

**BUSINESS TRANSFORMATION IN DURBAN:  
PERCEPTIONS OF BLACK ENTREPRENEURS IN THE  
CONTEXT OF BLACK ECONOMIC EMPOWERMENT**

**By**

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## **DECLARATION**

I declare that this dissertation is my own unaided work. All citations, references and borrowed ideas have been duly acknowledged. It is being submitted for the degree of Masters in Development Studies in the Graduate Programme of the School of Built Environment and Development Studies in the Faculty of Humanities, Development and Social Science, University of KwaZulu-Natal, Durban, South Africa. None of the present work has been submitted previously for any degree or examination in any other University.

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Student signature

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Date

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“The Arc of the Moral Universe Is Long, but It Bends Toward Justice” (Martin Luther King, Jr.). It bends because men and women, some obscure in their labour, put their arms on it and bend it towards a better day for us. My achievement, and indeed no man’s achievement, is ever a solitary effort but one borne of a collective effort made by many.

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## **ABSTRACT**

The ANC government's quest for economic transformation in the post-apartheid South Africa came up with black economic empowerment policy. Equal participation in the economy especially for the previously disadvantaged was one of the stated aims of black economic empowerment. This study discusses black entrepreneurs' perceptions of business transformation in Durban in the context of lack economic empowerment. Qualitative interviews were conducted with fourteen black entrepreneurs that were identified and located through purposive and snowball sampling methods. The study found out that while there is an appreciation of BEE policy and the transformation that has already taken place, there is also a healthy criticism, discontent, skepticism and impatience over the pace of transformation and implementation of BEE policy.

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## **CHAPTER ONE: INTRODUCTION**

One of the core aims of the post-apartheid government has been to address the imbalances created under white minority rule. Measures such as job reservation ensured that the labour market was highly stratified according to race. Entrepreneurialism was also stifled among black South Africans in that they were restricted from establishing businesses in some parts of towns, and white businesses were given preferential treatment by government (Ponte, Roberts and Sittert, 2007).

South Africa, just like other countries with backgrounds of discrimination, came up with and implemented proactive policies meant to remove the imbalances created under minority rule. This was so because although the removal of apartheid's discriminatory legislation was a necessary step, it was not sufficient given the inertia of long established imbalances. As important as the repeal was, it did not by itself, usher in an era of fairness and equal opportunities for all, as the imbalances created were so deep and abiding, and in some cases festered long after repeal (Republic of South Africa, 1998).

In order to proactively confront patterns of inequality, the ANC-led democratic government formulated and implemented proactive policies such as the Employment Equity Act and Black Economic Empowerment (BEE) policies. The Employment Equity Act, No.55 of 1998 (Republic of South Africa, 1998) was aimed at equality in work places through affirmative action to remove imbalances and discrimination, and to promote equal opportunities and fair treatment. The Black Economic Empowerment is aimed, according to the Broad-based Black Economic Empowerment Act of 2003, at "promoting economic transformation in order to enable meaningful participation of black people in the economy" (Republic of South Africa, 2003: 4).

The reactions to these proactive policies have been contentious and fierce. They have been accepted and supported by some, rejected and resisted by others. The BEE policy has not been without controversy and contestation by various stakeholders in the country by both those for whom it has been designed to help (blacks) and the non-beneficiaries (whites) (Southall, 2002). To the previously disadvantaged, resistance on the part of those who benefited from discrimination is all too apparent, while to the previously advantaged, BEE policy is nothing but reverse discrimination, only this time, they are the ones being discriminated against (Ford, 2004).

Business transformation has been presented by the post-apartheid government as a key plank of development. It is assumed that it will allow all South African citizens, especially those previously disadvantaged have a fair chance of creating and making wealth and jobs for themselves and others, and in the process reducing poverty and contributing to economic development of the country.

Poverty levels are still high among the previously disadvantaged demographics. In the city of eThekweni, the 2009 poverty estimation, were, according to Global Insight (2010), cited by the eThekweni Municipality (2011:18), “41.8% of eThekweni’s African population were battling the effects of poverty, as opposed to 0.2% of the White population, 18.2% of the Coloured population, and 9.5% of the Asian population.”

Business transformation is important to all citizens in a free society, but even more so to entrepreneurs who take risks to create products in the form of services and goods. They bear risks and take chances because they hope to make profit on the investments they take on (Mohr, Fourie and Associates, 1995: 37). BEE is meant to help, support and nurture entrepreneurship that in turn contributes to development. BEE policy at the heart of business transformation has been positively viewed by some as a good tool for development.

However, for business transformation, race is not the only barrier that needs overcoming in today’s post-apartheid South Africa. Many studies such as the one conducted by the Commission for Justice and Reconciliation have “found that more South Africans identified the division between poor and middle income/wealthy South Africans rather than racial divisions as the ‘biggest division’ in South Africa” (Seekings, 2008: 42). The issue of class and inequality is becoming an obvious concern because only a small minority has enjoyed an upward mobility without this translating into development more generally. There has been an unambiguous argument made by both sides of the proponents and opponents of BEE that it has only succeeded in benefiting the few well-connected black elite at the expense of the deserving poor majority (Ponte, Roberts and Sitter, 2007: 934).

Entrepreneurialism also has been critiqued by the critics of neoliberalism as a highly limited route to development by some (Roy, 2010), while it has been heralded by others as central to development. According to Sánchez (2011: 424), entrepreneurship plays an

important role of being the “engine of economic and social development.” So, for those that perceive it to be central, the extent to which all citizens are free to be entrepreneurial, and those incapacitated because of the past are helped, will determine whether the greater majority of South Africa’s citizens come out of poverty and help build a more just and developed country.

This study explores business transformation in the city of Durban, and the debates that surround it through the lens of the previously disadvantaged majority, black<sup>1</sup> South African entrepreneurs in the context of BEE. There are perceptions and arguments to be made on both sides of the divide, proponents and exponents of BEE concerning business transformation in the city of eThekweni. The city of eThekweni covers approximately 2297km<sup>2</sup> area with a population of 3.5 million, on the east coast of South Africa in KwaZulu-Natal (KZN) Province, of which 71% is African, while 19%, 8%, and 2% is Indian, White and Coloured, respectively (eThekweni Municipality, 2011).

While perceptions of all South African entrepreneurs are important and would provide a richer study of business transformation, this study has been narrowed further to include only black entrepreneurs. One of the imperatives of achieving a sustainable and vibrant economic development in a nation is to have an environment that allows all citizens to freely pursue their entrepreneurial potential without restraint. Entrepreneurship by its nature is a difficult and uncertain undertaking with risks and outcomes that may not be anticipated. There is no doubt that all entrepreneurs, be they white, black, coloured or Indian, face difficulties to be successful in business in today’s post-apartheid South Africa. But, black entrepreneurs face an additional set of barriers, the biggest being to establish genuine and meaningful enterprises due to the inequalities of the past that still persist as a result of the legacy of South Africa’s apartheid past and resistance of some established businesses to embrace transformation and mismanagement of empowerment programmes.

### **1.1. Background**

South Africa’s apartheid past had far reaching consequences on almost all spheres of life of its people and all places within its borders. Spatial segregation by race became a reality of

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1. For the purpose of this study, Black here refers to Africans, not non-whites as defined by BEE classification.

life in South African urban areas including Durban (Popke, 2003: 250). In fact, as Maylam (1990: 63) suggests, Durban was a template that other municipalities emulated in urban apartheid practice.

However, the early segregation in Durban was aimed at the Indians who were competing with whites for space, place, trade and political influence with whites, and blacks on the contrary were seen as a passive threat (Swanson, 1993: 404). This perceived Indian threat triggered a threefold response from the whites: political exclusion, residential segregation and commercial suppression against them (Swanson, 1993: 405). The most successful component of the three was the commercial suppression component through the 1897 Licensing Act that gave municipalities arbitrary powers in the issuance or withdrawal of trading licenses (Maylam, 1990: 62), allowing European-led municipalities to deny non-whites licenses for business. So, the 1897 Licensing Act became a tool for business segregation based on race.

The apartheid state used extensive regulatory power to promote Afrikaner capital (Nattrass and Seekings, 2010). With the coming to power of the National Party (NP) in 1948, the Afrikaner nationalists began the process of rapid Afrikanerisation by which state revenue resources were methodically deployed to advance and promote the capitalist class of Afrikaners. Among other things, apartheid economically advantaged the white minority population at the expense of the majority black and other races such as the coloureds and Asians. Through direct employment and procurement, state business was directed towards the advancement of Afrikaners in the post, communications, transport and electricity areas (Ponte, Roberts and Sittert, 2007: 938). The NP government actively, through procurement and through state business, helped promote Afrikaner entrepreneurs with the aim of having the national economy controlled by Afrikaners (Ponte, Roberts and Sittert, 2007). Apartheid also ensured that important and lucrative business centres were the preserve of the white population. The role of black people was imagined to be as cheap labour rather than entrepreneurs. Along with inferior education they also had limited access to land and capital (Iheduru, 2004: 4).

The repeal of the Group Areas Act in 1991, followed by democratic elections held in 1994, ushered in a new era of freedom for all South Africans, regardless of race. Spaces that were once restricted to certain races have now been opened, allowing all South Africans

regardless of race to pursue their business and economic aspirations without restraint. But the government also, following the principle of restitution, embarked on a broad-based BEE and Employment Equity in an effort to level the playing field for the previously segregated people. In passing this legislation (Employment Equity Act, No. 55 of 1998), government noted that “disparities (caused by apartheid) create such pronounced disadvantages for certain categories of people that they cannot be simply addressed by repealing discriminatory laws” (Republic of South Africa, 1998: 2).

While much has been written on these policies, the particular focus of this research is to investigate perceptions and the experiences of black entrepreneurs concerning business transformation in Durban in the context of black economic empowerment. The study explores the topic of business transformation in Durban from the perspective of black entrepreneurs and their perceptions of the opportunities arising out of transformation and government’s implementation of broad-based BEE initiatives. One of the anticipated outcomes of this research is the perception of the opportunities as well as obstacles arising out of business transformation by those who are in designated beneficiary groups.

## **1.2. Aims and objectives**

1. What opportunities do black entrepreneurs in Durban perceive in relation to their own opportunities to initiate and develop business and more generally for black people?
2. What obstacles or barriers do black entrepreneurs in Durban perceive in relation to initiating and developing their enterprises?
3. What role do black entrepreneurs attribute to BEE in relation to their own ability to succeed and/or in relation to black businesses in general?
4. What transformation do black entrepreneurs perceive in business in Durban?

## **1.3. Theoretical framework**

The theoretical framework draws from two texts: Sen’s (1990) theory of *Development as Freedom* and Puwar’s (2004) *Space Invaders*. Sen (1990: 53) states that, “...enhancement of human freedom is both the main object and the primary means of development... Individual capabilities crucially depend on, among other things, economic, social, and political arrangements.” This is crucial because unless people have the freedom to tap into,

“economic facilities, political freedoms, social opportunities, transparency guarantees and protective security” (Sen, 1990: 53), they are held captive with little room to improve their lives. Freedom ensures that people become masters of their own development, strengthening their capabilities making them active participants and partners in development. Freedom is fundamental as well as categorical. The former being the structural freedom as enshrined in the act and the latter as the categorical (day to day) experiences of the subjects of freedom.

While freedom is a critical component of development and access to opportunities as noted by Sen (1990), there are complex factors that previously disadvantaged groups may encounter in the process of being incorporated in new spaces. For the purposes of this study, it is the business space where there is contestation between the newcomers (African entrepreneurs) and the establishment (white entrepreneurs) in the context of BEE, which seeks to enable or give them some sort of freedom through giving them preferential access to a doorway which they had historically been prevented from entering. Though Indians are part of the newcomers involved in the business space contestation, they have not been included for the purpose of focusing for the study.

In order to explore the experiences of black South African entrepreneurs, the researcher also used Puwar’s book (2004) entitled *Space Invaders*. In this conceptual frame, Puwar examines politics of difference by showing what happens when minority groups enter privileged spaces. She illustrates her concept within the context of the British parliament by showing how parliament is organised around ‘white maleness’ as the norm. As such, women and black MPs become invaders of the racially ordered and gender ordered space (Puwar, 2004: 13). She illustrates politics of difference and inequalities and how they arise as a result of this perceived invasion by groups that are seen as not “normally” belonging to the “white male space”. According to Puwar (2004: 8):

While all can, in theory, enter, it is certain types of bodies that are tacitly designated as being the 'natural' occupants of specific positions. Some bodies are deemed as having the right to belong, while others are marked out as trespassers, who are, in accordance with how both spaces and bodies are imagined (politically, historically and conceptually), circumscribed as being 'out of place'. Not being the somatic norm, they are space invaders.

In the case of this study it is the space of business opportunities in what has previously been white space. How have black business men and women experienced these spaces? Do they find themselves welcome or do they feel rejected, and what adjustments have they made to fit into the business space? Puwar (2004: 28) discusses how anxieties arise as a result of this invasion of the 'secure and normative spaces'. The break from exclusion to inclusion of specific bodies in particular spaces is not without consequences (Puwar, 2004: 8). Puwar helps this study in its quest to understand the implications of transformational change in the business space, in this case from the experiences of black entrepreneurs. She helps understand the perceived persistent obstacles and resistance experienced by newcomers (blacks) as they try to establish themselves in the transformed/transforming business space that has been privileged space for established (white) business. What opportunities and challenges do they experience in this previously white business space?

#### **1.4. Organisation of the dissertation**

Chapter two is a review of literature that is relevant to this study. It explores the issue of economic and business exclusion of certain demographics and remedial measures (policies), in the United States of America, Malaysia and South Africa, introduced to help the previously disadvantaged to participate in business and economic development of their countries.

Chapter three presents the study design, study area, participants and the snowball sampling method that was used in the study. This chapter also explains the method used to collect data by means of in-depth interviews with 14 black South African entrepreneurs in the city of Durban. This will be followed by discussing how data will be analysed using thematic analysis. Finally, the ethical considerations that were covered and limitations of the study will be discussed.

Chapter four presents the research findings from the data collected from the in-depth interviews, using a thematic data analysis method. The data is presented under four themes: the business opportunities perceived by black South African entrepreneurs; the black South African entrepreneurs' views about BEE's facilitation of opportunities and overcoming of barriers that they confront; black entrepreneurs' perceptions of race in the business environment and the black entrepreneurs' perceptions of business transformation.

Chapter five is a discussion of the results presented in chapter four. The discussion engages the findings with literature, theoretical readings and personal input.

## **CHAPTER TWO: LITERATURE REVIEW**

This chapter shows that economic discrimination based on race and the pursuit of redress is not unique to South Africa but has been experienced in other countries in the world. The discussion will include two comparisons: one from the global north, namely the United States, and one from the global south, namely Malaysia. While these cases have important differences they all have attempted to redress the legacies of past exclusions.

The case of the United States is different from that of South Africa in that its affirmative action programmes are aimed at the minority section of its population, whereas the South African one targets the majority of its population. Nonetheless, the United States has provided a ‘template’ of redress to past and present economic discrimination based on race that other nations have used/followed. The American government had to come up with affirmative action policies and institutions to spearhead the work of economic and business redress not only for African Americans but also for other minorities.

The Malaysian case is similar to the South African case in that it targets the majority previously disadvantaged indigenous people. Another similarity is that the critique in terms of implementation has been that it ends up mostly benefiting the politically well-connected minority and does not really entrench and foster lasting entrepreneurship. Critics in all three contexts have challenged the claims that affirmative action policies are a route to social justice.

### **2.1. The United States of America (US)**

#### ***2.1.1. Legacy of Slavery and Jim Crow***

In the United States, African Americans experienced structural exclusion from slavery and Jim Crow that have had a negative impact on present generations of African Americans. “Slavery and Jim Crow imposed massive material deprivation, required sustenance from contemptuous racist ideology, and – most importantly for present purposes – left a legacy of entrenched systems of disadvantage and indignity” (Lyons, 2003: 1). Although slavery was outlawed through the civil war, many southern states put in place limits to the freedom of black people through what were known collectively as Jim Crow laws. From the 1870s to the civil rights era of the 1960s, these laws brought about segregation in housing,

schooling and the economy. The legacy of slavery and Jim Crow led to massive substantial disadvantages among blacks in wealth and income gaps, limited job opportunities, inferior education, inferior health care, inferior housing and inferior public services (Lyons, 2003). African Americans were also prevented from economic opportunities such as owning property, accessing loans for business owners, inability to access Federal Housing Authority mortgages, exclusion from trade unions and exclusion from employment in the police force or fire departments. This ensured that blacks could not amass and bequeath any meaningful wealth to future black generations (Obama, 2008). Affirmative action was therefore introduced to mitigate the massive disadvantages black Americans suffered in many spheres of life including economics and business, then and now.

Until the civil war in 1860-65, slavery was institutionalised in the United States. Despite their lives being circumscribed by discriminatory laws, freed African Americans especially in the north participated actively in the life of American society. They were able to enlist in the army, some owned land, businesses, homes, property and very few owned slaves and slave holding plantations (African American Odyssey, n.d.). For those African Americans who were involved in business before the civil war, they not only had to contend with institutional racism but also with the devastating and pernicious effects of slavery. They were also confronted with licensing laws and societal constraints that militated against black business entrepreneurship participation in a systematic manner (Walker, 1986: 382). Despite the severe racial suppression from full participation on antebellum blacks, they (blacks) managed to establish significant business enterprises such as mechanizing, manufacturing, real estate speculation, construction and transportation, that were not marginal in profit terms nor peripheral in terms of mainstream business (Walker, 1986).

### ***2.1.2. Affirmative action (Government Set-Asides)***

Even though discriminatory laws were lifted in the 1960s, racial patterns remained in economic participation hindering the full participation for African Americans. The US government came up with affirmative action initiatives designed to lessen the effects of discrimination on minority businesses.

In 1969, the Minority Business Development Agency (MBDA) was established through President Nixon's Executive Order 11458, in the US Department of Commerce for the

purpose of preserving, strengthening and expanding minority businesses (Rice, 1991: 114). According to President Nixon's Executive Order 11458 (1969), the Secretary of Commerce was directed to among other things:

(1) Coordinate as consistent with law the plans, programs, and operations of the Federal Government which affect or may contribute to the establishment, preservation and strengthening of minority business enterprise. (2) Promote the mobilization of activities and resources of State and local governments, businesses and trade associations, universities, foundations, professional organizations and volunteer and other groups towards the growth of minority business enterprises and facilitate the coordination of the efforts of these groups with those of Federal departments and agencies (Nixon, 1969).

The US government created the MBDA "to encourage minority business ownership and success with the principal purpose of overcoming the continuing effects of past discrimination" (Rice, 1991: 114) and the reduction of unemployment among the minorities in urban areas (Fairlie, 1998: 1). It had as its primary activities the funding of a wide range of programmes assisting minority businesspersons on a one-on-one and group basis (Rice, 1991: 114).

The MBDA introduced set-asides for minority business enterprises. Set-asides were in two forms, the first one being the "pure set-asides which provide that a certain percentage of the total number of government contracts be allotted to minority-owned businesses" (Rice, 1991: 114). The second one was the "sub-contractor goal set-asides which require that a certain portion of a prime contractor's fee be spent with minority-owned contractors" (Rice, 1991: 114).

Through these set-asides, the government required that a certain percentage of the total number of government contracts be given to minority owned businesses and also required prime contractors to work on a minority-owned business sub-contract basis. The set-asides had a major impact of government spending programmes on the economic status of minority businesses. "The federal government in the 1986 fiscal year reported 4.4 billion dollars in contract awards to minority and disadvantaged businesses, including three billion dollars under the Section 8(a) set-aside program" (Rice, 1991: 114).

The government support to minority businesses through set-asides shows a rapid growth of minority business enterprises. The chart below further illustrates the extent to which

minority businesses significantly benefited from the government set-asides aimed at preserving, expanding and strengthening their businesses:

*Federal Procurement from Minority Business: 1969-1980*

Fiscal Year	Total Procurement in Billions of Dollars	Total Minority Procurement in Billions of Dollars	Percent Minority
1969	50.229	0.013	0.03
1970	43.434	0.030	0.07
1971	45.031	0.146	0.30
1972	45.650	0.385	0.80
1973	44.893	0.737	1.60
1974	48.675	0.701	1.40
1975	57.206	0.808	1.40
1976	56.760	0.834	1.50
1977	72.427	1.052	1.50
1978	82.845	1.813	2.20
1979	91.665	2.484	2.70
1980	98.910	3.150	3.20

*Source: Collins (1983) citing US Department of Commerce (1981 a).*

These incentives, in form of set-asides, loans and other support systems to minority entrepreneurs, facilitated growth and capacity of black as well as other minority businesses. According to Fairlie (2004: 203), citing the Survey of Minority-Owned Business Enterprises (SMOBE) by the US Bureau of the Census (1990), there was an indication of rapid growth of minority owned businesses from the early 1980s to the 1990s, which saw growth of 101 percent, 230 percent and 201 percent of African American, Hispanic American and Asian American-owned businesses respectively. The census data of 2002 as cited by House-Soremekum (2003:19) shows a growth of 45 percent of black-owned business from 1997 which brought the number to about 1.2 million businesses.

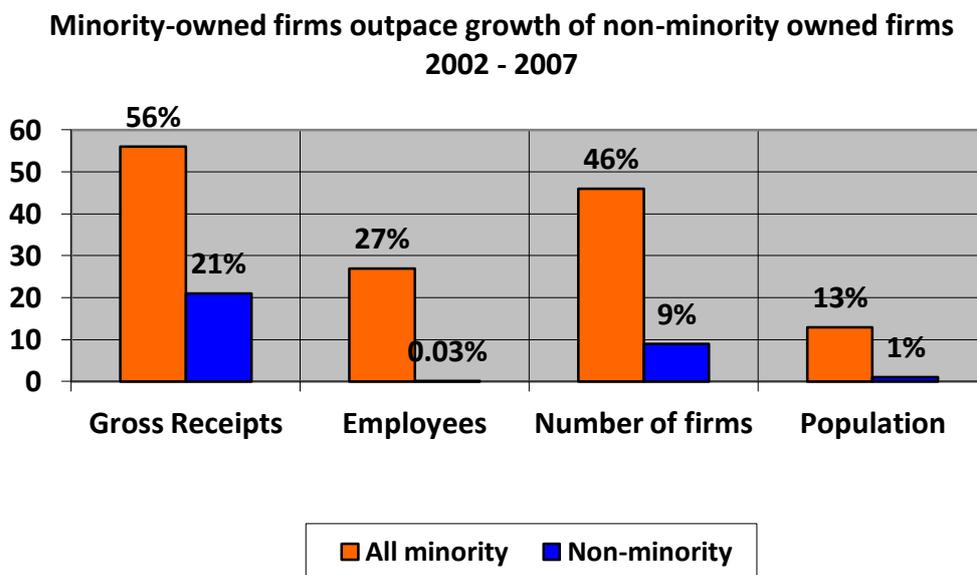
There is no doubt that the amount of support and intervention by the government to minority businesses yielded positive results. According to the findings of House-Soremekum (2007: 33), there appeared to be a positive and successful impact on black business owners from the affirmative action programmes and government set-asides. This study shows that regardless of how success is measured, the relationship between economic success and participation in government set-asides was not only positive but significant as

well. House-Soremekum (2007: 3) concludes that: "...when other variables in the study are controlled, entrepreneurs who received minority set-asides were more successful than those who did not. The results of this research project thus validate the importance of keeping these types of programs in place." While such research shows the need to keep such affirmative programmes, there has been debate and counter arguments by some, holding the view that they are counterproductive and unconstitutional.

Some opponents of affirmative action programmes such as set-asides for minority owned businesses have argued over the constitutionality of such programmes citing: "the apparent conflict between two equal protection goals is the removal of any remaining barriers to full racial equality and the requirement of governmental treatment of individuals on the basis of their personal merit rather than their race" (Rice, 1991: 116). It was such arguments used by the associations of contractors in the Fullilove vs. Klutznick case challenging the constitutionality of the 1977 Public Works Employment Act (PWEA) (Public Law 95-28), where 10 percent of funds were allocated to the minority businesses and four billion dollars to federal, state and local governments public works projects, but the Supreme Court upheld the 10 percent set-aside programme (Rice, 1991). However, with all the progress that has been made through affirmative action programmes, African Americans still face barriers as entrepreneurs. According to Johnson's testimony before the US Senate Committee on small business and entrepreneurship (RLJ, 2010), America's economic reality for African Americans and the minority is due to many years of racial and economic discrimination that caused them a disproportionate and significant under-representation in terms of access to capital to start and finance entrepreneurial enterprises. When setting out as entrepreneurs, people of colour still face pervasive lending discrimination, impeding their access to capital. Studies have also shown that as a result of increased credit denial rates for African Americans there has been a widespread credit application avoidance phenomenon among African Americans. Consequently, one of the studies revealed that almost half of the small business owners in need of credit did not apply for it as they believed that they would not get it any way and that these rates were even higher for minority and women business owners (Cavalluzzo, Cavalluzzo and Wolken, 2002: 643-644). This is so because the end of slavery and Jim Crow did not usher in an era of common humanity, dignity and equal membership for blacks but instead the slavery and Jim Crow inequalities and disadvantages have found expression in laissez-faire racist

ideology which both resists restitution measures and blames blacks themselves for the social-economic gap that exists between blacks and whites (Bobo and Smith, 1998: 186).

There has been an encouraging growth among minority owned enterprises. As illustrated by the chart below (MBDA, Annual Performance Report Fiscal year 2010), there has been an impressive growth in minority-owned businesses surpassing non-minority businesses in gross receipts, employment and number of firms between 2002 and 2007 as illustrated by the chart below:



Source: MBDA, Annual Performance Report Fiscal Year 2010.

The growth in minority enterprises inevitably made possible for the minority to have “the buying power of about \$2.5 trillion in 2009, larger than the purchasing power of all but five countries worldwide, including the United Kingdom (\$2.1 trillion), Russia (\$2.1 trillion) and France (\$2.1 trillion)”, (MBDA Annual Performance Report Fiscal Year 2010: 32) citing Central Intelligence Agency, *The World Fact Book*, GDP 2009.

The MBDA has also been relentless in pursuing measures that further minority business growth. For instance, the MBDA secured a grand total of \$2.6 billion in funding to 47 projects and contracts valued at \$1.7 billion for minority enterprises (MBDA Annual Performance Report, 2009). In the year 2010, the MBDA (Annual Performance Report Fiscal Year 2010: 2) helped the “minority-owned and operated businesses obtain 964 contracts, totaling \$1.688 billion, and 522 financial awards, totaling \$2.264 billion. This

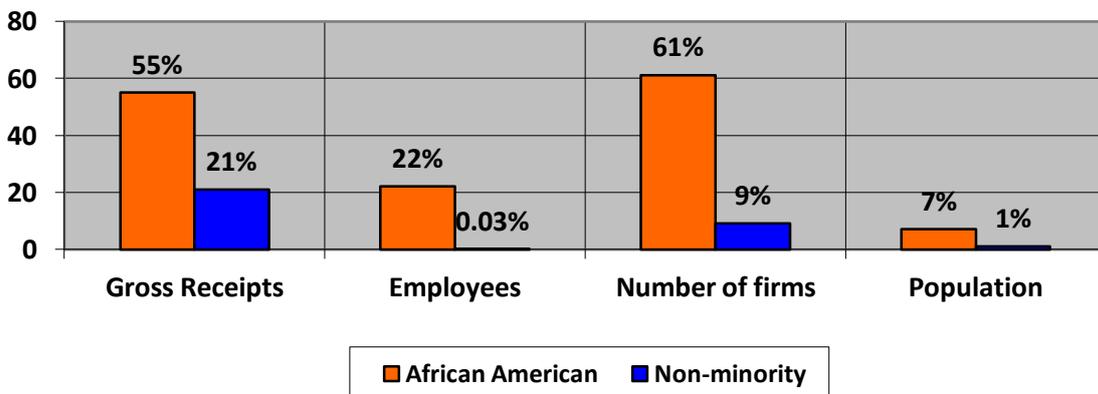
represents a 51% increase in new jobs created and a 34% increase in contracts and capital to minority-owned firms over 2009 levels.”

To further advance minority businesses, the MBDA (MBDA, November 9, 2011) also invested \$1.7 million for the launch of a new Federal Procurement Centre in the Washington DC metropolitan area, the nation’s capital, to better access federal procurement officials and prime contracts. The Federal Procurement Centre will, among others, offer the following services to minority businesses:

...research and education on federal agency contract trends, current regulations and contracting requirements, identification of upcoming federal procurement opportunities, matching of minority business client capabilities and procurement opportunities, facilitation of relationships between minority business clients and federal program managers, and linkage of minority business with other companies for potential partnerships (MBDA, November 9, 2011).

According to the US Department of Commerce’s MBDA (February 8, 2011) the US Census Bureau’s 2007 Survey of Business Owners between 2002 and 2007: there was a 65% increase in the number of firms owned by African Americans. Of all African American-owned firms, about 14,500 had revenues above \$1 million per year accounting for gross receipt of \$79 billion in 2007 as compared to \$49 billion in 2002, and had a 25% growth rate of employment at these firms, a significantly higher rate than non-minority firms.

**African American firms outpace growth of non-minority owned firms  
2002 - 2007**



Source: MBDA, Annual Performance Report Fiscal year 2010.

To further accelerate minority enterprises, the Department of Commerce, in March 2010, established the National Advisory Council on Minority Business Enterprises (NACMBE) with the purpose of advising the Secretary of Commerce “on key issues pertaining to the growth and competitiveness of the nation's Minority Business Enterprises (MBEs)” (Federal Register, 2011). This is so as, while there has been tremendous and impressive growth among minority-owned enterprises, the disparity with non-minority business has been, and continues to be, huge. Despite the minority population accounting for 35% of the total national population, and which is projected to grow to 54% by 2050, it represented 22 percent of all business, amounting to \$1 trillion representing nine percent gross receipts, and employing 5.9 million in 2007 (MBDA, Annual Performance Report Fiscal Year 2009). The NACMBE policy is designed to help minority enterprises successfully access domestic and global market places with the aim of helping them grow and be competitive, and so bridge the gap.

Set-asides have had the impact of a major government-spending program on the economic status of minority-owned businesses. The City of Atlanta procurement to MBEs increased over the ten-year period, 1973 to 1983, from 42 thousand dollars to 43 million dollars. By 1989, Atlanta had awarded more than 300 million dollars in contracts to minority and female-owned businesses. Suggs observes that highway construction revenues of black-owned businesses rose 224 percent in constant dollars between 1977 and 1982 (Rice, 1991).

## **2.2. Malaysia**

### ***2.2.1. Racial economic inequalities***

Malaysia, together with other South East Asian countries, has come to be known as Tiger Economies because of the rapid economic growths they achieved (Selvarajah, 1994). Malaysia's economy and indeed the economies of the “Asian Tigers” have been impressively transformed from agricultural economies into newly industrialised nations (Davis and Gonzalez, 2002).

Malaysia is a country which is like South Africa in many respects. The historical circumstances of apartheid for South Africa and colonialism for Malaysia left deep and abiding socio-economic disparities along racial lines that left both countries politically,

economically and socially fragmented (Lee, 2008). Like South Africa during apartheid and post-apartheid, Malaysia under British colonialism and the post-colonial period, has been a heterogeneous society with the minority ethnic groups holding sway in the economic sphere while the majority ethnic indigenous groups hold political power (Edigheji, 2008; Lee, 2008). Both countries have, after independence, instituted empowerment measures aimed at supporting and growing the class of indigenous entrepreneurs and the reduction of poverty and inequalities among the previously disadvantaged majority (Edigheji, 2008).

Malaysia has a population of 28.3 million, comprising of Malay 53.3%, Chinese 26.0%, indigenous 11.8%, Indian 7.7%, others 1.2% ethnic groups (US State Department, 2010). The Chinese and Indian populations were imported into Malaysia (a British colony then) by the British in the late nineteenth and early twentieth centuries, to work in mines (Chinese) and on rubber plantations (Indians) (Farron, 2002). During the British colonization of Malaysia, ethnics were kept apart by spatial segregation and economic specialization that would result in Malays remaining in low traditional sectors of the economy while the Chinese and Indians were in lucrative sectors of the economy (Eyre, 1997; Emsley, 1996).

Following Malaysia's independence from Britain and elections in 1957, the National Alliance government which came into power achieved economic growth but failed to reduce the economic imbalances between Malaysia's racial groups (Hussain, 1999 as cited by The De Klerk Foundation, 2004: 1). The inequalities between the major ethnic groups, Malays and the indigenous on one hand and Chinese and Indians on the other hand, has been a central development issue since Malaysia's independence in 1957 (Yusof, 2006). The pent-up anger and feelings of jealousy and discontent resulting from the widening inequalities after independence between the major ethnic groups finally led to the outbreak of violent riots in 1969 (Abdullah, 1997: 191).

Malaysia was a highly polarised society along racial, cultural, geographic and religious lines during the decades after independence. The Malaysian-Chinese ethnic group dominated the modern sector economy jobs and lived in urban areas, while the majority of indigenous Malays dominated the political system, undertook agriculture and lived in rural areas (Edigheji, 2008: 6). In 1970, the Malay ethnic group constituting 60% of the national population, only had a 2% ownership of the nation's corporate wealth (Darity, 2005: 5). On

the other hand, the Chinese owned 27% of national corporate wealth (Hodgson, 2007). In 1970, the economic and business imbalances along racial lines were so glaring that the Chinese alone owned “85% of all retail businesses, Chinese and Indians owned 80% of manufacturing businesses...” (Farron, 2002: 5). These economic imbalances along racial lines which resulted in the racial riots of 1969 forced government to come up with remedial measures to correct them.

### ***2.2.2. New Economic Plan (NEP)***

The New Economic Plan (NEP) introduced in 1970 was government’s response to the racial economic imbalances. The redistribution policy of Malaysia, unlike the South African one, “was not compensatory for historical oppression on the natives during the British colonial rule as they had already left, but was about closing the gap between native Malays and Chinese Malaysians” (Darity, 2005: 5). The NEP was a centerpiece of Malaysia’s strategy to reduce inequality and inter-ethnic economic imbalances with the two goals of poverty eradication regardless of race or ethnicity, and restructuring of society so that economic status or function would not be identified by race (Yusof, 2006).

The economic and business inequalities between the racial groups were in favour of the minority (immigrant) populations, the Chinese and Indians (Farron, 2002). The Chinese and Indians were so dominant in economics and business, making some members of the majority Bumiputera (Malay and other indigenous ethnic groups) jealous and resentful (Abdullah, 1997: 196). In pursuing one of the goals of the NEP, restructuring society so that the economic status would not be identified by race, the government initiated various measures to bolster and groom the Bumiputera’s business and economic status.

The government was so determined to change Malaysia’s corporate ownership landscape that it set itself a target of 30% for Bumiputera business ownership and management within the first 20 years of the NEP implementation as set by the Second Economic Plan of Malaysia (Abdullah, 1997: 202). Further, the government created specialized agencies for an accelerated Bumiputera business.

### ***2.2.3. Public procurement***

Like the post-apartheid South African government, one of the tools the Malaysian government used through the introduction of NEP to stimulate and finance the Bumiputera

businesses, was the public procurement system that since 1974 reserved 100% of small projects with the value of between RM 10,000 to RM 100,000 and 30% of the total annual value of other projects for Bumiputera contractors (Lee, 2008: 12; McCrudden, 2004: 261). The Malay natives were endowed with preferential treatment in the awarding of contracts by government, accorded cheap loans and often got discounted stock in big companies (Fuller, 2001).

To create, grow and improve the corporate ownership share of the Bumiputera, the government, through the Treasury Ministry, required companies wanting to get preferential treatment in awarding of contracts and tenders to have “Bumiputera majority ownership, occupation of executive and managerial positions and financial management” (Lee, 2008: 12). This strategy acted as a carrot, a reward, to non-Bumiputera businesses willing to embrace the policy of increasing the Bumiputera corporate ownership and participation with preferential treatment. But it also acted as a “stick” by not according non-compliant non-Bumiputera businesses with preferential treatment.

As a result of the NEP fortified by specialized agencies that government put in place, the national ownership share of native Malay businesses has increased from 2% to 19%, even though the share of Chinese Malaysians has, instead of decreasing, increased from 27% to 40% (Hodgson, 2007). The three decades of massive social engineering, in part designed to lift millions of native Malays out of poverty, managed to create a native urban Malay middle class and avoided a repeat of the violent ethnic outbreak of riots (Fuller, 2001). It (NEP) has “successfully improved the socio-economic positions of the long neglected and economically backward Bumiputera groups” (The FW de Klerk Foundation, 2004: 3). Despite the progress made, government has not been able to achieve the targeted 30% Bumiputera corporate ownership within the 20 year timeline.

#### ***2.2.4. Criticism of NEP***

In as much as the NEP has had a positive contribution in terms of the increased native Malay business ownership national share, critics have offered a lot of criticism against it and some of its aspects. One such aspect that has come under criticism is Malaysia’s Public Procurement management as a “political patronage network, where deals are made on the basis of connection and positioning of powerful figures on company boards” (Lee, 2008:13). Critics of Malaysia’s NEP charge that it has changed into cronyism, and has

become a means through which government has transferred wealth to a small politically well-connected elite group of business persons (Fuller, 2001).

As a result, the Malay entrepreneurs that have been sustained by government have been unprofitable and in deep debt. This presents a dilemma on whether government should bail them out in order to support what has become the pride and symbols of native enterprise, or allow them to fail (Fuller, 2001). Preferential treatment for Malay entrepreneurs has in some instances worked against the establishment of a self-sustaining capitalist class able to thrive, grow and withstand competition. Furthermore, as Hodgson (2007) notes, the requirement that native Malays own at least 30% in every business has undermined investor confidence, works against the very principle of open economy, stifles competition and more importantly, makes native Malays less competitive and entrepreneurial in comparison to ethnic Chinese Malaysians.

The NEP, together with its distribution agenda, ended in 1991 and was replaced by the National Development Plan (NDP) with free market orientation emphasizing the values of growth and competitiveness in a global world, under the new leadership of Prime Minister Mahathir Mohamad (The FW de Klerk Foundation, 2004, April 2).

### **2.3. South Africa**

In apartheid South African cities, spatial segregation according to race was a feature of life. The city of Durban, was no exception and in fact, according to Maylam (1996: 26) had a leading role in the city spatial contestation on racial basis, “banishing the black underclasses to the city's periphery” which served “...to limit their access to other forms of space, economic, cultural and political.” Long before the advent of apartheid in 1948, colonial authorities promoted economic segregation in the city (Christopher 1987:195).

#### ***2.3.1. Black Economic Dispossession***

Apartheid and racial segregation did not just create spatial separateness among the people of South Africa but denied non-whites, economic opportunities that its white citizens enjoyed. Indeed, as the Department of Trade and Industry (2004: 4) stated, “The defining feature of Apartheid was the use of race to restrict and severely control access to the economy by black persons.” Southall (2005: 41) also states that black South Africans were

subjected to severe restrictions from their earliest involvement in private business for the protection of white capital interests.

Despite the deliberate restriction of black capitalism, some African businesses survived under very difficult circumstances (Southall, 2005: 315). But, even for those that survived under apartheid, the Bantustan policy, crafted and implemented by the NP ensured that they were “...pressured at every turn to translocate to the 'homelands' which, being economically depressed and far from the major market centres, were singularly unpropitious business environments” (Randall, 1996: 664). This would have a bearing on today’s black entrepreneurs, as they would lack both the skills and financial capacity to successfully finance and manage their businesses (Randall, 1996: 664). Worse still, according to Randall (1996: 664-665), in much of the 1960s and 1970s, blacks could not own more than one business undertaking and could only do business in the retail sector, they were not allowed to partner with fellow blacks or whites and could not own business premises. Furthermore, according to Ponte, Roberts and Sittert (2007: 939), African businesses were effectively limited to small-scale trade in daily consumer products such as soap, bread and tea as a consequence of the increased restrictions placed on African businesses.

The impact of the many years of systematic disempowerment led to landlessness, lack of skills development among black people who were intentionally prohibited from self-employment and entrepreneurship. The Group Areas Act resulted in severe loss of capital that destroyed the very fabric of small business enterprises for blacks because of the uprooting of millions of blacks from their residences. The confinement of many blacks to homeland areas with poor living conditions, without infrastructure and business opportunities, ensured that black businesses would not thrive (Department of Trade and Industry, 2004: 4).

### ***2.3.2. Transformation***

With the Group Areas Act of 1950 repealed in 1991 and democratic elections held in 1994, the task of racial and economic transformation, rebuilding and remaking South Africa into “a new order as a democratic, non-racist and non-sexist society” began (Zezeza, 2004: 7). Transformation is becoming evident in South African cities. In Johannesburg, for instance, “the central city has become the critical point of integration between black and white, rich

and poor...” (Tomlinson, 1999: 1655). Notwithstanding the concerns of some established businesses and consumers that has had a spill-over effect in the business environment as well. In Durban, that transformation has resulted into black South Africans becoming active participants in the business activities of the centre of the city. Because of that participation, “Durban's informal economy is expanding into the city centre and the city is simultaneously becoming more African and more open to global influences” (Freund, 2001: 545).

The changing usage of downtown spaces has both opened up opportunities for those previously excluded, and provoked negative reactions and in some cases the flight of long established businesses and consumers. To some, this transformation become a source of fear and anxiety and that it has meant a dislocation of modernity as a result of increased presence of street traders bringing a sense of disorder, chaos, congestion and pollution in the public spaces of the city of Durban (Popke and Ballard, 2004: 99).

### ***2.3.3. Black Economic Empowerment (BEE)***

The end of apartheid and the ushering in of a democratic government in 1994 would not in itself create an equal playing field under which all South Africans, through hard work, and regardless of their colour, would realise their economic aspirations. It was therefore to be expected that, on the agenda of the new ANC-led South African government, would be the reversal of the legacy of economic exclusion and discrimination, and redress the injustice and inequalities of the past (Burger and Jafta, 2010: 3-4). The post-apartheid South African government sought to support and encourage black business entrepreneurship through BEE. This was so because the opening up of space allowing all South Africans regardless of colour or race did not create equal access to economic opportunities because of the many years of exclusion that left blacks without education, skills and capital (DTI, 2004: 4).

The ANC’s vision of an economy that does not just meet the needs of its people but is also more equitable, can be traced as far back as the Freedom Charter of 1955 and then refined, ratified and developed in the Reconstruction and Development Programme of 1994 context (DTI, 2004: 4). In stating its central objective of deracialisation of business ownership and control through focused policies of BEE, the RDP cited the white domination of business and black exclusion from mainstream business as cause for great concern (BEECom, 2001:1). The aim of the BEE policies, according to the RDP, is to allow blacks get easier

access to capital for development of business, to ensure government eradicate discrimination in financial institutions, facilitation of BEE through tendering procedures and emphasis on training and real participation in ownership (BEECom, 2001:1).

Despite the RDP, the country's blue print for transformation embracing the values of BEE being in force seven years after the introduction of democracy, the vision articulated by RDP was not realised. As stated by the BEE Commission, (BEECom, 2001: 1), there has been "no change in the overall inequality and wealth, the result is that black people remain in poverty and marginalised from ownership, control and management of economic activities." This led to the conception of a BEE Commission from 14 to 15 November 1997, at a National Conference of the Black Management Forum (BMF) held in Stellenbosch, with an understanding that black people should direct and be in charge of the new vision of BEE, which until then had been controlled, driven and directed by white and private institutions. The BEE Commission was formally established in May 1998 (BEECom, 2001: 1).

The first phase of BEE 1993 – 1999 was more concerned with the transfer of equity in order to diversify the ownership of white owned companies. The primary beneficiaries were relatively few pre-identified black people with high political profile but no business experience (Gelb, 2004: 2 cited by Acemoglu *et al.*, 2007). The first phase of BEE was led by the private sector with little government intervention. In fact, the idea of BEE was supported by some white business leaders from the outset, some of whom wanted to preemptively ward off any attempt at nationalization by the ANC black government once it came into power, but, some of whom were genuinely interested in a much fairer economic system (The Economist, 2010: 9). Although at this stage there was little government intervention in deals involving the transfer of shares,

...the government did pass affirmative action legislation in 1996, which began to impact management and other skilled occupations soon afterwards and it also undertook a number of initiatives to promote black enterprises. All of these separate policies have now been brought into the BBEEE 'rubric' via the codes of good conduct though initially they were not linked to ownership changes directly (Acemoglu, Gelb and Robinson, 2007: 6).

The implementation of BEE was from the onset going to benefit a few blacks who had highly significant political connections. As a policy, BEE was supposed to be a

transformative tool that would allow blacks to participate in the economy of the country which among others would reduce poverty, which was and still is very high among blacks. The voices criticising BEE policy persisted and even the President, Thabo Mbeki, added his. According to Ponte, Roberts and Sitter (2007: 934):

Mbeki's speech, and more general accusations that BEE was simply enriching a small number of well-connected politicians and business people in the context of persistent poverty, eventually led government and business to re-package the concept as 'broad-based BEE'.

BEE under the 'second phase' would be underpinned by seven empowerment credentials upon which business would be assessed as BEE compliant in South Africa. The Black Economic Empowerment Act No 53 of 2003 (Republic of South Africa, 2003: 4) stipulated empowerment progress measurement in four areas: i) ownership and control of enterprises and assets, ii) management at senior level, iii) human resource development and employment equity, and iv) indirect empowerment through: preferential procurement; enterprise development and; corporate social investment.

One of the most effective measures government used was the enactment of The Preferential Procurement Policy Framework Act (2000) that allowed and entrenched the obligation on government to give preferential treatment in procurement activities to the historically disadvantaged individuals' enterprises (Hanks, Davies and Perera, 2008: 46). To qualify for government tenders and contracts, companies bidding for the same are evaluated on the basis of their pursuit of the various elements of the BEE scoring system, such as ownership, management control, employment equity, skills development, preferential procurement, enterprise development and social economic development initiatives (Lee, 2008: 13).

The Broad-Based Black Economic Empowerment Act 53 of 2003, Section 9, gave power to the Minister of the Department of Trade and Industry to issue Codes of Good Practice, which will be criteria for the granting of licenses and other authorizations, and the weighting to be attached to the Broad-Based Black Economic Empowerment indicators. Acting on this authority, the Minister of the Department of Trade and Industry, Mandis Mphahlele (DTI, 2007: 11) issued the Codes of Good Practice on Black Economic Empowerment with the following tables representing the Generic Scorecard, weighting for

each element and code series reference, and B-BBEE status, qualification and recognition levels.

<b>Element</b>	<b>Weighting</b>	<b>Code series reference</b>
Ownership	20	100
Management control	10	200
Employment equity	15	300
Skills development	15	400
Preferential procurement	20	500
Enterprise development	15	600
Socio-economic development initiatives	5	700

<b>B-BBEE status</b>	<b>Qualification</b>	<b>B-BBEE recognition level</b>
Level one contributor	≥ 100 points on the Generic Scorecard	135%
Level two contributor	≥ 85 but < 100 on the Generic Scorecard	125%
Level three contributor	≥ 75 but < 85 on the Generic Scorecard	110%
Level four contributor	≥ 65 but < 75 on the Generic Scorecard	100%
Level five contributor	≥ 55 but < 65 on the Generic Scorecard	80%
Level six contributor	≥ 45 but < 55 on the Generic Scorecard	60%
Level seven contributor	≥ 40 but < 45 on the Generic Scorecard	50%
Level eight contributor	< 30 but < 40 on the Generic Scorecard	10%
None compliant contributor	< 30 on the Generic Scorecard	0%

*Source: DTI (2007: 11)*

With all the criticism levelled against the government's BEE programme and its implementation, many black South Africans have become more empowered in business. An Ernst & Young survey (Tangri and Southall, 2008: 701), reveals that 1,364 deals to the tune of R285 billion were entered into between 1995 and 2005, and that the number of blacks in boardrooms and in senior management positions is on the rise.

#### **2.3.4. Criticism of Black Economic Empowerment (BEE)**

As Benatar (2007: 1) noted, "Apartheid's legacy looms large over contemporary discussions of (racial) affirmative action in South Africa, rousing passions on both sides of the debate." Proponents of affirmative action view those opposed to it as insensitive to the lasting results of generations of racism seeking to continue the preservation of their own

privilege, while opponents see it as reverse discrimination – distribution of benefits on the basis of race and a continued racial classification of the people of South Africa (Benatar, 2007).

While some have been supportive of the affirmative action (AA) and BEE policies, others have been very critical of the very idea of AA and BEE. They recognise and acknowledge that it has not led to economic empowerment of the majority poor black but the politically connected few.

Generally speaking, there is a growing and widely held public perception about BEE that it is providing politically well connected black business persons with opportunities for further enrichment without any genuine entrenchment of transformation for the majority. This perception has been feeding into the scepticism and cynicism poor South Africans hold about what they see as government's disingenuous response to poverty and unemployment (Andreasson, 2006: 312). The narrow empowerment drive for a greater representation of business ownership, according to Sutcliffe (2006), has in some instances only served to enrich a small number of black elite. For instance, in 2003, 73% of the R30 billion worth of BEE transactions went to Mvelaphanda, Shanduka, ARM, Safika, Tiso and Kagiso the BEE's 'Big 6' consortiums (Andreasson, 2006: 313). The transfer of equity from one small group to another would render empowerment for those who genuinely need it most as nothing more than a myth (Lionel October, cited by Hamilton, 2003). Even Jacob Zuma, the then ANC president and presidential candidate, in his address to the Confederation of Black Business Organisations (CBBO), said: "We have said that in its current implementation BBBEE has benefited the few and has not been broad-based enough" (Mail & Guardian, 2009). That it has benefited the few connected over the majority is well acknowledged by its proponents and opponents alike.

Apart from the argument that it (BEE) only benefits the politically well-connected few, there is another argument that it is not promoting entrepreneurship but "tenderpreneurship" (Schultze, 2010). The term tenderpreneurship has been widely used to refer to individuals who are awarded tenders because of their political connections without the necessary experience and skills, which result in shoddy work. The recent popular case is that of Julius Malema, the now expelled former Youth League president of the ANC's company (SLG),

being awarded multi-million Rands worth of tenders to construct roads and bridges that were washed away less than a year after construction (Rampedi, 2010). COSATU general secretary Zwelinzima Vavi, was reported to have said, in response to the same (Malema) story, “We shall campaign to expose the tenderpreneur, who through political connections, wins tenders unfairly,” and made an even more important statement that, he “provides shoddy services to communities while more genuine entrepreneurs are sidelined as well as their skills and proper services” (Mail & Guardian, 2010).

In some regards, black business empowerment policy has created a breeding ground for false black entrepreneurs who are being used by white capitalists for their own ends. According to Randall (1996: 671), some black capitalists have been nothing more than conduits through which white capitalists have used their political influence to have access to government deals - contracts and tenders - by entering into ‘joint venture’ enterprises to meet the BEE requirements. These enterprises are a merging of capital provided by the whites and political influence necessary for the awarding of tenders but in reality do not make blacks capitalists as they are merely summoned for meeting requirements of procurement officers (Randall, 1996: 671).

### **2.3.5. Conclusion**

This chapter has reviewed some literature of the United States of America, Malaysia and South Africa in the area of redress policies and challenges facing those very policies. In the USA, coming from context of slavery and Jim Crow, that disadvantaged African Americans, came up with the Minority Business Development Agency (MBDA) to support Minority Business Enterprises. Malaysia, coming from the context of the economic and business inequalities along racial lines that disadvantaged the majority indigenous Malays, and South Africa from the context of apartheid that segregated blacks, came up with the New Economic Plan (NEP) and subsequently the National Development Plan (NDP) and Black Economic Empowerment (BEE) and subsequently Broad-Based Black Economic Empowerment (BBBEE) policies respectively to help the previously disadvantaged entrepreneurs in their businesses overcome lasting imbalances that still exist.

The redress policies have been heralded to have brought improvement to the formally marginalized in the business arena. While some have accepted affirmative action measures

implemented in the USA, Malaysia and South Africa, others oppose them because they view them as being reverse discrimination. In South Africa and Malaysia, some have also questioned whether they entrench true entrepreneurship and are concerned that they are in fact enriching a politically connected minority.

## **CHAPTER THREE: METHODOLOGY**

### **3.1. Introduction**

This study is on business transformation in Durban, based on perceptions of black South African entrepreneurs, in the context of Black Economic Empowerment (BEE). It seeks to identify opportunities that South African black businessmen and women perceive. It also seeks to identify the obstacles/barriers black South African businessmen and women perceive. The study also aims to find out if black South African entrepreneurs think BEE has facilitated opportunities and assisted with overcoming barriers.

This chapter presents the study design, study area, participants and the sampling method used in the study. This chapter also explains the method used to collect data by means of in-depth interviews with 14 black South African entrepreneurs in the city of Durban. This will be followed by discussing how the data was analysed using thematic analysis. Finally, the ethical considerations that were covered and limitations of the study will be discussed.

### **3.2. The study design**

This study uses a qualitative design using specific qualitative tools and in-depth interviews. In this vein, the study seeks to explore subjective perceptions of the people who are subjects of the business transformation process that BEE seeks to promote and entrench. It sees things from the participants' perspectives and allows for the creativity and advocacy on the part of the researcher. This kind of enquiry allows one to focus on individual meaning (Creswell, 2009).

A qualitative approach is useful for exploring what is relevant for the participants and how they make sense of their world using their own language (Lester, 1999). It is about collecting and analysing information rather than identifying, isolating and controlling variables as is the case with the quantitative approach (Terre Blanche, Durrheim and Painter, 2006). Additionally, qualitative research aims at understanding complex issues that may elude structured quantitative research (Bryman, 2001). However, a qualitative design was useful in this study because it provided more insight into the perceptions of business transformation by black entrepreneurs in Durban.

### 3.3. Study area and study participants

The study involved 14 participants. Eleven of the participants were male, while three were female. These participants own different types of businesses. They display different characteristics as depicted in Table 3.3.1 below:

#### 3.3.1. Participants' particulars

Respondent	Gender	Years in business	Number of employees	Business type	No. biz
1	M		9	Transport, construction	2
2	M		4	Hardware, construction	2
3	M	28	3	Real estate and property	1
4	M	4		Accountancy and auditing	2
5	F	15	8	Construction consultancy	1
6	F		450	Fast foods	1
7	M	12	8	Investment management	1
8	M	11	8	Consultancy: Construction and project management	1
9	M	4	82	Security	1
10	M	7	9	Graphic designing and digital printing	1
11	F	16	12	Shipping, painting, legal consultancy	3
12	M	10	23	Taxis, optometry, finance	3
13	M	5	6	Clothing, embroidering and printing	2
14	M	11	6	Accountancy and auditing	1

This study was conducted in Durban metro. Participants were chosen to meet the following criteria: (1) they must be African, to provide a focus for this dissertation; (2) they must own and run businesses in the city of Durban.

Purposive and snowball sampling techniques were used to identify and locate participants of the study. Purposive sampling, according to Davies (2007: 57), “invites the researcher to identify and target individuals who are believed to be ‘typical’ of the population being studied...” This method is suitable when a researcher already knows the type of sample needed for the study. Snowball sampling was also used because, it is a technique for locating informants by asking others to identify individuals with the special understanding and knowledge of a phenomenon (Ulin *et al.*, 2002). This method is suitable when a researcher needs a sample of people who are of the same background, characteristics or same trade as the ones first contacted who in turn refer the researcher to their kind (Biernacki and Waldorf, 1981).

Additionally, this may provide more detailed and comparative information. Given that black entrepreneurs were difficult to find for the study, a snowball sampling method was useful in that the first few participants who were found through a friend provided contact details of their fellow black entrepreneurs. Fourteen participants were identified and recruited for in-depth interviews.

#### **3.4. Data collection instruments**

Data collection used in-depth interviews with black entrepreneurs. The in-depth interviews were guided by an interview schedule (see appendix 2) with open-ended questions that were developed from the literature. Open-ended questions were used because they allowed the researcher to source data in greater detail by remaining conversational and situational (Ulin *et al.*, 2002). The added advantage of open-ended questions is that the answers “can provide richer, more sensitive insights into the views and activities of respondents” (Deacon, Pickering, Golding and Murdoch, 1999: 79). This is important in order to contrast themes, experiences and perceptions from different respondents. Open-ended questions also allowed a two-way communication between the researcher and the participants, which also allowed better exploration of themes of the study in a focused manner. Digital voice recorders were used to record the data from interviews.

These interview sessions were held at venues identified by the participants such as offices, homes and sometimes in restaurants within Durban. The research interviews were conducted in English and they lasted for 30 to 60 minutes. Prior to each interview, the nature and aims of the study were explained to each participant who were then asked to fill in an informed consent form (see appendix 1).

The themes that were covered were: the opportunities perceived by black South African entrepreneurs; black South African entrepreneurs’ views about BEE’s facilitation of opportunities and overcoming of barriers they confront; black entrepreneurs’ perceptions of race in the business environment; and black entrepreneurs’ perceptions of business transformation. The interviews were audio recorded and later transcribed in English.

### **3.5. Data analysis**

Data analysis is the process of systematically scrutinising and arranging the field notes and interview scripts in order to present the finding to others (Bogdan and Biklen, 1992). Thematic analysis is a technique that was used to analyse the data in this study. According to Braun and Clarke (2006), thematic analysis is a method used to identify, analyse and report patterns or themes within the data. This type of analysis is inductive in that the researcher does not predetermine the themes but they emerge from the data.

Furthermore, a thematic analysis method was used because it is flexible and it allowed the exploration of the context and meaning of the participants (Ulin *et al.*, 2002). The data analysis process involved five steps as presented by Braun and Clarke (2006). The first step involved being familiar with the data by reading and re-reading the transcribed data. The second step involved generating initial codes. All the data extracts were coded using highlighters in order to distinguish one code from the other. The identified codes were then grouped together based on their meaning. Searching for themes in the coded data was the third step. Step four involved the breaking down and coding of the data themes. Different concepts that were expressed by the participants in several ways were grouped together under a single theme. However, in this study, the main research objectives which are perceived opportunities; perceptions of BEE; perceived barriers to enterprise development and perceived business transformation, were turned into major themes and all the merging sub-themes were identified. The final step involved putting together the interpretation of the data (Terre Blanche *et al.*, 2006) which will later be presented in chapter 4.

### **3.6. Ethical considerations**

According to Babbie and Mouton (2001: 520), when undertaking social scientific research, it is necessary to be aware of the general agreements among researchers about what is proper and improper in the conduct of scientific enquiry. Permission to conduct this study was sought from the University of KwaZulu-Natal ethics committee, and was subsequently granted. The ethical considerations include voluntary participation and ensuring no harm to the participant as a result of their participation.

This is so because as Bulmer (2008: 152) observed, information, in today's modern industrial society bound by social ties, has become a commodity, as such therefore "keeping control of information about oneself and deciding what to release and to whom is often key means by which one's privacy is protected and control is maintained over what others can learn about you." In assuring the participants in the study of ethical considerations to be adhered to by the study, they had to sign the informed consent form together with the researcher. The ethical issues that were covered in the informed consent form were also discussed verbally with the participants for purposes of clarity. Participants were assured of anonymity in the final written work that would refer to them simply as respondents instead of by their names. They were also informed that they could stop the interview at any time if they wished. The researcher explained the use of the digital voice recorder for the purposes of data collection and participants were assured that there would be privacy in handling and storing of the data in that only the researcher would have access to the raw data.

### **3.7. Limitations of the study**

One of the apparent limitations of this study was in its scope. The study only covered blacks limiting it to colour as opposed to the broad definition of the term as put forth by the 1993 BEE Act which states black is inclusive of Indians and coloureds (all non-whites). This would be an important area of further enquiry but the researcher has not been able to take this on here, in order to try to keep a focus on the topic. Furthermore, this is a small sample with no pretence to objective representativity.

The other limitation of this study was that the composition of the sample was nowhere near equal gender representation. Out of fourteen respondents, only three were female and the rest were male. More, if not equal, gender representation in the study sample would have equally made the study richer because the experience of trying to be an entrepreneur is shaped by gender.

To get a holistic and much richer sense of how far business transformation has come in Durban, perceptions of all entrepreneurs in the city of eThekweni regardless of their race (Africans, Indians, Whites or Coloureds) and gender would be critical. For each demographic group has both a stake and perspective, and taking on board the unique perceptions of each as dynamic and diverse as they are within each group would further

raise the understanding and deepen the knowledge, perceptions and perspectives on business transformation.

This chapter has presented the methodology of the study being qualitative study design using in-depth interview guide, study area, participants and the snowball sampling method that was used in the study. It also presents the ethical consideration using an informed consent form, and the thematic data analysis method used to analyse data. This chapter also presents the limitations of the study mainly being that it only targeted blacks and wasn't broad enough in terms of gender to include more women even within the black demography.

## CHAPTER FOUR: PRESENTATION OF THE RESULTS

### 4.1. Introduction

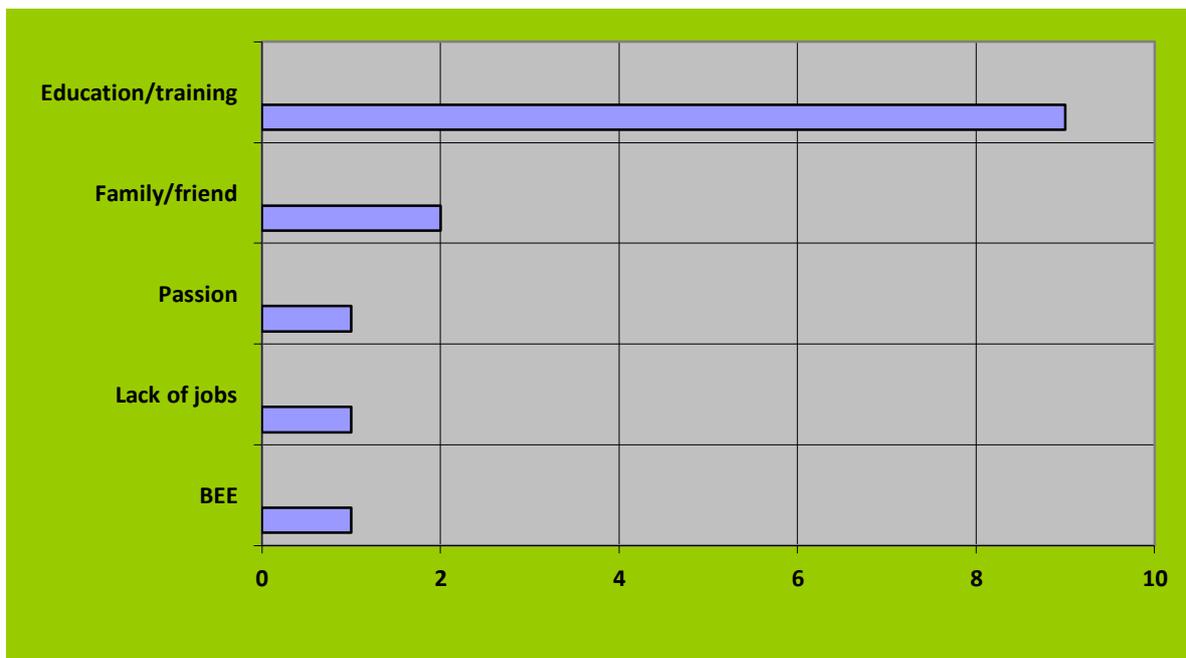
This chapter presents findings from the data collected from the in-depth interviews held with participants of the study. The data is presented under four themes: the business opportunities perceived by black South African entrepreneurs; black South African entrepreneurs' views about BEE's facilitation of opportunities and overcoming of barriers that they confront; black entrepreneurs' perceptions of race in the business environment and the black entrepreneurs' perceptions of business transformation.

### 4.2. Perceived opportunities

#### 4.2.1. Entry into business

There are many reasons that led black entrepreneurs that participated in the study enter into the business world. Each one of them had unique reasons or circumstances that propelled them into business. The graph below gives a summary of the different 'springboards' or 'doorways' through which they made their way/entry into business at the opening of opportunities before them.

Table 1: Paths to entrepreneurialism.



The majority of the participants proceeded into business as a result of education. The studies, training and profession they did inevitably led them into entrepreneurship:

...it was an evolution from my studies. I was a lawyer. So, if you are a lawyer, most of the time you are in business; people do not reveal that; then business of practice in what you are taught at school. So, I would say, I have been in business for quite some time because my life has been to make money via my skill. (Respondent 11)

Some of the respondents had a mixture of both their studies as well as their experience in working for the private enterprises that eventually saw them move into the business world:

Well, I was trained in Cape Town in an institution called Peninsula Technikon. I was trained in retail business management. With my first job I was a buyer with Foschini Group under their division known as Markhams. My interest in business started way back when I was at the Technikon (Respondent 4).

Like the previous respondent, the 14th respondent also proceeded into business from his accountancy and auditing studies and training. After his studies and training, he eventually worked in the Auditor General's Office before starting his own consultancy firm in financial accountancy and auditing in the year 2000 in Durban.

The other participants cited their entry into business as a result of their family/friends. The 8<sup>th</sup> respondent started off in business by joining a company owned by his parents before establishing his own. The 12<sup>th</sup> participant was introduced into business by a friend who himself was in business and encouraged him when he was still young. He said, "I was introduced into the business world when I was very little. I started driving taxis because of my neighbor, a friend, who had taxis. So he coached me about how good the taxi business was."

For some of the respondents, entrepreneurship has been a life-long passion since childhood. They used their entrepreneurial skills from primary school and later developed their own businesses. The 8<sup>th</sup> respondent, for instance, started as a child in primary school selling ice-cream before joining the family business. The same was true for the 3<sup>rd</sup> respondent who put it this way: "...naturally I am very entrepreneurial ... from my youth I used to do things where I would get a return. I remember when I was doing primary school standard 2 many years ago in the fifties I was selling fat cakes..." (Respondent 3).

One of the participants started a business due to a lack of well paying jobs in Durban as compared to other places such as Johannesburg. According to him "...it is better to be creative and start something on your own so that you can make more money and investment and all that" (Respondent 1).

Not all respondents started from passion for business or studies and training they received, or initiation from friends or family. One participant saw an opportunity that presented itself through the government's BEE policy and seized it. The government's BEE policy opened up opportunities that encouraged him to venture into business. This participant left his work in the private sector to become an entrepreneur: "I saw an opportunity at a particular time because a lot of government contracts were going to black people..." (Respondent 13)

#### **4.2.2. Business type**

These entrepreneurs are quite diverse in terms of the types of businesses they run. They include the following sectors and activities: real estate, property development and administration, graphic design and digital printing, screen printing, corporate wear, branding, business development, management consulting, asset management, forensic services, construction, hardware, accountancy and auditing, transport, shipping, security, restaurants, clothing, project management, legal consultancy, financial consultancy, quantity surveying and feasibility studies.

The first type of business undertaken by some of the participants in the study is the **transport (taxi) business**. Out of the 14 entrepreneurs interviewed, two are involved in the taxi business, namely the 1<sup>st</sup> and 12<sup>th</sup> respondents, although they run other businesses as well. They own taxis they operate around and outside KZN: "The first business which I own is a transport business." (Respondent 1)

The 12<sup>th</sup> respondent owns seven taxis. He speaks of the transport business as the one that helps him to cover his household expenses. But because he owns and runs other businesses, he has assigned the job of running his transport business to his brother. He said, "My brother oversees all the business these taxis do, running from short distances that are local, and long distances from Port Shepstone to Johannesburg, so he does it but I know that it's my business." He said the taxi business was the one that, "...puts the money in my pocket so that I don't have to give my family the money all the time..." (Respondent 12)

The second type of business is the *real estate and property development business*. The 3<sup>rd</sup> respondent was one of those in the real estate business, that involves among others, property administration and development. Part of this interview was actually conducted in the respondent's car as it included a tour of some sites where he is building houses. According to him,

I went into construction and the real estate business, and I have been very active in the property practice from that time till now... I have been a participant in a lot of things. But mainly my focus has been in property.

The 7<sup>th</sup> respondent was also in the real estate business. He runs "...an investment management company", that among others is "focused on real estate." About the property business he said:

In the property business, our customers are basically tenants of various backgrounds because we are involved in commercial property. So any company that is looking for commercial space becomes a potential client to us. We own some buildings, other buildings we are having a mandate to lease on behalf of someone else.

Two participants were involved in the third type of business, *accountancy and auditing*. Their firms were in the accountancy and auditing business. The 4<sup>th</sup> respondent, one of those in the accountancy and auditing business, said that his business is:

...a medium sized outfit, specializing in accounting fields. We do audits, in a variation of circumstances, we do internal auditing, we do financial management, we do forensic and we do what we call financial transaction advice. We do something called advice on municipal support and also we mostly do something called in-depth audit statements (Respondent 4).

The other respondent also runs a *financial accountancy and auditing* firm that has six permanent employees. Among others, this firm offers the following services: "Accounting from registering the company's book keeping, financial statements, internal auditing, auditing of goods, project management, textile industry and relevant training of the financial side" (Respondent 14).

The fourth type of business, *construction*, was done by three of the respondents. The three entrepreneurs, who are fully involved in it, are the 1<sup>st</sup> respondent, 2<sup>nd</sup> respondent and 5<sup>th</sup> respondent. The 8<sup>th</sup> respondent is one of those involved in construction through consultancy: "We consult as construction project managers, construction consultants,

programme managers, quantity surveyors and generally in the infrastructure delivery space.”

The fifth business, *legal consultancy*, is done by only one of the respondents, the 11<sup>th</sup> respondent. She is a lawyer by profession who runs a legal consultancy firm, in addition to other firms:

My consultancy is more on the legal side. I will get a job and in fact most of the time what we do is get a consortium going with most of the ladies who are in the legal field. And then depending on the type of work, we will then split it among ourselves (Respondent 11).

The sixth type of business, *hardware*, is done by the 2<sup>nd</sup> respondent. One participant owns a hardware business that supplies building materials. According to him, people who either want to build houses from scratch or renovate them: “Come and procure cement from us, all the building material starting from the stones, cement, bricks, window frames, nails or screws, plugs, cheaper plugs, everything that has to do with building a house - including the roof top” (Respondent 2).

The seventh type of business, *fast foods* is done by the 6<sup>th</sup> respondent. She runs a KFC franchise operation with about 24 stores across KwaZulu-Natal (KZN). Here is how she started off:

I borrowed money from a business partner, at a time when it was called small business development. The money was for the purpose of opening a KFC store. And with the franchise, I got the address from a telephone directory and it gave me directions to go to the offices in Johannesburg. So I went there to meet with them and they agreed to give me the franchise. Then when they agreed, they helped me make plans and then I made quotations and then I borrowed money from small business development and I had my first store opened.

The eighth type of business done by one of the study participants was *the shipping business*. The 11<sup>th</sup> respondent, apart from running other businesses, was also in the shipping business. Together with other stakeholders in the shipping industry: ships agents, shipping lines (vessel owners and operators) and brokers, and for the purpose of promoting and advancing their interests, on all matters of common interest, they formed an association that does just that.

The ninth type of business one of the participants in the study was involved in was the ***graphic designing and printing business***. The 10<sup>th</sup> respondent runs a graphics designing and printing enterprise which also deals with branding items for clients. This enterprise offers services such as corporate identity creation through logo graphic designing and printing. It also designs and prints promotional materials. “We brand you through, for example, if you want your corporate name on promotional items and any material that you may think of that the business requires, whether you need your stationery or anything that you need we do cover that” (Respondent 10).

The tenth type of business done by one of the study participants was the ***printing and embroidering business***. The 13<sup>th</sup> respondent owns an enterprise that does printing and embroidering on a range of products for different companies: “We do embroideries on corporate gifts like jewellery, embroidered strings, calculators and so forth. We also print products such as, T-shirts, golf shirts, tracksuits and overalls.”

The eleventh kind of business one of the participants was involved in was the ***clothing business***. The 13<sup>th</sup> respondent was also involved in the clothing business apart from the printing and embroidering business. His business is involved in the importation of clothes from China and from some suppliers within South Africa, and he also manufactures some. His enterprise supplies, “school uniforms to schools, and also protective clothing to construction companies and corporate companies...”

The twelfth type of business done by one of the participants in this study is ***the optometry business***. The 12<sup>th</sup> respondent, apart from running other types of enterprises, is an optometrist by profession. He worked for a private research company after which he started his own. He said:

I went to work for a private company and saw how they were working there, and then I started my own optometry business. I opened my own and I had to close down again, then I opened my own in Durban and since 2009 I have run three practices in Nkumazi, Umlazi and in town.

The ***security business*** is the thirteenth type of business undertaken by one of the participants. The 9<sup>th</sup> respondent was in the security business. His security firm offers different security services: “I started in 2007 and it involves physical guarding, special events, surveillance and armed response.”

### **4.3. Perceptions of black economic empowerment (BEE)**

Perceptions of black economic empowerment by respondents can be divided into three groups. There are some whose views are that BEE has indeed facilitated opportunities and helped overcome barriers and is therefore necessary and helpful. The second stream of views held by some is that BEE is not necessary and is harmful as it helps give jobs to the undeserving and incapable people and the connected few, and is as elitist as past business environments were. The third stream of views held by some is that BEE is not adequate or working because of corruption, limitation brought by grading, resistance and persisting status quo of the past whereby big jobs still continue to go to white and Indian businesses.

#### ***4.3.1. Necessary/helpful***

This section contains the views of those who perceive BEE policy as helpful and necessary. The majority of the respondents hold the view that the BEE policy is necessary and they are supportive of it. They say that it has indeed facilitated opportunities for black entrepreneurs.

According to the 6<sup>th</sup> respondent, even though she hasn't personally benefited, she was of the view that since others have benefited from it, it should continue: "It has helped a few to get somewhere in life. So, it has worked and we congratulate those who have benefitted from it."

The 1<sup>st</sup> respondent, also being one of those with this view, cited the fact that it has brought change to his life and that of others through opportunities that would almost be unimaginable without it. He said:

It is necessary because there are some of the blacks...African guys, for which it has brought change, big change into their lives. Even I can say it has brought change to my life because now I have had opportunities that I was not going to have if BEE was not implemented by the government, our government.

According to the 2<sup>nd</sup> respondent, BEE policy is necessary. He stated that it needed to be in place to guide economic transformation. However, he said that without it, as evidenced by resistance around it, people will go back to their comfort zones of non-compliance:

Definitely it is a necessary policy because... if you don't have a framework or you don't have guidelines into how society can be transformed, most people would just

sit in their comfort zones and do nothing about it. I can assure you, even now with all these BEE policies, there is a lot of resistance...

The 2<sup>nd</sup> respondent affirms that BEE has indeed facilitated opportunities for black entrepreneurs. He said: "I would say in terms of access to opportunities it has worked." The 13<sup>th</sup> respondent was also of the view that BEE has been successful. He states that: "This thing, BEE, I can say it has been successful..." Regarding the successfulness of BEE's opportunity facilitation, he said: "It has been successful in that all guys especially a lot of our colleagues or opponents are getting jobs through BEE." As far as he is concerned, and regardless of the fact that he himself has not benefitted, it has been successful because others have benefitted from it.

#### ***4.3.2. Not necessary/harmful***

This section presents the views of those who perceive BEE policy as either unnecessary or even harmful. One of the respondents expressed the view that hard work is the answer to lack of opportunities for blacks and not BEE. Individual hard work and making money is far more important than BEE.

...what is more important in our lives now is anything that can bring or lift the economy of our country and also that can put something into our pockets at the end of the day. So, we as individuals need to act on our own. We need to become hard workers, understand (Respondent 1).

The 13<sup>th</sup> respondent also does not think that BEE policy should continue, but for a different reason. For him, and others, BEE status has become a conduit through which contracts and tenders are given to undeserving people without skills. Respondent 13 said:

In my opinion, I wouldn't think it is a necessary policy because truthfully speaking, black people fail to do the projects. I don't think it's supposed to be something that can be considered... For example for me, if I have to do an out-source of my job, I wouldn't look for a black person, I wouldn't be considering BEE, instead I would consider someone who was quite sure of how to do the job. Like now when I am manufacturing I won't take the person because he is black because I want to provide him with a job, but depending on the skills, depending on the capability of what he is doing...the thing that you have to look at before is the capability of the person.

Respondent 13 is one of those who argued that BEE was not successful because it gives opportunities to those who do not have the know-how and means, and who are then used by those who have the means and know-how. He asserts that:

But at the end, truly speaking, you are getting a job through BEE, I will make an example. You get a job for a million, but first of all you don't even have money to start...where are you going? To a white person! We had South African Social Development when we were having jobs, advertising jobs for uniforms. Many people got jobs for R20 million, for R10 million, R7 million. Those people couldn't even have a cent. So the people who were getting the money, the people who were getting the job were the black people, but the people who were doing the job were the white people and they were getting a lot of money because the work made a lot of profit...it has not been successful.

He further argues that BEE needs to be stopped because of corruption. As a result of projects being given on BEE basis combined with corruption, they have ended up in the hands of incompetent people without qualifications. This has resulted in poor workmanship, and in some cases even failure to finish projects awarded to them. He is of the view that:

...the term of BEE is supposed to stop because most of us are getting the jobs because of BEE whereas we don't even qualify for those jobs. Most of the roads, like if I make an example, most of the roads...because of the BEE status, are there but they are not finished. You cannot take someone who is not qualified to do the job, but because he falls under the BEE status he has got a company and then you take the job (Respondent 13).

#### ***4.3.3. Not adequate or working***

This section presents the views of the participants who perceive BEE policy to be not adequate or not working. The 3rd respondent strongly felt that BEE has not enabled black entrepreneurs' access to opportunities, in short, it was not working. He was initially reluctant to talk about the subject, but when he spoke, he did so with passion bordering on anger and disappointment. Here is his full take on the subject of whether BEE has indeed facilitated opportunities for black entrepreneurs:

The government decided to introduce a format which they say is going to empower black people – whereby people must go step by step, grading. They only empower people by grading. Can you go anywhere in the world where you grade people, you are not empowering them. When the Afrikaners took over from the British they would get a project and give the project to the Afrikaner and get the white people to manage the project at a fee – we don't have that. All the stadiums put together, they were built by the major white contractors who were big white contractors before – where is empowerment? Because they pitch the standard of qualification, call them racist if you want to, but they are put there in that position by the very same black government. I mean I have an 'A' class plumber here, an 'A' class plumber, but

they can't do a lot of jobs here because they make doing it impossible. There is no empowerment in South Africa for black people. Those geysers I showed you, you saw those geysers on top of those houses? Go find out if they have been put there by a white company. Go and find out, or by an Indian company. Go and find out. I don't know who put them there, but I will tell you: easy connecting job, the money comes from the government and some minister or some manager is part of the deal. Do you call that empowerment? Is that empowerment? It is not there.

Respondent 11 perceives BEE to be an inadequate platform for economic empowerment to the previously disadvantaged. For her, "It should stop and the right thing should happen" and that "It has failed the people of the country... this is where I differ with most people. There was no need for BEE, the way it is being implemented."

She believes that of course there was need for equity laws but that there was fear to implement them. She proposes a restoration policy. According to her "The right thing is, South Africa belongs to South Africans, and there was no one who could just come in to steal and take what they got and then sit with it. For me there was supposed to be restoration. And restoration has never taken place up to today."

So, if you expect that BEE is going to work for you, see what is happening today. It's only a few individuals who are doing exactly what the white supremacists did in South Africa. You can't come in and own the entire city and you think people will be fine with that. You stole it. Give it back to the right people of this country and then go through a due process. And I hold it dear in my heart that for true restoration to happen, you can't expect a community who were forcibly removed to go and make an application to be restored. It's theirs! (Respondent 11)

According to her, wealth, in different forms, was stolen or taken by force from blacks through apartheid policies. The dispensation of restorative justice demands that wealth that was stolen or taken by force should be given back to the rightful owners. BEE as a policy does not provide a restorative platform that provides a process through which what was taken or stolen is given back.

The 4th respondent states that BEE has failed to live up to one of its intended goals of facilitation of the growth of small and medium sized black enterprises. According to him, BEE in the city of eThekweni does not help small and medium sized black businesses grow into mainstream enterprises.

...cities like eThekweni have found themselves wanting, where for instance, we know that generally there seems to be a tendency to give small and medium sized

black African businesses the smallest amount of work compared to nurturing them, compared to challenging them to bigger size of work, compared to really, really driving them to grow. (Respondent 4)

Corruption is another issue that he highlights as one of the factors that renders BEE's inability to work as intended. This according to him stems from the conflict of interest that exists as a result of some municipal officials who are also actively involved in business. He asserts that:

As most of the senior officials move up the ladder as politicians, the more they think they need to trade in the same city and they will connect with the people that trade with the same city. So then the best people to be in corrupt relations with are Indian comrades because in all they do, they just give you upfront. Perhaps the African guy is so poor he can't give anything upfront. So what has been happening in the past 10 years...everything that is big has gone to Indians or Whites – I am talking about everything that is big.

The 7<sup>th</sup> respondent, like many others, is of the view that BEE policy doesn't go far enough. According to him, blacks are not given economic opportunities in business types that are meaningful but menial. He states that, "It's on the periphery, it's cleaning, its gardening, you know all of those things. You give Africans T-shirt printing, slaughtering of cows and buying of stationery and if that's transformation, I say bullshit, it's not!"

The 9<sup>th</sup> respondent is also one of the entrepreneurs who hold the view that BEE policy lacks monitoring and correct implementation. This results in the municipality being dominated by the Whites and big contracts and tenders being awarded to them. According to him:

White people are still there, they are dominating. They are getting big contracts, big tenders, positions in the municipality, like senior positions. Go and check, there are very few black people. So the policy is good but it's not being implemented properly, it's not being monitored correctly.

The 4<sup>th</sup> respondent shares the view that there's a lack of correct implementation. He states that: "People must be accountable, they have to implement it and they have to implement it correctly. They have to give account on how they have implemented this and who the beneficiaries are."

As for the 7<sup>th</sup> respondent BEE policy is vital, but it needs to be given greater weighting. He asserts that:

The BEE policy is paramount! I would say current legislation should give it more teeth. And when you look at the scoring with 10% for BEE, the remaining 90% plus and technical expertise, BEE must have a greater weighting if it was to make sense. And there is no amount of legislation that can underscore or talk less of BEE for instance.

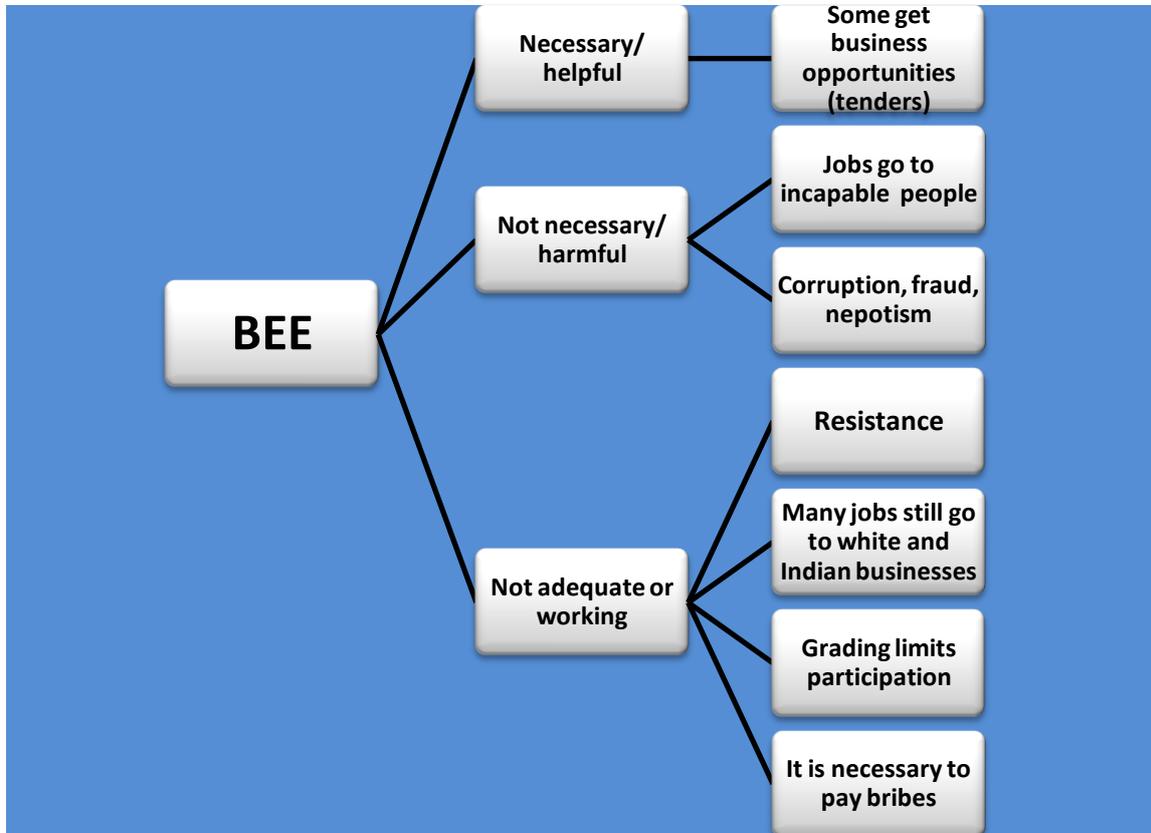
The 10<sup>th</sup> respondent believes that BEE is just a policy on paper: “It’s a good policy but I would say up to this day it hasn’t done what is meant to do.” Furthermore, he gives two reasons why the BEE policy has failed: “Firstly it has caused some businesses to be resistant to other businesses because it appeared as something that was to take away from whites and give to the blacks.”

The second reason for the failure of BEE is the score-card point scoring is devoid of enterprise development. Respondent 10 is of the view that people can always find a way of superficially going along with the score-card point scoring when in reality they are not really or significantly black owned. He says:

...the thing has to do with scoring some points that makes it easy for everybody to work around to portray a good score count. But in reality it is not being there, because, if that’s the case, we should see the result. So if you look at the BEE’s side of things it talked of enterprise development where you get big business growing small businesses in terms of taking it to another level. I haven’t heard about that so I wouldn’t really say much about BEE. It’s just there as a nice policy and as a result it’s extended to a broad based black triple BEE We were hoping it would work but it’s not.

The 12<sup>th</sup> respondent, while in support of BEE, makes it abundantly clear that he has not benefited from it. On whether BEE has benefited black businesses, he said: “It has, very selectively. You see how these people have been manipulating this thing...” The chart below is a summary of the findings of the participants’ perceptions of BEE:

Figure 1: Perceptions of BEE



#### 4.4. Perceived barriers to enterprise development

The respondents cited a number of perceived barriers and challenges they confront in business. Almost every respondent expressed unique barriers and challenges. The 1<sup>st</sup> respondent cited business registration in terms of paperwork and especially capital as the most challenging. He said:

The first thing if you are preparing the paperwork yourself to start a business, like registering the company, it's just the hardest time because the first thing is you don't even know where to go, who to communicate with. So getting the paperwork done and knowing where to go, and all those things like opening accounts and starting capital, the capital is the worst ever, I am telling you.

The 3<sup>rd</sup> respondent was of the view that the major problem is that of access to government business. Government jobs are very rare to come by if you are not part of or connected with the 'government people'. According to him:

The main employer in this country is the government. But you can't access government business because it is owned by the owners. The government is a private-public enterprise. There are people who are private there who are employed and many people there link with their own men. They allocate work to themselves, to each other.

The 4<sup>th</sup> respondent views an environment that doesn't allow black-owned small and medium sized enterprises to grow as a barrier to business transformation. The denial of awarding big tenders or contracts to deserving black-owned small and medium enterprises does not provide an environment that would allow them to grow. According to him, white and Indian small and medium sized business in post-apartheid South Africa have been able to grow into big businesses because they have been entrusted to undertake big projects by the black South African government. Such opportunities have not been offered to small and medium sized businesses owned by black South Africans.

I think the major difficulty is the time when you contest for bigger contracts and you find that for big conglomerates and big parastatals and municipalities and so on people assume that just because you are a medium sized outfit you cannot do the job. I guess that is the stereotype that has always played itself around growing big business or growing small business into big business. I don't think we are giving enough attention to nurturing the medium sized companies. This is one of the reasons why medium sized companies owned by white people have grown post-apartheid into big companies. They have been given work by the very democratic state in the name of not giving work to blacks because black businesses were too small to portray growth or to portray possibility or potential. So you face a serious potential of having the environment not actually being rooted in support of business. I think for me the bad environment that we operate under is one of the serious downfalls.

Related to this, is the inability of established business to open up the market to upcoming entrepreneurs instead of doing business with the same enterprises with which they have had long established business relationships. Speaking of barriers perceived, the 10<sup>th</sup> respondent said:

The first one is the market. When you first start you go out there and you are trying to penetrate the market competing with big businesses that are already there. I want to go and get that business as well, for example now Coca-Cola is developing new branding, printing banners etc. Now I want to be there but they have gotten to a

stage where they have their people they trust, so for me to go there and introduce myself, it's like 'who are you?' Before you can even approach the person you are going to deal with you have to deal with racial stereotypes. My business has been a business where it's like 'what do you know as a black about printing?' So you go to that office and the person who is there is of an opposite race and holds that opinion.

The 8<sup>th</sup> respondent views the lack of regard for specialization and professionalism as a barrier to success in business. He cites the construction industry where he works, as an example. People from other professions come to compete for tenders with those who are professionals in the industry. This forces some who belong in the industry to compromise to the extent of making losses because everybody is coming in looking for work.

The other barrier/difficulty perceived by the 8<sup>th</sup> respondent for those like him who are in the construction industry and are dependent on government, is lack of timely payment for their work. He said:

I think, also, with most of us being reliant on government and government work and so forth, it becomes a challenge in terms of the speed in which payments are made. On one side our government is promoting, giving businesses and business opportunities to the public at large and through their various black economic empowerment issues, while on the other side you then have invoices that go outstanding for 120, 180 days.

The chart below is a summary of the perceived barriers to black enterprise development by the participants:

*Figure 2: Barriers to black enterprise development*



## **4.5. Perceived business transformation**

This section is a presentation of perceptions expressed by the participants on the theme of business transformation in Durban. On the perception of business transformation in Durban, the majority agree that there has been transformation although a lot remains to be done for it to be significant.

### ***4.5.1. There is transformation***

The 2nd respondent affirms that transformation has and is definitely taking place in Durban. He cites the renaming of streets with African names as one such example, saying: "...before you could never even dream of a black person, having a street named after a black person." He also cites the fact that blacks are now socialising and having businesses in the city centre for which they could have been arrested in the past, as an attestation to the transformation that has taken place:

...compared to the times when our fathers were compelled to be out of the city centre by 6 o'clock every day and if you were there after 6pm you got arrested, now you're seeing businesses being owned by blacks in the city centre, it has definitely transformed.

The 4th respondent agrees that transformation had indeed taken place in a number of areas. He said:

I think there are a number of things in terms of transformation that have improved eThekweni: the extent to which the city has moved in its portfolio of existing black African managers, the extent to which it has created favourable trading conditions for black medium size businesses and the extent to which it has mitigated difficult inequalities within the employment equity. For instance historically, we had huge numbers of white males controlling the middle, senior and executive management of the council, and that has been mitigated with a very good mixture of African and Indian, although Indians dominate, and it's not supposed to be the case.

The 6<sup>th</sup> respondent said that she didn't think that race was still a factor in business. While refusing to subscribe to the notion that it's still a factor, she acknowledges its long and lasting effect in that some good profitable spaces that were reserved for whites only in apartheid South Africa continue to be inaccessible to entrepreneurs of colour. She said:

Another thing is that with the good territories, by the time we were allowed to build stores in the so called other race territories, those territories had already been taken by people of colour. So we are eating crumbs. Ehhh, and people who

are in good areas, who operate in good areas are not prepared to sell because they are making more money. So those who came into the market later, ehh, they don't have the opportunities to secure those economically viable areas.

The 12th respondent, while bemoaning the under-representation of blacks in municipal management, agrees that economic transformation is indeed taking place. But, he is as well all too aware of the many who have been left out. According to him:

It is visible in that people are driving, we are moving to better suburbs, black kids are now going to better schools of which in the past fees were high and we never thought we could afford them. Economically there has been change but it's not much, so many people are left behind because of silly mistakes and greed from others, but there is visible change.

#### ***4.5.2. There is a lack of transformation***

The continued apartheid-like situation whereby big business contracts and projects are still going to white-owned businesses are, according to most respondents, indicative of the fact that transformation has not been deep and substantial enough. There are some whose perception is that race is still a factor but one that doesn't affect them. For example, the 11<sup>th</sup> respondent said that there was nobody who could stand in front of her business based on race. She said:

No one can ever stand in my way, seriously, no one. So, it all hinges down, there will be constraints, and some of them can be statutory. There are a number of things that can happen but depending on the person, people have overcome and have made strides despite the fact that there are those constraints that were put in their way. It depends on your determination, what it is that you want to do. Whoever wants to deal with me on the basis of colour needs to know the rules of the game.

The 3rd respondent, while generally recognising race as still being a factor in the business arena, was on the other hand of the view that it is not an issue. He was quick to apportion blame not on whites but on government, the financial system from apartheid times and the culture of Africans. His take is both nuanced and contradictory:

In a broader sense, yes, it is a factor, but not by the racist, not by the white racist, but by ourselves. We are telling the public that whites are not right but as a government we allocate the projects to them. Let's say finance...the standard of finance hasn't come down. People could finance based on what is required but they are still being financed by the old racism regime. And the majority blacks do not qualify. If our approach is correct as a people who have been disadvantaged, we approach white people honestly with sincerity and I think they will accept us based on that.

One example that has been repeatedly cited by the majority of respondents is the continued domination of the private sector by the previously advantaged (whites) and the near impossibility to get or do business with them. The 2<sup>nd</sup> respondent, drawing from his hardware enterprise experience of construction and building material procurement, said:

...the reason why we don't have too much customers in the private sector is because the private sector is still controlled by the previous advantaged people, and whenever there is a big contract they always procure materials from their friends who have been in the business with them over the years.

Respondent 9 also expresses the above view, that the private sector is still dominated by the whites and that it is very difficult to get business from them. In speaking about the race factor in business, the 9<sup>th</sup> respondent said:

Yeah, it's still a factor. As I was saying, the private sector is dominated by the white and it's difficult to get in there. Up until today, I've been in business since 2008 and but I have not received any second contract except the one from the motor car dealership which is owned by white people. It's not that I am not looking. Even now I am still looking but I haven't found anything. I did get something promising, almost there; it just went away, just like that. I don't know why, I don't know how, but I was almost there in signing the deal. But it did not materialise. So, it's very difficult. That's why I am saying that race is still a factor.

Respondent 2 adds another dimension to the challenges to transformation in business. White-owned big businesses are given preference over small and medium enterprises that are black-owned. Drawing from his experience, he said:

Suppliers still like to give preference to well established businesses. Like you'll find that you press for an order, for 100 pieces of door frames, and your big companies that have been here for a long time they will ask for 2000. They will give those people preference instead of delivery of your order...and this is a major, major challenge.

There is also a perception of lack of interest among big white-owned companies to work with and nurture small and medium black owned companies. The 4<sup>th</sup> respondent, based on his accounting experience, notes that apart from the perception being perpetuated even by officials in the public space that big white owned companies offer better services despite evidence to the contrary in some cases, said:

However, how we penetrate into white and black is when the very same companies do not see a potential in working with small and medium sized black-owned

companies, to join in on ventures with them on a consistent basis, place them on a programme where they will work with them for three years and see them grow into independent functioning operations that will compete with them in some aspects of the business. So I think whites in particular, as they lead in certain types of businesses, do not have a transformational agenda.

The 14<sup>th</sup> respondent feels that business transformation in Durban is yet to occur. He draws on his business experience that despite being a qualified financial consultant and auditor he has never been given an opportunity by the eThekweni Municipality, despite making applications in response to adverts in newspapers. According to him Indians no more qualified than him end up getting jobs from the municipality. He stated: “I have never gotten any job here in eThekweni ever since I started the business... I’m competent, I can do the job, but it ends up there, that you can’t do the job, and you see other Indian brothers getting the job.”

There are those who point to the fact that opportunities still lie with whites, as a testament that the status quo remains the same. The 8<sup>th</sup> respondent for instance concentrated on racial disparity on the management (economic drivers) side of Durban, and poverty as pointers to lack of transformation:

No, it has not. This, talking of the city of Durban and we say it’s the most well run city and everything else, but we have got the demographics of poverty, economic opportunities and everything else changed... who are the people that are primarily suffering the most and do not...are unemployed? It’s primarily black people, Africans in particular. Where do opportunities lie, they lie...unbalanced. You look at the management of the city, look at various opportunities and everything else, the economic drivers and so forth, whether we like it or not whether it’s there by mistake or it’s being engineered like that or so forth, you find that it’s mainly dominated if not by your white male, by your Indian male.

The 9<sup>th</sup> respondent points at the lack of sustainable economic opportunities for black entrepreneurs and the youth as a barrier to business transformation in Durban. For him, there is no transformation:

Because you find that young black people are still unemployed, no tenders are coming through to them, like sustainable tenders, and not being a supplier of stationery. We are talking of something sustainable, something that can sustain you, like construction, paving and building of roads. That’s where young people must be, because you also need to sustain yourself. So in that I am not seeing any transformation. It’s coming very slowly, it’s very slow. And it shouldn’t be because we are in 17 years of democracy now. But, eish, it’s at a very slow pace.

The 11<sup>th</sup> respondent, just like the 8<sup>th</sup> respondent, was also of the view that transformation has “not yet” taken place in Durban, and that “there is a long way to go.” She also pointed out the domination of Indians in Durban, a scenario she says is of “our own” (African) making, and was a tragedy. According to her:

Transformation is across the sector; it’s across all spectrums of our demographics. eThekweni as a metro, is still ruled by Indians, which is a tragedy, and we need to change that. I am not saying that there must be one group that must be given preference over everything, but let us ensure that disparity. If we can sit down and really look at the stats of eThekweni Municipality, you will be scared. The switch demographic is really making money out of eThekweni but anyway we have allowed it to happen and it’s time that we make enough noise about it and we ensure that there is parity.

Apart from the domination of the private sector by whites, some respondents view the domination of Durban by the Indians in positions of influence to be working in favour of Indian entrepreneurs to the disadvantage of black entrepreneurs. In the words of the 10<sup>th</sup> respondent:

Race continues to cause a lot of disadvantages because you see, as my business is based in Durban and Durban is run by Indians, it means my business is disadvantaged from growing. It means another Indian can start another business to undermine mine but his will grow bigger than mine meaning he will get more support than me, not that he is better... I have seen some growing like that so it turns into a disadvantage and we don’t really survive.

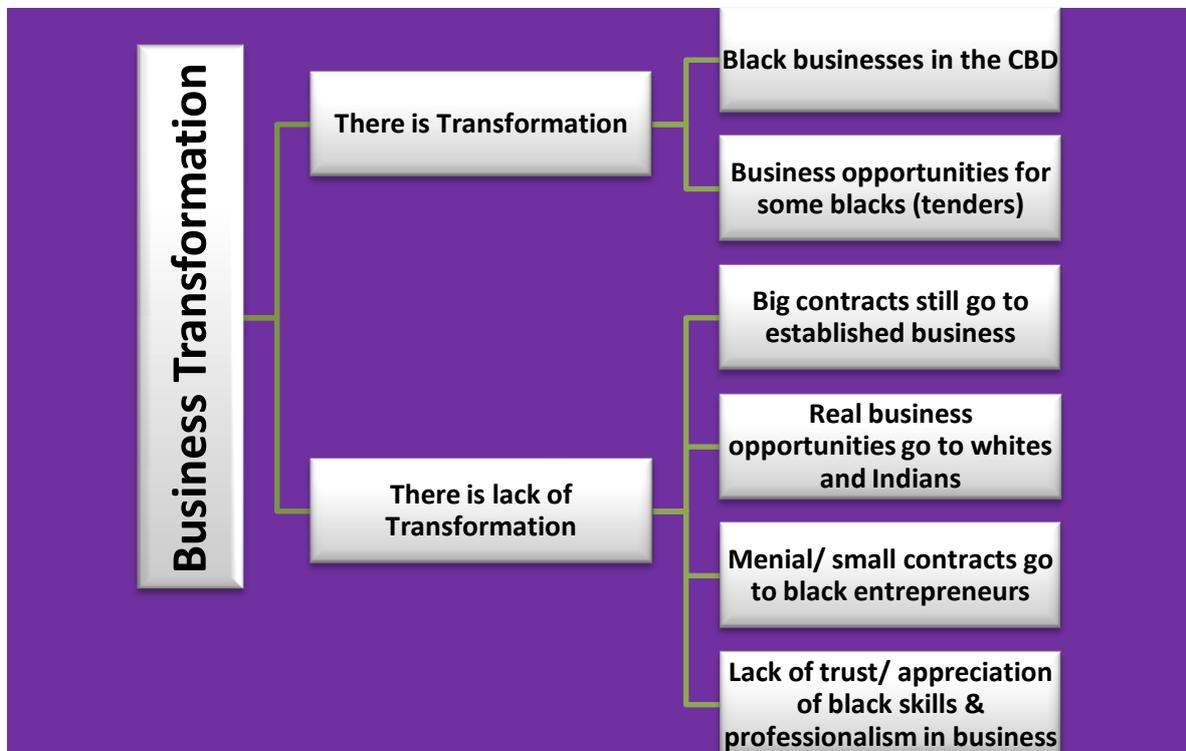
The 2<sup>nd</sup> respondent expresses a similar perception to the 10<sup>th</sup> respondent on racial biases in the municipality. The perception is that Indians and whites benefit more than black entrepreneurs. But there is a particularly strong emerging view concerning Indians who are charged with the responsibility of controlling municipality procurement, favouring fellow Indian entrepreneurs and resulting in perceived disadvantages to black entrepreneurs. He said:

Definitely, like I have said before, it’s more or less like huge private sector business, a huge chunk of that still goes to whites as well as Indians. And it’s a known fact, we have to prove it. I will give an example, here in Durban Municipal boundary, for the past 10 years they have procured more than R500 million worth of building material from one supplier and that supplier happens to be Indian. And we know exactly why that is so - it is because the guy who is controlling the procurement section in that municipality happens to be Indian. So race is still a huge factor (Respondent 2).

The 7<sup>th</sup> respondent responded from an economic perspective as it relates to business development or growth. He said that the transformation that has taken place was not real and deep but peripheral. It doesn't go far enough to transform African-owned enterprises in mainstream businesses. According to him: "...it's on the periphery" and it manifests itself in the jobs given to black entrepreneurs such as cleaning, gardening, T-shirt printing, buying of stationary, etcetera (respondent 7).

The chart below is a summary of the perceived business transformation by respondents who participated in this study:

*Figure 3: Business Transformation*



This chapter has presented the findings, according to the perceptions of the entrepreneurs that participated in the study on business transformation in Durban. The presentation has been according to themes: perceived opportunities; perception of BEE; perceived barriers to enterprise development and perceived business transformation. The findings do show that the majority of participants do appreciate BEE but are deeply frustrated about its implementation and the corruption and appreciate the transformation that has taken place

but view it to be just on the surface. Those that say there has been transformation cite the presence of black businesses in the CBD and business opportunities for some blacks through tenders; and those who say that there has been no transformation cite the fact that big and real business opportunities still go to established (white owned) businesses while menial ones go to black businesses.

## **CHAPTER FIVE: DISCUSSION AND CONCLUSION**

The previous chapter presented findings of this study. The presentation was an attempt to plainly describe, from a black entrepreneur perspective, the business environment in the context of black economic empowerment (BEE). The findings are organised in such a way that attempts to answer the four main research questions of the study:

1. What opportunities do black entrepreneurs in Durban perceive in relation to their own opportunities to initiate and develop business, and more generally for black people?
2. What role do black entrepreneurs attribute to BEE in relation to their own ability to succeed and/or in relation to black businesses in general?
3. What obstacles or barriers do black entrepreneurs in Durban perceive in relation to initiating and developing their enterprises?
4. What transformation do black entrepreneurs perceive in business in Durban?

Following the same structure, this chapter discusses the perceptions of black entrepreneurs presented in the previous chapter with reference to theory and objectives of BEE presented in the earlier chapters. The main task of this chapter is to provide insight into whether BEE has indeed translated into black economic empowerment or whether there is still some further structural transformation required.

### **5.1. Perceived opportunities for black entrepreneurship**

#### ***5.1.1. Entry into business***

There seems to be discontent among black entrepreneurs regarding the significance of BEE policy in facilitating entry into business. Apart from one entrepreneur, the rest of the thirteen (13) entrepreneurs interviewed were not motivated by the government's BEE policies. BEE was not the major catalyst for entrepreneurship among the black entrepreneurs who participated in this study.

The majority of the respondents in the study (62%) cited their education, training or professional background as a spring-board that led them into, or opened up, opportunities for them in the various businesses they are running. Education/training/profession in this study has stood out as the single most important factor that unlocked the majority of the

participants' 'doors' into business. Indeed as noted by the National Skills Development Strategy III (DHET, 2011: 19), skills development from education and training should not just result in employment but must also empower people to make opportunities for themselves, and that lack of training and education is the most important constricting factor against the creation of opportunities.

### ***5.1.2. Types of businesses***

The types of enterprises the study has found being run by black entrepreneurs were almost exclusively reserved for whites in apartheid South Africa. In apartheid South Africa, blacks were restricted and limited to only small scale trade in daily consumer goods following the severe restriction placed on them in 1963, and they could not start more than one business (Ponte, Roberts & Sittert, 2007; Randall, 1996). The enterprises blacks are engaged in today are a testament to what freedom holds out in terms of possibilities in business and development for blacks.

The "enhancement of human freedom is both the main object and the primary means of development" (Sen, 1990: 53). In this instance, freedom has been the means and catalyst of development brought about by the establishment of enterprises that were not possible and not allowed when apartheid was the law of the land, for black South Africans. In Durban today, more and more blacks are exploiting their entrepreneurial pursuits to better themselves, their families, communities, the city and the country as a whole through a wide range of businesses they have been able to set up. Suffice to say, this is a relatively exclusive thing for a few lucky ones, not for everyone.

## **5.2. Perceived barriers by black entrepreneurs in developing their enterprises**

Although they count a number of successes that they have made as a consequence of the progress transformation has brought, still, they have concerns they perceive as barriers or obstacles to full business transformation in Durban.

Some of the perceived barriers to business development are: lack of capital; insider trading; big business domination of the market and denial of 'real' opportunities to black-owned firms despite some being highly qualified.

### ***5.2.1. Domination of the market by big business***

One of the barriers as perceived by the participants is the impenetrability of the market both private and public. The market is fenced by big business domination. Black-owned small businesses find it almost impossible to penetrate the big business dominated market. The established businesses want to do business or are comfortable trading with those with which they have had long established relationships. The exclusion of small black-owned businesses from the market by big business, which respondents considered to be white-dominated, may not necessarily be racial, but a case of long established trusted business networks. But as a result of the fact that they are white-dominated and those excluded blacks, it inevitably ended up being racially defined by some. The exclusion however is real, and in the words of one respondent, the market is the first among the other barriers to business transformation.

According to Fafchamps (2001: 123), “If newcomers find it difficult to enter, one must then ask the question of how networks renew themselves over time. One possibility is no renewal: membership to the network is constant; the business community is a closed group.” One explanation for the challenges to business transformation as experienced by the participants in the study in the area, when it came to doing business with established big white-owned businesses, is the nature of the business community as being a closed one. Membership to these business networks tend to be constant not necessarily because they are racist but because networks including business ones tend to be self-propagating. Indeed, as Fafchamps (2001: 122) further explains “...other things being equal, well connected agents will be more likely to trade with one another. The reason is that they can more easily find and screen each other.” Concerning the propensity of the well-connected elite to be exclusive, in the case of big business in South Africa, Thomas (2002: 251) states that there is a “tendency of established groups to prefer the status quo and to experience selective perception.” This problem is not just confined to the private sector.

### ***5.2.2. Denial of big contracts***

The government, according to the study participants, is one of the perpetrators of the status quo. Indeed, one participant intimated that the responsibility of the sidelining of black-owned small businesses is, “...not by the racist, not by the white racist, but by ourselves. We are telling the public that whites are not right but as a government we allocate the

projects to them.” The government at the local level, the municipality, has been at the centre of criticism, as a culprit just like the private sector. One of the consistent complaints cited by the participants has been government’s continued relationship with big business resulting in the sidelining of the black-owned small and medium size business in as far as the awarding of meaningful and big projects are concerned.

It is no secret that the apartheid government and big business network relationship has continued, only this time as a post-apartheid government and big business network with, if anything, minor changes. It would therefore not be farfetched to conclude, as already observed by Fefchamps (2001: 123), that “membership to the network is constant; the business community is a closed group.” Be it big business to big business or government to big business networks, they remain almost the same with peripheral or superficial changes to adapt or be seen to be compliant to changing circumstances. Success in truly transforming business so that it allows newcomers to succeed in South Africa, ultimately lies in what Thomas (2001: 251) called “breaking the code of the ‘old boy’s’ network” that has ensured that the dominant group in the South African case—white males—succeed in business.

### **5.3. Perceived role of BEE**

It is evident from the previous chapter that many of the entrepreneurs who participated in this study have a positive view of the idea behind BEE policy and they support it. However, there are a few who say that it has helped black businesses succeed and, as discussed above, even fewer who say it has directly benefited their businesses.

#### ***5.3.1. Necessary/helpful***

BEE is perceived as a necessary policy and it has been seen as helpful by some respondents. There are respondents who have benefitted from it through job opportunities in terms of tenders. Even those who have not benefitted acknowledge that it has helped some and brought change that would not be possible without it (Respondent 6).

Some respondents also stated that BEE is not only helpful but necessary as well. Respondent 2 argued that it is needed to guide economic transformation which would not

be possible without it, as people would quickly revert to their comfort zones. The fact that there is resistance now means that it (resistance) will grow without BEE.

The majority of the participants are of the view that the BEE policies are good, as they relate to the promotion of black business in spirit. However, they assert that, in reality, they do not help the growth of black small and medium enterprises into meaningful, sustainable and big enterprises. Among the other issues that have marred BEE as cited by the participants are corruption and incompetence. Some respondents directly said that BEE tendering was frequently fraudulent. Respondents bemoaned rampant corruption within the tendering process which is characterised by insider trading, nepotism and bribery (see chapter 4).

### ***5.3.2. Not necessary/harmful***

It can be argued that the fraud or corruption that has marred BEE's tendering process makes it hard for real and deserving entrepreneurs to have a head start. Instead of competent entrepreneurs with the professionalism and skills benefiting from BEE policy, people who are incompetent but politically connected or with the money to bribe officials end up getting the tenders. Moeletsi Mbeki, the brother of the former president Thabo Mbeki, expressed this concern that BEE has dealt a "fatal blow against the emergence of black entrepreneurship by creating a small class of unproductive but wealthy black crony capitalists" (*The Economist*, 2010). In the same vein, another respondent was disappointed at how unqualified people, on the basis of BEE, get tenders they are not qualified for and in the process fail to complete the job.

This problem of corruption and fraud in the implementation of BEE policy meant to help the HDIs is part of what has gone wrong with BEE. This translates into what Schultze (2010) calls creation of 'tenderpreneurs' instead of entrepreneurs (see chapter 2). The incompetent pseudo entrepreneurs not only disadvantage the genuine entrepreneurs but defraud the communities of the deserved services through shoddy, substandard services. As discussed in the previous chapter, the symptoms of corruption, nepotism and lack of skilled and experienced management, as highlighted by the press, has been the cause of service delivery failure by government at national, municipality and local government level.

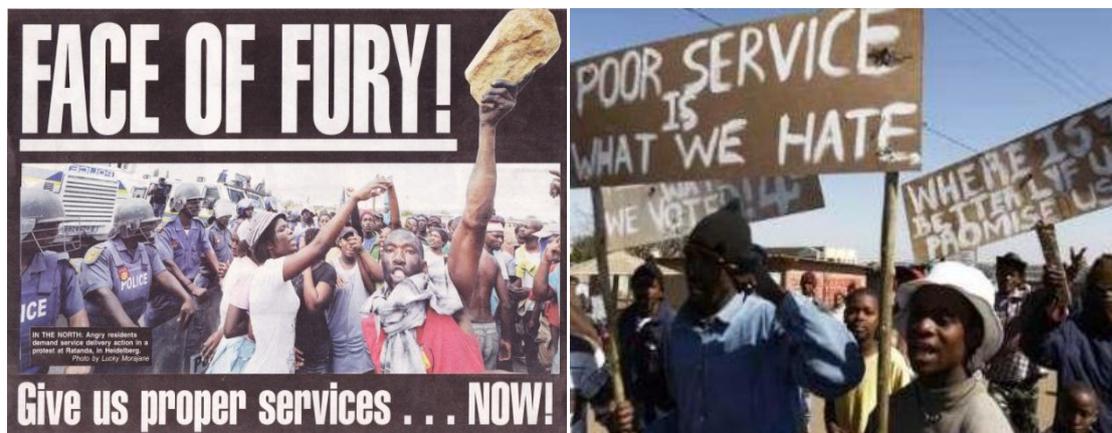
Suffice to say, some of those involved in bribery are not necessarily incompetent as they just do so to be noticed in the bidding process.

In the South African context, the above scenario brings to light the alleged corruption and fraud involving the former ANCYL president Julius Malema whose case is still pending in the courts. A company owned by Julius Malema and his friends won tenders that resulted in shoddy construction of roads and bridges that were washed away less than a year after construction. The Public Protector South Africa (2012) carried out an investigation and came up with a report *On the Point of Tenders* on the same case. The report (The Public Protector South Africa, 2012: 11) concludes in part that,

On-Point should never have been awarded the tender for the PMU as it did not qualify by a long stretch. The bid it presented to the Department on 29 September 2009 for the PMU tender consisted of a deliberate and fraudulent misrepresentation in respect of the profile, composition, experience, personnel, assets, annual turnover and contribution to youth business development, and therefore the functionality and track record of the company.

The Public Protector South Africa (2012) concluded that a crime of fraud was committed by On-Point. This was based on the fact that at the time it was awarded the tender, it had only been in existence for two months, had no experience, no track record, no employees, no assets, and the purported key management personnel and staff were not involved with it at all. For it to be considered competent for the award of the tender was questioned and the award of the tender by the Department was seen as unlawful. This kind of corruption and fraud is precisely what has made some respondents suggest that BEE is not necessary and that it is actually harmful to the cause of black entrepreneurs. Apart from being a case of corruption and fraud that works against black business, the impact on the ordinary citizens who are subjected to substandard infrastructure and poor service delivery has resulted in a phenomenon of anger, frustration and discontentment that has led to wave after wave of (sometimes violent) protests concerning poor service delivery in South Africa. The pictures below underline the frustration and anger due to poor service delivery, which in part is caused by fraud and corruption:

Figure 4: Public protests over poor service delivery



Source: *The Real South Africa* (2012).

The perception expressed by entrepreneurs that BEE has failed to transform the economy is one that is widely held even by its proponents in the ANC. The current ANC Secretary General Gwede Mantashe (Nhlabathi, 2012) was reported to have echoed this view that BEE has failed to transform the economy as evidenced by “rampant poverty, inequality and unemployment...” The CEO of the Black Business Forum also re-echoed Gwede Mantashe’s observations stating that it lacked teeth and that it is focused on compliance and not actually driving economic transformation (Nhlabathi, 2012).

The researcher’s analysis of the views of respondents who say that BEE is not necessary is that it does not achieve what was intended. It benefits a few connected; it results in fraud and corruption. They say it is not necessary because of its results and not the policy itself. But there was at least one, respondent 1, who stated that hard work and not BEE is necessary for success in business. It’s more an expression of disdain over how it has been hijacked and its outcomes.

### **5.3.3. Not adequate/working (*Many jobs still go to white and Indian businesses*)**

The other strong perception expressed by the respondents was that there is lack of trust for black-owned small enterprises by those tasked by government to implement BEE policy. This lack of trust results, according to them, in the projects, tenders and contracts (especially big ones) going mostly to Indians and whites. On the other hand, small and insignificant projects that do not really offer meaningful growth and value are the ones that

are given to black-owned enterprises. This mistrust is at odds with the understanding that, "...defined BEE is centred around the promotion of black business" (Southall, 2004: 320).

In the researcher's view, this lack of trust for black-owned small business in itself feeds into the cynicism that the status quo has not changed. Big business has largely remained in the hands of whites and black-owned small businesses still struggle to grow despite the progress made. Black entrepreneurs that basically fall under small business are not prevented directly by whites from growing into big business, but by government and municipality managers, most of whom may be black. The attitude and mindset of the superiority of whites as human beings and their work, inculcated during the many decades of apartheid and colonisation, might still persist in people's minds and in institutional practice. That mindset still affects the way different races view themselves and others even in the business arena.

Though it is historically true that blacks were unable to acquire certain skills that come with training and education because they were not allowed by the apartheid system, today's black South Africans have access to skills training in almost all areas they wish to. But this does not mean that they all have access – many are still excluded not by race but by the costs, for instance. As the findings in this study have shown, most of these entrepreneurs are professionals in their fields. Despite their professional training and skills they possess, some feel they have not received any support in terms of landing government tenders despite qualifications and repeated applications in response to numerous adverts.

There is also a perception that the higher government officials go in managerial positions, the more they get involved in business themselves. This involvement by these BEE implementers in business creates a scenario of corruption that does not advance the cause of the black South African small and medium sized businesses. They end up advancing their own business interests, business interests of cronies and business interests of bigger enterprises that can afford to pay bigger bribes. As a result, small and medium size black-owned businesses that have the right set of skills, know-how, professionalism and motivation end up not receiving the government support they need to grow into big and self-sustaining enterprises in the process. And those enterprises that do not need government support in the form of big businesses that are already established, and those

who do not deserve government support in the form of politically well connected or cronies/relatives but without the right set of skills, know-how, professionalism and motivation to manage projects given to them, end up being beneficiaries.

What the above implies is that the intended benefits of BEE are compromised by the very people who are supposed to enhance them. The result is a situation where the majority of black South Africans continue to be marginalised. Awarding of tenders to undeserving but connected people has a ripple effect. On one hand, it perpetuates a lack of opportunity among intended beneficiaries of BEE. On the other hand, it increases cost on government in the sense that poorly done projects will always require to be redone at not only government's expense, but ultimately at the expense of tax payers'. This leads most entrepreneurs to conclude that BEE is inadequate and is not working.

#### **5.4. Perceived business transformation**

The majority of the participants in this study were of the view that business transformation has indeed taken place in the city of Durban, even as they were unanimous in stating that a lot still remains to be done.

##### ***5.4.1. There is transformation***

There is no doubt that the repeal of the Group Areas Act in itself, even without the implementation of BEE policy, inevitably led to transformation in all spheres of South African life, including business, notwithstanding the pace, breadth and depth. With the demise of apartheid, the Licensing Act of 1897, a commercial suppression tool against non-white businesses (Maylam, 1990), fell too. The repeal of the Group Areas Act was transformative because it gave freedom to all South Africans, including blacks, who were denied access to doing businesses in the CBDs and other lucrative areas reserved for whites.

If, as Sen argues, "...enhancement of human freedom is both the main object and the primary means of development" (1990: 53), then the growing freedom of black entrepreneurs to pursue business opportunities might well be recognised as developmental. This freedom, with education and training, is what enabled and allowed the majority of black entrepreneurs that participated in the study to start their own enterprises.

Respondents acknowledged the progress that has been made in business transformation by comparing what was obtainable under apartheid to what is today, in the post-apartheid era. One respondent pointed to the fact that blacks today have established businesses in the CBD, something that would have been but a dream in the apartheid era (Respondent 2).

Some respondents also pointed to the fact that there is now a mixture of blacks, whites and Indians in executive management positions of the municipality, which is a sign of progress. Respondent 11 cited the above argument as well as the favourable trading conditions for blacks as further evidence of the transformation taking place in the city of Durban, as well as employment equity.

#### ***5.4.2. There is lack of transformation***

The respondents who argued that no transformation had taken place, cited among other things, the fact that the demographics of poverty is still largely African, and that opportunities still lie in the minority, white and Indian males' hands, who also still happen to be the drivers of the economy in the city of eThekweni. The numerical dominance of Indians who hold senior and executive managerial positions in the municipality does not reflect the demographics of Durban, and the resulting biases are understood by respondents to work against the spirit of business transformation.

Transforming business has limits, and the participants in this study cite among other factors, the lack of change in the demographics of poverty and opportunities. There are some who hold the view that no transformation has taken place and those who say it is just on the periphery, and therefore not real and meaningful. Respondent 8 for instance said that transformation had not taken place, citing the fact that the demographics of poverty and opportunities have largely remained the same, and so are the economic drivers, as in apartheid South Africa. In arguing his point, the respondent asks, "have the demographics of poverty, economic opportunities and everything else changed?" (Respondent 8). Respondent 11, like the previous one, is also of the view that transformation has not yet taken place in Durban, and still has a long way to go for it to be. She has also pointed at the domination of Indians in Durban, a scenario she says is of our (Africans) making, as a tragedy (Respondent 11).

As the other respondent put it from an economic perspective, the transformation that has taken place is not real and deep but peripheral. It doesn't go far enough to transform black-owned enterprises into mainstream businesses (Respondent 7).

The fact that poverty and lack of opportunities is still a black problem, while wealth, privilege and opportunities still lie in the hands of whites and Indians increasingly (Respondent 8), creates the perception that the transformation that has taken place is just on the surface. More than being 'not real', the researcher thinks this speaks to the frustration that it has not come fast enough. It also shows that sometimes even policies such as BEE can have limited success in transforming business.

One explanation, notwithstanding the corruption and fraud that has characterized the implementation of black economic empowerment policy, and others, is the "tendency of established groups to prefer the status quo and to experience selective perception" (Thomas, 2002: 251). Even in cases where they are given big contracts that require outsourcing some aspects of their projects to small and medium sized enterprises, they end up outsourcing those projects to established SMME entrepreneurs and not the emerging SMME entrepreneurs (Kirsten and Rogerson, 2002, as cited by Andrew, 2007). This again underlines the importance of established business networks that tend to hold together, reproduce their kind, do business with trusted and proven businesses rather than take risks with the unknown newcomer. This attitude is not just found among established big businesses, but it is also found in government and the municipality as they would rather give big contracts to old established and tested companies.

#### **5.4.4. Conclusion**

Unger *et al.* (2009), citing Honig (1998), Honig (2001) and Luetz (2007), underscore the point that the successful exploitation of business opportunities especially for small businesses requires knowledge and skills. It is therefore no accident that the majority (61%) of the respondents that participated in this study got into business directly as a result of their education, training and professions. However, education goes hand in hand with the freedom alluded to by Sen (1990). Education and training in all types of fields desired by black South Africans resulting from the freedom that came with the abolishing of apartheid and introduction of democracy in South Africa, for all, actually strengthens

freedom. It strengthens (their) freedom because it exposes blacks to knowledge and skills that in turn opens them up to possibilities in business that would not be possible without it.

Under the theme of barriers to enterprise development, a crucial perceived factor is the impenetrability of the market made possible by big business and the government. Big business is self-propagating and membership to this network does not change and is not open (Fefchamps, 2001). It does not want to lose the advantages and privileges and so when called upon to change, they do so on the peripheral using the financial power to influence political power. Consequently, this, the failure of government to use black-owned small enterprises, and lack of proper implementation and monitoring of BEE policies, creates an unfavourable environment for the growth of emerging black-owned enterprises. Big businesses give each other preferential treatment and get it from the very government that is supposed to level the playing field through BEE policies.

The corruption, fraud, substandard services and sometimes failure to complete projects by black entrepreneurs awarded tenders on BEE status is bad enough in itself. However, the consequences for the above stated is threefold: it robs the communities of quality service delivery necessary for community and national development; it robs deserving qualified black entrepreneurs opportunities that would allow real business transformation and growth; and lastly it causes immense damage to the reputation of black entrepreneurs thereby feeding into the cynicism, stereotyping and prejudice that blacks are incompetent, and can't be trusted with important projects. This hurts business transformation because on top of the stranglehold big business has on the market, this sends a message that blacks cannot produce goods and services of quality and durability and in some cases even fail to deliver. This reputation does a disservice to black entrepreneurs because even though entrepreneurs are risk takers, they are not blind risk takers. They will not take risks without some sense of trust in those they choose to do business with, that they will deliver and add value to their business undertaking.

The study has found that black entrepreneurs perceive that business transformation in the context of BEE is taking place in Durban, but that it is on the periphery, not deep and substantial enough. The established business with the help of the very government that is purported to be transforming the economy through BEE, maintains the status quo. Big

contracts still go to big business while small black-owned businesses get minor contracts. Some study participants appreciate the fact that BEE has helped a few to have access to opportunities but have expressed a view that it is not transformative enough. Some have even argued that it is not necessary as it doesn't achieve transformation in its current form but rather harms it, as it has become a gateway to corruption, fraud and substandard services.

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**APPENDIX 1: INFORMED CONSENT FORM**

**School of Development  
Studies  
Howard College Campus  
King George V  
Avenue  
Durban 4041**



\*\*\*\*\*

Dear Project Participant,

I am doing a research project, *Business Transformation in Durban: Perceptions of Black South African Entrepreneurs in Context of BEE*, as part of a Masters Degree programme, in Development Studies at the University of KwaZulu-Natal (Howard College). The project is supervised by Dr. Richard Ballard of the Department of Development Studies, who can be contacted on Phone: 031 2602266 or by email at [ballardr@ukzn.ac.za](mailto:ballardr@ukzn.ac.za).

Your participation in this project is entirely voluntary, and your responses will be treated in a confidential manner. If you wish, your anonymity will be ensured in the written project. You are free to withdraw from the research at any time without any negative or undesirable consequences to yourself. If you wish, you can demand to see the written project before it is handed in for marking to ensure that these promises have been met. No participants are paid for their contribution to the project.

Thank you for your generous assistance.

**INFORMED CONSENT FORM**

I \_\_\_\_\_ have read the information about this study and understand the explanation of it given to me. I have had my questions concerning the study answered and understand what will be required of me if I take part in this study.

Signature \_\_\_\_\_ Date \_\_\_\_\_  
\_\_\_\_\_

Student name: Peter Mulinda Mudenda

Student signature \_\_\_\_\_

Date: \_\_\_\_\_

Student number: 208511198

Student Cell: 0786759204

Student email: [petermudenda@gmail.com](mailto:petermudenda@gmail.com)

## **Appendix 2: In-depth Interview Guide**

### **1. Biography**

- How did you start off in the business world?
- What is the first business that you became an owner (or part owner) of and how did that come about? What is the nature of the work that this business did? What are your business plans for the future?
- Did you subsequently become an owner of other businesses? When? And what is the nature of work done by each of these businesses?
- How do you relate to the businesses that you own? Do you consider yourself a hands-on owner involved in the day to day management; or do you make use of a manager? (get details, might have changed over time. Might be different for each business)
- How many employees are employed in each of these businesses? (other details on scope, branches)
- Who are your major customers for each of these businesses (e.g. individuals, private sector, government – if so municipal, provincial, national, which department?)
- How did you secure your first contract with this/these customer/s (e.g. was there a tendering process – get as much detail as possible).
- How would you describe your working relationship with your customers?
- What was the basis on which you were awarded the contract (e.g. track record, BEE credentials, cost)?
- When does your main contract expire? Are you keen to secure the next contract and if so do you think you will get it? What will be the determining factors in getting the next contract?
- What are the strategic considerations you think are crucial in operating in this market segment (if necessary probe on things like: keeping costs down, being able to secure work, diversifying the customer base, keeping quality of work high)
- What are the major difficulties you face in running these businesses (completely open ended, just see what comes up)

- Where are your businesses located? Where are your goods/services provided (e.g. the business may be based in an office in Lamontville but it might do work in the whole of South Durban)

## **2. Race**

- Speaking either about your experience directly or the business sector more generally, do you think race is still a factor in business?
- Do you think race continues to result in particular disadvantages (e.g. difficulties in accessing particular markets/retail sites).
- Do you think race gives you particular advantages/ disadvantage?
- Do you think the city of eThekweni has transformed spatially, economically, socially?

## **3. BEE**

- What do you think of the BEE initiative and Employment Equity?
- Is BEE a necessary policy in your opinion? (If yes) Has it been successful in practice in facilitating opportunities and overcoming barriers?
- Have you ever personally benefitted from these policies? How?
- Do you think they should continue? Why should/shouldn't they?
- Are you a member of any business forums like the eThekweni Chamber of Business? Why?
- When did you join the eThekweni Chamber of Business?
- Why are you a member of the Chamber?
- How has the chamber changed over the years?

