Fig. 1. “Total early-stage entrepreneurial activity” (TEA) in South Africa in 2006, compared with other countries in the same GDP group (upper-middle income).

currently in more than 50 countries (for more details about GEM, see www.gemconsortium.org). South Africa joined the GEM project in 2001. The most important variable measured by the GEM surveys in different countries is the “Total Early-Stage Entrepreneurial Activity Index” (TEA). “The TEA rate estimates the total percentage of people aged between 18–64 years who are actively involved in starting or managing a business they wholly or partly own and which is less than three-and-a-half years old. It is a measure of the national rate of new business formation” (Maas and Herrington, 2006:21). The advantage of this measure is that it takes informal business activities into account. Furthermore, not only does it provide information about start ups, but it also reports on recently established businesses within a timeframe of three and a half years.

According to the GEM Executive Report for South Africa 2006 (Maas and Herrington, 2006), the TEA rate of South Africa is very low. In comparison with countries in the same GDP income group, i.e., the group of upper-middle income countries, Fig. 1 shows that — based on the 2006 survey — only 5.3 percent of the South African population were actively involved in early-stage business activities. The average TEA rate of countries in the GDP upper-middle income group was 7.8 percent, and the average of all countries participating in the GEM project was 9.4 percent.

The situation of the different ethnic groups in South Africa is of particular interest here. If we use the terminology still common in South Africa (but often criticized as remnant of apartheid) and differentiate between black, coloured (mix of black and non-black), white and Indian/Asian South Africans, there is a vast difference in their TEA rates as depicted in Table 2. While the TEA rates of black and coloured South Africans are low (4.3 and 2.9 percent respectively), those of white and Indian/Asian South Africans are high (13.2 and 16.1 percent respectively). Whites and Indian/Asians are three to five times more active in the self-employment sector than their black and coloured counterparts. The second column of Table 2 provides information about the ethnic composition of South Africa and the third column shows that, based on this composition, most of the entrepreneurial activity is initiated by blacks despite their strong under-representation in the field. Because blacks are the largest population group, they are mainly responsible for the weak overall TEA performance of South Africa.

Table 2. “Total early-stage entrepreneurial activity” (TEA) differentiated by ethnic groups in South Africa in 2006.

Ethnic group	TEA	Ethnic groups in the population	Ethnic groups’ share in TEA
Blacks	4.3%	79%	63.6%
Coloureds	2.9%	9%	4.9%
Whites	13.2%	9%	22.4%
Indians/Asians	16.1%	3%	9.1%
Total	5.3%	100%	100%

Source: Computed on the basis of figures provided by Maas and Herrington (2006).

In addition to the fact that blacks and coloureds are less often engaged in entrepreneurial ventures, a further finding of official statistics and empirical studies is that when they are involved in entrepreneurial activities, it is in much smaller businesses (Malagas, 2002; Babo, 2005). In fact, most businesses owned by blacks and coloureds are informal “survivalists,” i.e., very small-scale and volatile ventures that mainly serve to secure or aliment the survival of a single person or family. GEM studies for different years (final year 2010) categorize approximately one-third of all business start ups in South Africa as necessity-driven as opposed to opportunity-driven entrepreneurs (www.gemconsortium.org). This proportion is definitely higher if confined to businesses of blacks and coloureds (Klemz *et al.*, 2006; Woodward *et al.*, 2011).

When reflecting on the low rate and the low scale of black entrepreneurship, it should be evident that the future of the South African economy will strongly depend on an expansion of black entrepreneurship. Almost 90 percent of all South Africans are blacks or coloureds, and the younger age groups in particular belong to this overwhelming majority.

3. Empirical Data: Expert Interviews

The data we used to explore the reasons for the lack of black entrepreneurship in South Africa was obtained from qualitative face-to-face expert interviews. These interviews were conducted in the Port Elizabeth metropolitan area, situated in the Eastern Cape Province. The choice of this geographic focus is motivated by the fact we were engaged in a broader research project, an “area study” concentrating on a single township, the Gqebera Township, better known as the Walmer Township, which is located near to the airport of Port Elizabeth. However, this local restriction is less important in the context of this article because we are interested in the question of why there is a lack of black entrepreneurial activities in South Africa in general. The experts were asked about the situation of black entrepreneurs in South Africa, mostly without any reference to the Walmer Township.

We decided that expert interviews are an appropriate method to seek answers for our research question. Regarding research questions of competing theoretical explanations that require ample experience of a topic and the capacity to reflect it in analytical terms, authors of social research methodology often recommend expert interviews (Neergaard and Ulhøi, 2007; Bogner *et al.*, 2009; Flick, 2009). In our case, only experts in the field of entrepreneurship were interviewed. We qualified a person as an “expert in the field of entrepreneurship,” when he or she evidently had scientific and/or practical experience with

Table 3. List of experts participating in the interviews.

Background	Respondent no.	Position	Gender	Ethnic group	Duration	
Researchers	20	Lecturer	Female	White	36 min	
	2	Senior lecturer	Female	White	93 min	
	3	Senior lecturer	Male	Coloured	103 min	
	4	CEO	Male	White	47 min	
	5	Senior lecturer	Male	White	55 min	
	8	Professor	Female	White	57 min	
	9	Senior lecturer	Female	White	45 min	
	11	Lecturer	Male	Black	45 min	
	Government business consultants	15	Branch manager	Male	Coloured	71 min
		17a	Branch manager	Male	Coloured	48 min
		17b	Financial manager	Male	White	48 min
Branch manager			Male	White	53 min	
Private business consultants	14	CEO	Male	White	50 min	
	15	CEO	Male	White	82 min	
	23	Manager	Female	White	45 min	
	6	CEO	Female	White	42 min	
	10	Branch manager	Male	Black	86 min	
	13	Manager	Male	Black	75 min	
Members of chambers of commerce	1	CEO	Male	Black	49 min	
	12	President	Male	Coloured	37 min	
Walmer Township experts	18	Politician	Male	White	48 min	
	19	Business manager	Male	Black	36 min	
	21	CEO	Male	Black	53 min	
	22	Project manager	Male	Black	71 min	

Note: One interview was conducted with two experts, who are referred to as Respondents 17a and 17b.

founding processes of business ventures, support programs for new businesses and chances of success of micro-enterprises in South Africa.

As shown in Table 3, the experts participating in the interviews came from different backgrounds: researchers, government business consultants, private business consultants, members of chambers of commerce and Walmer Township experts. The four Walmer Township experts had experience in the field of entrepreneurship. We included them because the majority of black South Africans live in townships, and the circumstances and living conditions in Walmer are similar to those in many other townships in South Africa. Six of the twenty-four experts were women and eleven were blacks and coloureds, but actually no female black/coloured expert is included. Thus, we have to concede that there is a certain lack of diversity in our sample (which certainly also reflects the situation in a hypothetical total population of entrepreneurship experts in South Africa). Because all experts interviewed had profound and empirically-based knowledge about the development and current state of entrepreneurship in the whole country, the fact they were from the metropolitan area of Port Elizabeth does, in our opinion, not severely bias our results.

The experts were interviewed in two phases. The first phase comprised thirteen interviews and was conducted in 2007, and the second, comprising eleven interviews, in

2009, which makes a total of 24 expert interviews. The experts in the two phases were different people. The main difference between the two sets of interviews was that the first set of interviews concentrated exclusively on entrepreneurship conditions in South Africa in general, whereas the second set focused on the entrepreneurial conditions in Port Elizabeth and the Walmer Township. Although the two interview schedules differed, questions pertaining to ethnic differences in entrepreneurial activities and presumed reasons for the lack of black entrepreneurship in South Africa formed an identical part of both schedules. The duration of the interviews (using open-ended questions) ranged from 36 to 103 minutes.

All interviews were voice-recorded, except one (where the respondent objected to being recorded). The tapes were transcribed and analyzed by means of content analysis. For this article, we extracted those parts of the transcriptions relevant to the topic to allow us to report on reasons for ethnic differences in entrepreneurship in South Africa in general.

4. Empirical Findings: Reasons for a Lack of Black Entrepreneurship

Before we discussed possible reasons for a lack of black entrepreneurship, we asked our experts whether or not they agreed with the assumption that there is a lack of black entrepreneurship in South Africa. Although not all experts were familiar with the GEM results, most of them agreed without any reservations. However, three or four of the experts mentioned that consideration should also be given to informal and unregistered businesses, implying that when taking these into account (even if the exact numbers are unknown), the gap between whites and non-whites may shrink or even completely vanish. Two examples of such statements are:

If you were going to do a quantification of entrepreneurship on the basis of formal businesses, then you certainly get a very low figure, but you would be surprised if you added the number of informal entrepreneurs to that. (Respondent 14)

In our experience in the township, there is a lot of entrepreneurial activity, but a lot of it is under the radar — it will not be formal businesses, it will be unregistered micro enterprises. (Respondent 17a)

As for the reasons for the lack of black entrepreneurship, it is difficult to isolate and to weigh single reasons. Most experts explicitly said there is no single reason and that different reasons interact with each other. We will present five broad patterns of explanations emanating from our interviews, albeit conceding that these explanations overlap and have been arranged by our experts in more or less well-structured causal chains.

4.1. Historical apartheid explanation

Nearly all experts interviewed referred to the “historical burden” of apartheid as an explanation for the current lack of black entrepreneurship. During apartheid, the government focused on large corporations and neglected the small business sector

(Babo, 2005; Pabst, 2008). Opportunities for blacks and coloureds to start and manage their own business were restricted by law, i.e. they were simply not allowed to operate their own businesses in most fields of the economy. Apartheid treated the black population as a working and service class, suppressed independence and initiative and was not interested in sound schooling and education of blacks. Furthermore, black and coloured people lived in segregated townships, often on the outskirts of cities and with a poor infrastructure. This settlement pattern still prevails, and with its ethnic enclave character, it offers restricted opportunities for successful business ventures (Morris *et al.*, 1996). Here are some statements from our experts with reference to the apartheid system:

It's definitely an apartheid thing that hopefully will change in the next twenty years. (Respondent 16)

Historically, the black population did not have a large mass of black business. (Respondent 6)

I mean the apartheid system is certainly not one that encouraged independent sorts of businesses from black community. (Respondent 14)

The impact that apartheid has had on them is sustained, it is not something you will get rid of in ten years. (Respondent 15)

The black community has really been set aside. They really didn't get the opportunities. The black were in the past mainly just the work force. (Respondent 10)

How can we evaluate the apartheid explanation? None can deny that the apartheid system strongly influenced South Africa and that, although it was abolished more than 15 years ago, this "history matters." Nevertheless, the reference to apartheid seems to have at least two weaknesses: First, it is too easy and too comfortable. Two experts remarked that South Africans like to blame apartheid for whatever happens in the country, and that the notion of "bad apartheid" serves as a kind of integration code because everyone can agree if current problems are attributed to the past:

My personal opinion would be that it is an excuse, and I think it becomes a convenient excuse to blame everything on apartheid, you know. Yes, there have been some sorts of restraints in terms of development if you look at infrastructure, in terms of services... but, then again... you can't blame it all on apartheid, it could just be degeneration of morals, it could just be a number of factors. (Respondent 17a)

Even twelve years into democracy, we can't go back and blame apartheid now, because we have had this time where we literally are not achieving anything. (Respondent 15)

Second, to provide a sufficient and adequate explanation it is necessary to specify exactly what mechanisms are barriers to entrepreneurship today and which of these were

initiated or strengthened by apartheid. However, when we attempt to do this, we usually end up with the other explanations. Apartheid did not invest in the education of blacks, and this still causes a lack of entrepreneurship (human capital explanation, Sec. 4.3). Apartheid did not allow blacks to start their own business ventures, as a result of which there is restricted experience with the entrepreneurial role and a shortage of social network contacts encouraging entrepreneurship (social network explanation, Sec. 4.4). Apartheid supported a black culture of dependency, and this cultural heritage is still an obstacle to black entrepreneurship (mindset explanation, Sec. 4.5). In summary, the historical apartheid explanation is not incorrect, but it is not in itself sufficient to explain the current lack of black entrepreneurship in South Africa. It requires elaboration, which takes us back to other explanations. Apartheid provides just the underpinning basis for different causal mechanisms that need to be spelled out.

4.2. Financial resources explanation

Two thirds of the experts mentioned — in more or less detailed words — limited financial resources of black South Africans as an important barrier to their participation in entrepreneurship. This corresponds to what we generally know about entry into entrepreneurship and about the start-up process of new enterprises (Parker, 2005, 2009): to open a new business usually requires a certain amount of financial capital, and many potential entrepreneurs simply do not have and cannot get the necessary funding. In general population surveys exploring interest in entrepreneurial activities in different countries (like the GEM project), the most prominent answer to the question why people do not start a business nor even think about it, is that they believe they cannot afford it and lack the financial prerequisites. Three examples of our expert answers along this line of reasoning are:

Finances are also a barrier. (Respondent 19)

No, they have no collateral, some people living in a shack... they don't have collateral. The bank cannot give its money to you because the bank does not have a security. (Respondent 21)

It has improved slightly over the past few years, but it still becomes very difficult for a black entrepreneur without security or collateral to access finance. (Respondent 17a)

What about the validity and relevance of this financial resources explanation? It is well known from basic South African statistical data (see www.statssa.gov.za) and also from elementary daily first-hand experience that the vast majority of blacks is poor and has very restricted financial resources. Therefore, the financial resources explanation clearly has some truth. It is undoubtedly a “good idea” to improve the personal financial situation of blacks and their access to credit opportunities. The effect of an improved financial situation on participation in entrepreneurship is ambivalent insofar as it may reduce necessity-driven entrepreneurial activities. A lack of financial resources can be qualified as a short-term and

immediate barrier to entrepreneurship, but it certainly is not a far-reaching reason. One comment:

Do they have the financial resources? I wouldn't say so. But there are ways and means of getting that, and that is why I am saying intuitively they have a lot of characteristics to survive and make a success of life already. It is just not translated into the real world of entrepreneurship.
(Respondent 15)

Respondents 15 and 17a cautiously hinted at the fact that there is a lot of money available in South Africa to stimulate business start ups, especially among the formerly disadvantaged population groups. This money does not come from private banks but from governmental entrepreneurship support programs. These programs do not require the usual security of bank credits. They are open for potential entrepreneurs without much equity capital. This means that the seemingly obvious barrier of missing financial resources is in many cases a lack of information about “ways and means of getting that” (Respondent 15). Finally, there are numerous examples of now flourishing black businesses that started on a very small scale, from scratch, and without any start-up capital.

4.3. Human capital explanation

The low level of schooling and education of black South Africans was also a main and recurrent topic our experts brought up in the interviews. In theoretical terms, this means a lack of “human capital.” With respect to the concept of human capital, the literature distinguishes between general and specific human capital (Bates, 1990; Brüderl *et al.*, 2007). While general human capital relates to the general level of schooling, specific human capital in the context of entrepreneurship includes business administration and management skills — skills frequently emphasized by our experts in the field of business consultation. Some typical answers from the experts in the vein of the human capital explanation are:

The bad educational system is a reason for the low rate of new business founding. (Respondent 9)

If you look at our disadvantaged black communities, they are paying a big price for that and that is education and you heard me say education so many times, but I firmly believe that is the key. (Respondent 5)

Specific business skills, trained business skills are virtually absent.
(Respondent 14)

They don't have the abilities to run businesses. They might have technical skills but in terms of business skills that is where they are lacking.
(Respondent 3)

The big problem is that they don't have management experience and they also don't have any business experience. They don't keep records

and because they don't keep records, they can't even tell you what their income level is. (Respondent 20)

What can we say to this human capital explanation? The general literature on entrepreneurship teaches us that people with a higher level of education have a higher propensity to be self-employed (e.g., Storey, 1994; Parker, 2005, 2009). Furthermore, black South Africans have a low level of schooling and few educational credentials (see, www.statssa.gov.za). This results in a low participation rate in entrepreneurial activities, confirming the human capital explanation. The necessity to enhance the level of education of the black population is now a widely accepted goal in South African politics — not primarily with respect to entrepreneurship, but with respect to many other political objectives. Although the South African government has introduced various educational reforms to enhance the quality of education and to improve the access of black people to education, this is a costly and slowly progressing endeavor. So far, improvements in the educational equality since the end of apartheid have been moderate and associated with “new educational injustices” (Brown, 2006). Two key informants (Respondents 7 and 12) argued that the governmental affirmative action program “Black Economic Empowerment” (BEE), which demands a certain percentage of black people be in higher positions of private companies and public agencies, may be one reason for the deficit of ambitious black business start ups. Well-educated blacks who would have the capacity to establish and manage their own business are encouraged by the BEE to take lucrative positions in existing large private companies or in public organizations.

4.4. Traits and mindset explanation

Besides history, financial resources and education, personality traits and the general mindset of the black South African population were important issues in most interviews. The experts argued that black South Africans have personality traits and mindset or mentality orientations not very well suited for entrepreneurial activities.

With respect to personality characteristics, two factors repeatedly mentioned in the interviews were self-confidence and risk avoidance or fear of failure. Some (not all) experts believe that — on average — blacks have a low level of self-confidence, i.e., too little confidence in themselves and their skills, and a tendency to avoid risks, i.e., a high fear of failure, which reduces entrepreneurial impetus. Within the mindset/mentality terminology, two substantial topics play a prominent role: the “culture of dependency” and the “collectivist orientation” in the black population of South Africa. Concerning the “culture of dependency,” the reasoning is as follows: in the aftermath of the apartheid regime (or even dating back to the earlier colonial system), black people in South Africa are not familiar with taking initiative and responsibility, but expect such initiative from the government and its institutions. Black people in South Africa were always confronted with white commands and prescriptions and were expected to be obeyed. This nurtured a mentality that holds the government responsible for jobs, education, health care, housing and other needs fulfillment. Indeed, such a mindset can hardly be qualified as supportive for entrepreneurship. As far as labor market participation is concerned, black South Africans seem to prefer employee jobs

that guarantee a stable monthly income to embarking on entrepreneurship. In addition to this dependency proposition, the general orientation of black culture in South Africa does not seem to be individualist but rather collectivist. The classical picture of an entrepreneur (e.g., Schumpeter, 1961) is that s/he is a competitive, idiosyncratic person, interested primarily in his/her own fate and a non-conformist who is willing to explore new and innovative ideas. Embedded in a cultural setting that attaches great importance to social integration and community life, black South Africans do not fit this picture of an individualistic entrepreneur. Let us present examples for each of the four topics (self-confidence, risk avoidance, culture of dependency and collectivist orientation):

Black South Africans still need to gain confidence in their competencies.
(Respondent 15)

I think the low level of entrepreneurship is linked to a lack of self-confidence as well as an overwhelming fear of failure. You know, if you are looking at entrepreneurs in the black communities, if you fail at business, you are seen as an outcast, you know, you are seen as a failure for that matter. (Respondent 17a)

In order for you to succeed, you must be a risk-taker. Other people don't opt for that — they opt for safety first... As it stands, black people value employment more than any other thing. (Respondent 1)

The former system has also encouraged a mindset that is afraid to take risks with what they've got, they're afraid to gamble with what they've got. (Respondent 16)

There is a high level of actual dependency, and people think to see that as the norm, as the solution... You basically have a history of a state that designs what is good for people. (Respondent 14)

The apartheid created a dependency barrier where the masses of the people are not entrepreneurial anymore. (Respondent 11)

Some of the people...think there might be some cultural values which are different from white people who might hinder them from being able to run a business, and also they are more community orientated.
(Respondent 20)

I seriously believe that, in general, as long as the person doesn't rise too high, it's okay. If he rises beyond a certain level, they would definitely pull him back because the Ubuntu system says no one falls too low but no one rises too high. (Respondent 16)

You know, our sisters are unemployed; we have to look after our own sisters. If the family is unemployed and things are a bit difficult, as I say, we grew up in a socialist environment. (Respondent 19)

How can we respond to such explanations related to character traits and to mindset or mentality? Psychological entrepreneurship research encompasses numerous empirical studies investigating possible relationships between people's personality traits and their propensity to become entrepreneurs (for a recent meta-analysis, see [Rauch and Frese, 2007](#)). However, the empirical evidence for this "traits approach" is inconsistent and highly controversial: some researchers judge this type of research as a "dead-end route," while others are convinced that personality characteristics are important, at least in certain contexts and/or under certain additional conditions. For the context of South Africa, it would be necessary to empirically substantiate whether or not black South Africans do in fact have a relatively low level of self-confidence and/or tendency to avoid risks. Even if this were true, the connection of these traits to the propensity to start their own business under South African circumstances would still have to be shown. Depending on the branch of business and other conditions (e.g., intensity of contact to customers), the required personality traits may vary. These few remarks may suffice to demonstrate that the effects of personal traits on entrepreneurship are by no means straightforward, and therefore, are associated with a number of caveats.

Less psychological in its perspective than the traits explanation, the mindset explanation is rather in the tradition of cultural studies. These studies argue that entrepreneurship is not only a matter of business and economy, but also of culture ([Baughn and Neuperk, 2003](#); [North, 2005](#); [Hechavarria and Reynolds, 2009](#)). Both historical studies and cross-national comparisons (such as the GEM project) show there are remarkable differences in the societal legitimacy and acceptance of entrepreneurship. In some countries, entrepreneurs have a very positive image and a high social standing, while in others it is negative and low, e.g., based on anti-capitalist sentiments. Cultural approaches to entrepreneurship have also influenced the South African debate (e.g., [Co, 2003](#); [Babo, 2005](#); [Urban, 2006](#); [Mitchell and Co, 2007](#)). If culture is not used as a "blanket term," but substantially specified, it can be a very helpful conceptual tool. The cultural mindset explanation is close to the psychological traits explanation but it is a type of aggregate traits approach in the sense that cultural norms and values shape individual aspirations and traits. This means culture can be used to explain why certain personality characteristics are linked to a particular group of the population. Nevertheless, the concept of mindset or mentality is open enough to allow for individual differences. Whether a culture of dependency — combined with a collectivist orientation — actually exists in the black population of South Africa is an empirical question. If it does, the mindset explanation is an integrative and relatively convincing rationale.

4.5. Social capital and network explanation

As a supplement to human capital, which is a very prominent concept in economics, sociologists stress the role of another type of capital, so-called social capital (e.g., [Coleman, 1990](#); [Putnam, 2000](#)). Although social capital is a somewhat elusive concept, it emphasizes, on the collective level, the societal advantages of common norms and values leading to trust and solidarity, and, on the individual level, the personal advantages of

social relations and of embeddedness in a social network. Social relations are seen as “capital,” i.e., as valuable resources giving access to information and other types of support. Applied to the phenomenon of entrepreneurship, the network approach is a well-established theory in the research field (Aldrich and Zimmer, 1986; Brüderl and Preisendörfer, 1998; Co, 2003; Preisendörfer, 2007). It predicts that characteristics of the social network of a person, such as an extended and diverse network, a high level of individual networking activity and a high level of network support, each increase the propensity to start a business on the one hand, and to be successful with this business on the other.

Not surprisingly, while some of our experts alluded directly to the concept of social networks, others (at least indirectly) gave hints in the direction of social capital by mentioning a low level of trust, a lack of role models and generally, an unfavorable “background” of black South Africans for the entrepreneurial role. Here are some of the statements in this line of reasoning:

They don't have a network. (Respondent 16)

Networking is an issue that can help them a lot because they can engage in bulk buying and they don't. It is still very much each for his own... there isn't that trust. (Respondent 20)

Entrepreneurs who have somebody in the family, in the families would have the mentors to be more successful... they would have an advantage. (Respondent 3)

In certain sections, there are role models in terms of people going out and doing their own business, but across the board those role models are not really available. (Respondent 1)

They still want to work for a large company. But as I say, I think in the next ten years it will change dramatically... because children grow up with different role models. (Respondent 8)

So, if you grow up in an environment where your father was paid, was a salary guy, it is very difficult for you to become an entrepreneur. We also have to overcome that problem, people were almost discouraged, black people, because they could not own land, they could not own business properties in certain areas, and now that they are free, you know, they haven't got that background. (Respondent 18)

How can we assess this sociological explanation referring to role models, social capital and social networks? Sociologists usually assume that individual members of a society behave in accordance with their social environment, i.e., they try to fulfill social expectations and tend to use selected others as role models. Given the deficit of black entrepreneurship in the past and in the present, it is a convincing conclusion that there is a lack of useful social contacts and of appropriate role models. One elementary path into self-employment is that children simply follow in their parents' footsteps (Laband and

Lentz, 1985). For blacks in South Africa, this path is very rare, given the apartheid history. Consequently, the “missing role models” argument lends substance to the historical explanation (Sec. 4.1). Because role models are an important manifestation of cultural norms and values, this reasoning is also akin to the mindset explanation (Sec. 4.4). That black people’s lack of social capital is responsible for their low participation in entrepreneurial activities is just as plausible as is the lack of human and financial capital. The resources that can be drawn upon in the social network of the average black person in South Africa, and that are helpful for the entrepreneurial role, are restricted because the typical member of such a network is poor and economically deprived. Also, the settlement pattern of townships perpetuates and encourages ethnic enclaves, which are usually not beneficial to successful business start ups (Bates, 1994; Aldrich and Waldinger, 1990; Light, 2005).

5. Conclusions

To answer the research question of why there is a lack of black entrepreneurship in South Africa, five broad patterns of explanation were discussed: a historical apartheid explanation, a financial resources explanation, a human capital explanation, a traits and mindset explanation and a social capital and network explanation. These five explanations were derived by combining the existing entrepreneurship literature with the empirical data from our expert interviews.

The historical apartheid explanation in itself cannot be qualified as a distinctive explanation for the lack of black entrepreneurship in South Africa. It has the character of a second-step explanation by providing the underpinning for the other explanations. The apartheid system contributed to and is responsible for unfavorable preconditions of blacks to start their own business, i.e., it is responsible for the lack of financial, human, cultural and social capital.

The two explanations of missing financial resources and shortages of human capital are undoubtedly true, but differ in their relative importance. The South African government has already initiated some programs to encourage business start ups of the formerly disadvantaged black and coloured groups, and these programs mainly offer financial support. This means we can expect that good business ideas will find their money. However, the most basic need is an uplifting of general and entrepreneur-specific human capital of black South Africans. Although such an uplifting improves chances to find a (good) job as an employee and reduces necessity-driven business ventures, its net effect on entrepreneurial activities will presumably be positive.

The traits and mentality explanation and the social capital and network explanation deserve special attention. It is less obvious that they are empirically valid, and it is less clear which personality traits, which mindset orientations and which social capital resources actually influence the probability to become an entrepreneur. According to the experiences of our experts, the main problems of black South Africans are: a low level of self-confidence and risk propensity, a culture of dependency and collectivism, missing strong and weak ties to the “business world” and a shortage of entrepreneurial role models.

What policy implications may be drawn from our findings? Because our data are judgments and opinions, albeit from experts, we have to be cautious. We will confine ourselves to a few elementary statements: The historical reference to apartheid is not wrong, but does not help much to meet current challenges. The main bottleneck in the current situation does not seem to be monetary support, because most small business start ups do not require much money and there are government programs offering viable credit opportunities for blacks starting up larger endeavors. The skills component is the most serious obstacle to an increased participation of blacks in entrepreneurship activities. Thus, a general improvement of educational opportunities for black South Africans is of special priority. In addition, more business and entrepreneurship training programs can be recommended. The target group of these programs should be potential entrepreneurs as well as already active entrepreneurs, preferably informal ones. Psychological traits, the mindset, role models, social networks and other elements of social capital (like trust) are difficult to change. They have become ingrained in people and cultural settings, and can hardly be made objects of straightforward political manipulation. This will take time and patience, and it affords socialization, education and everyday experience. Given this, we finally come back again to schooling and human capital formation. We agree with the statement of one of our experts already quoted above (Sec. 4.3): “you heard me say education so many times, but I firmly believe that is the key.”

Acknowledgements

This article has been written as part of the research project “Entrepreneurship in Disadvantaged Black Communities — A Case Study of the Walmer Township, Port Elizabeth, South Africa” which was conducted from 2008 to 2011. The project is directed by Frans Bezuidenhout (Nelson Mandela Metropolitan University, Port Elizabeth) and Peter Preisendörfer (Johannes Gutenberg University of Mainz, Mainz), and it was supported by the South African National Research Foundation (NRF project no. 65957) and the German Research Foundation (DFG project no. PR 237/5-1).

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