

AFRICAN ENTREPRENEURSHIP

by

GILLIAN P. HART

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SOME SOCIO-ECONOMIC ASPECTS
OF
AFRICAN ENTREPRENEURSHIP

With Particular Reference to the Transkei and Ciskei

by

Gillian Patricia Hart

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PREFACE

This work encompasses an inquiry into the role of the entrepreneur in economic development, and a report of interviews with eighty African businessmen in the Transkei, Ciskei and some urban locations.

South Africa provides a particularly interesting field for the study of African enterprise insofar as it is possible to examine the evolution of entrepreneurship in two fundamentally different environments - namely rural reserves and large urban areas. Furthermore, there has been a substantial increase in the number of African entrepreneurs during this century.

The study achieves added significance in view of the wide racial income differentials which are an endemic feature of South African socio-economic existence; moreover, there is a great deal of evidence to suggest that, despite the high real growth rates during recent years, the racial income gap is widening.¹ A corollary to this is the worsening of the relative - though not necessarily the absolute - economic position of the Black population. Hence: "the fundamental question for South Africa's economic future revolves around the income relationship between the Whites and the African segment of the non-White group."²

At present a great deal of pressure is being exerted on White employers to adopt more racially equitable systems of remuneration, and on the Government to relax the industrial colour bar. Although such measures would probably have a positive influence in preventing the gap from widening still further, there is reason to believe that their effectiveness would be limited. The justifications for this assertion are twofold:

- a) As Allister Sparks has pointed out, "as long as (Blacks) are limited to being hirelings of (Whites), their progress will necessarily remain stunted. Because of race prejudice they will not be promoted as readily as Whites of equal ability. There will not be Black managers and company directors. They will be held down by a vicious circle of disadvantages: prejudice will deprive them of promotion, which will deprive them of experience, which will provide the pretext for not promoting them."³

-
1. A. Spandau Income Distribution and Economic Growth in South Africa (Rhodes University, Grahamstown: Unpublished Manuscript, 1971), vol. 2, Chapter 12.
 2. M. Arkin "The South African Economy" in D. Worrall (ed.) South African Politics and Government (Pretoria: van Schaik, 1971), p. 169.
 3. Rand Daily Mail Johannesburg, October 2, 1971.

- b) There is much convincing evidence to show that property ownership rather than wages is the basic factor determining income distribution.¹ Information indicative of the extreme racial inequality of property ownership in South Africa is given by Spandau, who has shown that in 1960 'other income' (i. e. rent, interest and profits) formed 119% of work income of Whites, and only 19% of the work income of Africans.²

In the absence of cataclysmic social change, the development of African entrepreneurial talent emerges as a possible means of escaping from this apparent impasse. This does not of course imply that even a fairly large increase in the number of African entrepreneurs would automatically result in raising the living standards of a substantial portion of the Black population. Nevertheless, it would represent a positive move towards redressing the inequalities in property ownership and facilitate the acquisition of organizational skills, which in turn implies a better utilization of human resources than exists at present.

* * * * *

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1. For West Germany see e. g. a thorough study by W. Krelle et. al. Überbetriebliche Ertragsbeteiligung der Arbeitnehmer (Tübingen: Mohr, 1968), vol. II, Chapter 20.
 2. Income Distribution and Economic Growth in South Africa op. cit. vol. I, Table 15, p. 183.

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Rhodes University,
Grahamstown,
November 1971.

Gillian Hart

INTRODUCTORY REVIEW

The present study is concerned primarily with the development of African-owned enterprise in South Africa and the nature of the obstacles with which African entrepreneurs have to contend. In order to develop a frame of reference within which to analyse past experience and present trends in South Africa, it is necessary to develop a suitable model against which ideas relating to entrepreneurial progress may be tested. Comparative studies of indigenous enterprise in other parts of Africa provide an illuminating foundation upon which to build working hypotheses, which may be used to compare and contrast the South African situation with that elsewhere.

In Part I an operational concept of entrepreneurship is constructed for use in the later empirical inquiry. This is integral to any such study, for although the importance of entrepreneurship in economic development has frequently been stressed, relatively little attention has been paid to formulating the concept in terms of a testable hypothesis. The model is developed in Chapter 3; it is based on a critical evaluation of various partial treatments of entrepreneurship, and represents an attempt to allow for the interaction between economic and non-economic variables in terms of the supply of and demand for entrepreneurship. Attention is focused on the functions performed by the entrepreneur, which are identified as forming part of the non-measurable inputs in the production function. Within this framework, entrepreneurial demand refers to the opportunity structure, and is determined by factors in the economic environment over which the individual entrepreneur has little control, such as the nature and extent of gaps and impediments in the market. It is important, moreover, to distinguish between factors inherent in the economic environment, and those which have been imposed by conscious policy decisions.

The supply side of the model is determined by the set of individuals who possess the type of abilities which the entrepreneurial function requires, as well as by their motivation and opportunity costs. This is assumed to be largely a function of the socio-cultural milieu, but factors such as training and occupational experience are also important determinants of whether opportunities will be perceived and the effectiveness with which they will be implemented.

In Part II the implications of the model are expanded and tested in relation to less developed countries, in Africa in particular. One of the most important conclusions to emerge (Chapter 4) is that the observed preferences of indigenous businessmen for so-called 'traditional' activities such as trading and real-estate dealing may arise not so much from alleged 'culturally determined' preconditioning, as from a rational response to impediments in the economic environment. In support of this contention, data are drawn from a number of countries which illustrate that sudden basic changes in economic variables have induced the relatively rapid development of a class of industrial entrepreneurs, in which people with trading experience are highly represented.

In Chapter 5 patterns of indigenous enterprise which have evolved in various parts of sub-Saharan Africa are examined. Particular attention is given to the relatively high proportion of indigenous entrepreneurs in West Africa, in contrast to the situation in East and Central Africa. Various possible explanations for the inequality in the distribution of African entrepreneurial resources are examined in terms of supply and demand factors. In the latter respect an important distinction is drawn between peasant economies of West Africa and Uganda, and the dualistic structures common in Central, East and Southern Africa, and their implications for entrepreneurial development are explored.

Chapter 6 is presented as a prelude to the analysis of South African data in Part III. It involves a comparative examination of detailed empirical studies of indigenous enterprise in Kenya and Nigeria, and an attempt is made to isolate both common and peculiar variables in respect of the two areas. This in turn forms the basis of a number of suggested hypotheses in terms of which the information on South Africa may be analysed.

The politico-economic environment within which the African entrepreneur in South Africa operates is characterized by a strong dichotomy between the reserves and urban locations. The evolution of the framework of African enterprise is outlined in Chapter 7; emphasis is placed upon the increasingly marked disjunction which has developed between policies affecting African entrepreneurs in reserves and in urban locations. A question is posed concerning the extent to which the stringent legal restrictions inhibiting private enterprise in urban locations may be compensated for by the fairly extensive protection and various forms of assistance which have been made available in the reserves.

The method and approach adopted in collecting data is described in Chapter 8, which includes an account of the numbers of African entrepreneurs interviewed and their geographic location, the manner in which interviews were conducted and the probable reliability of information. A system of classification has been constructed, based on the turnover of enterprises and their apparent growth potential.

Some of the factors considered germane to the supply of African entrepreneurs are analysed in Chapter 9. Also included is an examination of occupational skills and experience and levels of education, and their application to subsequent business pursuits, part-time business activities, and the manner in which initial capital was raised. Entrepreneurs' socio-economic backgrounds, family lives and interests outside business are also surveyed, and it appears that the majority lead relatively stable and integrated family lives. An attempt is made to inquire into possible motivations for embarking on private enterprise, and among the factors that receive emphasis are occupational frustration and an apparently strong desire for personal independence. One of the most significant patterns to emerge from this study concerns the considerable disparities which exist between the backgrounds

and occupational experience of entrepreneurs and those of the African population as a whole. The socio-economic backgrounds of entrepreneurs, as well as their occupational skills and levels of education are shown to be significantly above the norm for Africans in South Africa; moreover, comparisons with data in Chapter 6 indicate that this is also the case in Kenya and Nigeria. One of the findings with particularly far-reaching implications relates to residence in urban areas; it is shown that, with the exception of a small proportion of ex-teachers who had always resided in the Transkei, the vast majority of entrepreneurs had spent relatively long periods living and working in urban areas. This in turn appears to be an important determinant both of their integration into the money economy and their relatively high level of occupational, and hence entrepreneurial, skills.

In Chapters 10 and 11, various aspects of performance are analysed (such as labour management and the delegation of authority, financial management and so forth) from the standpoints both of entrepreneurial supply and demand. In the latter respect it was found that the size of the market exerts a considerable influence on the size and sophistication of enterprises; furthermore a group of businessmen who had moved from urban locations to the Transkei provided a useful means of focusing on a variety of obstacles peculiar to the economic environment in rural reserves. On the basis of the analysis in Chapter 6, various tests are applied which appear to indicate that the crucial importance frequently attributed to capital shortage tends to be overrated. It is suggested that entrepreneurial ability and a favourable economic environment may be far more important in determining the growth potential of enterprises than is the acquisition of capital per se.

In Chapter 12 the evidence of the preceding three chapters is consolidated; it is suggested that the restrictions faced by entrepreneurs in urban locations are not redressed by facilities offered in reserves. Furthermore, it is shown that obstacles to enterprise in the reserves tend to be inherent in the economic environment, whereas most of the advantages that there are have been created by deliberate policy decisions. In contrast to this, the economic milieu of the large urban locations offers a wide variety of opportunities, while severe frustrations arise from imposed restraints on African enterprise, and in particular the prohibition of freehold tenure and the consequent insecurity which this engenders.

These conclusions emphasise a number of irrational aspects of Government policy towards African enterprise. Not only are resources being channeled into inherently unfavourable areas, but a number of potential opportunities are being stifled for reasons devoid of economic justification. Thus, policies which regard Africans as temporary sojourners in 'White' areas tend to inhibit the richest source of entrepreneurial supply.

"The entrepreneur is at the same time one of the most intriguing and one of the most elusive characters in the cast that constitutes the subject of economic analysis."

William J. Baumol

PART I

There seems to be a steady stream among writers of the portions of texts on 'economic development' which have appeared in recent years, to make fleeting reference to the importance of 'entrepreneurship' to material progress. The chronic shortage of entrepreneurial skills in less developed countries is often cited as the *raison d'être* for economic backwardness. Despite the increasing frequency with which the term is used, 'entrepreneurship' remains a vague and ill-defined notion, relatively little effort having been directed towards the formulation of a testable hypothesis. In consequence, not only the supply of entrepreneurs but also the supply of operational concepts of entrepreneurship are notably absent where they are most needed.

Part I takes as its starting point Alexander's observation that "even though some significant insights into the study of entrepreneurship have been contributed by both economists and other

APPROACHES TO THE STUDY OF ENTREPRENEURSHIP

as a subject for study lies in the 'real world'. It discusses the contributions of pure or formal theory to the understanding of entrepreneurship. The major conclusion is that the usefulness of this type of approach is limited because entrepreneurship is only meaningful within a given socio-political framework; economic theory is bound to regard such factors as parameters, whereas in reality and from a policy point of view they are likely to be vitally important variables. In Chapter 2 an inquiry is made into the significance of the institutional framework within which the entrepreneur must operate. A fairly broad spectrum of writings on entrepreneurship is considered, ranging from the almost purely empirical approach of business history, through the more analytical work of a group of entrepreneurial historians, to two fairly sophisticated psycho-sociological theories. The insights provided by these theories, as well as their shortcomings, emphasize the vast complexity of the concept of entrepreneurship. Moreover they highlight the unsatisfactory nature of partial approaches.

Chapter 3 represents a rather rudimentary attempt to reconcile the 'two-man's land' between economics and other disciplines, having indicated the problems involved in adopting a narrow approach to the study of entrepreneurship, some tentative suggestions are made for the formulation of a model which aims at integrating the various strands of entrepreneurial theory.

1. See the Intro-Section to Chapter 4.
2. A. P. Alexander "The Supply of Commercial Entrepreneurship" Explorations in Entrepreneurial History (2nd series) vol. 4, no. 2, Winter 1967, p. 116.

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There seems to be a tendency among writers of the plethora of texts on 'economic development' which have appeared in recent years, to make fleeting reference to the importance of 'entrepreneurship' to material progress. The chronic shortage of entrepreneurial skills in less developed countries is often cited as the raison d'etre for economic backwardness. Despite the increasing frequency with which the term is used, 'entrepreneurship' remains a vague and ill-defined notion, relatively little effort having been directed towards the formulation of a testable hypothesis. In consequence, not only the supply of entrepreneurs but also the supply of operational concepts of entrepreneurship are notably absent where they are most needed.

Part I takes as its starting point Alexander's observation that "even though some significant insights into the study of entrepreneurship have been contributed by both economists and other social scientists, it is still generally true that entrepreneurship as a subject for study lies in a no-man's land ...".² Chapter 1 discusses the contributions of pure economic theory to the understanding of entrepreneurship. The major conclusion is that the usefulness of this type of approach is limited because entrepreneurship is only meaningful within a given socio-political framework; economic theory is bound to regard such factors as parameters, whereas in reality and from a policy point of view they are likely to be vitally important variables. In Chapter 2 an inquiry is made into the significance of the institutional framework within which the entrepreneur must operate. A fairly broad spectrum of writings on entrepreneurship is considered, ranging from the almost purely empirical approach of business history, through the more analytical work of a group of entrepreneurial historians, to two fairly sophisticated psycho-sociological theories. The insights provided by these theories, as well as their shortcomings, emphasize the vast complexity of the concept of entrepreneurship. Moreover they highlight the unsatisfactory nature of partial approaches.

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1. See the introduction to Chapter 4.
 2. A. P. Alexander "The Supply of Industrial Entrepreneurship" Explorations in Entrepreneurial History (2nd series) vol. 4, no. 2, Winter 1967, p. 136.

Chapter 1

THE EVOLUTION OF THE CONCEPT OF
ENTREPRENEURSHIP IN ECONOMIC THEORY

"For if orthodox economics is at fault, the error is to be found not in the superstructure which has been erected with great care for logical consistency, but in a lack of clearness and of generality in the premises."

John Maynard Keynes

1.1 The Entrepreneur in Classical Theory

In the writings of the Classicists, terminology appears to have played an important role in determining the nature and extent of theoretical treatments of entrepreneurship. This could possibly explain why the analyses of the early French writers were generally more sophisticated in this sphere than their British counterparts. Hoselitz¹ has pointed out that the most common English equivalent for the French 'entrepreneur' was 'undertaker', which carried the connotation of one who undertook large government contracts for public works. After the middle of the 18th century, the general meaning of the term disappeared from the arsenal of British political economy, and with it a proper theory of entrepreneurship.² To Smith and Ricardo the concept of the 'capitalist' was quite adequate, in view of their preoccupation with the supply and accumulation of capital. Thus the early British economists generally assumed that the entrepreneur was simultaneously a capitalist; in confusing the two functions, they designated his total remuneration 'profit' without distinguishing between the net interest on capital and 'pure' profit.

The early French economists on the other hand showed great interest in the functions of the entrepreneur, and it is generally agreed that Cantillon was the first to place him in the centre of scientific discussion.³ In Cantillon's theory the entrepreneur is one who buys at a certain price, but sells at an uncertain price because he is unable to foresee the extent of demand. In many respects Cantillon's theory is extremely rudimentary; in particular, he ignored technological improvements and innovation.

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1. B. F. Hoselitz "The Early History of Entrepreneurial Theory" in J. Spengler (ed.) Essays in Economic Thought (Chicago: Rand McNally & Co., 1960), p. 240.
 2. *ibid.* p. 243.
 3. See for example Einaudi's essay on Galiani in H. W. Spiegel (ed.) The Development of Economic Thought (New York: John Wiley & Sons, Inc., 1952), p. 64; Hoselitz *op. cit.* pp. 234-235; C. Gide and C. Rist A History of Economic Doctrines (London: Harrap & Co., 1948), p. 128.

Nevertheless, his recognition of certain aspects of the entrepreneurial role - most notably organization, the assumption of uncertainty and response to effective demand - laid the basis for further enquiries into entrepreneurship, and indicated a degree of sophistication which the work of the British classical economists lacked.

If Cantillon's was the first of the early entrepreneurial theories, that of J. B. Say was by far the most comprehensive; his insistence on the analytical separation of the entrepreneurial and capitalist functions is a distinctive feature of his work. Hoselitz¹ has postulated that two distinct theories emerge from an analysis of Say's ideas on entrepreneurship; his reasons for this assertion provide a useful insight into the nature of entrepreneurial theory.

The first is a 'pure' theory of entrepreneurship; it is general insofar as it appears to be independent of any particular social framework. The theory is based on a tripartite division of the process of production:-

- (a) the research of the scientist;
- (b) the 'applications' of the entrepreneur;
- (c) the performance of the labourer.

Say's 'pure' theory of entrepreneurship takes place strictly within the framework of the analytical isolation of these three aspects which comprise any particular process of production, of which the entrepreneur is the principal agent. "It is he who estimates needs and above all the means to satisfy them, who compares the end with these means. Hence this principal quality is to have good judgement. He can lack personal knowledge of science by judiciously employing that of others, he can avoid dirtying his hands by using the hands of others, but he must not lack judgement; for then he might produce at great expense something which has no value."² According to Say the essential function of the entrepreneur is that of the universal mediator. "He mediates between landlord and capitalist, between scientist and manual labourer, between the various suppliers of productive services among one another, and between producers and consumers."³

It is precisely because of the extremely general nature of the theory that its usefulness is limited. In stressing the importance of mediation in production, Say added an extra dimension to the foundation laid by Cantillon. However the analysis takes place strictly within the context of a particular productive process; Say failed to consider the possible repercussions of the existence of entrepreneurship for the economy as a whole, particularly insofar as he ignored the relationship between entrepreneurial activity and capital accumulation. Moreover, he abstracted completely from the social milieu, and from

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1. "The Early History of Entrepreneurial Theory" op. cit. pp. 248-254.
 2. J. B. Say Cours vol. 1, (Quoted by Hoselitz op. cit. p. 251).
 3. Hoselitz op. cit. p. 251.

changes within it which might affect entrepreneurship. In essence, the major criticism which must be levelled against Say's entrepreneurial theory is its extremely static nature: "his own rigorous demand that theoretical economic matters should be kept strictly apart from the wider social problems with which they are associated . . . induced him to develop a theory of entrepreneurship which is singularly barren for the explanation of the entrepreneurial function in a dynamic capitalist society." ¹

These criticisms apply specifically to Say's 'pure' theory of entrepreneurship. In his Cours, Say goes beyond the strict confines of analysis to describe various aspects of the entrepreneurial role in a competitive capitalist society, in particular the fact that in undertaking private enterprise the entrepreneur assumes the role of a bearer of risk and uncertainty: "He is only an entrepreneur as long as he produces for his own account and as long as his profit depends on the value of the products which result from his efforts." ² In addition to the uncertainty of profits and the necessity of applying sufficient capital to an enterprise, Say considers the moral qualifications ³ necessary for the assumption of the entrepreneurial role. He then proceeds to classify different types of entrepreneurial activities in terms of the requirements of these factors. Say also discussed innovation, and recommended businessmen to seize upon opportunities for technological improvements.

These illustrations suggest that Say was fully aware of the dynamic nature of entrepreneurship, but they are essentially descriptive and external to his rigorous analytical framework; they refer specifically to the workings of a free enterprise capitalist economy centred on private ownership, and explicitly exclude corporate enterprise. Say's analytical treatment of entrepreneurship is, however, independent of any particular socio-economic structure, and is common to all situations in which resources are combined for purposes of production.

These issues focus on a vitally important question; to what extent, if any, entrepreneurship is dependent upon certain institutional relations. This is integral to any theory of entrepreneurship, particularly in the context of underdevelopment. Say's work would appear to indicate that if entrepreneurial theory is to be useful, it is essential that cognisance be taken of socio-economic institutions; it is in this light that later entrepreneurial theories will be considered.

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1. Hoselitz op. cit. p. 254.
 2. "Il n'en pas moins entrepreneur puisqu'il produit pour son compte, et que son profit dépend de la valeur du produit qui results de se soins" - Cours vol. II. (Quoted by Hoselitz op. cit. p. 252.)
 3. i. e. "a judicious courage which can envisage all manner of risks and in impeturbable sang-froid which permits one to choose all means of escaping them" - Cours vol. I. (Quoted by Hoselitz op. cit. p. 254.)

1. 2 Neoclassical Treatments of Entrepreneurship

In general, neoclassical economists distinguished clearly between the entrepreneur and the capitalist,¹ but neoclassical theory failed to find an operative role for the entrepreneur, and attempts at analytical treatments of entrepreneurship are generally sketchy and unsatisfactory: the "appearance (of the entrepreneur) was frequent, but he remained a shadowy character without clearly defined form and function."² Nevertheless an examination of the entrepreneurial role in price and distribution theory is useful, insofar as it highlights several facets of the nature of the entrepreneurial function, particularly in relation to economic development. In the following discussion, an attempt will be made to demonstrate that the assumptions comprising the rigid neoclassical framework render an analysis of both entrepreneurship and economic development impossible.

A major feature of these assumptions is the attachment of certain qualitative attributes to factors of production. The assumptions³ may be briefly outlined under four major headings:-

(a) Psychological

The basic assumption is that the population possesses a strong drive for material improvement. The neoclassicists laid considerable emphasis on the sensitivity of response to economic incentives.

(b) Social, political and economic

- (i) Stable and efficient government and other social or economic institutions operate to engender a climate conducive to the successful pursuit of economic gain.

1. e. g. Walras' statement that "The entrepreneur is portrayed by me as a person absolutely distinct from the landowner, worker and capitalist, charged with the function of transforming the productive services of land, labour and capital into products" - in an essay on Gossen in H. W. Spiegel (ed.) op. cit. p. 480. American neoclassicists were also very much aware of the unique role of the entrepreneur - e. g. F. A. Walker, F. B. Hawley, J. R. Commons and J. B. Clark. Marshall on the other hand used the terms 'capitalist' and 'undertaker' interchangeably - Principles of Economics (London: MacMillan & Co., 1891), pp. 40-43.
2. W. J. Baumol "Entrepreneurship in Economic Theory" American Economic Review (Papers and Proceedings) vol. 58, no. 2, May 1968, p. 64.
3. Adapted from G. M. Meier and R. M. Baldwin Economic Development (New York: John Wiley & Sons, Inc., 1957), pp. 120-122.

- (ii) Institutions exist for the rapid and effective spread of knowledge and economic opportunity throughout the economy.
 - (iii) A high degree of geographic and occupational mobility.
 - (iv) Market-oriented economy.
 - (v) General use of money as a medium of exchange.
 - (vi) Well-established credit and banking system and well-organised capital markets.
- (c) Initial level of development

The neoclassicists accepted as initially given a general level and distribution of income which would permit a significant volume of saving and create no serious obstacles to the large-scale domestic production of manufactured commodities.

(d) Physical potential for future growth

- (i) The relative lack of managerial and labour skills do not constitute an obstacle to further development.
- (ii) The supply of natural resources and the state of technological knowledge are also taken as sufficiently favourable to allow for a significant degree of expansion.

Neoclassical preoccupation with detailed quantitative analysis required a high degree of abstraction. The above assumptions facilitated such analyses and enabled the neoclassicists to ignore many problems associated with economic development as opposed to 'simple reproduction'; in consequence, serious logical difficulties arise from the inclusion of the concept of entrepreneurship within this framework.

Despite the neoclassicists' explicit recognition of the entrepreneur, the role actually assigned to him within the confines of price theory is so attenuated as to be virtually meaningless. To a large extent this is a result of the nature of models of the firm, focusing on detailed quantitative aspects of the process of production: "In simple and sophisticated models theoretical firms must choose among alternative values for a small number of well-defined variables. Explicitly or implicitly, each

firm is then taken to perform a mathematical calculation which yields optimal (i. e. profit maximising) values for all of its decision variables ... There is no room in this model for enterprise and initiative. The management group becomes a passive calculator that reacts mechanically to changes imposed upon it by fortuitous external developments over which it does not exert, or attempt to exert, any influences."¹ Thus in the sphere of price theory, the static equilibrium framework assumes away all dynamic features of the entrepreneurial role.

These assumptions having been accepted, the conclusion that the entrepreneur plays a passive role in price theory is inescapable. However on moving into the field of the neoclassical theory of distribution the concept of entrepreneurship encounters formidable logical difficulties; it is in this sphere that the shortcomings of neoclassical theory become most evident.

In essence the weakness revolves around the definition of profit as a reward for facing uncertainty. However, the concept of uncertainty, which is intrinsically unquantifiable, is completely meaningless in static equilibrium theory where the unknown element is determined by the requisite number of known constants in a situation. "As soon as the concept of the incalculable is introduced, the problem becomes totally incapable of solution within the framework of economic theory as customarily conceived ... Because the entrepreneur is a gambler within the economic lottery, one cannot interpret his action in terms of any rational calculus; for in this lottery the size and number of the prizes, as well as their distribution, are unknown."²

A possible escape from the impasse is the empirical definition of the entrepreneur as the recipient of residual income;³ however, logical difficulties are inherent even in this attenuated definition. It is impossible to regard the entrepreneurial function as purely passive, for in the very act of contracting for the services of land, labour and capital, the entrepreneur is taking key decisions, which will themselves affect the incalculable future. Essentially, the problem of entrepreneurship in neoclassical theory results from "the incongruity of a non-measurable human element in a theoretical structure based on quantifiable assumptions".⁴

Even though their theoretical treatments are incapable of taking cognisance of dynamic aspects of entrepreneurship, some, at least of the neoclassicists were very much aware of the part played by exceptional business leaders. Marshall, for example,

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1. Baumol op. cit. p. 67.
 2. M. Dobb "The Entrepreneur" in Encyclopaedia of the Social Sciences (New York: MacMillan & Co., 1931), p. 559.
 3. "the entrepreneur is, as it were, the windfall absorber of the economic system" - *ibid.* p. 560.
 4. T. C. Cochran "Entrepreneurship" International Encyclopaedia of the Social Sciences (New York: MacMillan & Co., 1968), p. 89.

discusses the "constructive trader" who "aims high and sees far: he is constantly forecasting future developments of demand and endeavouring so to turn to account the rising forces of new methods of production so as to supply something which can be produced in large quantities at low cost, and force its way into general consumption . . . For this task elasticity of mind and delight in hard work are needed: and these qualities are not often found among those who have inherited wealth: but they were found in high degree among undertakers, most of whom had risen from the ranks "¹ In his Principles Marshall commented that "Those general faculties which are characteristic of modern businessmen increase in importance as the scale of business increases "² Discussion of such observations however were purely descriptive; Marshall did not elaborate on their theoretical significance.

Perhaps the most comprehensive attempt at such an analysis was Frank H. Knight's Risk, Uncertainty and Profit.³ His aim was "to state the essential principles of conventional economic doctrine more accurately, and to show their implications more clearly, than has previously been done. That is, its object is refinement, not reconstruction . . . "⁴ Although Knight did not offer an alternative theoretical formulation, his "refinement" demonstrated inescapably that the theoretical system which had evolved was abstracted in such a manner that certain fundamental aspects of economic existence were ignored.

One of Knight's most valuable contributions is his clarification of the major implications of the concept of uncertainty. He demonstrated that uncertainty is completely irreconcilable with static equilibrium analysis, and that it is virtually impossible to conceive of economic activity - in the sense of goods being produced for the market on the basis of prediction of wants⁵ - in a world of perfect certainty. "With uncertainty absent, man's energies are devoted altogether to doing things; it is doubtful whether intelligence itself would exist in such a situation; in a world so built that perfect knowledge was theoretically possible, it seems that all organic adjustments would become mechanical, all organisms automata."⁶

Once allowance is made for the existence of uncertainty, a host of interrelated concepts appear simultaneously. It is in this milieu that the entrepreneur - far from being a 'passive calculator' - becomes a vitally important catalyst: "uncertainty is dependent upon change - and in fact largely upon progressive change. The

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1. A. Marshall Industry and Trade (London: MacMillan & Co., 1919), pp. 47-48.
 2. Principles op. cit. p. 644.
 3. First published in 1921 and reprinted in 1933 (New York: Houghton Mifflin Co.).
 4. Preface to the first edition of Risk, Uncertainty and Profit.
 5. "profit arises out of the inherent, absolute unpredictability of things, out of the sheer brute fact that human activity cannot be anticipated . . ." - Risk, Uncertainty and Profit 2nd Edn. p. 302.
 6. *ibid.* p. 268.

problem of management or control, being a correlate or implication of uncertainty, is in correspondingly large measure the problem of progress."¹

Thus the entrepreneur is a central figure in a progressive and dynamic economy. Knight's great contribution was to prove that satisfactory analysis can only be made within a theoretical framework which accepts dynamism and change as basic postulates.

1. 3 Schumpeterian Theory

Whereas Knight restricted himself to examining the implications of some of the basic postulates of traditional economic doctrine, Schumpeter's major goal was that of reconstruction. He set out to refute Walras' assertion that the stationary state made up the whole of theoretical economics, and that discontinuous change could be attributed to exogenous forces. Schumpeter's aim was "to answer the question how the economic system generates a force which constantly transforms it", and thereby construct "a purely economic theory of economic change which does not merely rely on external factors "².

The most distinctive aspect of Schumpeter's system is his emphasis on entrepreneurship as the vital economic force which disrupts the circular flow, thereby initiating and sustaining the process of development. It has been said that the creative entrepreneurial function was "the central tower of Schumpeter's structure, and the rest of the building was designed to increase its impressiveness".³ It is the entrepreneur who recognises profit opportunities in new combinations of the means of production; in order to exploit these opportunities, the entrepreneur borrows from credit-creating banks, and "raids the circular flow ". Hence: "Development in our sense is a distinct phenomenon, entirely foreign to what may be observed in the circular flow or the tendency towards equilibrium. It is spontaneous and discontinuous change in the channels of flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing."⁴ The concept of 'innovation' and its corollary 'development' embraces five functions:-

- (a) the introduction of a new good;
- (b) the introduction of a new method of production;
- (c) the opening of a new market;
- (d) the conquest of a new source of supply of raw materials;

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1. Risk, Uncertainty and Profit 2nd Edn. p. 370.
 2. Preface to The Theory of Economic Development (Cambridge, Massachusetts: Harvard University Press, 1934).
 3. A. H. Smithies in the Schumpeterian Number of the Review of Economics and Statistics, 1951.
 4. Schumpeter op. cit. p. 78.

- (e) the carrying out of a new organization of any industry.

Thus Schumpeter is emphatic that innovation does not, in itself imply technological novelty (i. e. invention): "Innovation is possible without anything we should identify as invention and invention does not necessarily induce innovation . . ." ¹ If innovations are neither small nor isolated events, entrepreneurial activity affects wage and interest rates and becomes a fundamental factor in booms and depressions.

Schumpeter's entrepreneur may be regarded as the catalyst of the economic system. On the one hand he possesses the ability to discern the economic potential of an innovation, and on the other he has the drive, initiative and courage to put it into practice. Moreover, Schumpeter introduces two concepts of risk: (i) risks which can be insured against, and (ii) those which arise because of the inevitability of imperfect knowledge in adapting to new economic situations. ² The Schumpeterian entrepreneur is therefore also a bearer of uncertainty. Thus the Schumpeterian definition of entrepreneurship revolves around these distinctive features: "everyone is an entrepreneur only when he actually carries out new combinations, and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses." ³

In a later article ⁴ Schumpeter reiterated his contention that "the defining characteristic (of entrepreneurship) is simply the doing of new things or the doing of things that are already being done in a new way"; moreover, the entrepreneur must be distinguished from the manager, the capitalist and the inventor. He identified entrepreneurship with creative (as opposed to adaptive) response. The essential characteristics of the creative response ⁵ are:-

- (a) that it cannot be predicted by applying ordinary rules of inference from pre-existing facts;
- (b) that it shapes the whole course of subsequent events;
- (c) that its frequency of occurrence, its intensity and success or failure have something to do with :

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1. Business Cycles vol. I (New York: McGraw-Hill Book Co., Inc. 1939), p. 84.
 2. The Theory of Economic Development op. cit. pp. 33-34. This distinction is very similar to that drawn by Knight - see Risk, Uncertainty and Profit Chapter VII.
 3. The Theory of Economic Development op. cit. p. 78.
 4. "The Creative Response in Economic History" Journal of Economic History vol. 7, no. 2, Nov. 1947, pp. 149-159.
 5. ibid. p. 150.

- (i) quality of personnel available in society,
- (ii) relative quality of personnel (i. e. that available to a particular field as opposed to that available in others),
- (iii) individual decisions, actions and patterns of behaviour.

The impact of Schumpeter's thought has been extensive. He proceeded beyond Knight's "refinement" of the implications and weaknesses inherent in the neoclassical formulation, and in presenting an alternative theoretical system, he took cognisance of the dynamic elements of economic organization and progress. Thus Schumpeter "succeeded both in infusing him (the entrepreneur) with life and in assigning to him a specific area of activity to any extent commensurate with his acknowledged importance".¹

There are, however, substantial theoretical drawbacks in the Schumpeterian system; these revolve around the concept of the supply of entrepreneurship which is the ultimate determining factor of the rate of economic growth. If Schumpeterian theory is capable of providing a basis for prediction, it must be formulated in terms of a refutable hypothesis - in other words, the factors upon which the supply of entrepreneurship depends must be made clear. Schumpeter provided no concise answer to this question; nevertheless he did make scattered references, both to what he considered to be a socio-psychological milieu favourable to the development of entrepreneurship, and to some of the personality traits of the entrepreneur. Higgins² has suggested that these considerations resolve into the concept of the "climate" conducive to the rise of New Men.

Schumpeter's most detailed expositions assume a negative form; the increasing systematization and depersonalization of economic progress produce an atmosphere inimical to dynamic entrepreneurship.³ Thus Schumpeter's true entrepreneur operates in an atmosphere in which change is not generally accepted, and he must break through the forces of tradition which are woven into the fabric of society. In order to surmount this opposition, Schumpeter considered that the entrepreneur must be "more self-centred than other types, because he relies less than they do on tradition and connection and because his characteristic task consists precisely in breaking up old, and creating new, tradition".⁴ He is motivated by "the dream and will to found a private kingdom ...

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1. Baumol op.cit. p. 64.
 2. B. Higgins Economic Development (London: Constable & Co., 1959), p. 138.
 3. Capitalism, Socialism and Democracy (London: Allen & Unwin Ltd., 1944), pp. 131-133.
 4. The Theory of Economic Development op. cit. p. 91.

Then there is the will to conquer, the impulse to fight, to prove oneself superior to others, to succeed for the sake not of the fruits of success, but of success itself . . . Finally there is the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity ".¹

Schumpeter cited evidence from the Great Depression in support of his thesis that the supply of entrepreneurship depends on a favourable climate. He attributed the poor performance of the American economy during the 1930's to the hostile atmosphere engendered by the New Deal measures.² Contributing factors were the burden of direct taxation after 1932, labour policies which forced an increase in wage rates and hostility against monopoly power which propelled or facilitated the fiscal and labour policies.³ Moreover, Schumpeter considered that "the personnel and methods by which, and the spirit in which a measure or set of measures is administrated, are much more important than anything contained in the enactment ".⁴ He was of the opinion that New Deal measures had been applied in such a manner that businessmen felt threatened, and that the cumulative effect of the factors mentioned above was accentuated by the suddenness of the change of scene and the aggressiveness of the Roosevelt administration and sectors of public opinion.

This exposition provides a good vantage point from which to assess the logical consistency⁵ of Schumpeterian theory. Although Schumpeter went further than any previous theoretical economist in incorporating socio-psychological factors into the framework of analysis, his theory contains a strong tautological element. Economic progress occurs when the social climate is favourable to the appearance of entrepreneurs; but the only way in which the climate may be assessed is to see whether entrepreneurs are in fact appearing - that is, whether there is economic growth. Thus, despite its elegance, Schumpeter's growth theory is of limited usefulness because his hypothesis is not testable; he failed to formulate an operational concept of entrepreneurship. If the entrepreneur can be identified in advance, economists would be able to make predictions about the direction of economic change. A comprehensive theory along the broad lines suggested by Schumpeter should be capable of correlating entrepreneurial ability with identifiable ex ante characteristics.

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1. The Theory of Economic Development op. cit. p. 93.
 2. Business Cycles vol. II (New York: Mc-Graw-Hill Book Co., Inc., 1939), pp. 1033-1050.
 3. *ibid.* p. 1044.
 4. *ibid.* p. 1045.
 5. The applicability of Schumpeterian theory in the contemporary milieu of advanced industrialised countries has been questioned by C. Solo "Innovation in the Capitalist Process: A Critique of Schumpeterian Theory" Quarterly Journal of Economics vol. 65, no. 3, Aug. 1951. She suggests that the evolution of 'Research and Development' departments in large business corporations has become a routine part of business activity. Thus: "If invention and innovation are part of business output, Schumpeter's emphasis on innovation as a disturbing occurrence to which adjustment must be made must be revised " - *ibid.* p. 427. This is obviously not likely to be an important consideration in a context of underdevelopment.

Chapter 2

ALTERNATIVE TREATMENTS OF ENTREPRENEURSHIP

"We are in need, at the present moment, of a deeper insight into the social context of enterprise. We ought to know where it originates, under what conditions it takes various forms, what are the psychological determinants and legal regulations that cover its existence, who are the persons and rules that play a role in it."

Gustav Schmoller (1890)

Despite its shortcomings, Schumpeter's work highlighted the potential contribution which a better understanding of entrepreneurship might make to economic theory and policy. Alexander Gerschenkron has said of Schumpeter that he "stood at the cradle of modern entrepreneurial explorations".¹ The tremendous interest in entrepreneurship engendered by Schumpeterian theory resulted in the establishment of the Research Centre in Entrepreneurial History at Harvard in 1948.

Although the centre owed its origins to Schumpeter's pioneering work, entrepreneurial research carried out under its aegis - and elsewhere - was not by any means confined to the conceptual framework within which his theories were formulated. On the contrary, the work of academics in a number of disciplines is characterised by a wide variety of approaches, a comprehensive survey of which would not only be presumptuous but also would be impossible in the present context. Nevertheless, having outlined the shortcomings of pure economic theory in the study of entrepreneurship, it would appear necessary to take cognisance of the contributions of other disciplines. It is extremely difficult to classify these different approaches, for a number of them are essentially interdisciplinary. As a very rough approximation, various contributions will be examined under the headings of business and entrepreneurial history on the one hand, and socio-psychological theory on the other. An attempt will then be made to assess the extent to which various aspects might be combined to form an operational concept of entrepreneurship.

2. 1 Business History

Popular views of entrepreneurship have often tended to either eulogise the businessman, or to regard him as the 'robber-baron' of the economic system. The first academic study of the historical role of entrepreneurship was undertaken by N. S. B. Gras in the late 1920's; however it was not until 1936 that the 'new business history' really began its career.² Originally business history was intended

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1. "The Entrepreneur" (Discussion) American Economic Review (Papers and Proceedings) vol. 58, no. 2, May 1968, p. 99.
 2. H. E. Krooss "Economic History and the New Business History" Journal of Economic History vol. 18, no. 4, Dec. 1958, p. 469.

to be a branch of economic history, but, as J.H. Soltow¹ has pointed out, the focus of research in the area narrowed to the study of management within individual firms.

In assessing the contributions of business history to the understanding of entrepreneurship, Krooss remarked that it "took the businessman out of the wings and put him on the centre of the stage, and it corrected the oversimplified version of the businessman that had always been the stereotype".² Moreover business history provided a vast body of data covering a broad range of subjects. However, "from the standpoint of the social sciences business history has lived up to only part of its potentials. It is the most vexatious, exasperating and aggravating of all the historical disciplines".³ Part of this "lamentable lack of influence" may be attributed to the suspicion of those in other disciplines that business historians were merely spokesmen of business; because the subject of their enquiries has frequently been their source of finance, they have been regarded with cynical distrust on the grounds that subsidies and objectivity are mutually exclusive.

The major weakness of the new academic business history has been its "superb vagueness" and tendency to shy away from conclusions and generalisations. "The enthusiasm of business historians for gathering data has not been matched by an equal enthusiasm for undertaking the job of classifying and analysing this ever-growing mass of information in such a way that it could be used as a basis for meaningful generalisations or theoretical speculations."⁴ Thus although business historians have dispelled illusions as to the simplicity of the entrepreneurial function, little attempt has been made to replace them with a more comprehensive formulation on the basis of empirical regularities - however limited, tentative and provisional they may be. Krooss has adopted a generally pessimistic view of trends in the field: "Business history is becoming more and more a part of the discipline of management and is moving farther away from economic history as it used to be understood. The tendency is to concentrate on the internal organisation of the firm as though it were operating in isolation, untouched by factors outside itself."⁵

2. 2 Entrepreneurial History

Whereas business history has concentrated on descriptions of the internal management of individual firms, entrepreneurial

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1. "The Entrepreneur in Economic History" American Economic Review (Papers and Proceedings) vol. 58, no. 2, May 1968, p. 85.
 2. Krooss op. cit. p. 467.
 3. ibid. p. 468.
 4. H. F. Williamson "Business History and Economic History" Journal of Economic History vol. 26, no. 4, Dec. 1966, p. 414.
 5. Krooss op. cit. pp. 479-480.

history has attempted to study the businessman in the context of the general social environment, its laws, prejudices, institutions and habits. In his 1946 presidential address to the Economic History Association,¹ Cole emphasised that the Research Centre in Entrepreneurial History would practise no unity of subject or method. The breadth and scope of entrepreneurial history is reflected in the vast diversity of approaches adopted by the Harvard Centre and several other groups. An attempt will be made below to survey briefly some of the major developments in this field.

Perhaps a useful starting point is the work of A. H. Cole, for his view of entrepreneurship differs in several significant respects from that of Schumpeter. Cole adopted a broader and less exclusive concept of entrepreneurship, defining it in terms of overall managerial activities as "the purposeful activity (including an integrated sequence of decisions) of an individual or group of associated individuals, undertaken to initiate, maintain or aggrandise [sic] a profit oriented business unit for the production or distribution of economic goods and services".² He emphasised the importance of sound management, since "innovation without a solid operational base tends to be ineffective - as witness the thousands of concerns that yearly die before their first birthdays".³ However, "management without innovation gives a poor prognosis, being the 'dry rot' of enterprises on the way to ossification and extinction".⁴ In addition to management and innovation, Cole included in his entrepreneurial concept a third process, namely the "adjustment to external conditions, . . . including the imitation by some enterprises of the innovations initiated by other business units that are directly or indirectly competing".⁵ Cole's formulation thus embraces the routine, as well as the creative activities of businessmen.

A novel aspect of Cole's work is his suggestion that three stages of entrepreneurship may be distinguished in the process of development; these he designates as empirical, rational and cognitive. Assuming a "general climate of beneficence, the significant factor (in economic evolution) appears to be the growth in skill of making wise decisions relative to innovation, management

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1. A. H. Cole "An Approach to the Study of Entrepreneurship" in F. C. Lane and J. C. Riemersma (eds.) Enterprise and Secular Change (London: Allen & Unwin Ltd., 1953), pp. 181-198.
 2. Business Enterprise in its Social Setting (Cambridge, Massachusetts: Harvard University Press, 1959), p. 7. Cole's definition appears to contain a great deal of superfluity and to be singularly devoid of meaning. It is difficult to conceive of 'business units' in a free enterprise system which are not profit-oriented at all, nor those which are not concerned with the production and/or distribution of goods and/or services.
 3. "An Approach to the Study of Entrepreneurship" op. cit. p. 185.
 4. *ibid.* pp. 184-185.
 5. *ibid.* p. 186.

and the adjustment to external forces".¹

In general the difference between Schumpeter's and Cole's definitions of entrepreneurship revolve around the scope of application of the term. An interesting divergence appears in relation to their respective views of the most highly developed form of entrepreneurship. Whereas Cole's cognitive entrepreneur makes increasingly longer range decisions by means of extrapolating from a sophisticated body of data, Schumpeter's pioneering entrepreneur (like a military commander) must take action in a given strategic position, "even if all the data potentially procurable are not available . . . here the success of everything depends upon intuition, the capacity of seeing things in a way which afterwards proves to be true, even though it cannot be established at the moment, and of grasping the essential fact, discarding the unessential, even though one can give no account of the principles by which this is done".² Schumpeter would probably have regarded the decision-making process of the cognitive entrepreneur as "depersonalised" and evidence of the "decline of the entrepreneurial type".³

Whereas Cole in effect rejected assigning a prime role to the entrepreneur as innovator, other writers attempted to define the concept of innovation more precisely. For example, Redlich⁴ distinguished between primary and derivative innovations, as well as subjective and objective ones. One of Redlich's most useful insights is that from the subjective point of view "the border line between innovation and imitation is a fluid one, all the more so since every derivative innovation to be successful will need adaptations which may well be accessory genuine innovations, unimportant as they may be when seen by themselves".⁵ This focuses on interrelationships between primary and derivative innovations viewed objectively and subjectively, and the necessity to clarify to which one is referring.

A number of entrepreneurial historians stressed the importance of the socio-cultural milieu in which the entrepreneur operates.

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1. "An Approach to the Study of Entrepreneurship" op. cit. p. 190.
 2. Schumpeter The Theory of Economic Development op. cit. p. 85.
 3. Schumpeter Capitalism, Socialism and Democracy op. cit. p. 133.
 4. F. Redlich "Innovation in Business: A Systematic Representation" American Journal of Economics and Sociology vol. 10, no. 4, July 1950, pp. 285-291. (Primary innovations consist of new combinations of elements all of which were thinkable or may even have existed before. But the particular combination was either not conceived or not in existence. A derivative innovation is one which is innovative from the local but not a global point of view.)
 5. *ibid.* p. 286. This is particularly useful in the study of entrepreneurship in underdeveloped countries, and is enlarged upon in Chapter 4.

Lamb remarked that "For students of the economic aspects of society, social institutions are the basic data . . . the individual entrepreneur is a mere figment in the theorist's imagination; he becomes a reality only when he is studied as a member of his society . . . In analysing economic decision-making as one aspect of social decision-making, students are bound to consider the structure, functions and processes of change in the societies in which entrepreneurs operated, to see in what ways the entrepreneur effects political and social as well as economic changes".¹

Jenks² and Cochran³ suggested that sociological concepts of role and sanction would provide useful analytical tools; their basic premise was that entrepreneurial history tried to account for the performance of similar functions by a considerable number of individuals.

Miller,⁴ Gregory and Neu⁵ adopted a rather more inductive approach in examining the social characteristics of entrepreneurs. They questioned the commonly held stereotype that the typical American industrial leader had risen to prominence from lowly social origins, and "was but a generation removed from poverty and anonymity". They concluded that during the 1870's and the first decade of the 20th Century, "most successful businessmen had certain social characteristics that distinguished them sharply from the common run of Americans of their time".⁶ These characteristics included an academic education well above the average, an early urban environment and a background of relatively high social standing.

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1. R. K. Lamb "Entrepreneur and Community" in W. Miller (ed.) Men in Business (Cambridge, Massachusetts: Harvard University Press, 1952), p. 114.
 2. L. K. Jenks "Approaches to Entrepreneurial Personality" in Research Centre in Entrepreneurial History Change and the Entrepreneur (Cambridge, Massachusetts: Harvard University Press, 1949), pp. 80-96. In analysing entrepreneurial personality, Jenks considered that "we do not start with atomistic personality inventories . . . we look first for structured relationships with other people and the actual or typical rewards and penalties of all kinds that impinge on entrepreneurial behaviour" -ibid. p. 91.
 3. T. C. Cochran "Role and Sanction in American Entrepreneurial History" in Change and the Entrepreneur op. cit. pp. 97-112.
 4. W. Miller "The Recruitment of the American Business Elite" Quarterly Journal of Economics vol. LXIV, no. 2, May 1950, pp. 242-253.
 5. F. W. Gregory and I. D. Neu "The American Industrial Elite in the 1870's - Their Social Origins" in Miller (ed.) Men in Business op. cit. pp. 193-211.
 6. Miller "The Recruitment of the American Business Elite" op. cit. p. 253.

Several writers used comparative studies in order to highlight "the ways in which different societies, with differing interests, attitudes, systems of stratification, and the like, operate to produce different kinds of businessmen and different patterns of entrepreneurial behaviour".¹ Cochran² discerned "reliably identifiable" differences between United States and Latin American entrepreneurial behaviour; he considered that it would be "presumptuous" for him to "say just how these elements should be utilised by theorists",³ but warned that cultural differentials must be taken cognisance of in the formulation of universal historical analogies and general economic laws.

The question arises as to what conclusions might be drawn from the contributions of economic history to the understanding of entrepreneurship.

Cochran has commented that the economic historian "may still lack the answers or often fail to hit on the right question, but he has to work with all the variables, and the results of their interaction, as historical record".⁴ Entrepreneurial historians in particular have assumed the huge task of exploring the wide gap of knowledge between the business historian's concentration on the biographies of individual entrepreneurs and the highly simplified abstractions of a large body of economic theory. They have adopted a far more analytical approach than the former group, and have indicated both the vast complexity inherent in the concept of entrepreneurship, and the dangers of oversimplification.

Investigations of entrepreneurship carried out in different historical situations have led to a broadening of the concept. Attention has spread from spectacular individuals to the "army of lesser innovators and imitators". This raises the question of a precise definition of entrepreneurship; at present there is no general consensus, and a dichotomy still exists between those who accept Cole's inclusive view, and those who prefer the Schumpeterian distinction between the innovatory and managerial functions.

Entrepreneurial historians have also elaborated on the relationship which Schumpeter stressed between economic change and the socio-cultural environment.⁵ Particular attention has been directed toward special features of the American social structure and the various influences which made for a strong entrepreneurial

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1. J. E. Sawyer "Entrepreneur and Social Order" in Miller (ed.) Men in Business op. cit. p. 7. Sawyer compared specific elements in the social structures and cultural traditions of France and the United States which are relevant to entrepreneurship.
 2. "Cultural Factors in Economic Growth" in H. G. Aitken (ed.) Explorations in Enterprise (Cambridge, Massachusetts: Harvard University Press, 1965), pp. 123-138.
 3. *ibid.* p. 137.
 4. *ibid.* p. 138.
 5. By this is meant those values and institutions of society which are particularly relevant to cross-cultural studies.

bias in the 'social character' of the nineteenth century American.¹ Moreover, comparative studies outlining cultural differentials in the entrepreneurial role have important implications for the formulation of theory and policy in underdeveloped areas. "Since they (the Harvard centre) advocated a comparative study (which was in fact never done) of 'social elements resistant to entrepreneurship' over a fifty year period, social scientists have cast their nets widely in an attempt to capture the essential dynamics of economic change."²

When viewed as a whole, perhaps the most severe drawback of entrepreneurial history has been the failure to reach any consensus on the fundamental issues of conceptualisation and methodology, with the result that it "has done relatively little thus far to provide a comprehensive synthesis of entrepreneurial change and its relation to economic change";³ the theory of entrepreneurial history remains partial, highly fragmented and the preserve of a comparatively small group of individuals.⁴

The question arises as to whether it is possible to formulate a satisfactory general hypothesis of the role and nature of entrepreneurship; Alexander Gerschenkron for example has commented on the naïveté of those who seek to follow the "will-o'-the-wisp of such a general theory".⁵ On the other hand if the entrepreneurial function is indeed strategic in the process of socio-economic transformation, the need for a more systematic and integrated approach would appear extremely urgent.

2. 3 Sociopsychological Theories

Those concerned with entrepreneurial theory have generally concurred with Schmoller in his plea for "a deeper insight into the social context of enterprise", and a number of entrepreneurial historians have incorporated concepts borrowed from sociology and social psychology in their analyses. These attempts have been criticised on the grounds that they are too partial and fragmentary to contribute substantially to a comprehensive understanding of entrepreneurship. In this connection it is necessary to examine the

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1. e. g. L. H. Jenks "Railroads as an Economic Force in American Economic Development" in Lane and Riemersma (eds.) op. cit. p. 179.
 2. P. F. Bell "The Direction of Entrepreneurial Explorations" Explorations in Entrepreneurial History vol. 5, no. 1, Fall 1967, p. 8.
 3. J. H. Soltow "The Entrepreneur in Economic History" American Economic Review (Papers and Proceedings) vol. 58, no. 2, May 1968, p. 89.
 4. Bell op. cit. pp. 3-4.
 5. op. cit. p. 98.

contributions of David McClelland¹ and Everett Hagen,² whose work "has gone far beyond, in scope and sophistication, anything attempted at the Research Centre (in Entrepreneurial History)".³ Both authors adopt extremely universalistic notions of the relationship between certain personality traits and economic development, and both have been described as being in "the same grand tradition as Weber and Tawney".⁴

McClelland's key hypothesis is that the need for achievement (nAch)⁵ is the value attitude largely responsible for economic development. The major part of his 'proof' involves the construction of a scale for the measurement of nAch; these

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1. The Achieving Society (Princeton, New Jersey: van Nostrand Co. Inc., 1961).
 2. The Theory of Social Change: How Economic Growth Begins (Homewood, Illinois: Dorsey Press, 1962).
 3. Bell op. cit. p. 7.
 4. By B. Higgins in his review of The Theory of Social Change, Journal of Political Economy vol. LXXII, no. 5, Oct. 1964, p. 628. (Higgins' identification of Weber with Tawney is perhaps open to question.) McClelland considers his theory to be a refinement and elaboration of the Weberian thesis of the 'Protestant ethic' - see The Achieving Society pp. 47-53, and 391 f.
 5. The following quotations are from The Achieving Society: nAch is one of the constellation of needs which characterize man, and is created largely during childhood. The sources of high nAch are "early mastery training ... provided it does not reflect generalised restrictiveness, authoritarianism, or rejection by parents". (p. 345.) Mothers who are more actively involved in what their sons are doing are also more likely to create high nAch in them. The best environment for high nAch consists of "reasonably high standards of excellence imposed at a time when the son can attain them, a willingness to let him attain them without interference, and real emotional pleasure in his achievements short of overprotection and indulgence". (p. 356.) Conversely low nAch can result from a child's having "careless or indulgent parents who do not expect great things from him". (p. 351.)

results are then correlated with a measurement of economic growth,¹ and the results for 30 countries are summarised as follows:

Table 2. 1

Correlations of Reader nAch Scores with Deviation from Expected Economic Gains²

nAch level by year	I/U cap 1925-50 N=22	Kwh/cap 1929-50 N=22	Both combined N=22
1925	.25	.53, p < .01 pd	.46, p < .02 pd
1950	-.10	.03	-.08

pd = prediction direction

On the basis of this evidence McClelland concludes "our general hypothesis is strongly confirmed. The estimates of nAch are positively correlated with economic growth ... On the other hand nAch level as estimated from the 1950 readers is not related to previous economic growth. The difference in the two sets of correlations is particularly important theoretically because it bears on the issue of economic determinism. It is difficult to argue from these data that material advance came first and created a higher need for achievement. Rather the reverse appears to be true - high nAch levels are associated with subsequently more rapid economic development".³

These data - per se - do not confirm McClelland's hypothesis; the theoretical justification for assigning a causal role to nAch depends on the establishment of a link between high nAch (A) and economic growth (C); this link is the presence of a large number of entrepreneurs (B). Accepting Schumpeter's hypothesis,⁴ the internal consistency of McClelland's theory depends on demonstrating a relationship between (A) and (B).

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1. The most frequently used measure of nAch involved the coding of children's stories according to a standardised procedure. Economic growth was measured (i) in terms of Colin Clark's International Units (1924/7 and 1949/52), and (ii) kilowatt hours per capita electricity production (1929/50). Initial levels were taken into consideration and gains or losses over expected values calculated from regression lines.
 2. McClelland op. cit. Table 3. 5, p. 92.
 3. *ibid.* p. 93.
 4. i. e. a causal relationship between (B) and (C).

An extremely weak aspect of McClelland's theory is that it fails to prove that people with high nAch will necessarily choose to become entrepreneurs, rather than other occupations which might conceivably also attract those who have a high level of nAch.

In common with McClelland, Hagen relegates economic variables to a relatively minor role, and is primarily concerned with certain aspects of personality, in particular those "which cause a traditional society to become one in which economic growth is occurring".¹ Hagen's main thesis is that entrepreneurs arise in the early stages of growth from groups that had formerly lost status; his concept of entrepreneurship runs in terms of social deviation and the emergence of entrepreneurial activity from a relatively small and clearly defined group.

In many respects, Hagen's analysis is complementary to McClelland's. He contrasts differences in basic motivation between a peasant society and a technologically advanced one;² the powerful forces inherent in the traditional milieu tend to perpetuate the authoritarian (as opposed to the creative) personality, are extremely resistant to change and render the emergence of an entrepreneurial class highly improbable. The random deviant individual is unlikely to exert an appreciable degree of influence: "The social pressures will certainly tend to create tensions in him which lessen his nurturance [sic] to his children and tend to cause authoritarian personality to reappear in them. Moreover his children will observe the tensions in his behaviour and reject those characteristics of his personality which cause the difficulty. Thus there are powerful forces tending against cumulative innovation and change."³

The only circumstances under which substantial changes in child rearing practices are likely to take place is when members of a particular social class (usually a "sub-dominant elite") suffer "status withdrawal".⁴ This will cause a "retreatist" response in adults, which will alter the home environment in predictable ways, and will in turn have a profound effect on the personality structure of succeeding generations. Eventually these factors may give rise to those with creative personalities, who will tend to become entrepreneurs.

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1. Hagen op. cit. p. 3.
 2. Traditional society is characterised by high need affiliation and need dependency as opposed to high nAch, need autonomy and need dominance common in economically advanced societies.
 3. Hagen op. cit. p. 179.
 4. i. e. when they perceive that their purposes and values are not respected by groups in society whom they respect and whose esteem they value. Withdrawal of status respect can occur by means of (i) displacement by force, (ii) denigration of valued symbols, (iii) inconsistency of status symbols, and (iv) non-acceptance of a new society.

Hagen concludes that "In a traditional society in which nothing else has yet occurred to change traditional personality and culture, an increase in the size of the market or in the flow of saving is not apt to have a great effect in inducing continuing change in technology. Market expansion as a force initiating growth is a symptom of change more often than an initiating force".¹ The impetus for growth is increased if economic conditions change for the better at the same time that personality becomes more favourable; however Hagen agrees with McClelland that a change in personality is empirically more important as the dominant factor initiating progress.

This type of theory, which Kunkel² has labelled "psycho-dynamic", has far-reaching implications for policies designed to stimulate entrepreneurship and economic growth. Insofar as psychological forces are the major factors determining economic evolution, and to the extent that the resulting personality traits are formed in early childhood and not particularly malleable, the possibilities for encouraging development would appear extremely limited when viewed from this standpoint.³

These models are open to question on both empirical and conceptual grounds. As far as the former is concerned, they are unable to account for rapid changes which have occurred at various times. Gustav Papanek⁴ cited the example of Pakistan, where a substantial degree of industrial expansion took place from 1947-1959. A remarkable aspect was the high degree of participation by indigenous businessmen. In 1947 more than 50% of industries were controlled by Hindus, the government or foreigners, whereas by 1959 private firms owned by Muslims controlled two-thirds of industrial assets. Papanek concedes that certain

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1. Hagen op. cit. p. 239.
 2. J. H. Kunkel "Values and Behaviour in Economic Development" Economic Development and Cultural Change vol. 13, no. 3, April 1965, p. 258. (A psychodynamic model is one which assigns causal properties to various components of man's internal state, such as values and need dispositions.)
 3. However McClelland (op. cit. pp. 391-437) does concede that human engineering might meet with some degree of success in the development of relatively high levels of nAch. His recommendations include:
 - a) Breaking orientation towards tradition - including the use of communications media and the emancipation of women;
 - b) Providing for better allocation and utilization of existing nAch resources - e. g. by channeling aid by means of sub-contracting to private business organizations.
 4. "The Development of Entrepreneurship" American Economic Review (Papers and Proceedings) vol. 52, no. 2, May 1962, pp. 46-58. In 1947 industry - i. e. firms employing more than 20 people and using power - contributed approximately 1% to national income. By 1959, industry's contribution to a much larger national income was more than 6%. Industrial assets increased nine times and value added more than tenfold. Moreover in 1958 industrial plans were heavily concentrated in capital goods industries. Cognisance must, however be taken of political factors in explaining this rapid expansion. For similar experiences in other countries, see Chapter 4, sub-section 4. 4.

non-economic conditions conducive to economic expansion did exist - for example, a stable government; at least a small proportion of the population accustomed to responding to market incentives; and value systems and institutions which were not so hostile to entrepreneurship that only strongly deviant groups were prepared to undertake it. Given this reasonably favourable socio-political environment, the major stimulus to the relatively sudden industrial expansion appears to have been the Korean boom and post-war import restrictions which resulted in assured profits in industrial undertakings. While it is obviously not legitimate to draw generalised conclusions from individual cases, analyses such as Papanek's do cast considerable doubt on theories which claim absolute primacy for non-economic factors, and treat the economic system merely as a parameter.¹ A model which combines strategic non-economic and economic variables would appear far more satisfactory.

On purely conceptual grounds, psychodynamic theories are open to severe criticism. They are based on the assumption that values, attitudes and personality determine behaviour, and that behaviour will only change when values and attitudes have been altered. However Kunkel has pointed out that although concepts such as values are useful in the language of everyday life, they "cannot be considered as explanations of behaviour, since these terms have, as their ultimate referents, the present behaviour of individuals and nothing else".² Thus McClelland's concept of nAch is based purely on inference. The question arises as to the validity of the inferences which he draws: "From McClelland's work it appears that there is no way to check on the validity of inferences except through other inferences; the high reliability of the scorers of stories, and the great consistency which various observers show in determining the degree of nAch in various phenomena, simply indicate that observers, once trained, make the same inferences, or, more accurately, are able to categorize stories, pieces of art etc. with high consistency. This, however, does not validate the instrument and does not prove that nAch exists."³

Kunkel suggests that the behavioural⁴ approach is more accurate and useful. The behavioural analysis of McClelland's data runs in terms of the differential reinforcement of striving behaviour. Insofar as this model makes no reference to man's internal state, it reaches conclusions very different from those of McClelland. The purely 'psychological' (i. e. internal) characteristics of behaviour are reduced in importance, while the present social, economic and political systems become the means whereby

1. As Hagen (op. cit. p. 240) does.
2. op. cit. p. 267.
3. *ibid.* p. 274.
4. This is based on the assumption that individual behavioural patterns are shaped by means of "operant conditioning processes" which positively or negatively reinforce actions after they have been performed. Man's internal state is considered beyond the scope of presently available means of measurement and objective analysis, and knowledge of it is largely unnecessary for the explanation and prediction of behaviour.

behaviour is shaped. Policy implications inherent in this approach are vastly different from those of psychodynamic models; far from having to wait generations until the appropriate personality types emerge, there may be significant aspects of the general societal environment which are amenable to manipulation.

SUMMARY AND SYNTHESIS

3. 1 Summary

An examination of the literature on entrepreneurship suggests that the answer to the question 'who is the entrepreneur and what functions is he supposed to perform' is largely dependent upon the approach adopted.

Three basic entrepreneurial functions have been stressed:-

- (a) the bearing of risk and uncertainty (Knight and Schumpeter)¹
- (b) innovation (Schumpeter)
- (c) organization and management (Cole).

The approaches of Knight and Schumpeter are essentially deductive, their definitions of entrepreneurship being an integral part of their theoretical analyses of the economic system. Cole, on the other hand, adopts a far more inductive approach, and his delineation of the entrepreneurial role is based on observations of the activities of a number of businessmen.

The Schumpeterian definition provides a most comprehensive example of the strictly deductive approach to the question. The rigorous analytical nature of his definition is highlighted by the specific exclusion of managerial activities² from his entrepreneurial concept.

The question arises as to the usefulness of pure economic theory in the understanding of entrepreneurship. This requires a clarification of the nature of deductive analysis. Propositions of pure theory assume the form 'if p then q' with no empirical assertion as to the truth of p or q.³ Pure theory thus consists of constructing a set of arbitrary assumptions and definitions from which 'propositions of pure theory' are deduced; if the deductive process is logically consistent, such propositions are necessarily tautological or true by

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1. See Chapter 1 for a brief discussion of the similarities between the risk and uncertainty analyses of Knight and Schumpeter.
 2. The Theory of Economic Development op. cit. p. 78. On p. 137 Schumpeter also excludes risk and uncertainty-bearing from the concept of entrepreneurship, designating this as the function of the capitalist. There appears, however, to be an element of contradiction in this proposition insofar as Schumpeter points out earlier (pp. 33-34) that uncertainty is inherent in the "carrying out of new combinations".
 3. Propositions of applied theory on the other hand assume the form 'since p therefore q'; this in turn is equivalent to two propositions - (i) the proposition of pure theory 'if p then q', and (ii) the empirical synthetic proposition 'p is true'.

definition.¹ They are thus without empirical content and not conceivably falsifiable by empirical observation.² It would appear that the purely theoretical approach is of limited usefulness in the analysis of entrepreneurship, the major reason being that the concept of the entrepreneur is not reconcilable with static equilibrium analysis. Moreover, we do not know who the 'entrepreneur' is - even within a dynamic framework. Thus in order that cognisance be taken of the dynamic aspects of the entrepreneurial role, psycho-sociological factors are introduced in the form of parameters. This is inherently unsatisfactory, particularly in the context of underdeveloped countries where such factors are likely to be crucial variables.

At the other extreme it has been shown that existing psycho-sociological theories per se are inadequate for the analysis of entrepreneurship, insofar as they regard economic factors as parameters, and are incapable of explaining the relatively sudden changes which have taken place. For reasons outlined above,³ it would appear necessary to treat with circumspection those theories which regard the appearance of entrepreneurs as an autonomous social process.

In general, empirical approaches to the study of entrepreneurship have tended to concentrate on specific aspects of the entrepreneurial role, thus ignoring its overall significance. One of the more general approaches is Cole's inclusive definition. More recently, F. W. Harbison⁴ has suggested that the bearing of risk and uncertainty, innovation, management and routine supervision be subsumed under the heading of organisation, which "connotes a constellation of functions, the persons and abilities necessary to perform these functions plus the integration of persons and functions in a common undertaking".

The issue as to whether it is more useful to accept an inclusive definition or to divide the concept into separate sub-functions is open to question. Schloss argues against the former, considering it to be excessively vague; he favours the tripartite division of innovation, risk bearing and management.⁵ One can argue against

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1. Hence the Schumpeterian tautology that the innovator is one who successfully innovates.
 2. T. W. Hutchison The Significance and Basic Postulates of Economic Theory (London: MacMillan & Co., 1938), p. 161.
 3. See Chapter 2.
 4. "Entrepreneurial Organization as a Factor in Economic Development" Quarterly Journal of Economics vol. LXX, no. 3, Aug. 1956, pp. 364-379. Other inclusive definitions have been suggested by J. E. Sawyer "Entrepreneurial Studies" Business History Review Winter 1958, pp. 434-443, who defined entrepreneurship as consisting of "a more or less continuous set of functions running from the purely innovative to the purely routine", and A. Hirschman Strategy of Economic (New Haven, Connecticut: Yale University Press, 1958), pp. 18-20, who views entrepreneurship as consisting of cooperative as well as creative elements.
 5. H. W. Schloss "The Concept of Entrepreneurship in Economic Development" Journal of Economic Issues vol. II, no. 2, June 1968, pp. 228-232.

this approach on the basis of Redlich's observation that the concept of innovation is extremely broad when considered from the point of view of the individual entrepreneur.¹ Moreover, as Schloss concedes, such clear-cut divisions are most clearly depicted in the modern business corporation.² To the extent that this work is concerned with indigenous entrepreneurship in underdeveloped countries, it would appear far more useful to tend to the view that the various sub-functions are likely to merge into one another.

A useful aspect of Schloss' analysis is the emphasis which he lays on the importance of management.³ It can be argued, however, that there are elements of innovation inherent in management which are overlooked as a result of the extreme compartmentalization which Schloss advocates. Cole's definition, on the other hand, is vague with respect to the relative importance of routine and innovational elements in various situations. It appears necessary to recognise that a given business unit is likely to require all three elements at different times and under changing conditions. It is useful to be able to distinguish between them under specific circumstances, but unrealistic to view them as being generally easily separable.

The model that follows represents, in part, an attempt to provide more detailed justification for accepting a broad definition of entrepreneurship. One of the advantages of such an approach is that it provides a set of criteria whereby the relative importance of various elements comprising the entrepreneurial role may be distinguished in particular cases under given circumstances.

3. 2 Synthesis

Having indicated the problems inherent in adopting a narrow approach to the study of entrepreneurship, a few preliminary suggestions will be made for the formulation of a model which might, to some extent, serve to weave together the various strands of entrepreneurial theory. Although it is by no means complete or

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1. "Innovation in Business" op. cit. p. 287.
 2. "The Concept of Entrepreneurship" op. cit. p. 230.
 3. cf. Alexander "The Supply of Industrial Entrepreneurship" op. cit. p. 137: "In underdeveloped countries entrepreneurial talent may be scarce, entrepreneurs with sufficient capital are scarcer, but even scarcer are entrepreneurs who also possess managerial skills."
 4. B. F. Hoselitz "The Development of African Entrepreneurs" in E. F. Jackson (ed.) Economic Development in Africa (Oxford: Basil Blackwell, 1965), p. 87: "in all entrepreneurial activity - even that which appears most blatantly imitative - there is an element of innovation."

comprehensive, such a model might provide a starting point for further study, and be modified or adapted in the light of further knowledge.

In essence the model¹ is constructed in terms of the supply of and demand for entrepreneurship. The demand factor is determined largely by the nature of the economic environment, whereas the supply function is formulated in terms of non-economic considerations.

3. 2. 1 The Demand for Entrepreneurship

A more precise definition of the economic nature of entrepreneurial activities and the type of factors which might influence the demand for entrepreneurship may be based upon an analysis of the production function.

The first step in the analysis involves the questioning of some of the explicit and implicit assumptions of the traditional theory of the production function; these hinge upon the contention that the production function is clearly defined and fully known. The first assumption is that there is a fixed relation between inputs and outputs. This assumption is open to question on empirical grounds. A number of macroeconomic studies incorporating the concepts of an aggregate production have revealed that only a proportion of increases in total production is attributable to increases in measurable inputs (i. e. capital and labour).² The remaining

1. Based on a model suggested by H. Leibenstein "Entrepreneurship and Development" American Economic Review (Papers and Proceedings) vol. 58, no. 2, May 1968, pp. 72-83.

2. The actual proportion has differed somewhat:

a) R. M. Solow "Technical Change and the Aggregate Production Function" Review of Economics and Statistics vol. XXXIX, no. 3, Aug. 1957, pp. 312-320 using a linear homogenous production function and assuming technological change to be neutral found that of the increase in total output per man hour in the U. S. from 1909 to 1949, not more than 13% was due to an increase in capital. Between 87% and 90% was due to 'other factors'.

b) O. Aukrust "Investment and Economic Growth" Quoted by J. Vaizey, The Economics of Education (London: Faber & Faber, 1962), pp. 37-40. using the Cobb-Douglas production function, attempted to determine the relative importance of labour, capital and the 'human factor'. Assuming a production function of the form:

$$R_t = a k_t^\alpha N_t^\beta (E^{ht})^\eta$$

where R_t = national product, K_t = real capital at depreciated replacement cost, N_t = employment in man years, E^{ht} = index of organisation assumed to increase by a constant rate h , with a, α, β, η , constants. He concluded that in Norway between 1900 and 1955 a 1% rise in real capital raised output by 0.2%, a rise of 1% in the labour force increased output by 0.7%, and there was a rise of 1.8% in R_t as a result of changes in the 'human factor'.

(contd. ...)

unexplained 'residual' is assumed to consist of such factors as 'technological progress in the narrow sense, economies of scale, improved health, education and skill, better management, changes in product and many others'.¹ The 'residual' approach is far from conclusive or fully satisfactory. It is open to question on methodological grounds.² Moreover the actual composition of the residual is vague and arbitrary, and it is impossible to discover the relative importance of various elements. It does, however, highlight the fact that cognisance must be taken of non-measurable inputs; in particular it would appear that in at least some cases the relationship between inputs and outputs is to a greater or lesser degree indeterminate.

The second type of assumption relates to the set of inputs; contrary to orthodox production function theory, it is possible that a full set of inputs may not be clearly defined or readily obtainable. It has been argued above that certain types of factors are not clearly defined and frequently may not be marketed on a universalistic basis.³ In underdeveloped countries particularly, markets may not exist, even for the more conventional inputs - for example, access to finance may be governed by factors such as family connections.

On the basis of these considerations, the economic characteristics of entrepreneurship could be defined thus: in addition to creating or expanding time binding and input transforming entities and connecting markets, the entrepreneurial role involves gap-filling and input-completing activities.⁴

Gap-filling refers to activities such as searching, discovering and evaluating economic opportunities, marshalling the financial resources, making time binding arrangements, taking ultimate responsibility for management, being the ultimate uncertainty bearer, providing and being responsible for the motivational system within the firm, and translating new economic information into markets. It is possible to conceive of a highly

(cond. ...)

c) J. W. Kendrick "Productivity Trends, Capital and Labour" Review of Economics and Statistics vol. XXXVII, no. 3, Aug. 1956, pp. 248-257 calculated separate constant price input series for labour and capital, combined them and compared the rate of increase in aggregate input series with that of aggregate output series and subtracted to find the 'residual'. He found that in the U.S. between 1889 and 1957 the combined index increased at an average rate of 1.9% p. a., the output index at 3.5% p. a. leaving a 'residual' of 1.6% or 46% of total output.

1. D. Domar "On the Measurement of Technological Change" Economic Journal vol. 71, no. 4, Dec. 1961, p. 728.
2. See e. g. N. G. Bowen "Assessing the Economic Contribution of Education" in M. Blaug (ed.) Economics of Education 1 (London: Penguin, 1968), pp. 76-77, and Domar op. cit. pp. 709-729.
3. H. Leibenstein "Allocative Efficiency and X-Efficiency" American Economic Review vol. 56, no. 3, June 1966, p. 407 has pointed out that this is particularly true of management knowledge.
4. Leibenstein "Entrepreneurship and Development" op. cit. p. 75.

sophisticated system in which certain firms specialise in non-conventional inputs and sell this information to other firms.¹ In a less developed system, however, the majority of these responsibilities devolve upon the entrepreneur. Gap-filling is thus necessary because information about some markets is unmarketable, because such information cannot always be proven and made public, and because certain inputs may be marketable in principle, but are not in fact marketed.²

Input-completing refers to the ability to marshal all the inputs necessary for a particular productive process.

The required degree of gap-filling and input-completing will determine the type of entrepreneurship. Hence it is possible to distinguish between:³

- (a) routine entrepreneurship - i. e. the activities involved in coordinating and carrying on a well-established, growing concern in which the parts of the production function in use are well-known and which operates in well-established and clearly defined markets;
- (b) N-entrepreneurship⁴ - i. e. the activities necessary to create or carry on an enterprise where not all the markets are clearly defined and/or in which the relevant parts of the production function are not completely known.

The demand for entrepreneurs would be determined in the following manner:

- (a) the maximum production possibilities set - i. e. the techniques that do exist and are obtainable albeit at a very high cost - is given;⁵
- (b) from this is deduced the subset of techniques actually in use in a particular economy. Such techniques are obtainable with no more than routine research, and necessary inputs are marketed on a routine basis;
- (c) the remaining portion of the maximum production possibilities set represents potential opportunities for innovation. This set must, however, be reduced to only those elements associated with expected yield of positive net profit. The positive portion of the

1. e. g. management consultancy.
 2. Leibenstein "Entrepreneurship and Development" op. cit. p. 75.
 3. *ibid.* p. 73.
 4. This would approximate to Schumpeterian innovating entrepreneurship.
 5. The maximum production possibilities set in fact represents the global quantum of technological knowledge.

opportunity set is likely to be unique for each potential entrepreneur, depending upon such factors as individual abilities (particularly those relating to gap-filling and input-completing) and motivating forces.

3. 2. 2 The Supply of Entrepreneurship

The supply side of the model is determined by the set of individuals possessing gap-filling and input-completing abilities, and the extent to which they are motivated to put these abilities into practice. It would appear that the ultimate factors determining the supply of entrepreneurs are to be found in the values and institutions of society.¹ The theories of Hagen and McClelland (particularly the behavioural interpretations) might be useful in explaining the effect of the socio-cultural environment on child-rearing practices, and the extent to which they are conducive to the development of entrepreneurship. In addition to the complex psychological and socio-cultural forces which interact to determine the supply of entrepreneurship, it is necessary to consider also the opportunity costs² of entrepreneurial activities, since the alternatives open to individuals are likely to be of significance.

3. 2. 3 Some Implications of the Model

The direct implications of the model are that growth would depend on the one hand upon the degree of routine entrepreneurship, the state of technology which would partially determine the set of potential opportunities, and the existence of gaps and impediments in the market; on the other hand it would depend upon the quality and number of those individuals possessing the capacities for gap-filling and input-completing and their motivational state.

In this form the model is necessarily very rudimentary. In order for it to assume even a degree of comprehensiveness it would be necessary to develop a far more sophisticated theory of the nature of impeded systems than exists at present. Moreover it would be necessary to determine the factors which influence gap-filling and input-completing capacities, and to establish links between the perception of profitable opportunities and the motivational forces which determine whether and to what extent advantage is taken of these opportunities.

Baumol has remarked: "We may not be able to analyse in detail the supply of entrepreneurship, the entrepreneur's strategy choices, his attitude to risk or his source of ideas. But one can

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1. Meier and Baldwin op. cit. pp. 357-363.
 2. e. g., particularly in the milieu of newly independent countries, a relatively high level of education would facilitate relatively secure and well-paid employment in high bureaucratic echelons and diminish the incentive to weather the hardships of private enterprise.

hope to examine fruitfully what can be done to encourage his activity. Here an analogy is illuminating. The Keynesian analysis really bypasses the issue of expectations which is surely at the heart of the investment decision, and yet it succeeds in coming to grips with some means that can stimulate investment. In the same way one can undertake to grapple, assisted by theoretical instruments, with the policies that encourage entrepreneurship." ¹

Despite the drastic oversimplifications, it is suggested that the model might provide a useful foundation for the formulation of hypotheses relevant to policies for the stimulation and encouragement of entrepreneurship. Although of necessity partial, it would be possible to establish interrelationships between them. Moreover the model provides a framework for examining various arguments relating to the nature of entrepreneurship in underdeveloped countries.

ECONOMIC DEVELOPMENT AND ENTREPRENEURSHIP
WITH PARTICULAR REFERENCE TO AFRICA

1. Baumol op. cit. p. 70.

PART II

ECONOMIC DEVELOPMENT AND ENTREPRENEURSHIP
WITH PARTICULAR REFERENCE TO AFRICA

1. A. O. Hirschman, *The Strategy of Economic Development* (New York, 1958), p. 115.

2. See H. Leibenstein, *Economic Backwardness and Economic Growth* (New York: John Wiley and Sons Inc., 1957), p. 113.

3. M. D. Bryce, *Policies and Methods for Industrial Development* (New York: McGraw Hill Book Co., 1953), p. 11.

4. W. B. Beckman and H. S. Miller, *Approaches to Economic Development* (New York, 1955), p. 38.

5. W. B. Beckman and H. S. Miller, *Approaches to Economic Development* (New York, 1955), p. 38.

SOME FUNDAMENTAL CONCEPTS AND HYPOTHESES

4. 1 Requirements of a Theory of Entrepreneurship in Underdeveloped Economies

Much of the literature on development, particularly in recent years, has called attention to shortages in the supply of entrepreneurial talent as a major obstacle inhibiting economic progress.¹ A United Nations report commented that "It is evident that the shortage of entrepreneurial and managerial skills is among the least tractable difficulties of an underdeveloped country which desires to industrialize rapidly".² Other typical remarks make substantially the same point:-

"Entrepreneurship is a dynamic factor of particular importance for material progress that seems largely absent in underdeveloped areas. Entrepreneurial abilities, organizational skills, and administrative talents seem both scarce in absolute amount and even more so in relation to the size of the labour force as a whole." ³

"The most vital force, entrepreneurship - the combination of initiative, drive and organizational talent - is the weakest link in the chain in most underdeveloped countries and perhaps the hardest to do anything about quickly." ⁴

It is frequently alleged, moreover, that such indigenous entrepreneurial activities as do exist are generally concentrated in 'traditional' fields such as speculation, real estate dealing and petty trading and are essentially non-productive. In Leibenstein's terminology they are zero-sum games which merely have a redistributive effect, as opposed to positive-sum games which involve the creation or marshalling of resources in more productive combinations resulting in a net gain in national income.⁵

The general conclusion which often emerges is that government

1. A. O. Hirschman has remarked that "For a long time, certainly until 1914 and perhaps until 1929, natural resources held the centre of the stage when the chances of a country's development were considered. Later on capital, a man-made entity, came to be considered the principal agent of development . . . But this belief in the strategic importance of capital has itself been widely challenged. Among the proximate causes of economic development, the supply of entrepreneurial and managerial abilities now occupies a position of pre-eminence at least equal to that of capital". (The Strategy of Economic Development (New Haven: Yale University Press, 1959), p. 1.
2. Processes and Problems of Industrialization in Underdeveloped Countries (New York, 1955), p. 33.
3. N. S. Buchanan and H. S. Ellis, Approaches to Economic Development (New York: The Twentieth Century Fund, 1955), pp. 49-50.
4. M. D. Bryce Policies and Methods for Industrial Development (New York: McGraw Hill Book Co., 1965), p. 13.
5. See H. Leibenstein Economic Backwardness and Economic Growth (New York: John Wiley and Sons Inc., 1957), p. 113.

will of necessity have to assume the overriding entrepreneurial burden.¹ This assessment is unsatisfactory from several points of view. Analytically it tends to be superficial in that it focuses on the symptoms, but pays relatively little attention to a systematic examination of the causes of the supposed shortage in entrepreneurial supply. Moreover, from a pragmatic point of view, "The popular argument concerning the shortage of entrepreneurs is not a sufficient reason for increasing the government sector. For if the private sector suffers from a shortage of entrepreneurs, the government sector will equally suffer from a shortage of administrators who can perform the entrepreneurial function".²

It is evident, therefore, that any useful analysis of entrepreneurship in the context of an underdeveloped economy must attempt to find comprehensive reasons for apparent entrepreneurial deficiencies and to use these as the basis for policy recommendations. This applies equally to state entrepreneurship, for even within the framework of a socialist model it is necessary to examine the peculiar advantages and disadvantages relating to the government as entrepreneur. The present work is concerned primarily with the spheres in which indigenous private entrepreneurship is likely to be most efficient, assuming a mixed economy.

The model developed in Chapter 3 suggested that, in addition to connecting different markets, the major activities of the entrepreneur involve gap-filling (i. e. making up for market deficiencies) and input-completing (i. e. the ability to marshal all necessary productive factors). The need for these activities arises because of incomplete knowledge of production functions arising partly from imperfections in market structure and partly because (i) some gaps are inherent in all cases, and (ii) certain essential inputs - such as the provision of leadership and bearing of responsibility - are vague and their output indeterminate. On this basis it was proposed that the actual or effective supply of entrepreneurship is a function of:-

- (a) Economic factors - particularly the degree of routine entrepreneurship and the state of technology which partially define the potential opportunities for innovation, and the nature and extent of market gaps and impediments. These factors contribute towards determining the demand for entrepreneurship, and are to a large extent exogenous from the standpoint of an individual entrepreneurial act.³

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1. This has been called the 'vacuum theory of government' and is discussed by C. Kindleberger Economic Development 2nd Ed. (New York: McGraw Hill Inc., 1965), pp. 125-133.
 2. H. Myint The Economics of the Developing Countries (London: Hutchinson, 1964), p. 124.
 3. See W. Glade "Approaches to a Theory of Entrepreneurial Formation" Explorations in Entrepreneurial History 2nd series, vol. 4, no. 3, Fall 1967, p. 249.

- (b) Non-economic factors - including the abilities, motivations and opportunity costs of individuals within the system. This may be termed the potential entrepreneurial supply and is assumed to be dependent on the socio-cultural milieu.

As a result, effective entrepreneurship will be determined by the interaction between demand and potential supply - or, as Glade has phrased it, "the integral features of any given situation are both the 'objective' structure of economic opportunity and a structure of differential advantage in the capacity of a system's participants to perceive and act upon such opportunities".¹

Perhaps one of the advantages of this formulation is that it does not accord priority to either economic or non-economic factors, but attempts to examine the manner in which they interact with one another. A major shortcoming is that the model is essentially indeterminate, insofar as non-economic factors are introduced as crucial variables. Another criticism is that the opportunity structure need not necessarily be exogenously determined, to the extent that individuals may exert different degrees of political influence.

It is possible, however, to develop a set of generalizations - albeit limited and qualified - relating to the situation which is likely to obtain within an economically backward context, both from the point of view of demand and potential supply; the usefulness of such a formulation is limited, as it is essentially an exercise in comparative statics, merely explaining why certain types of entrepreneurship are inhibited in an underdeveloped economy, whereas they are in abundant supply in an industrially advanced country. If the model is to be used as a basis for policy recommendations it is necessary to attempt to examine mechanisms of transition. In support of the arguments that follow, data will be introduced from a number of countries showing how a class of industrial entrepreneurs has evolved within a relatively short space of time. In conjunction with the model, this information will provide the foundation for discussing policies which have been introduced in various African countries for the stimulation of entrepreneurship.

4. 2 A Digression on Innovation and the Transfer of Technology

Before proceeding to an analysis of the situation likely to obtain in an underdeveloped economy, it might be useful to digress briefly and examine a concept of innovation which is frequently accepted in the literature. This approach involves adopting technological criteria of innovation, and using these as a basis for deductions about the transfer of technology which in turn is closely related to the nature and form of entrepreneurship.

Wallich, one of the major proponents of this view, has argued that "one can hardly say that in underdeveloped countries 'innovation' is the most characteristic feature. The process

1. op. cit. p. 251.

would better be described as one of assimilation (of existing techniques)".¹ Bonn , following Wallich, has remarked that in advanced economies depicted in Schumpeter's model "the element of innovation is cardinal, whereas in 'derived development' in underdeveloped countries no novel technique is required".² On this basis they conclude that "the process of assimilation, being easier and quicker than that of innovation, engages less of the vital forces of the people and provides less of an outlet for creative energy".³

In contrast, Singer has argued that the possible "advantages of being a latecomer have now turned into a clear disadvantage mainly because socio-economic conditions in less developed areas are inimical to modern capital-intensive techniques".⁴ Despite their diametrically opposed conclusions, Singer's basic premise - although qualified - is fundamentally similar to that of Wallich. According to Singer, Schumpeterian-type development is brought about by innovation which involves "changes in production functions through the introduction of new pioneering techniques ... In present underdeveloped countries, however, economic development proceeds not by way of new technologies, but through the introduction and adaptation of old-established technologies".⁵

Although Singer's approach is less stringent insofar as he allows for adaptation, he also implies that an innovation can only be termed 'genuine' when it is novel from a global point of view. It would appear, however, that this distinction between the appearance of 'new' technologies and adaptation of 'existing' technologies is a false one. As Rimmer points out, "it is rarely that 'an established' technology can be used unaltered in a new environment. In most cases a condition of success for the importation is a protracted process of adaptation of the 'established' technique to the novel physical, economic and human conditions in which it is to be used. The established technique is merely the

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1. H. C. Wallich "Some Notes Towards a Theory of Derived Development" in A. N. Agarwala and S. P. Singh (eds) The Economics of Underdevelopment (London: Oxford University Press, 1958), p. 193.
 2. A. Bonn  "Towards a Theory of Implanted Development in Underdeveloped Countries" Kyklos vol. IX, no. 3, Aug. 1956, p. 12 (Schumpeter in fact includes in his fivefold categorization of innovation "The opening of a new market, that is a market into which the opening of a particular branch of manufacture ... has not previously entered, whether or not that market existed before" - The Theory of Economic Development op. cit. p. 66.)
 3. Wallich op. cit. p. 194.
 4. H. Singer International Development: Growth and Change (New York: McGraw Hill Inc., 1964).
 5. *ibid* p. 55.

starting point".¹ This much Singer, (although not Wallich and Bonn ) does concede. Singer, however, overlooks the fact that "it is common knowledge that 'new' technologies seldom spring in their entirety from the minds of their creators. They, too, may be said to be 'based on' an existing stock of technical knowledge, or to have taken existing technologies as their starting points".²

Thus it may be argued that no clear-cut distinction can be made between the appearance of 'new' technologies and the adaptation of 'existing' technologies. From an analytical point of view it is false (i) to draw divisions between 'innovation' in advanced industrial economies and some other process in underdeveloped economies, and (ii) on this basis to derive conclusions as to the relative difficulty or ease of a technological stride.

Both schools of thought are subject to the criticism that they interpret innovation according to technological, rather than economic criteria. Using Redlich's classification,³ they focus attention on 'objective' or global innovation; thus, engrossed in considerations of the nature of the technique itself, they fail to recognise that the major determinants of whether a given technique will be adopted (and if so whether it will be successful) are factors such as the abilities, experience and motivations of the potential entrepreneur and the economic and political conditions under which he must operate.

It is suggested that an economic criterion of innovation constitutes a far more useful starting point. Thus: "The difference between innovation and other economic activity is the difference between entrepreneurial action and the routine of the routine businessman. One test, therefore, of whether the introduction of a given productive technique into a given country constitutes an innovation is whether entrepreneurship is required or only the routine of the routine businessman: whether new paths have to be broken or familiar paths trod."⁴ A direct implication of this argument is that it is extremely difficult to derive a comprehensive and succinct set of general principles relating to the transfer of technology to underdeveloped areas on a purely a priori basis. The nearest approach to a theory of technological migration can be made by examining the potential agent of transfer in relation to his environment and by drawing inferences on this basis as to the probability of a particular type of technique being adopted successfully, if at all. An attempt to do this will be made below, in terms of possible influences on the demand for and supply of entrepreneurship in a context of underdevelopment.

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1. D. Rimmer "Schumpeter and the Underdeveloped Countries" Quarterly Journal of Economics vol. LXXV, no. 3, Aug. 1961, pp. 436-437.
 2. *ibid.* p. 437.
 3. F. Redlich "Innovation in Business: A Systematic Representation" *op. cit.*
 4. Rimmer *op. cit.* p. 436.

4. 3 Some Factors affecting Entrepreneurial Demand and Supply in Underdeveloped Countries

4. 3. 1 The Demand for Entrepreneurship

From the foregoing argument it may be seen that the importance of the state of technology - in the sense of maximum knowledge conceivably attainable - is that it defines the parameters of the model; in other words the production possibilities set. The positive or operative portion - i. e. that portion associated with expected positive yields - is determined by two important sets of variables:-

- (a) The degree to which operations have become routine;
- (b) Gaps, obstructions and impediments in the market.

In practice (a) and (b) are closely interrelated. The extent of market obstacles would appear to be inversely correlated with the degree of routinization insofar as the latter implies knowledge spread, consolidation of markets, the creation of linkage opportunities and so forth. Conversely, market impediments will hinder the possibilities for routinization.

It may be argued, therefore, that in an industrially underdeveloped country the demand for entrepreneurship is limited by the fact that the profitable portion of the production possibilities set is likely to be relatively small because of the low degree of routinization and extensive obstacles in the factor and commodity markets. Hence gap-filling and input-completing activities are complicated because the unknown elements are far more numerous and difficult to assess than in an established industrial economy. Moreover the functions of innovation, uncertainty-bearing and management and their attendant problems are likely to be borne by the individual entrepreneur. Some of the possible problems confronting the potential entrepreneur in relation to his revenue and cost calculations may be enumerated as follows:

(1) Revenue calculations

Estimates of prospective yields are likely to be relatively low for a number of reasons:-

- (a) The small absolute size of the market: numerous instances may be cited to illustrate the limited capacity of the internal market to absorb new commodity supplies. Hanson, for example, quotes an International Bank Mission report on a proposal to establish an electric light bulb factory in Colombia: "The smallest mechanized plant is such that three month's operation would fulfil Colombia's present demands for a year."¹

1. A. H. Hanson Public Enterprise and Economic Development (London: Routledge and Kegan Paul, 1959), p. 36n.

In an African context Schatz has stated that "In a study I made of Nigeria's Federal Loans Board, I have come across product after product where demand fell short of potential supply, firm after firm which only partially utilized its existing capacity".¹

- (b) Related to this is the slow rate of growth of markets: rapidly expanding per capita income is an element of major importance in creating an environment congenial to innovation and technological advance, thus broadening the scope of entrepreneurial opportunities.² Leibenstein has remarked that "A most significant factor in determining growth in entrepreneurship is the rate of growth in per capita incomes. For it is the fact of experiencing income growth that will determine the expectations of entrepreneurs and potential entrepreneurs. Increasing per capita income is likely to permit sufficiently larger profit margins so that even inexperienced entrepreneurs are rewarded and early errors covered up. A continuing state of income growth enables the inexperienced to become experienced, and the experienced to grow in perceptiveness and technique . . .".³ On the other hand, when income is stagnant, "there may be no need for entrepreneurship. All that is required is that managers repeat their performance period after period".⁴ Leibenstein has developed a set of diagrams to support his propositions that (i) when the anticipated rate of growth in per capita income is high, entrepreneurship will grow fast enough to produce an actual rate of growth in income per capita greater than the anticipated rate, and vice versa, and (ii) the higher the level of income, the greater are the potentialities for growth and the more readily can the expansion of growth agents achieve anticipated results. Leibenstein's preoccupation with the anticipated rate of per capita income growth as the key variable affecting entrepreneurship may be questioned on the grounds that it pays inadequate attention to cost components. Nevertheless the assumption that low and stagnant per capita incomes are inimical to the climate of entrepreneurship would appear to have considerable validity, particularly to the extent that factors complementing entrepreneurship are far more likely to be forthcoming when the market is large and expanding.
- (c) Inadequate information about markets: the flow of statistical information relating to markets is a most important uncertainty-reducing factor which is likely to be absent in an underdeveloped country. In an advanced economy entrepreneurs have access to trade literature and market surveys and can obtain the advice of trade associations or hire the services of skilled and experienced advisers, all of which tend to increase the positive portion of the production possibilities set.

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1. S. P. Schatz "Economic Environment and Private Enterprise in West Africa" The Economic Bulletin of Ghana, vol. VII, no. 4, Dec. 1964, p. 51.
 2. cf. A. P. Alexander "The Supply of Industrial Entrepreneurship" Explorations in Entrepreneurial History, vol. 4, no. 2 Summer 1967, p. 137, and A. K. Cairncross Factors in Economic Development (London: Allen & Unwin, 1962), p. 187.
 3. H. Leibenstein Economic Backwardness and Economic Growth op. cit. p. 128.
 4. *ibid.* pp. 129-135.

(2) Cost calculations

The second set of factors tending to limit the demand for entrepreneurship in an underdeveloped country relates to extensive obstacles likely to obtain in factor markets, thus severely complicating cost calculations. These may be categorised as follows:-

- (a) Capital equipment, raw materials and intermediate goods
- (i) Decisions as to size of plant are made difficult by the narrowness of the market which reduces the possibilities for economies of scale. Moreover choice of technology is complicated by limited access to information about techniques most suitable to factor endowments.
- (ii) Capital costs tend to be inflated by factors such as transportation over long distances and limited opportunities for special discounts and receiving additional services. In addition Schatz has indicated that West African entrepreneurs frequently cannot get the equipment specified or that there are inordinate delays, and that damage or deterioration during transit is a common problem.¹
- (iii) Setting up and installing equipment may present further sets of problems: "When equipment of any size or complexity is involved it is often necessary to 'import' an engineer or technician from the supplying country." ²
- (iv) Maintenance difficulties are exacerbated by the fact that spare parts are frequently unavailable, thus forcing the firm to invest relatively heavily in additional supplies.
- (v) This is also likely to be the case with raw materials and intermediate goods. Moreover, lack of information makes it difficult to anticipate and hedge against fluctuations in the prices of raw materials. The entrepreneur is prone to the dangers of both underestimation and overcapitalization, either of which can be disastrous.
- (b) Human resources
- (i) The scarcity of managerial, supervisory, professional and technically skilled labour probably ranks among the most severe problems: "In contrast to advanced countries, there is no pool to draw on and most new enterprises have to train their workers, foremen, and even technicians and managers from scratch. This is expensive, and what is more, the actual cost is difficult to estimate in advance. Worse yet, productivity cannot be estimated with any degree of confidence." ³

1. "Economic Environment and Private Enterprise" op. cit, p. 44.

2. ibid pp. 44-45.

3. H. G. Aubrey "Industrial Investment Decisions: A Comparative Analysis" Journal of Economic History, vol. 15, no. 4, Dec. 1955, p. 341.

- (ii) Low labour productivity is frequently cited as a major drawback.¹ Kilby, however, has pointed out that the empirically relevant determinants of labour productivity are various management functions, including organization of the work process, supervision, production control, planning and coordination, and provision of incentives.² Nevertheless it would seem reasonable to assume that where widespread illiteracy and unfamiliarity with modern industrial techniques prevail, the level of productivity will tend to be lower than in an environment where these disadvantages are not prevalent.
- (iii) The demands made on the gap-filling and input-completing activities of entrepreneurs in underdeveloped countries are intensified by the fact that "consultants, specialists and subsidiary services of all kinds are either lacking altogether or are often of low quality and/or are frequently more expensive than they are in economically advanced countries. These services, which are very important in the complex contemporary economy even for large firms in developed countries, are often more crucial for smaller firms operating in less developed countries".³
- (c) Social overhead capital

Inadequacies in the human and physical infrastructure aggravate labour and capital problems, tending to increase uncertainty and inflate costs.

It must be concluded that "the poorer and more stagnant an economy is, the more difficult it will be to produce the entrepreneurship necessary to overcome these conditions".⁴ Perhaps one of the most significant implications of this formulation is that it raises the possibility that the observed preferences of indigenous businessmen for such activities as money lending, petty trading and real estate dealing may derive not so much from 'traditionalist' preferences, but the excessive risks of long term fixed investment arising from obstacles in the economic environment.

The construction of a conventional aggregate demand function is obviously precluded; as Leibenstein⁵ has pointed out, the gap-filling opportunity set is non-unique since the costs associated with gap-filling depend on the specific entrepreneur who attempts to take advantage of the opportunity. Thus "the person who lives in an advanced community and introduces some of its familiar practices to a backward community is not really the innovator he seems to be... his familiarity with this practice will enable him to gauge more

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1. See Hanson op. cit. p. 37.
 2. P. Kilby "African Labour Productivity Reconsidered" Economic Journal vol. 71, no. 2, June 1961, p. 291.
 3. Schatz op. cit. p. 45.
 4. Alexander op. cit. p. 140.
 5. "Entrepreneurship and Development" op. cit. p. 78.

accurately the risks of applying it in the new environment. This means his margin of error and the profit margin which he requires tend to be smaller than those of a person whose unfamiliarity with the practice exposes him to a wider margin of error and forces him to demand a bigger reward in view of the greater risks that confront him".¹

This raises the important policy issue of whether, from the point of view of the indigenous businessman, manipulation of the economic environment may be such as to reduce the critical minimum level of gap-filling and input-completing requirements, thus creating opportunities for productive investment. To a large extent this is an empirical issue, dependent upon both economic and non-economic factors. In a later section of this chapter, (i) a set of case studies of countries where sudden changes in the economic environment induced considerable entrepreneurial responses will be presented, and (ii) possible non-economic preconditions for such developments will be examined.

The following sub-section contains a summary of some non-economic factors which are widely held to militate against African entrepreneurship. The empirical accuracy of these views will be examined in subsequent chapters.

4. 3. 2 The Supply of Entrepreneurship

Those who stress the importance of non-economic entrepreneurial influences generally accept the following propositions:-²

- (a) The industrial entrepreneur is a distinct personality type who believes that change is possible and can be brought about by individuals; moreover he is motivated to perform the appropriate actions.
- (b) Only a limited number of individuals in any society possess the appropriate attributes.
- (c) Motivations need not necessarily be primarily pecuniary; for example entrepreneurship may be regarded as a means for achieving recognition.
- (d) The administration of the state must be sufficiently strong to ensure security for person and property.
- (e) Entrepreneurs must be able to obtain command over resources - i. e. they must be in possession of input-completing abilities.
- (f) Although differential advantage is individualized to a degree, this is not wholly the case; if it were, entrepreneurship would be randomly distributed, and this does not frequently appear to be true. It is more useful, therefore, to examine

1. M. H. Awad "The Supply of Risk Bearers in the Underdeveloped Countries" Economic Development and Cultural Change vol. 19, no. 3 April, 1971, p. 463.
2. See Glade op. cit. and Papaneq op. cit.

differentiation on a group basis. This focuses attention on socio-cultural rather than purely psychological factors, and it has been suggested that entrepreneurial characteristics develop in a significant number of individuals only as a result of changes in the values and motives of society or substantial groups.¹ Because such motivational changes arise only from fundamental alterations in society which are likely to be gradual and uncertain, changes in economic incentives are likely to be neither a necessary nor a sufficient condition for entrepreneurial genesis.

Writers on entrepreneurship in African countries have drawn considerable attention to various characteristics of many African societies considered as being inimical to entrepreneurial development. Foremost among these factors are the implications of the traditional milieu, and it may be hypothesized that the extent to which production for exchange was a feature of the traditional economy will exert an influence over entrepreneurial supply.² One of the major factors is likely to be the extent to which independent business activity is regarded as desirable.

The question of the impact of social sanction has given rise to considerable controversy among entrepreneurial historians. This is clearly highlighted by the arguments evoked by Alexander Gerschenkron's article on "Social Attitudes, Entrepreneurship and Economic Development"³ in which he disputes the importance attached by Cole, Landes, Jenks and others to the degree of social approval which the entrepreneur's striving for economic gain will receive in a given milieu, and contends that "adverse social attitudes do not emerge as a major retarding force upon the economic development of European countries in the 19th Century".⁴

Subsequently other authors pointed out that Gerschenkron arrived at his conclusion on the basis of a somewhat narrow interpretation of Parsonian role theory, and they have supported their arguments with considerable empirical evidence from 19th Century Europe. Insofar as this controversy attempted to draw general conclusions from a highly specific social environment it would appear difficult to distil from it any definitive principles which might be directly applicable to changing societal structures in underdeveloped countries today.

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1. The theories of Hagen and McClelland are particularly relevant in this respect. For a detailed discussion of their work, see Chapter 2.
 2. Considerable variations exist between African countries and amongst different tribes in the same country, and this will be further discussed in Chapter 5.
 3. Explorations in Entrepreneurial History, 1st Series, vol. VI, no. 1, Oct. 1953, pp. 245-259. See subsequent comments by Cochran (loc. cit. pp. 181-183), Landes (loc. cit. pp. 245-259), Sawyer (loc. cit. pp. 273-286), and Gerschenkron's rejoinder (loc. cit. pp. 287-293).
 4. "Social Attitudes, Entrepreneurship and Economic Development" op. cit. p. 14.

Nevertheless it seems reasonable to assume that a culture in which roles are purely ascriptive is far less likely to produce entrepreneurs than one in which there is some scope for achieved status, even though the entrepreneurial role may entail a degree of deviance. In this respect Hoselitz¹ has suggested that, apart from purely economic considerations, the social environment in urban centres in Africa is far more likely to be conducive to entrepreneurship than that in rural areas. Carroll has made substantially the same point on the basis of studies carried out in the Phillipines.² Further to this it may be hypothesized that the manner in which urbanization has taken place will play a part in entrepreneurial development.³

It has been suggested that a precondition for entrepreneurial genesis is that society must not merely sanction business activity, but must attach a relatively high degree of prestige to it.⁴ Thus: "Though the successful African entrepreneur is highly regarded, the average African businessman has hitherto not enjoyed a status in his own society as high as that of his counterparts in North America and Western Europe, for the highest social prestige is still largely shared between the old elite of chiefs and elders in the countryside and the new elites of political leaders, civil servants, professionals and intellectuals in the urban areas."⁵

The relatively low prestige accorded to African businessmen has been used to explain "the widespread attitude toward business as only a means of making money, to be dropped whenever something more profitable appears".⁶ Geiger and Armstrong have suggested, moreover, that certain aspects of colonial experience tended to reinforce attitudes inimical to total business commitment.⁷

1. B. F. Hozelitz "The Development of African Entrepreneurship" in E. F. Jackson (ed.) Economic Development in Africa (Oxford: Basil Blackwell, 1965), p. 88.
2. J. J. Carroll The Filipino Manufacturing Entrepreneur (Ithaca: Cornell University Press, 1965), p. 52.
3. An elaboration of this argument in an African context will be attempted in Chapter 5.
4. M. Katzin "The Role of the Small Entrepreneur" in M. J. Herskovits and M. Harwitz (eds.) Economic Transition in Africa (London: Routledge and Kegan Paul, 1964), p. 198.
5. T. Geiger and W. Armstrong The Development of Private African Entrepreneurship (Washington, D. C.: National Planning Association, 1964), p. 39. This statement is probably excessively sweeping; prestige ratings which have been made in different African countries will be discussed in the following chapter.
6. Katzin op. cit. p. 197. See also Geiger op. cit. pp. 39-40.
7. "Colonial administrators did not work with their hands, lived on a conspicuously lavish scale, tended to regard businessmen even of their own nationality with condescension, and appeared to attach great importance to social and recreational activities." Geiger op. cit. p. 43.

The pervasive influence of the extended family system is frequently cited as one of the major obstacles to African entrepreneurship.¹ It has been suggested that kinship ties tend to exert a detrimental influence in a number of spheres:-

- (a) the entrepreneur's obligation to cater for the financial needs of a large number of relatives result in a failure to conserve capital and serve to reduce motivation;
- (b) the entrepreneur is expected to provide jobs for relatives, regardless of whether or not they possess the requisite skills;
- (c) a more subtle effect of traditional attitudes and obligations is that they strengthen African reluctance to enter partnerships with non-family members and to delegate responsibility to them.²

Attention is often drawn to the inadequate managerial skills possessed by African businessmen. This is said to derive in part from:-

- (a) widespread illiteracy which is manifested particularly in failure to keep systematic books, and hence evaluate costs and distinguish between gross and net profits: "a farmer-trader invests the money realised from his crops in stock and sets himself up as a trader. As he sells the goods, he regards the cash received as income, to be spent as he likes, making no provision for replenishing his stock";³
- (b) traditional attitudes which hamper effective labour management;
- (c) lack of familiarity with such procedures as ordering, shipping and importing;
- (d) inexperience in controlling relatively complex organizations and mistrust of non-Africans who might possess the requisite skills and experience.⁴

1. see e. g. C. Wolf "Institutions and Economic Development" American Economic Review vol. 45, no. 4, Sept. 1955, pp. 872-873; C. Kindleberger Economic Development (New York: McGraw Hill Book Co., Inc., 1965) pp. 21-22; B. Higgins Economic Development Principles, Problems and Policies (London: Constable & Co., 1959), pp. 255-256.

2. Geiger op. cit. p. 41.

3. Hozelitz op. cit. p. 93.

4. Geiger and Armstrong op. cit. p. 50.

Perhaps the most frequently mentioned impediment to the growth of African enterprises is shortage of capital. Although in part this may be attributed to economic factors (i. e. low per capita incomes and underdevelopment of capital markets), non-economic factors - particularly unwillingness to form business associations and the existence of family obligations - are also identified as playing a major role. Moreover a number of writers claim that African businessmen tend to invest excessively in fixed capital equipment, making inadequate provision for running costs. In this respect Geiger is of the opinion that "while shortages of operating capital are common in all underdeveloped countries ... African difficulties in this respect are on the whole more widespread and harder to overcome than in most other regions".¹

Finally, inefficient administrations and the state of political upheaval common to a number of African countries is likely to provide an environment hostile to entrepreneurship.

A major criticism which can be levelled against these propositions, which constitute the 'conventional wisdom' relating to African entrepreneurship, is that they take inadequate cognisance of wide differences between African countries and the ubiquitous influence of rapid social change. It is precisely these considerations which will be used in subsequent chapters to assess the possible strength of factors inhibiting African entrepreneurship.

4. 4 The Operation of the Model

The discussion thus far has centred upon an enumeration of factors likely to affect the demand for and supply of entrepreneurship. On this basis two extreme patterns may be identified:-

- (a) a pre-development model - not only does the economic environment make extensive demands upon the gap-filling and input-completing abilities of entrepreneurs, but the socio-cultural milieu tends to inhibit requisite behavioural patterns;
- (b) an industrially advanced model - the relatively sophisticated economy reduces gap-filling and input-completing complexities, and this, in conjunction with non-economic forces favourable to entrepreneurial endeavour, ensures an adequate supply of effective entrepreneurship.

In this form the analysis consists merely of two sets of hypothetical propositions of an essentially static nature. It is necessary now to introduce a dynamic element by attempting to explain ways in which the transition from (a) to (b) might take place - in this case to examine the effect and implications of changes in economic incentives.

An analysis of factors affecting entrepreneurial demand and supply has shown the former to be far more amenable to manipulation than the latter. Moreover it has been suggested that the so-called

1. Geiger op. cit. p. 49.

'trader's mentality' - i. e. preferences for commercial activities and apparent unwillingness to tie capital in long term and fixed investments - may derive from a fairly rational decision-making process rather than from tradition-bound attitudes. If these propositions are valid, the question arises as to the potential contribution which commercial entrepreneurship can make to industrial progress, given certain alterations in the opportunity structure.

Hoselitz has argued that "present native money lenders and traders cannot be considered the chief manpower pool out of which industrial entrepreneurs may be recruited".¹ His justifications for this assertion draw on non-economic considerations, the most important being that commercial and industrial entrepreneurship call for completely different sets of personality traits, and that the commercial entrepreneur is unlikely to possess the requisite managerial abilities.

There is, however, a fair amount of empirical evidence from a number of countries which tends to run counter to Hoselitz's conclusions, and it would seem that an examination of preconditioning and variable factors might lend valuable insight into possible patterns of entrepreneurial formation. Data are drawn from the following countries:-

(a) Pakistan

In Chapter 2 attention was drawn to Papanek's study of the rapid industrial expansion which took place in Pakistan after 1947, involving a high degree of participation by indigenous businessmen.² These developments appear to have been precipitated by a particularly high rate of return to industrial undertakings following the imposition of import restrictions. Particularly notable is the numerical predominance of former traders and the proportion of capital controlled by them:

Table 4. 1

Previous Primary Occupations of Pakistani Industrialists³

	<u>Proportion of Industrialists</u>	<u>Present Investment</u>
Large and medium industry	17%	16%
Small industry and crafts	18%	6%
Traders: import and export,	17%	40%
domestic	28%	29%
Employees, professional, other	16%	6%
Agriculture	3%	3%

1. B. F. Hoselitz "Entrepreneurship and Economic Growth" American Journal of Economics and Sociology vol. 12, no. 1, Oct. 1952, pp. 97-110.
2. See Chap. 2. (Papanek defines industry as firms using power and employing at least 20 workers.)
3. Papanek op. cit. table 3, p. 52.

Hence former merchants in both foreign and domestic trade comprised 45% of all industrial entrepreneurs, and controlled 69% of investment; moreover the former group controlled a far more than proportional volume of investment than justified by their numbers. Small industrialists and craftsmen are significantly under-represented in the proportion of capital they control.

Although it would appear that rapid changes in economic incentives provided the stimulus for alterations in entrepreneurial patterns, certain important non-economic circumstances appear to have been particularly favourable:-¹

- (i) a reasonably efficient government and civil service able to enforce import controls and prevent capital flight;
 - (ii) a political system which tolerated high prices and profits;
 - (iii) a proportion of the population accustomed to responding to market incentives (over half of indigenously-owned industries were controlled by five small traditional trading communities totalling approximately 0.5% of the population);
 - (iv) a value system and institutions not so hostile to entrepreneurship that only a strongly deviant group would be prepared to undertake it.
- (b) Turkey and Greece

Alexander's study of entrepreneurship in the Aegean region of Turkey² reveals patterns resembling those in Pakistan. A sudden increase in industrial entrepreneurship during the late 1940's and early 1950's followed conditions of excess demand created by ambitious government investment projects, artificially high agricultural incomes and import restrictions resulting from inflation-induced shortages of foreign exchange.³

The predominance of traders is again evident in the preceding occupations of industrialists:

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1. Papanek op. cit. pp. 54-57.
 2. A. P. Alexander "Industrial Entrepreneurship in Turkey: Origins and Growth" Economic Development and Cultural Change vol. 7, no. 4, July 1960, pp. 349-363. He defines industry as using power and employing more than 10 workers.
 3. By the mid-50's, however, foreign exchange shortages had forced the curtailment of the importation of even investment goods - *ibid.* p. 360.

Table 4. 2

Previous Occupations of Turkish Industrialists¹

Farmers	19.4%
Craftsmen and skilled workers	17.3
Traders	40.0
Industrialists	8.3
Other	12.0

Approximately 80% of former traders had previously been engaged in wholesaling, and the remainder in retail trade or importing.² Unlike Pakistan, however, the merchant class had been fostered by relatively recent and drastic social reforms of a secularizing and Westernizing nature instituted by Kemal Ataturk after 1923. This was probably an important precondition of the responsiveness - particularly of the merchant group - to swiftly altered economic incentives.

Alexander has pointed out that economic circumstances in Greece have not particularly favoured industry over trade.³ Nevertheless big and small merchants constitute approximately 25% of Greek industrialists - the largest single group. Big merchants (i. e. mainly those involved in wholesaling and foreign trade) are far more productive of industrialists than any other group in terms of their proportion in the population.⁴ Former craftsmen are only moderately represented in the industrial sphere, despite their apparently advantageous position for entry.

(c) The Phillipines

Carroll's work has revealed that in the Phillipines, as in Pakistan and Turkey, industrial entrepreneurship developed as "the economically rational response of certain elements of a profit-oriented trading class to the pressure of import controls and the expansion of opportunities for substantial profits in manufacturing".⁵ He observed that former merchants comprised 43% of industrialists (the largest single group)⁶ and found that although there appears to be a tendency for merchants to go into light packaging and processing industries, economic pressure can force them to integrate backwards into more basic forms of manufacture.⁷

Carroll has made it clear that although the influence of economic factors has been more direct, that of social factors has been fundamental in calling forth entrepreneurial responses.

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1. Alexander "Industrial Entrepreneurship in Turkey" op. cit. table 1, p. 352.
 2. *ibid.* p. 351.
 3. A. P. Alexander Greek Industrialists (Athens, 1964), p. 50.
 4. *ibid.* p. 49.
 5. The Filipino Manufacturing Entrepreneur op. cit. p. 199.
 6. *ibid.* p. 73.
 7. *ibid.* p. 205.

These factors include:

- (i) the tendency for occupational and socio-economic position to be inherited by means of sociological mechanisms within the families of entrepreneurs;
- (ii) the effects of political decisions and channels of culture from overseas which have influenced the development of a profit-oriented and economically rational class;
- (iv) the existence of a government sufficiently strong and stable to protect property rights and provide industrial incentives.

(d) India

On the basis of an analysis of industrial entrepreneurship in medium-scale enterprises in the light engineering sector in Madras State, Berna has concluded that "the development of entrepreneurship in modern India is more directly conditioned by economic rather than by purely social factors".¹ He found that although only a minority of industrial entrepreneurs had a trading background, they nevertheless constituted the largest single group:

Table 4. 3

Previous Occupations of Indian Industrialists²

Rural artisans	5
Domestic merchants and importers	15
Former factory workmen	6
Engineers	12
Manufacturers	4
Miscellaneous	<u>10</u>
Total	52

Of the merchant group, ten industries had been established by those engaged in domestic trade and five by importers. Berna discovered (i) a close relationship between merchants' trading and manufacturing activities, and (ii) that merchants and engineers were the most versatile of the entrepreneurs. Among the most significant of Berna's findings was the increasingly important role being assumed in more recent years by those with trading backgrounds. "Not only have more (merchants) been entering the industry; they tend to start their enterprises on a larger scale than other entrepreneurs, a fact which is particularly characteristic of importers."³ It is interesting

1. J. J. Berna Industrial Entrepreneurship in Madras State (London and Bombay: Asia Publishing House, 1960), and "Patterns of Entrepreneurship in South India" Economic Development and Cultural Change, vol. 7, no. 2, (Jan. 1959), p. 358. 'Medium scale' is defined as employing 50-250 people and using power.
2. "Patterns of Entrepreneurship" op. cit. table 8, p. 360.
3. *ibid.* p. 359.



to note that two of the six social communities from which merchant-entrepreneurs were drawn account for 67% of merchant-established industries.¹

This evidence shows with a reasonable degree of certainty that under certain circumstances relatively sudden changes in the opportunity structure can provide the stimulus for a rapid transition from commercial to industrial entrepreneurship. Attention has been drawn to evidence showing that (a) in those cases where the response was most vigorous - i. e. Pakistan and Turkey - changes in economic incentives were fairly drastic, and (b) the response appears to have been facilitated by important and specific sets of non-economic pre-conditions. Caution must therefore be exercised in drawing any generalized conclusions and deriving policy implications for application in different socio-economic environments.

The consistently strong response of merchants to industrial incentives warrants further investigation. It would appear that input-completing experiences of former traders placed them in a particularly advantageous position to perceive and implement profitable industrial opportunities. For example it seems reasonable to assume that :-

- (a) by virtue of their operating records merchants are able to obtain a more accurate assessment of changing patterns in domestic demand;
- (b) related to this is the requirement that their distribution network be already established;
- (c) they have developed gap-filling and input-completing skills, (albeit of a particular kind);
- (d) those engaged in foreign trade are in a position to obtain access to sources of information on production technology;
- (e) they are in a particularly advantageous position for capital accumulation and other forms of input-completing.

Such considerations would also explain the entrepreneurial pre-eminence of ethnic minorities such as Asians in East Africa and Levantines in West Africa, and supplement with economic considerations Hagen's hypothesis which runs purely in terms of "status withdrawal".

If any implications, however limited, are to be drawn from this it would be necessary to establish fairly precisely the economic and non-economic factors which tend to predispose certain groups to a commercial activity. Moreover it must be borne in mind that a rate of return to industry sufficiently high to attract traders might involve considerable economic dislocation and carry dangers of severe resources misallocation. Although it need not necessarily always be the case that merchants assume a dominant role, these considerations

1. "Patterns of Entrepreneurship" op. cit. p. 350.

do highlight the importance of studying entrepreneurial activities in the commercial as well as the industrial sphere, and of not paying exclusive attention to the latter as has so often been the case.

Perhaps the most important conclusion which emerges is that any analysis of entrepreneurial formation must take cognisance of changing patterns of interaction between economic and non-economic variables.

Private Enterprise in Africa, pp. 24-25.

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Chapter 5

PATTERNS OF INDIGENOUS AFRICAN ENTERPRISE

When viewed in broad perspective, a marked disparity is evident in the exercise of African entrepreneurship in different regions and countries.

Present differences are undoubtedly due to some extent to the attitudes of various African governments to individual initiative. For example Presidents Sekou Touré and Nyerere of Guinea and Tanzania are strong proponents of a Socialist framework, whereas Nigeria and Kenya tend to favour greater reliance on the private sector,¹ and have instituted fairly comprehensive plans to aid and encourage African businessmen.

Nevertheless official attitudes towards African businessmen do not constitute an adequate explanation of the unequal dispersal of entrepreneurial resources since this was very much in evidence well before the early 1960's when most countries achieved independence.

This chapter represents an attempt to test certain hypotheses relating to broad inter-regional differences in entrepreneurial patterns. The hypotheses are framed in terms of the model developed in Chapter 3 and elaborated upon in Chapter 4. Mainly because of data availability attention is focused upon the ex-British colonies. Moreover inter-country comparisons are facilitated by the situation arising in the mid-50's from the replacement of the laissez-faire attitude of certain British colonial governments towards African enterprise by limited schemes to provide loans to indigenous businessmen.²

5. 1 The Nature and Extent of Indigenous African Enterprise³

In the non-agricultural sphere, by far the greatest number of private African enterprises are concentrated in distribution. They range from a few African-owned foreign trade and wholesaling firms in Nigeria and Ghana, to a plethora of petty retailers operating

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1. See e. g. R. H. Green "Four African Development Plans" Journal of Modern African Studies vol. 3, no. 2, June 1965, pp. 249-279.
 2. e. g. Nigerian Federal Loans Board; Kenyan Industrial Development Corporation; Ghanaian Industrial Development Corporation; Ugandan Development Corporation. (The Ghanaian corporation was disbanded during the tenure of the Nkrumah regime; the others have since been extended.)
 3. Unless otherwise specified, the following information is taken from Geiger and Armstrong The Development of African Private Enterprise op. cit. pp. 24-25.

on a minute scale.¹ Goods traded vary from traditional food-stuffs to sophisticated products of the money economy.

Service and artisan activities form the next largest group. Many Africans are carpenters, ironmongers, shoemakers and wood-carvers; less numerous are plumbers, electricians, painters, photographers, dry cleaners, garage operators, hairdressers and other specialized service establishments.

Third in importance are transport and construction firms. In almost every African country, local and intercity bus, truck and taxi services of varying sizes are owned and operated by Africans. Construction businesses range from individual promoter-contractors to some African firms employing hundreds of people.

With relatively few exceptions, African-owned and operated manufacturing enterprises are confined to Nigeria and Ghana. They consist mainly of firms producing light consumer goods (particularly textiles and clothing, footwear, mattresses, luggage, furniture, soap and soft drinks) and construction materials.

Banking and finance constitute the smallest fields of activity, although in Nigeria and Liberia Africans have established successful banks. There are, however, numerous informal savings, credit and 'improvement' associations in various parts of Africa.²

Perhaps the most significant pattern which emerges from a survey of African entrepreneurial activities is their extremely uneven distribution. Geiger and Armstrong have found that "In general, African entrepreneurs tend to be more numerous and engaged in larger-scale and more complex activities in the coastal countries than in the inland nations and in those formerly under British rule than in those formerly under French rule. There are more African entrepreneurs in West Africa than in East Africa and in those countries north of the equator than in those south of it".³ In similar vein, Katzin observed that "The indigenous populations of East and Central Africa have not moved nearly so far toward an exchange economy as have those of West Africa".⁴ Geiger and Armstrong, however, quote statistics which indicate that Africans constitute approximately 70% of registered traders in Uganda, although the volume of trade which they handle is somewhat less than this.⁵

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1. On the ubiquity of traders, particularly in West Africa, see P. T. Bauer West African Trade (Cambridge: Cambridge University Press, 1954), pp. 22-34; R. G. Saylor The Economic System of Sierra Leone (Durham: Duke University Press, 1967), pp. 98-100.
 2. Katzin "The Role of the Small Entrepreneur" op. cit. pp. 191-192.
 3. The Development of African Private Enterprise op. cit. p. 25.
 4. "The Role of the Small Entrepreneur" op. cit. p. 181.
 5. The Development of African Private Enterprise op. cit. pp. 33-35.

5. 2 Some Possible Factors Affecting African Entrepreneurial Patterns

5. 2. 1 Traditional Trading Activities

Despite the paucity and inaccuracy of statistics relating to African enterprises, the pre-eminence of Nigerian (and to a lesser extent Ghanaian) entrepreneurs is outstanding. In attempting to find reasons for this situation, the question arises as to whether a functional relationship exists between traditional trading activities and modern forms of entrepreneurship.

A number of writers have commented upon the relatively advanced levels of economic activity achieved by many West African tribes prior to the advent of colonial rule.¹ "West Africa was by far the region of greatest indigenous economic development in Sub-Saharan Africa. In contrast to most parts of Central, Eastern and Southern Africa, the peoples of this part of the continent had economies which made agricultural produce available in amounts large enough to be sold in rural and urban markets; craft specialization often organized along the lines of guilds ... different kinds of currencies which were nearly always convertible one to another and, later, to European denominations of values, and elaborate trading systems, external as well as internal."²

In contrast there does not appear to have been a significant degree of specialization and exchange within most East African tribes in pre-contact times. Nevertheless there were certain institutionalized markets where inter-tribal trading took place. P. H. Gulliver, for example, describes an established market where Masai and Arusha traded regularly, but these activities were of a relatively rudimentary nature.³ Although a certain amount of external trade did take place between the tribes of Northern Tanganyika who had markedly different economies from one another, "a large-scale system of inter-tribal exchange did not develop ...

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1. See P. Bohannon and G. Dalton (eds.) Markets in Africa (Michigan: Northwestern University Press, 1962) particularly M. G. Smith "Exchange and Marketing among the Hausa", pp. 299-334; E. P. Skinner "Trade and Marketing among the Mossi People" pp. 237-278; B. W. Hodder "The Yoruba Central Market" pp. 103-117.
 2. E. P. Skinner "West African Economic Systems" in Herskovits and Harwitz (eds.) Economic Transition in Africa op. cit., p. 77. A 1602 reporter of trade in the Western coastal region observed that the principal traders in these markets were women "very nimble about their business" - *ibid.* p. 93. See also M. R. Mauny "Nigeria as seen by Leo Africanus" Nigeria Magazine vol. 71, 1961, pp. 189-190.
 3. "The Evolution of Arusha Trade" in Bohannon and Dalton (eds.) op. cit. p. 432.

Most trade which did take place in the past occurred because they were short of food as a result of crop failures".¹ Manners² and Middleton³ drew broadly similar conclusions as regards the Kenyan Kipsigis and Ugandan Lugbaras respectively.

The Kenyan Kikuyu tribe represents a notable exception to general patterns of trade in East Africa. Somerset and Marris have described commerce between the Kikuyu and Masai, in which "the Kikuyu were always the entrepreneurs ... the Kikuyu were the eager traders, the Masai their condescending customers...".⁴ A particularly interesting aspect of this trade is the degree of entrepreneurial specialization which evolved in Kikuyu society: "Although most people took part in the Masai trade at one time or another in their lives, there was a clearly much smaller group who devoted most of their energies to the trade and made profits of an altogether higher order."⁵

Anthropologists appear to agree that African markets in Central Africa are a relatively recent phenomenon. Nyirenda has asserted that "There were (in pre-contact times) no markets in the sense of a permanent place where buying and selling takes place".⁶ Rotberg presents evidence to support this view, and points out that although on the basis of present knowledge it is difficult to hypothesize about the absence of trading, "it is well to assume that the character and distribution of Northern Rhodesia's small population limited the possibility of economic diversification and any large degree of regional specialization".⁷

Thus on a broad regional basis there appears to be positive correlation between the degree of specialization and trade in the traditional economy and the supply of entrepreneurs to modern forms of entrepreneurship. This relationship is also evident in the predominance of Kikuyu entrepreneurs in the modern sector of

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1. E. W. Winter "Livestock among the Iraqw of Northern Tanganyika" in Bohannan and Dalton (eds.) op. cit. pp. 459-460.
 2. R. A. Manners "Land Use, Labour and Growth of Market Economy in Kipsigis Country" in Bohannan and Dalton (eds.) op. cit. pp. 493-519.
 3. J. Middleton "Trade and Markets among the Lugbara of Uganda" in Bohannan and Dalton (eds.) op. cit. pp. 561-580.
 4. P. Marris and A. Somerset African Businessmen (London: Routledge and Kegan Paul, 1971), p. 36.
 5. *ibid.* p. 37.
 6. A. A. Nyirenda "African Market Vendors in Lusaka" Rhodes-Livingstone Journal vol. XXII, no. 22, Sept. 1957, p. 37.
 7. R. Rotberg "Rural Rhodesian Markets" in Bohannan and Dalton (eds.) op. cit. pp. 582-583.

the Kenyan economy today:-

Table 5.1

Tribal Distribution of Kenyan Entrepreneurs¹

Tribe	Male Population %	Recipients of Loans by 1966	
		Commerce %	Industry %
Kikuyu	20	44	64
Luo	14	11	12
Luhya	13	9	8
Kamba	11	13	4
Kalenjin	10	3	-
Others	32	20	12
Total %	100	100	100
Total No.	4, 134, 634	97	50

Is it valid to deduce from these considerations that a degree of specialization within traditional societies and the existence of relatively sophisticated markets in pre-colonial times constitute a major factor in conditioning modern entrepreneurial response to given economic stimuli?

The situation in Nigeria prior to the 1966 political upheavals appears to provide a useful framework for testing this hypothesis. It would appear that the traditional societies of both Ibo and Hausa attained a fairly high degree of economic specialization and exchange; a number of writers have emphasized the sophistication of Hausa trading systems and craft guilds.² In spite of this the Ibo have assumed an important entrepreneurial position in Hausaland to the extent that political factors permitted. Nafziger has observed that Ibos dominated a large proportion of trade and transport in the Hausa North, and suggested that in the absence of political barriers to migration, "more entrepreneurs would have migrated from Iboland,

1. Marris and Somerset op. cit. table 3, p. 71. The authors point out that although the staff of the Industrial and Commercial Development Corporation and the government are also predominantly Kikuyu, "the ICDC began granting loans before Independence, when its most active promoter of applications was an Englishman who seems to have been guided only by his sense of economic possibilities ... And if discrimination had been deliberate, why should the bias be stronger in industry - where applicants were fewer and viable projects hard to find - than in commerce where there was more choice?" - *ibid.* p. 70.
2. See E. P. Skinner "West African Economic Systems" op. cit. and M. G. Smith "Exchange and Marketing among the Hausa" op. cit.

where entrepreneurial resources are relatively abundant, to Hausaland where entrepreneurship is relatively scarce".¹ Katzin² and Kilby³ have also commented on extensive Ibo entrepreneurial migration to the North and the superiority of Ibo as compared with Hausa entrepreneurship.

In the latter case it would appear that the pre-existence of markets and economic specialization did not constitute a sufficient condition for strong entrepreneurial response. Although it would not be legitimate to generalize on so narrow a basis, Dalton has suggested reasons to account for the limited carry-over effects of traditional markets: "Although the market prices (in indigenous African economies) are determined by the familiar supply and demand forces, there is absent that crucial feedback effect which links change in market price to production decisions. Unlike the price mechanism in a market-integrated economy . . . prices formed in African market places do not serve to reallocate factors among production lines because labour and land do not enter the market and basic livelihood is acquired in non-market spheres."⁴

5. 2. 2 Social Organization

The question remains as to why the Ibo have been more effective than the Hausa in the same economic environment. Superficially it would appear that differences must be accounted for in terms of socio-cultural factors; the extent to which Ibo entrepreneurs have infiltrated and achieved considerable success in Hausa territory seems to suggest that some factor inherent in their culture has tended to make them more responsive to economic opportunity.

Support for this argument could be drawn from the work of Le Vine,⁵ who has tested the incidence of nAch⁶ among the three

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1. E. Wayne Nafziger "Interregional Economic Relations in the Nigerian Footwear Industry" Journal of Modern African Studies vol. 6, no. 4. Dec. 1968, p. 540.
 2. "The Role of the Small Entrepreneur" op. cit. pp. 188-189.
 3. P. Kilby African Enterprise: The Nigerian Bread Industry (Stanford University: The Hoover Institution, 1965), p. 103: "We observed an uneven geographical distribution of entrepreneurial resources . . . there appeared to be a relatively greater producer response in the towns of Eastern Nigeria. To this should be added the qualitative observation that bakers of Ibo origin generally exhibited a more complete concentration of attention and energy in the operation of their business."
 4. G. Dalton "Traditional Production in Primitive African Economies" in Dalton (ed.) Tribal and Peasant Economies (New York: The American Museum of Natural History, 1967), p. 75.
 5. R. A. le Vine Dreams and Deeds: Achievement Motivation in Nigeria (Chicago: University of Chicago Press, 1966).
 6. For a discussion of nAch see Chapter 2.

major ethnic groups in Nigeria, (Ibo, Yoruba and Hausa), each of which have different status mobility systems. He found a direct correlation between nAch and status mobility; the Hausa (whose traditional status system strongly favoured qualities of servility and respect for authority and rejected those of independent achievement, self-reliant action and initiative) scored considerably lower than the Ibo, whose status system has traditionally been occupation-oriented and in most respects diametrically opposite to that of the Hausa. Yoruba nAch scores correlated with their intermediate position with respect to status mobility.

Le Vine's work is useful insofar as it focuses attention on certain aspects of Ibo culture - particularly the value attached to achieved rather than ascribed status - which appears to have been important in determining Ibo willingness to undertake new forms of entrepreneurial activity.

It should be borne in mind, however, that the Ibo have been exposed to exogenous or 'demand' factors to a degree not experienced by the other ethnic groups:-

- (a) high population density in the Eastern provinces¹ appears to have been an important factor contributing to Ibo mobility to urban areas in all provinces and their willingness to undertake individual economic activity and wage labour, which in turn contributed to an increased flow of information and perception of economic activities. The Ibo were thus subject to a 'push' factor which forced them to expand their gap-filling and input-completing horizons;
- (b) there have, moreover, been certain peculiarities in Ibo contact with Western economic systems. Ottenberg has pointed out that economic relations between Ibo and Europeans in Nigeria with respect to slave and export trade were unique insofar as they were "intensive, continuous and of long duration".²

An interesting parallel exists between the Ibo and Kikuyu. Ottenberg and others have remarked that they share many similarities in culture and social organization.³ Apart from explicitly socio-cultural similarities the Kikuyu have been subject to exogenous pressures which are analogous in many respects to those experienced by the Ibo:-

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1. See Bauer West African Trade op. cit. p. 20 for a discussion of relative scarcity of land in Eastern Nigeria.
 2. S. Ottenberg "Ibo Receptivity to Change" in W. R. Bascom and M. J. Herskovits (eds.) Continuity and Change in African Cultures (Chicago: University of Chicago Press, 1959), p. 135.
 3. *ibid.* p. 136.

- (a) "Pressure of population forced them to migrate: for though they inhabited some of the most productive farmland in East Africa, they could not satisfy the needs of their growing population on it. Parts of the Kiambu district, where over half of the Kikuyu businessmen originated, are more densely settled than any other rural divisions in Kenya."¹
- (b) Marris and Somerset also point out that the Kikuyu have had more exposure to contact with White settlers than any other tribe in Kenya: "Some had grown up on estates in the White Highlands and had never known the life of a traditional peasant economy. Thus the Kikuyu were surrounded by the achievements of modern commercial agriculture - the coffee plantations, the herds of dairy cattle, the European townships with their industries and commercial shops"²

Thus although the Ibo and Kikuyu status mobility systems seem to be particularly conducive to entrepreneurship, they have both been subject to exogenous forces which would appear to have been significant variables in preconditioning their receptivity to change. The question of the degree of analogy between these external factors will be discussed later. Nevertheless it seems reasonable to conclude from this broad, interregional comparison of entrepreneurial response that it is invalid to attribute differences solely to factors inherent in social organization. The evidence presented here, although partial and fragmentary, appears to support the proposition outlined in Chapter 4, that any study of entrepreneurial patterns must take cognisance of the interaction between socio-cultural, political and economic factors.

5. 2. 3 Opportunity Costs

In Chapter 3 it was suggested that opportunity costs may play a role in determining the supply of entrepreneurship. Studies of trading in Northern Rhodesia appear to lend a certain amount of support to this hypothesis.

As was pointed out earlier, there is relatively little indigenous entrepreneurial activity in Central Africa, particularly in rural areas where most of the initiative for organized African trading was undertaken by the colonial Government: "administrators have sometimes built markets before buyers or sellers were available or interested."³ The majority of African traders have been attracted to the urban areas (i. e. the Copperbelt and Lusaka), "the opportunity as well as the profitability (of which) are well known".⁴

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1. Marris and Somerset op. cit. p. 72.
 2. *ibid.* pp. 72-73.
 3. R. Rotberg "Rural Rhodesian Markets" op. cit. p. 585.
 4. M. Miracle "African Markets and Trade in the Copperbelt" op. cit. p. 699. Rotberg has commented that "One of the by-products of industrialisation and African migration to the towns was the beginnings of indigenous market organizations. Africans increasingly assumed entrepreneurial roles . . ." - op. cit. p. 584.

In a 1959 investigation of African trading on the Copperbelt, Miracle found that only twenty-eight of Northern Rhodesia's approximately eighty tribes were represented, and that some of the larger tribes such as the Tonga, Chewa, Ngoni, Lozi and Senga were very infrequently represented.¹ The explanation for this disproportionate tribal trading distribution in terms of tradition or absence of initiative does not appear particularly valid. Miracle observes that a number of the fairly large tribes which are poorly represented in urban areas have relatively strong trading traditions: "there is nothing to suggest that they are notably lacking in enterprise."² A more satisfactory interpretation can be made in terms of opportunity costs. The tribes northeast and due west of the Copperbelt (which together account for 75% of the traders interviewed and between 50% and 60% of mine labourers) have a relatively unfavourable environment for agriculture and face high transport costs, which compound to reduce the economic viability of cash crops. Thus the Bemba and their neighbours tend to be attracted to wage labour and trading.

The element of opportunity cost also seems to enter the choice between wage labour and trading. In a survey of African markets in Lusaka, Nyirenda noted "the constant coming and going among market vendors ... only eighty-four of the two hundred and twenty-three male vendors (i. e. 37.7%) have been in the trade for a year or more. This suggests that most vendors in town regard the market as a resting place between employment. This view is strengthened by the fact that 60.5% of male vendors had been obliged to take up trade because they were tired of their previous work or had been discharged from employment. These vendors usually go back to their employment ... (moreover) those who are seasonally unemployed like many people in the building industry usually go back to wage earning in the dry season".³

The substantial and thriving Wakamba woodcarving trade in Kenya which arose "almost entirely as a consequence of Kamba enterprise"⁴ also displays an element of opportunity cost: "The Wamunya location of the Machakas district where the woodcarving industry is centred is arid and prone to drought; woodcarving here provided a more remunerative occupation than settled agriculture."⁵

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1. Miracle op. cit. p. 713.
 2. ibid. p. 712
 3. Nyirenda op. cit. p. 53.
 4. W. Elkan "The East African Trade in Woodcarvings" Africa vol. XXVIII, no. 4, 1958, p. 314.
 5. ibid. p. 315.

5. 2. 4 Factors in the Economic Environment

The preceding three sub-sections have dealt with patterns of African entrepreneurship in terms of 'supply' factors. In each case it has been argued that explanations which rely solely on socio-cultural considerations are not fully satisfactory, because of the existence of intervening variables. In the following discussion an attempt will be made to approach the question from the point of view of 'demand' or economic environment, and to examine whether the manner in which the exchange economy has impinged on the indigenous economy plays a role in determining African entrepreneurial patterns. Throughout this sub-section reference will be made to the politico-economic environment which evolved during the colonial era.

The analysis is based on the two prototypes of commercialization "long hallowed by United Nations documents on African economies"¹ which draw a distinction between:-

- (a) the peasant economies of West Africa and Uganda which are characterized by relatively little foreign investment in large-scale enterprises, and
- (b) the mining and plantation economies of Kenya and much of Central Africa which are heavily dependent upon advanced techniques and foreign capital.

A. W. Southall's² distinction between different patterns of urbanization is essentially complementary:-

- (a) urban areas in the peasant economies consist largely of an indigenous and homogeneous population, and rural-urban links are fairly strong. Occupations are diverse and land-ownership laissez-faire;
- (b) in the mining and plantation economies urban areas tend to be non-traditional, consisting of new conglomerations of immigrant and ethnically heterogeneous populations, and there are sharp rural-urban differences. Moreover there are clear distinctions in the occupational structure, and Africans have often not been permitted to own land in or near the city.

Aboyade has argued that the distinction is tenuous insofar as foreign enclaves, no matter how small, still determine the pace and pattern of the country's economic development.³ It is

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1. See United Nations Department of Economic and Social Affairs Economic Survey of Africa since 1950 (New York: 1959), p. 12; Scope and Structure of Money Economies in Tropical Africa (New York: 1955). 'Commercialization' is defined as the shift of land and labour resources away from subsistence production into production for exchange.
 2. Quoted in J. Middleton The Effects of Economic Development on Traditional Political Systems in Africa (The Hague: Mouton & Co., 1966), pp. 31-34.
 3. O. Aboyade "The Economy of Nigeria" in P. Robson and D. A. Lury (eds.) The Economies of Africa (London: Allen and Unwin Ltd., 1969), p. 41.

suggested, however, that economic relationships between foreign enclaves and the indigenous population have been fundamentally different in economies of type (a) and (b), and that it is precisely these differences which provide a useful partial explanation of entrepreneurial patterns.

The distinction in the role played by foreign enclaves in the two types of economy may be outlined as follows:-

- (a) The primary object of foreign firms operating in West Africa and Uganda has been to encourage the production of export commodities. Myint has pointed out that a major dynamic force facilitating the expansion of exports was the stimulus provided by the distribution of imported goods.¹ The improvement in transport and communications which opened up the more remote districts has also been an important factor. The import-export firms thus performed a catalytic role in creating opportunities within the indigenous economy as regards both production and consumption: "The 'traditional' sector produces both for the market and for self-consumption, and is well-integrated with the modern sector by a complex network of transport, commerce and finance. There is no clear sense in which a 'subsistence' sector can be said to be isolated from the 'cash economy'."²

The close relationship between foreign firms and African traders has been comprehensively described by Bauer who observed that "continuous business relationships, often of long duration, exist between parties in produce buying and the distribution of imported merchandise. European merchant houses grant substantial trade credit to African customers or make advances to Africans to finance produce buying".³

It would appear, therefore, that the inducements offered by the import-export firms in conjunction with the diffusion of monetized activity throughout the economy and close urban-rural links provide an environment particularly conducive to the widespread exercise of indigenous trading activities, albeit frequently on a small scale and at a low level of specialization. If, however, the argument outlined in Chapter 4 - namely that trading is an important precursor of more sophisticated entrepreneurial activities - has any validity, it would provide at least a partial explanation for the tendency of African businessmen in West Africa to be more

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1. Hla Myint The Economics of the Developing Countries op. cit. p. 41.
 2. Aboyade op. cit. p. 163.
 3. West African Trade op. cit. p. 11.

active in transport and manufacturing than elsewhere.¹

- (b) It has been shown that in peasant economies commercialization operates in an economically integrative manner. Mining and plantation economies, however, are characterized by the familiar dualistic structure - namely a sharp dichotomy between the exchange and indigenous economies. African participation in the exchange economy has frequently taken the form of migrant labour with the resultant partial commitment as well as low wages and productivity. For a number of reasons, withdrawal of a large proportion of the economically active male population has often been accompanied by a decline in the level of output in the indigenous economy.² Moreover, physical barriers to the movement of goods and a discriminatory bias in marketing arrangements³ have reduced still further the likelihood of substantial development of African commercial agriculture.

The net result of these forces has been a tendency for the bulk of economic opportunities to be concentrated in the urban centres. In contrast to most West African towns and cities, urban areas in type (b) economies are essentially the preserve of a relatively large and permanent settler population which dominates economic activity. Thus the economic relationship between indigenous and non-indigenous businessmen tends to be directly competitive rather than complementary, the latter being the case in peasant economies.

In certain instances the ability of Africans to compete in urban areas has been hindered by legislative barriers such as prohibitions on land-owning and the sale of certain commodities.⁴ Moreover African presence in these areas is frequently temporary. The poor competitive position of indigenous businessmen has been further exacerbated because they have been subject to intensive competition - particularly in small-scale retailing - from Asian business communities which display a high degree of social cohesion

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1. This could be supplemented with Myint's observation that as specialization in export production increases, the money economy tends to spread from imports into the market for locally produced consumer goods - The Economics of the Developing Countries op. cit. pp. 46-48.
 2. See W. J. Barber The Economy of British Central Africa (London: Oxford University Press, 1961), Chapters III and IV.
 3. e. g. the Maize Control Ordinance (1936) and Cattle Marketing and Control Ordinance (1937) in N. Rhodesia - see R. E. Baldwin Economic Development and Export Growth (Los Angeles: University of California Bureau of Business and Economic Research, 1966), Chapter 6.
 4. In Northern Rhodesia until the 1960's maize, millets, sorghums, grain meals, salt, sugar, coffee, tea and "possible other items" could not legally be sold by Africans - Miracle op. cit. p. 707.

and are willing to accept a somewhat lower rate of return than the average White settler.¹ The fact that commodities traded by Africans tend to be limited to indigenous foodstuffs² is a reflection of their isolation from the mainstream of economic activity. Moreover one would expect such trading to have only a limited carry-over effect into more sophisticated entrepreneurial spheres.

5. 3 Conclusions

The foregoing discussion has focused attention on factors in the politico-economic opportunity structure of type (b) economies which might tend to make the exercise of indigenous enterprise more difficult than in type (a) economies. Adopting a rather different emphasis, Marris and Pearson consider that social segregation in dual economies constitutes the most formidable barrier to African entrepreneurship. Pearson, for example, points out that "In other African countries it is not uncommon for aspiring African businessmen to obtain commercial and technical 'know-how' by setting up in partnership with non-Africans... In Southern Rhodesia this is largely ruled out by social pressures".³ Marris (referring to Kenya) is of the opinion that abrupt discontinuities between the African businessman's social world and the economic world in which he has to operate are the most serious deterrents to entrepreneurial success.⁴

The two approaches are obviously not mutually exclusive and may, in fact, be useful complements. This leads inevitably to a conclusion similar to those arrived at in preceding sub-sections - namely that in any attempt to explain the general patterns of African entrepreneurship, due recognition must be given to the interrelationships between economic and non-economic factors.

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1. Admittedly there are also active business communities of Levantines in West Africa and Asians in Uganda. Generally, however, they constitute a far smaller proportion of the population than in Central Africa and Kenya - see B. van Arkadie and D. Ghai "East African Economies" in Robson and Lury (eds.) op. cit. table 4, p. 327.
 2. See Miracle op. cit. and Nyirenda op. cit.
 3. D. S. Pearson "African Advancement in Commerce and Industry" Journal of Modern African Studies vol. 3, no. 2, 1965, p. 246.
 4. P. Marris "The Social Barriers to African Entrepreneurship" Journal of Development Studies vol. 5, no. 1, Oct. 1968.

Chapter 6

ENTREPRENEURIAL GENESIS AND PERFORMANCE IN
KENYA AND NIGERIA

The 'conventional wisdom' relating to the inadequacies of indigenous enterprise in general and African enterprise in particular frequently identifies lack of capital, education (and hence skills) and the extended family system as the fundamental obstacles.

The major objections to such views are that (i) they are based on casual observation rather than a systematic analysis of comprehensive data and (ii) they give rise to dangerously oversimplified policy formulations. Moreover, related to (i) they tend to ignore a potentially useful source of information - namely African entrepreneurs who have achieved a considerable degree of success.

The elaboration of the basic model in foregoing chapters has raised the possibility that entrepreneurial shortcomings and shortages can be traced to a wide variety of factors operating from either the demand or supply sides, or a combination of both. In an attempt to overcome some of these criticisms of the orthodox generalizations, a comparison will be made in this chapter of fairly detailed studies of African entrepreneurship in Nigeria and Kenya. These two countries approximate fairly well to type (a) and (b) economies as outlined in Chapter 5.

The method adopted consists of:

- (a) an attempt to identify some of the distinguishing features of relatively sophisticated African entrepreneurs with respect to occupational experience, motivations, education and sources of initial capital. Where possible and relevant comparisons will be made with the population as a whole;
- (b) an assessment of their performance and behaviour in terms of the interaction between supply and demand factors;
- (c) an evaluation of conventional views in relation to the inhibiting effects of lack of education, capital shortage and the extended family.

6. 1 Some Distinguishing Features of African Entrepreneurial Origins

6. 1. 1 Occupational Background and Experience

The distribution and nature of indigenous African trading activities in various parts of the continent, as well as the inter-relationships between commercial and industrial entrepreneurship,

have been outlined in earlier chapters. It is now necessary to examine the connections between entrepreneurial supply and economic-occupational structure in greater detail in order to assess the extent to which African patterns correspond to those observed elsewhere and the possible reasons for differences that exist.

In Chapter 4 it was suggested that because of the peculiar advantages they possess, merchants might form an important occupational group from which industrial entrepreneurs could be drawn. In addition Alexander hypothesizes that in the very early stages of industrialisation craftsmen may be in an advantageous position to become industrialists because of the opportunities for producing traditional goods with simple techniques.¹ As larger and more complex initial operations become necessary, however, craftsmen tend to lose their advantages to other groups. Both Alexander and Berna² suggest that former merchants will tend to establish relatively large scale industrial undertakings.

Nigerian data on a wide range of manufacturing industries do not lend unambiguous support to this hypothesis. Studies of two hundred and ninety-eight indigenous manufacturing firms of various sizes by Kilby³ and fifty-four relatively large firms by Harris⁴ tend to suggest that although the relative importance of craftsmen does tend to diminish somewhat as size of firm increases, craftsmen still constitute the largest occupational group:

Table 6. 1

Previous Occupations of Nigerian Entrepreneurs⁵

	Kilby sample				Harris sample
	small	medium	large	v. large	
Farmers	6	-	-	-	-
Traders	9	32	30	21	22
Craftsmen	74	59	50	52	45
Clerical	2	9	5	11	(
Teaching	3	-	5	11	(33
Professional	1	-	5	5	(
Domestic	5	-	5	-	-
Total %	100	100	100	100	100
Total no.	225	34	20	19	54

1. A. P. Alexander "Merchants and the Recruitment of Industrialists" in R. Moyer (ed.) Markets and Marketing in Developing Countries (Homewood, Illinois: R. D. Irwin Inc., 1968), pp. 199-200.
2. "Patterns of Entrepreneurship" op. cit. p. 359.
3. Data collected 1960-2. Size of firm measured by investment in fixed assets excluding land and buildings. Small: under £1000; medium: £1000-£2000; large: £2001-£5000; very large: over £5000. P. Kilby Industrialization in an Open Economy (Cambridge: Cambridge University Press, 1969), table 7, p. 339.
4. Data collected 1965, focusing on relatively large firms with median fixed assets of £100,000. J. R. Harris Factors Affecting the Supply of Industrial Entrepreneurship in Nigeria (Mimeograph, 1966). Quoted by Kilby op. cit. p. 339.
5. Kilby op. cit. table 7, p. 399.

Moreover, although there is a large increase in the importance of ex-traders between small and medium firms, the relationship is not constant with increasing size of firms.¹

An interesting pattern which emerges from this table is the relationship between the increasing predominance of relatively highly-educated categories (i. e. clerical, teaching and professional) and size of firm. This will be examined in more detail in the sub-sections on education.

Although traders did not comprise a particularly large group in the general manufacturing samples, Kilby's data for the bread industry suggest that under certain circumstances traders may assume a pre-eminent role in larger firms:

Table 6. 2

Previous Occupations of Entrepreneurs in the Nigerian Bread-Making Industry²

	small	medium	large
Trade	3	9	9
Clerical	6	3	3
Employed bakers	5	3	4
Other	7	5	2
Total	21	20	18

Kilby observed that one explanation for the higher level of sales achieved by former traders is the market bias of the industry: "Given the magnitude of the post-war baking boom, the industry was unable to generate internally an adequate supply of entrepreneurs. In contrast the pattern in other small-scale industries undergoing more gradual expansion has been for new firms to be founded in the main by former journeymen."³ Kilby's data tend to support the view that a sudden change in demand factors together with technological improvements can elicit strong entrepreneurial response from those with certain well-developed gap-filling and input-completing skills. As will be shown later, however, a high degree of market orientation does not necessarily imply corresponding skills in productive efficiency.

1. Although this appears to contradict the Alexander thesis, the discrepancy might be attributed to inadequacy of data; Alexander referred specifically to merchants who operate on a relatively large scale, whereas Kilby and Harris do not specify the scale of former traders' operations.
2. P. Kilby African Enterprise: The Nigerian Bread Industry (Palo Alto, Calif.: Stanford University Press, 1965), table 21, p. 91. Firms classified according to daily flour intake. Small: under 600 lbs; medium: 600-1200 lb.; large: more than 1200 lb. Kilby points out that breadmaking ranks third in terms of employment and value-added and first in terms of growth rate. The introduction of a locally produced dough brake in 1954 "drastically reduced entry requirements for the production of machine-made bread" - *ibid.* p. 16.
3. *ibid.* p. 93.

Harris' study of the Nigerian sawmilling industry provides a further example of the nature of the industry determining the occupational groups which respond most vigorously:

Table 6. 3

Previous Occupations of Entrepreneurs in the Nigerian Sawmilling Industry¹

self-employed	no.	%	employed	no.	%
Timber contractor	15	25.3	Govt. service	8	13.5
Trader: small	4	6.8	Craftsman	2	3.4
large	6	10.2	Managerial	2	3.4
Transporter	9	15.3	Teacher	1	1.7
Building contractor	4	6.8	Professional	1	1.7
Craftsman	4	6.8	Engineer	1	1.7
			Clerical	1	1.7
	42	71.2		16	27.1

Apart from the high proportion of self-employed categories, it appears significant that those who had direct experience in timber utilisation comprise nearly a third of all entrepreneurs.

Although only a portion of the information on entrepreneurial background in the Kenyan sample of Marris is at all comparable with the Nigerian data, it does raise some interesting questions:

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1. Harris "Entrepreneurial Patterns" op. cit. table III (3), p. 85.

Table 6. 4

Previous Occupations of Kenyan Entrepreneurs¹

<u>Last occupation before business:</u>	All	Market Businessmen		IDCD
		Monthly Profit		Business- men
		Under 300s	Over 300s	
No occupation*	13	15	12	10
Farming	17	17	15	7
Hawking, petty trade	8	8	9	12
Employed:				
unskilled	16	18	12	3
skilled manual	25	23	27	29
non-manual (clerks and teachers)	17	15	21	32
army and police	4	4	6	7
Total %	100	100	100	100
Total no.	765	438	175	87

*including those in detention and at school

Whereas the Nigerian data were explained mainly in terms of the carry-over of gap-filling and input-completing skills and experience, Marris interprets his results purely in terms of motivation: "business gave them a sense of fulfilment which they could not find in employment: the jobs open to them were neither responsible nor interesting enough... What mattered was not so much the money for itself but to be master of their own achievement."² This conclusion is based on the high proportion of businessmen from relatively skilled categories of employment:

1. African Businessmen op. cit., table 2, p. 62. Data collected from (a) 683 shopowners in market centres in 10 regions of Kenya, and (b) 87 businessmen who had obtained loans from the Industrial and Commercial Development Corporation (47 industrial and service, 40 commercial-wholesale, retail and transport). ICDC businessmen operate on a larger and more complex scale than market businessmen. About 25% of ICDC businessmen had at one stage been hawkers or petty traders.
2. *ibid.* p. 64.

Table 6. 5

Proportion of Kenyan Entrepreneurs Previously in Skilled Employment¹

	<u>% in employment</u>	<u>% in skilled employment</u>
Economically active male population (2m.)	35	8
IDCD businessmen	71	68
Market businessmen	62	46

Marris implies that businessmen's occupational frustrations and the need to prove themselves in business arose in some measure from political frustration and feelings of racial backwardness which excludes African society as a whole from international respect.²

It may be argued that this interpretation of occupational background which runs purely in terms of motivations arising from feelings of dissatisfaction is somewhat monolithic. In the Nigerian sample of a wide range of concerns it was shown that the proportion of relatively skilled categories of employment also increases with the size and complexity of the enterprise, and other data highlighted the role played by the range of skills acquired in previous occupations. These considerations do not necessarily contradict Marris' hypothesis; nevertheless they do imply that the Marris approach is not sufficiently comprehensive.

6. 1. 2 Entrepreneurial Motivations

The question arises as to the accuracy of Marris' interpretation of entrepreneurial motivations in non-economic terms - more specifically, of entrepreneurship as a means of vindicating status.³ A consideration which tends to cast doubt on this interpretation is that 43% of ICDC businessmen said that they took up business because they "saw an opportunity".⁴ Although somewhat ambiguous, the frequency of this response would not seem to justify Marris' outright rejection of money as a goal in itself.

In contrast to Marris, Harris adopts strictly economic explanations of entrepreneurial motivations. He obtained the following answers to the question "why did you go into business?":

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1. African Businessmen op. cit. pp. 60-61.
 2. ibid. p. 69.
 3. ibid. p. 67.
 4. ibid. table 12, p. 250.

Table 6. 6

Reasons Given by Nigerian Entrepreneurs for Engaging in Private Enterprise¹

	<u>Frequency</u>
Could make more money	40
Previous experience offered security	18
To provide jobs for people	6
Desire for independence	6
Enjoyment	4
Gives importance	3
Other	<u>14</u>
	91

Harris remarks that the high preponderance of economic reasons "fits in well with our impression of sawmillers (and other Nigerian entrepreneurs also) as men who have responded to opportunities for economic gain. A straightforward economic interpretation of entrepreneurship (conditioned by knowledge of and ability to exploit an opportunity) seems more useful than some of the more sociological or psychological interpretations that have been propounded".²

Kilby assumes an intermediate position, and explains entrepreneurial motivations in terms of wealth as a means to achieved status: "The successful politician, shrewd trader, civil servant, football pool organiser or money lender are all equal in the eyes of the community as long as their affluence is equal. In short, money is status."³

The contradiction in interpretations of Nigerian and Kenyan data might to some extent arise from differences in socio-political and economic environment. In socio-cultural terms, however, there is a remarkable degree of similarity between Ibo-Yoruba and Kikuyu status mobility systems.⁴ It would appear necessary, therefore, to inquire further into the discrepancies among the three hypotheses.

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1. "Entrepreneurial Patterns" op. cit. table III (4), p. 87.
 2. *ibid.* pp. 87-88.
 3. "African Labour Productivity Reconsidered" op. cit. p. 283. See also Kilby Industrialization in an Open Economy op. cit. p. 342.
 4. See Ottenberg op. cit. p. 135. Moreover Kikuyu comprise the largest proportion of Kenyan businessmen - see Chapter 5.

A major difficulty arises with respect to the reliability of data; Harris has observed that it is impossible to determine the individual's motives for undertaking business.¹ The only alternative seems to be a deductive approach, and in this discussion reference will be made to theories of African elites.²

Harris' outright rejection of non-economic motives means that it is impossible to test his interpretations in these terms. If, however, the achievement of elite status is generally regarded as an important goal and direct questioning is inherently unreliable, Harris may be taken to task for an insufficiently critical acceptance of responses to his question.

A basic assumption of elite theory is that modern African elite status is determined by education and wealth to a high degree relative to the rest of the population.³ Lloyd considers, moreover, that wealthy traders who are ill-educated but able to afford most of the status symbols available to the elite proper belong to a "marginal or sub-elite".⁴ This tends to limit the validity and general applicability of Kilby's blanket assertion that "money is status".

Marris' and Morgan's surveys of occupational prestige ratings⁵ tend to confirm that wealth in itself, does not necessarily confer prestige, and that education is the prime determinant of status. Marris' interpretation thus seems to be based on the assumption that although entrepreneurs realise that they cannot achieve a status beyond that of sub-elite, they nevertheless associate business with high prestige occupations. This appears rather conjectural; their more limited interpretation of motivations in terms of a desire for autonomy seems more acceptable.⁶

1. "Entrepreneurial Patterns" op. cit. p. 87. (A comprehensive projective technique such as the Thematic Apperception Test would possibly be a means of obtaining reliable responses. These methods, however, involve extensive problems of interpretation, which are exacerbated by socio-cultural differences.)
2. P. C. Lloyd The New Elites of Tropical Africa (London: Oxford University Press, 1966).
3. *ibid.* p. 4. Lloyd however points out that this is a general guide, and that the size and characteristics of African elites may vary widely. (pp. 4-13).
4. *ibid.* p. 12. Lukhero "The Social Characteristics of an Emergent African Elite" (in New Elites op. cit. p. 132) comments that "an elite needs money, but with money alone and without education he will not be admitted into the company of the elite".
5. African Businessmen op. cit. p. 66; R. W. Morgan "Occupational Prestige Ratings by Nigerian Students" Nigerian Journal of Economic and Social Studies vol. 7, no. 3, Nov. 1965, pp. 325-332.
6. African Businessmen op. cit. p. 63.

The above discussion may have served more to outline the complexity of the analysis of entrepreneurial motivations than to arrive at any definitive conclusions. In the absence of more sophisticated empirical and theoretical techniques it would seem reasonable to assume that entrepreneurial motivations consist of an interacting constellation of economic and non-economic factors.

6. 1. 3 Education as a Factor in the Supply of Entrepreneurship¹

The hypothesis to be examined in this sub-section is that entrepreneurs tend to have a higher level of education than the general population.

Marris' Kenyan data appear to support this contention:

Table 6. 7

Levels of Education of Kenyan Entrepreneurs Compared with the General Population²

	% with years of formal education		
	None	1-8	9 or more
Males over 15 (Kenya)	68%	31%	1%
Males 25-29 (Kenya)	51%	46%	4%
Market businessmen	23%	73%	4%
I. C. D. C. businessmen	7%	68%	25%

A particularly interesting feature is the close correlation between education and size and complexity of the enterprise, as evidenced by the differences between market and ICDC businessmen.³

1. The relationship between education and entrepreneurial success will be discussed in sub-section 6. 2. 4 below.
2. African Businessmen op. cit. table 12, p. 211. He points out that this comparison underestimates educational differences between entrepreneurs and others of their generation because (i) 75% of ICDC businessmen and 66% of market businessmen were between 30 and 50 years old at time of interview, and (ii) the proportion of education declines consistently with age - *ibid.* p. 211n.
3. ICDC businessmen had more than 5 workers, the average being between 6 and 20. 10.3% had more than 40 employees. 50% of market businessmen had no employees, while only 4% had more than 5 - *ibid.* pp. 211-212.

Nafziger arrives at very similar conclusions on the basis of a sample of twenty-five entrepreneurs in the Nigerian footwear industry engaging eight or more workers. He found the average educational level of entrepreneurs to be 7.1 years. In 1964 no more than 25% of the general population had at least four years' schooling, whereas 88% of the entrepreneurs had been at school for at least four years.¹

The relatively high educational attainment can be seen more clearly if sample entrepreneurs are classified by age group and geographical area. In the South the primary school enrolment rate was 18% in 1947, whereas all seventeen Southern entrepreneurs who had passed their ninth birthday before 1947 attended primary school. At the same time primary school enrolment rate in the North was 2%, but two of the three Northern entrepreneurs who were nine in 1947 or earlier had been at primary school.²

Callaway's data on over five thousand small indigenous Nigerian firms (most employing less than ten workers) indicate that the difference between average entrepreneurial educational attainment and that of the population as a whole diminishes with the size of the firm; 36% of smaller entrepreneurs had some primary education, compared with 30% for the general population of the Western region having the same age distribution.³

These data lend strong support to the hypothesis that the larger the size of the enterprise the greater the disparity between the entrepreneur's level of education and that of the general population. They are, however, somewhat fragmentary, and caution must be exercised in drawing any generalised conclusions about relationships between entrepreneurial quality and education.

6. 1. 4 Sources of Initial Capital⁴

It is of interest to note the predominance of personal savings as a source of initial capital. Harris found that 47.5% of fifty-nine entrepreneurs in the Nigerian sawmilling industry had

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1. E. W. Nafziger "The Relationship between Education and Entrepreneurship in Nigeria" Journal of the Developing Areas vol. 4, no. 3, April 1970, p. 352.
 2. Nafziger "The Relationship between Education and Entrepreneurship" op. cit. pp. 352-353.
 3. A. Callaway "From Traditional Crafts to Modern Industries" University of Ife Journal of African Studies vol. 2, July 1965, p. 36. (Quoted by Nafziger op. cit. p. 353).
 4. The validity of the hypothesis that shortage of capital constitutes a major barrier to indigenous entrepreneurship will be examined in more detail later.

derived their initial capital from personal savings;¹ similarly in the printing industry "the principal source of capital was personal savings".² Furthermore Kilby's study of the Nigerian bread industry reveals that "sources of financing for initial investment consist primarily of private savings".³ Likewise Marris discovered that, apart from Development Corporation loans, 59% of ICDC businessmen obtained their initial capital from personal sources.⁴

It may be surmised that, insofar as the marshalling of capital is an important aspect of input-completing, the predominance of personal savings as a source of initial capital is a reflection both of the ability and motivation of individual businessmen.

6. 2 Entrepreneurial Performance

The generalizations derived from empirical studies of entrepreneurial performance are of crucial importance in the formulation of policy. There seems to be a tendency among several authors who have undertaken detailed research into African entrepreneurship to arrive at somewhat monolithic conclusions relating to entrepreneurial efficiency. Furthermore, in certain cases these conclusions are highly contradictory, and such disparities are reflected in policy formulations. Different approaches may be categorised in terms of the model as follows:- Entrepreneurial deficiencies arise from

- (a) the economic environment - i. e. demand factors. The principal proponent of this viewpoint is Schatz⁵ who, on the basis of West African observations, contends that entrepreneurial shortcomings are not endogenous to the firm but arise from such external sources as unavailability of suitable machinery and maintenance services, skilled labour, adequate markets and so forth. Thus Schatz considers that exogenous obstacles limit the number of profitable opportunities, and implies that if such impediments could be eliminated a large and efficient class of indigenous

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1. "Entrepreneurial Patterns" op. cit. table IV (3), p. 89. (The total includes loans from government lending agencies.)
 2. "Nigerian Enterprise" op. cit. p. 225.
 3. African Enterprise op. cit. p. 95.
 4. African Businessmen op. cit. table 10, p. 189. (49% personal savings, 3% sale of land or cattle, 7% assets of previous business.)
 5. S. P. Schatz "Obstacles to Nigerian Private Investment" Nigerian Journal of Economic and Social Studies vol. 4, no. 2, March 1962; "Economic Environment and Private Enterprise in West Africa" Economic Bulletin of Ghana vol. VII, no. 4, April 1963; "Aiding Nigerian Businessmen" Nigerian Journal of Economic and Social Studies vol. 6, no. 2, July, 1964.

industrialists would emerge. He suggests, however, that changes necessary to create such opportunities are of so great a magnitude as to be beyond the scope of public authorities;

- (b) endogenous socio-cultural or supply factors. Kilby rejects Schatz's view and states unequivocally that "the development of certain entrepreneurial characteristics relating to performance in the organizational and technological spheres is being impeded by traditional socio-cultural factors common to all of Nigeria's ethnic groups".¹ Hence "the overcoming of entrepreneurial deficiencies is likely to occur as part of a general transformation of the traditional social structure";²
- (c) exogenous factors in the social environment. Marris is of the opinion that social isolation of the individual businessman from his community and wider society constitutes the most serious obstacle to African entrepreneurial efficiency: "Finding that kinship tends to intrude disruptive claims upon enterprise, he turns away from it without further experiment."³ In any event, his desire to emulate White achievement is doomed to failure from the outset: "the whole network of commercial institutions is abortive because it is not backed by a corresponding social network through which to establish mutual confidence and understanding."⁴ The ensuing feeling of insecurity drives him back on a mistrustful, self-reliant form of management.⁵ Marris concludes that the encouragement of African entrepreneurship depends upon broadening the range of social interaction.⁶

Marris' standpoint might, to some extent, be attributable to peculiarities of the Kenyan socio-economic framework. This would not, however, explain the contradiction between the views of Schatz and Kilby, whose only point of agreement seems to be that entrepreneurial obstacles are too deep-seated to be affected substantially by policies designed to stimulate entrepreneurship. It is interesting to note that Harris, who refrains from attributing entrepreneurial shortcomings to any particular set of causes, considers impediments to be temporary and capable of amelioration from both the supply (e. g. training and experience) and

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1. Industrialization in an Open Economy op. cit. p. 341.
 2. ibid. p. 342.
 3. African Businessmen op. cit. p. 227.
 4. P. Marris "Social Barriers to African Entrepreneurship" Journal of Development Studies vol. 5, no. 1, Oct. 1968, p. 33.
 5. African Businessmen op. cit. p. 227.
 6. For example, foreign companies could maximise their contribution by creating new social relationships and institutions to spread the opportunities of development - "Social Barriers" op. cit. pp. 37-38.

demand sides (e. g. availability of suitable factors).¹ The extensive disparities between the interpretations placed on available data suggest that further study is needed. In the following sub-sections findings in particular spheres are compared in an attempt to assess:

- (a) the relative acceptability of the approaches outlined above and whether adaptations are necessary;
- (b) the extent to which environmental differences justify Marris' emphasis on exogenous social factors.

6. 2. 1 Partnerships and Corporate Enterprise

The frequently mentioned reluctance of African entrepreneurs to form partnerships and joint-stock companies² has serious implications for efficient management, in that the establishment and organisation of the enterprise is almost entirely reliant on the gap-filling and input-completing abilities of the individual entrepreneur.

Available data tend to support the 'reluctance hypothesis':-

Table 6. 8

Organizational Forms of Kenyan and Nigerian Enterprise

	Nigeria		Kenya ⁵	
	Sawmilling ³	Printing ⁴	ICDC businessmen	Market businessmen
Proprietorship	62.7	61.0	45.9	67
Partnership	18.6	30.0	31.0	33
Pvte. Ltd. Company	17.0	4.5	18.5	-
Public Ltd. Company	1.7	4.5	2.3	-
Cooperative	-	-	2.3	-
Total %	100	100	100	100
Total no.	59	67	87	848

1. See "Entrepreneurial Patterns" op. cit. pp. 94-95 and "Nigerian Enterprise" op. cit. pp. 226-227.
2. See e. g. Geiger op. cit. p. 41; Katzin op. cit. p. 195.
3. Harris "Entrepreneurial Patterns in the Nigerian Sawmilling Industry" op. cit. table II (2), p. 75.
4. Harris "Nigerian Enterprise in the Printing Industry" op. cit. p. 217.
5. Calculated from Marris African Businessmen op. cit. pp. 139-140.

Most writers have traced the obstacles to partnerships and corporate enterprise to fear of financial dishonesty. Edokpayi and Schatz obtained the following answer to an open-ended question as to why joint enterprise is difficult or undesirable:

Table 6. 9

Reasons Given by Nigerian Entrepreneurs for Avoiding Partnerships¹

	<u>%</u>	<u>Frequency</u>
Not financially trustworthy	74	196
Conflict with partner	18	48
Insufficient capital	16	43

Kilby and Marris also found fear of financial dishonesty and general mistrust to be a major barrier;² they attribute this to the absence of a widely accepted business creed.

This socio-cultural explanation of hesitancy towards joint enterprise must, however, be supplemented with economic considerations. In environments in which capital markets are either absent or poorly developed, the possibilities for withdrawal of funds are strictly limited; this is particularly relevant if the enterprise requires heavy investment in fixed capital.

Schatz and Kilby raise a very interesting issue - namely partnerships between indigenous businessmen and expatriates. Kilby comments that Nigerian entrepreneurs encountered a near-universal lack of success with expatriate managers, but "the few partnerships involving an expatriate (on the technical side) and a Nigerian (sales, public relations) have worked very well".³ Edokpayi and Schatz found that Nigerian businessmen considered the major obstacles to the formation of partnerships with expatriates concerned shortcomings on the Nigerian side: "Only 12% of the answers referred to prejudiced attitudes on the part of Europeans and there were a few scattered answers ... (to the effect that) expatriates would cheat Nigerians."⁴ In contrast to the apparent potential for inter-racial business cooperation in Nigeria, Marris' Kenyan study tends to highlight the sharp discontinuities between the African, Asian and European business communities. This could possibly be interpreted in terms of differences in the socio-economic environments of type (a) and (b) economies outlined in Chapter 5. Moreover, although the

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1. S. I. Edokpayi and S. P. Schatz "Economic Attitudes of Nigerian Businessmen" Nigerian Journal of Economic and Social Studies vol. 4, no. 4, Nov. 1962, p. 262. (Total no. of respondents - 266).
 2. Industrialization in an Open Economy op. cit. p. 338; African Businessmen op. cit. pp. 124-125.
 3. Industrialization in an Open Economy op. cit. p. 337n.
 4. "Economic Attitudes" op. cit. p. 265.

Nigerian data are somewhat fragmentary they do appear to support Marris' contention that policies aimed at greater inter-racial communication might assist in increasing the quantity and quality of indigenous enterprise.¹

6. 2. 2 Labour Management and the Dispersal of Effort

The reluctance to enter partnerships has its counterpart in a major shortcoming of labour management - namely the failure to delegate authority.² The net result is a tendency on the part of many businessmen to diversify their interests³ and scatter resources among a number of relatively small and inherently inefficient enterprises over which they feel they can maintain personal control at the expense of consolidation and effective specialization of any single enterprise.

The importance of effective labour management, particularly when dealing with a largely illiterate and inexperienced work force, has been discussed earlier.⁴ The ability to elicit commitment is especially crucial at the supervisory and managerial levels. Schatz attributes all problems of labour management to an 'objective' shortage of suitable personnel.⁵ Undoubtedly a relatively small proportion of the population of an underdeveloped economy are versed in such skills; however on the basis of far more detailed investigations than those of Schatz, Harris, Kilby and Marris have observed that very few African entrepreneurs have even attempted to institute comprehensive training programmes, and furthermore that the salaries paid to higher level employees are frequently far too low to attract competent people.⁶

Marris interprets this tendency towards diversification as an aspect of the mistrust reflected in an unwillingness to delegate

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1. "Social Barriers" op. cit. p. 37.
 2. For information on failure to delegate authority, see Harris "Entrepreneurial Patterns" p. 79, and "Nigerian Enterprise" op. cit. pp. 223-226; Kilby Industrialization in an Open Economy op. cit. pp. 337-338; Marris African Businessmen op. cit. p. 116.
 3. For information on the extent of diversification, see Harris "Entrepreneurial Patterns" op. cit. table IV (6), p. 91; Kilby African Enterprise op. cit. pp. 97-98; Industrialization in an Open Economy op. cit. p. 338n.; Marris African Businessmen op. cit. table 5, p. 123.
 4. See Chapter 4.
 5. "Economic Environment" op. cit. pp. 45-47.
 6. Harris "Entrepreneurial Patterns" op. cit. p. 79; Kilby Industrialization in an Open Economy op. cit. p. 338; Marris African Businessmen op. cit. pp. 122-126.

authority,¹ whereas Kilby views dispersal of activity as an attribute of the 'educated entrepreneur'. In explaining diversification purely in terms of supply factors, however, they ignore the possibility that it might - to some extent at least - represent a rational response to uncertainty-producing factors in the economic environment outlined in Chapter 4. Moreover, if entrepreneurs are viewed partly as investors denied the facilities of a stock market or unit trusts, it is conceivable that they should seek the safety of spread risks by acquiring the equivalent of a diversified portfolio.²

6. 2. 3 Further Aspects of Management: Market and Product Orientation

Kilby's distinction between market and product orientation³ can be usefully interpreted in terms of the model as follows: market-oriented gap-filling and input-completing activities are those involved in the perception and assessment of opportunities, whereas product-oriented activities are concerned with organizational and technical efficiency.⁴

An interesting dichotomy in this respect arises between interpretations of Kenyan and Nigerian data. In the Kenyan context Marris contends that the problem of marketing is an important aspect of "the fundamental obstacle which blocks the way of African businessmen wherever they turn: the disparity between the scale of the economy in which they compete and the extent of the relationships they know how to handle".⁵ He suggests, therefore, that a marketing agency which would explore potential markets and keep African businessmen continually informed of the potential markets they might exploit would "prove more productive than any other single support for African businessmen".⁶ He considers that product-oriented problems arise from the same base - namely "that the economic and social worlds of the African businessman do not fit".⁷

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1. Marris' attribution of this tendency entirely to mistrust should perhaps be supplemented by the suggestions of Kilby and Harris, namely, that it is partly a symptom of lack of general managerial ability.
 2. cf. K. Hart "Small-scale Entrepreneurs in Ghana and Development Planning" Journal of Development Studies vol. 6, no. 4, July 1970, p. 110. (Hart points out that in Ghana the taxation system discourages specialization above a certain level.)
 3. African Enterprise op. cit. p. 98.
 4. The distinction is to some extent artificial; however as a rough approximation it seems to have considerable usefulness.
 5. African Businessmen op. cit. p. 174.
 6. ibid. p. 173.
 7. ibid. p. 174. (i. e. this is reflected in unwillingness to delegate authority which inhibits advantage being taken of economies of scale and renders indigenous firms vulnerable to large-scale competitors.)

Harris' and Kilby's studies of Nigeria suggest that there is extreme sensitivity to market signals in the limited range of industries in which indigenous businessmen are capable of operating, and that relatively low profits and excess capacity are in part an aspect of the severity of competition. They suggest that improvements in the product-oriented sphere would both broaden the range of potential industries (and hence the market) and eliminate the plethora of small and relatively inefficient producers by increasing the investment threshold. Apart from deficient labour management and delegation of authority, product-oriented inadequacies include poor financial management, failure to maintain equipment regularly, perfunctory coordination of raw material purchases with product orders and poor layout.¹

Schatz, on the other hand, takes the position that in West Africa (and many other underdeveloped areas) economic factors exogenous to the firm have merged to produce a situation in which profitable opportunities are strictly limited, and in the face of which the indigenous entrepreneur is helpless.² This standpoint seems rather extreme in view of the wide range of endogenous managerial shortcomings identified by studies far more detailed than those made by Schatz. Nevertheless it seems possible to delineate certain areas of reconciliation. In a study of small industries in India, Dhar and Lydall found that, contrary to widely held views, small industries cannot be forced out into rural areas where ancillary facilities of trade, communications and finance are lacking and skilled labour relatively scarce.³ In support of this approach, Kilby has commented that the concentration of large-scale producers in Onitsha flows from its pre-eminence as a trading centre at the confluence of three major transport arteries.⁴ Similarly Harris comments on the preponderance of relatively large and efficient printers in Lagos.⁵ If this argument has any validity it would seem that technical and organizational improvements would have a better chance of meeting with success in the established urban centres than in the relatively hostile environment of outlying rural areas.⁶

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1. See Harris "Entrepreneurial Patterns" op. cit. pp. 76-82, "Nigerian Enterprise" op. cit. pp. 220-224; Kilby Industrialization in an Open Economy op. cit. pp. 335-340, African Enterprise op. cit. pp. 98-112.
 2. "Economic Environment and Private Enterprise" op. cit. p. 83.
 3. P. N. Dhar and H. F. Lydall The Role of Small Enterprises in Indian Economic Development (Bombay: Asia Publishing House, 1961), p. 82. See also Kilby Industrialization in an Open Economy op. cit. Chapter 1.
 4. African Enterprise op. cit. p. 83.
 5. "Nigerian Enterprise" op. cit. pp. 217-218.
 6. This argument has fairly extensive policy implications which will be examined in more detail later.

This discussion provides a useful vantage point for assessing Marris' approach. In the first place he may be criticized for paying inadequate attention to product-oriented activities by merely assuming that all shortcomings in this sphere spring from mistrust and hence unwillingness to delegate authority. Nevertheless it must be conceded that the market structure confronting the Kenyan businessman is radically different from that of his Nigerian counterpart. Thus in the urban areas where most opportunities are concentrated, the Kenyan businessman is faced with a relatively larger expatriate business community than is the case in West African-type urban centres and hence with stronger competition.¹ Nevertheless, while not denying that inter-racial communication may be important in overcoming this barrier, it would appear that a high degree of organizational and technical efficiency on the part of the indigenous entrepreneur would greatly facilitate his chances of cornering a portion of the market² - particularly in the post-independence political milieu.

The various threads of argument developed in the preceding three sub-sections may be drawn together as follows:

- (a) Empirical studies have revealed certain proclivities common to African entrepreneurs, irrespective of socio-economic environment, which seem to militate against optimum efficiency. These include an unwillingness to cooperate in joint enterprises, deficient labour management, a tendency towards dispersal of effort, and certain inadequacies in the organizational and technological spheres. In each case it has been found possible to derive explanations of shortcomings in terms both of supply and demand factors; this tends to cast doubt on the rather rigid interpretations of Kilby and Schatz, and to favour a more broadly-based approach. Policy formulation, however, raises the question of where emphasis should be placed. It is suggested that a satisfactory answer involves detailed study of the requirements of particular industries and the environment in which they operate. Some generalizations of the type suggested above may be useful in providing guidelines for analysis, but cannot predefine the nature and extent of the most suitable type of assistance. This in turn seems to imply that entrepreneurial research might usefully assume two different but interrelated directions; namely macro-comparative inter-country and inter-industry studies, which would highlight broad areas of convergence and divergence and provide a convenient starting point for micro-analyses of particular industries concerned more specifically with the precise forms which assistance should assume.

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1. Marris comments that in 1966 there were still scarcely any African enterprises to be found in any of the main shopping streets of Mombasa, Kisumu and Nairobi - African Businessmen op. cit. p. 11.
 2. An interesting case study which supports this argument was encountered by the writer during her interviews - see p. Chapter 11.

- (b) In terms of these arguments it would appear that differences in socio-economic environment do seem to be a useful way of explaining the discrepancies between the Kenyan and Nigerian data. Nevertheless care must be exercised in adopting a rigid framework of interpretation on the basis of a single-country study into which all data are fitted. Hence the major shortcoming of Marris' work seems to be that in focusing exclusively on social isolation in the Kenyan milieu he tends to ignore significant similarities between his own data and the results of studies in different environments.

6. 2. 4 The Relationship between Entrepreneurial Success and Education

A priori it seems reasonable to postulate a positive correlation between formal education and entrepreneurial success.¹ The reasoning behind this hypothesis is:²

- (a) a relatively well-educated individual might be expected to have a larger body of cumulative knowledge available for making decisions;
- (b) verbal skills should facilitate (i) the acquisition of new methods and ideas, (ii) the comprehension of written information and (iii) communication in business relationships;
- (c) mathematical and arithmetical skills should facilitate computation of transactions and the use of records as an instrument in firm analysis.

In sub-section 6. 1. 3 data were presented which suggest that entrepreneurs tend to have a higher level of education than the population as a whole and that this disparity tends to widen with increasing size of the firm. Nafziger has shown further that for twenty-five firms in the Nigerian footwear industry there is a positive relationship between entrepreneurial education and success measured by value of firm output.³

Kilby and Harris, however, have found either a weak or neutral correlation between education and size of firm. The combined Kilby/Harris sample is considerably larger and more comprehensive than that of Nafziger:

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1. As measured by criteria of firm size and profitability. It would appear that the latter is a more acceptable criterion of efficiency than the former.
 2. W. Nafziger "The Relationship between Education and Entrepreneurship" op. cit. p. 351, and Kilby African Enterprise op. cit. p. 92.
 3. "The Relationship between Education and Entrepreneurship" op. cit. p. 354.

- (c) In a multi-industry study of two hundred and ninety-eight Nigerian firms, Harris found a very weak correlation between education and an index of profitability and growth of assets (Gamma = 0.154).¹
- (d) Olakanpo adopted a success criterion consisting of the differential between initial and present value of capital on the assumption that the main source of increase in capital over time is reinvested profit.² In his analysis of two hundred and eighty-eight Nigerian commercial firms he found that "The data fail to show the relevance of education to managerial ability and hence to success in the distributive trades".³ In a more sophisticated statistical analysis of the same data, Adamu discovered that "a minimum standard of education is important for success. There is a high level between no education and some sort of education. There is no significant difference between the educational levels as long as the businessman does have some education".⁴

The bulk of evidence cited above seems to support Adamu's contention. Possible reasons for the lack of correlation between formal education and managerial efficiency may be framed in terms of opportunity costs:

- (a) time and resources devoted to academic education could represent the opportunity cost of training more relevant to gap-filling in input-completing activities - either 'on-the-job' or technical training;⁵
- (b) the higher the educational level of the entrepreneur the more likely it is that he will have resorted to entrepreneurship because of failure in an occupation of higher prestige, or low opportunity cost.

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1. J. Harris Factors Affecting the Supply of Industrial Entrepreneurship in Nigeria (Mimeograph, 1966), p. 24. Quoted by Kilby Industrialization in an Open Economy op. cit. p. 340.
 2. O. Olakanpo "A Statistical Analysis of Some Determinants of Entrepreneurial Success: A Nigerian Case Study" Nigerian Journal of Economic and Social Studies vol. 10, no. 2, July 1968, pp. 137-152.
 3. *ibid.* p. 140.
 4. S. O. Adamu "A Statistical Analysis of Some Determinants of Entrepreneurial Success: A Theoretical Consideration and Extension" Nigerian Journal of Economic and Social Studies vol. II, no. 1, Mar. 1969, p. 40.
 5. Pearson for example has argued that technical training is far more important than academic education in the exercise of indigenous enterprise. ("African Advancement in Commerce and Industry" op. cit. pp. 242-243.)

6. 2. 5 The Effect of the Extended Family

The contention that the extended family inhibits the supply of entrepreneurship is so widely held¹ as to warrant further investigation.

Contrary to the prevailing thesis, Nafziger² has suggested ways in which the extended family could serve as a stimulant to entrepreneurial supply:

- (a) On the basis of his sample of twenty-eight small indigenous manufacturing firms in Nigeria he found that family savings comprised the major source of initial capital,³ and concluded: "in toto, the extended family increases the establishment of firms by entrepreneurs."⁴ Other data on sources of initial capital do not support this conclusion;⁵ for example Harris found that in the sawmilling industry "the family has not been a significant source of capital".⁶
- (b) Nafziger suggests that the extended family frequently sponsors apprenticeship courses, in which almost all prospective entrepreneurs have been students.⁷ To the extent that this is so, the extended family increases the supply of entrepreneurs. The high preponderance of former craftsmen in the Kilby/Harris Nigerian multi-industry sample does lend limited credence to this claim. In certain Nigerian industries and in the Kenyan sample, however, former craftsmen do not feature significantly.⁸ Nafziger's hypothesis thus requires careful qualification.

Nafziger is of the opinion, however, that the extended family may form an obstacle to the expansion of the firm; he bases this conclusion on the findings that the majority of firms in his sample acquired additional capital for expansion from reinvested profits and that the number of dependents increases with the income of the entrepreneur.⁹ In contrast Kilby found that "in every case of

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1. See Chapter 4.
 2. E. W. Nafziger "The Effect of the Nigerian Extended Family on Entrepreneurial Activity" Economic Development and Cultural Change vol. 18, no. 1, Oct. 1969, pp. 25-33.
 3. *ibid.* table 1, p. 29.
 4. *ibid.* p. 32.
 5. cf. references in sub-section 6. 1. 4 above.
 6. "Entrepreneurial Patterns" *op. cit.* p. 87.
 7. "The Effect of the Extended Family" *op. cit.* pp. 27-28.
 8. cf. references in sub-section 6. 1. above.
 9. "The Effect of the Extended Family" *op. cit.* pp. 30-31.

small firm stagnation . . . negative factors (other than capital shortage) were present. It (therefore) seems unlikely that the extended family has significantly impeded entrepreneurial activity in the baking industry".¹ The hypothesis that the extended family inhibits expansion therefore rests to a certain extent on the validity of the 'capital shortage thesis' which will be examined in more detail in the following sub-section.

The claim that the extended family dampens the incentive to achieve is extremely difficult to test. Nevertheless, as Nafziger has observed: "the prestige and power afforded the successful entrepreneur by the extended family may provide an important incentive for entrepreneurial activity which may at least partially offset the disincentive effects of sharing income and wealth."²

On balance, therefore, the effects of the extended family are by no means certain, and definitive conclusions are dependent upon the application of more sophisticated testing devices than those which have been used in the data cited.

6. 2. 6 Capital Shortage as a Barrier to Entrepreneurship

The hypothesis that shortage of capital constitutes a major barrier to indigenous entrepreneurship is generally based on observations of widespread poverty.³ This type of justification is inherently unsatisfactory, however, and far more comprehensive tests are necessary to assess the validity of the 'capital shortage' thesis. For example, capital shortage could be expected to have the following effects:⁴

- (a) Given economies of scale, some firms would be of less than optimal size and this would be reflected (i) in smaller firms being less profitable than larger ones, and (ii) in smaller firms having lower rates of growth, assuming that reinvested profit serves as a major source of capital for expansion.⁵
- (b) If there are no significant economies of scale, capital shortage would be reflected in a high degree of capacity utilization and high profitability of existing equipment.

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1. African Enterprise op. cit. p. 102.
 2. "The Effect of the Extended Family" op. cit. p. 32.
 3. See Chapter 4.
 4. This framework is constructed from arguments presented by Harris "Entrepreneurial Patterns" op. cit. pp. 92-93; Kilby Industrialization in an Open Economy op. cit. p. 335.
 5. Empirical support for this assumption is provided by Harris "Entrepreneurial Patterns" op. cit. table IV (4), p. 87, and "Nigerian Enterprise" op. cit. pp. 224-225; Kilby African Enterprise op. cit. p. 102; Marris African Businessmen op. cit. p. 203.

- (c) The provision of capital on easy terms to indigenous businessmen via lending agencies would result in the establishment of viable enterprises which could not otherwise have come into existence.

The following empirical evidence is relevant with respect to the above three criteria:

- (a) In the sawmilling industry, Harris found no positive relationship between initial size of firm and success (measured by an index of growth and profitability): "The firms which started with less capital did at least as well as those which started out with more."¹ Moreover Harris noted a slight inverse relationship between initial assets and degree of success in the Nigerian printing industry.² Harris comments on the relatively small initial size of the more sophisticated firms in his sample and their tendency to grow "as much from their own momentum as from outside help".³ Olakanpo, however, applied a test of association between initial capital and success to two hundred and eighty-eight Nigerian commercial firms and found the null hypothesis to be violated (i. e. some form of functional relationship existed between capital and probability of success).⁴ Nevertheless further statistical tests revealed that the relationship was not linear: "it is fallacious to assume that an increase in the amount of capital will necessarily be accompanied by a corresponding increase in the probability of success."⁵ Although the above data do not necessarily invalidate the capital shortage thesis, they do seem to suggest that the productivity of a given unit of capital should be assessed in terms of the gap-filling and input-completing abilities of the entrepreneur.
- (b) In his survey of two hundred and sixty-eight of the largest indigenous Nigerian industrial firms Harris found generally low levels of capacity utilisation: "Substantial increases in output could have been achieved without additional investment ... Low levels of capacity utilization are largely a result of managerial deficiencies."⁶ Harris reiterates these findings in his studies of the printing⁷ and sawmilling⁸ industries. A number of other Nigerian industry studies by Kilby, Okigbo, Schatz

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1. "Entrepreneurial Patterns" op. cit. pp. 92-93.
 2. "Nigerian Enterprise" op. cit. table 10, p. 225.
 3. African Businessmen op. cit. p. 203.
 4. "A Statistical Analysis of Some Determinants of Entrepreneurial Success" op. cit. p. 141.
 5. *ibid.* p. 141.
 6. Factors Affecting the Supply of Industrial Entrepreneurship op. cit. pp. 40-42. (Quoted by Kilby Industrialization in an Open Economy op. cit. p. 337).
 7. "Nigerian Enterprise" op. cit. p. 223.
 8. "Entrepreneurial Patterns" op. cit. pp. 78-79.

and others indicate that low capacity utilization are an endemic feature.¹ Although available data relate mainly to Nigeria, the pervasiveness of excess capacity seems to suggest that it might well be a common feature of indigenous enterprises elsewhere.

- (c) There is a remarkable degree of consensus among those who have studied the effects of lending-agency activities that capital provision schemes have generally had disappointing results and that the number of viable enterprises created or assisted has been extremely low in proportion to the amounts lent.² Marris' findings that Kenyan businessmen who were most dependent on government-sponsored loans were least successful have been confirmed by the investigations of Kilby and Schatz into the Nigerian loan boards.³

The nature and extent of assistance schemes in various African countries will be examined more thoroughly in Part III, where comparisons will be made with South African experience. In the interim, however, evidence presented above suggests that apparent problems of capital shortage are a result rather than a cause of managerial shortcomings, regardless of whether such inadequacies are traced to supply or demand factors or a combination of both. Hence it is misleading to isolate the question of capital from the complex constellation of forces which determine entrepreneurial performance.

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1. cf. references cited by Kilby Industrialization in an Open Economy op. cit. p. 335, and Schatz "Economic Environment" op. cit. p. 51.
 2. See Kilby Industrialization in an Open Economy op. cit. p. 335; Schatz "The Capital Shortage Illusion: Government Lending in Nigeria" Oxford Economic Papers vol. 17, no. 2, July 1965, pp. 309-316, Development Bank Lending in Nigeria: The Federal Loans Board (Ibadan: Nigerian Institute of Social and Economic Research, 1964);
 3. African Businessmen op. cit. p. 203 and references cited above.

THE BACKGROUND TO AFRICAN ENTERPRISE IN SOUTH AFRICA

GROWTH, CHARACTERISTICS AND POLICY

PART III

"Die natuurlikehandel... kanse om te
deel in honderde miljoen koopkrag van die
stedelike natuur gaan prys gee vir die
enkele miljoen koopkrag in die beoogde
Bantoestans, sal geen regtere sakeman
wees nie ..."

- Volksbandel Okt. 1953.

(Tydskrif van die Afrikaanse Sakekamer)

7.1 Some General Considerations

Schapera has pointed out that a certain amount of inter-
ASPECTS OF AFRICAN ENTERPRISE IN SOUTH AFRICA

barter of various utensils, foodstuffs and animals; and although there was no standardized medium of exchange, there were certain stabilized relative values.¹ However "this trade (was) a most irregular affair. There (were) no emporia where one may regularly acquire these articles, no markets, periodical or otherwise, where they (were) offered for sale, no merchants going about buying them up and selling them again ...".² Hence Kuper's statement that "Neither the trader nor the industrialist was part of the traditional structure of South African Bantu societies. The buying and selling of commodities was alien to them ... The concept of the independent businessman, as of the wage earner, was a product of culture contact".³

Thus South Africa approximates far more closely to Kenya than to West African countries, in that the evolution of an indigenous trading class has been dependent upon Africans having been drawn into the Western money economy. South

1. J. Schapera The Bantu-Speaking Tribes of South Africa (London: Routledge and Kegan Paul, Ltd., 1937), pp. 133-154.
2. C. P. Lestrade "Life of the South African Bantu" South African Journal of Economics vol. 2, no. 4, Dec. 1934, p. 540.
3. L. Kuper An African Bourgeoisie (New Haven: Yale University Press, 1953), p. 262.
4. with the exception of tribes such as the Kikuyu.

Chapter 7

THE BACKGROUND TO AFRICAN ENTERPRISE
 IN SOUTH AFRICA :
 GROWTH, CHARACTERISTICS AND POLICY

"Die naturellehandelaar wat sy kanse om te deel in honderde miljoene koopkrag van die stedelike naturel gaan prys gee vir die enkele miljoen koopkrag in die beoogde Bantoestans, sal geen nugtere sakeman wees nie ..."

- Volkshandel Okt. 1959.

(Tydskrif van die Afrikaanse Sakekamer)

7.1 Some General Considerations

Schapera has pointed out that a certain amount of intermittent trade was fairly common among the Bantu-speaking tribes of South Africa. This took the form of small-scale barter of various utensils, foodstuffs and animals, and although there was no standardized medium of exchange, there were certain stabilized relative values.¹ However "this trade (was) a most irregular affair. There (were) no emporia where one may regularly acquire these articles, no markets, periodical or otherwise, where they (were) offered for sale, no merchants going about buying them up and selling them again ...".² Hence Kuper's statement that "Neither the trader nor the industrialist was part of the traditional structure of South African Bantu societies. The buying and selling of commodities was alien to them ... The concept of the independent businessman, as of the wage earner, was a product of culture contact".³

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 2. G. P. Lestrade "Life of the South African Bantu" South African Journal of Economics vol. 2, no. 4, Dec. 1934, p. 440.
 3. L. Kuper An African Bourgeoisie (New Haven : Yale University Press, 1965), p. 262.
 4. with the exception of tribes such as the Kikuyu.

Africa provides a particularly interesting field for the study of African enterprise. Not only has the period of participation in the money economy been of particularly long standing, but it is also possible to examine the evolution of an entrepreneurial class in fundamentally different environments. The two major ones are the African reserves and the urban locations; more recently a third category has appeared in the form of the large dormitory areas, adjacent to Border Areas, such as Mdantsane, Zwelitsha, Hammarsdale and the Tswana complex.¹ These areas are technically part of the reserves, but their proximity to industrial areas lends them certain of the economic characteristics of urban locations in 'White' areas.

Government decisions have been of major importance in determining the environment in which the African entrepreneur operates, and in analysing the implications of the present framework it is important to distinguish inherent differences in the economic environment from those brought about by conscious policy decisions. Hence the necessity arises of outlining the increasingly strong disjunction which has developed during this century, and the impact which this has had on the growth and characteristics of African enterprise in the reserves and urban areas.

7.2 The Evolution of Policy towards African Enterprise

At present a marked dichotomy exists in the legal framework within which African enterprise operates. Official policy in the reserves is directed towards the active encouragement of an entrepreneurial class, whereas African businessmen in the urban areas are being faced with increasingly severe legal obstacles. This differentiation has only become extreme during the past decade, but factors which have culminated in the present situation can be seen to have been in operation for a number of years.

7.2.1 Policy in the Reserves

Between 1934 and 1959 no direct assistance was given to African businessmen, but they received preference in the issue of new trading licences.² The first comprehensive attempt to define the legal position of African businessmen was embodied in Proclamation No. 244 of 1934 ("Trading by Natives in the Transkeian Territories"). Prior to that, trading in these areas

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1. Hammanskraal, Ga Rankuwa and Mabopane.
 2. Report of the Commission for the Socio-Economic Development of the Bantu Areas in the Union of South Africa 1954-56 UG 51/1955 (Hereafter referred to as the Tomlinson Commission Report), vol. 9, Chapter 22, pp. 15-16.

had been governed by Proclamation No. 11 of 1922 which made no specific reference to the different status of African traders.¹

(a) Overtrading and the granting of new trading rights

This has probably been the most contentious area of policy-making insofar as it has regulated the competitive position of Africans relative to other race groups. The 1922 Proclamation specified that the minimum distance between trading stores should be five miles by the shortest route (Section 4). The result of this protection was that Whites had by the 1930's entrenched themselves in a powerful monopolistic position in certain areas, particularly in the Transkei.²

The 1934 Proclamation relaxed the five mile radius rule to two miles in respect of "native traders, butchers and bakers". This concession must be seen in the light of the Native Economic Commission Report (1930/2) which criticized White appropriation of reserve trade and recommended that "opportunities to Natives to trade in the Reserves should be given freely, and in the issue of new licences preferences should be given to Natives".³

African opinion at the time considered the Proclamation excessively stringent. The two mile radius rule was most strongly criticized and a motion opposing it was passed unanimously in the Transkei Bunga. It was argued that "The provisions of this Proclamation that the Government contemplates are very strict and drastic indeed. They are not such as would enable every Native man to undertake this trading".⁴

Despite such misgivings it would appear that there was a definite trend in favour of granting new trading rights in the reserves to Africans.

1. Both Proclamations referred specifically to the Transkeian Territories. "No similar Proclamation is in force for other Bantu Areas, but the above two rules (i. e. No. 11 of 1922 and No. 244 of 1934) are accepted as working measures also in these areas." Tomlinson Report op. cit., chapter 22, p. 8.
2. See W. Hutt "The Economic Position of the Bantu in South Africa" in I. Schapera (ed.) Western Civilization and the Natives of Southern Africa (London: Routledge and Sons, 1934), p. 218.
3. op. cit., para. 942, p. 137.
4. United Transkeian Territories General Sessions 25 April 1934, p. 282. (Sakwe).

Table 7. 1

Number of New Trading Licences Granted to General Dealers
in the Reserves, 1936-1962

	<u>Africans</u>		<u>Other Race Groups</u>		Total No.
	No.	Percent	No.	Percent	
1936-46 ¹	344	62.5	206	37.5	550
1946-52	849	84.9	139	15.1	988
1949-60 ²	1 267	94.0	81	6.0	1 348
1961-62	271	99.0	3	1.0	274

In 1956 the Minister of Native Affairs stated that "it is the declared policy that, although the existing rights of European traders in Bantu areas will not be diminished, they are frozen ... Already in 1954 the practice, in terms of statutory powers, to grant permanent trading sites in Bantu areas to Europeans was discontinued ... When a European applies for trading rights and tradings sites on Trust land held in terms of permission to occupy, it is first determined whether there are not any Bantu who are able to run the business".³ Moreover, the Government has been opposed to the granting of trading rights to Asiatics in the reserves.⁴

Dissatisfaction over the two mile radius rule was a grievance for many years,⁵ and constant opposition culminated in the Transkei Legislative Assembly's passing the Trading Amendment Act (No. 5 of 1964) during its first session.⁶ The amendment of the radius rule was described as "a piece of legislation which is intended to remove a barrier which has always confronted African people in their territory", and it was argued that "the principle of protecting traders by way of legislation or other measures is a principle foreign to most Western mercantile systems ... it is sound policy to allow free trading by Transkeian citizens, that is, to let fair competition settle the question of where and how many traders who are Transkeian citizens there shall be. The law of survival of the fittest should be allowed to operate in the Transkei". The Opposition Democratic Party contended, however, that harmful overtrading would result from the amendment and that African businessmen needed the protection afforded by the radius rule.

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1. Tomlinson Commission Report, op. cit., Table 2, p. 15.
 2. Senate Debates 10 June 1963 Hansard Col. 4126.
 3. Senate Debates 24 May 1956 Hansard Cols. 3895-6.
 4. Senate Debates 30 January 1956 Hansard Col. 376.
 5. See Transkeian Territorial Authority Blue Book Reports 1957, pp. 9 and 31; 1959 pp. 23 and 98; 1961 pp. 11 and 34; 1963 pp. 7, 24 and 25.
 6. Debates of the Transkei Legislative Assembly 16 June 1964, pp. 163-8.

The Transkei Department of the Interior was unable to furnish statistics of the number of licences granted since 1964. However, according to a number of sources (including officials of the Xhosa Development Corporation) there has been extensive proliferation of so-called 'mushroom shops' during recent years, both licensed and unlicensed. During 1970 the congress of the (White) Transkei Territories Civic Association criticized the Government for the "malpractices and irregularities in the indiscriminate granting of trading licences" and in his opening address to the congress the Commissioner-General of the Xhosa National Unit also warned that "overtrading by Bantu is dangerous and detrimental".¹ In September 1970 the Transkeian Government decided to suspend the issuing of all trading licences "for the time being" to allow for a Departmental survey of the trading situation.²

(b) Inter-racial business contact

Another important feature of the 1934 Proclamation is that it prohibits liaison between African businessmen and those of other race groups. Section 4 (1) provides that "No person other than a native shall enter into partnership with the holder of a native trader's, native butcher's or native baker's licence, or be employed in any category whatsoever, other than that of an auditor in the business carried on by any native trader, native butcher or native baker, nor shall any person other than a native acquire any interest whatever in any such business".

A somewhat contentious situation has arisen recently in the Ciskei with the acquisition by a white company of a fleet of buses formerly owned by a Zwelitsha businessman. It was alleged that two African companies had been willing to pay cash for the asking price, but that the White company was granted the option. The Ciskei Territorial Authority was extremely critical, and accused the Government of renegeing on its promises in allowing the transaction.³ A motion was passed unanimously in the C. T. A. calling on the Executive Council to make "strong representation to the Republican Government to prevent Bantu business undertakings being acquired by members of other racial groups".⁴ The proposer of the motion commented that: "This policy (i. e. separate development) is not policy when the bone is fat, but only when it is a dry bone. When there is meat and fat they can waive policy."⁵

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1. Daily Dispatch East London, 17 September 1970, p. 1.
 2. ibid., p. 1
 3. Eastern Province Herald Port Elizabeth, 17 December 1970.
 4. Zwelitsha, 10 May 1971.
 5. Cr. Sangotsha

(c) Licensing procedure

Licensing procedure for Africans in the reserves is governed by Section 24 (3) of the Bantu Trust and Land Act (No. 18 of 1936) and has been described in some detail elsewhere.¹ The Tomlinson Commission Report commented on the exceedingly cumbersome nature of the procedure, and it would appear that this is still the case. Another anomaly is that Bantu Affairs Commissioners are expected to assess factors such as "whether the applicant has sufficient business acumen to make a success of the business" and "the scope, necessity and probable success of the proposed business". Assuming that such assessments are necessary, it seems unlikely that they would fall within the range of experience of a local government official.

The licensing procedure in the Transkei has been simplified to some extent by the Trading Amendment Act, and trade licensing is now under the jurisdiction of the Ministry of the Interior.

(d) Prevention of monopolies

Proclamation No. 104 of 1933 (amended in 1952) provides that no licensee nor spouse of a licensee shall be granted a licence to trade on a site which is within twenty miles of a trading site already occupied. Although this provision was incorporated in the Transkeian Trading Amendment Act, a number of exceptions appear to have been made both in rural and urban areas of the Transkei. In urban townships of the Ciskei, however, there has been strict adherence to this rule.

(e) Assistance to African entrepreneurs

The Bantu Investment Corporation Act (No. 34 of 1959) represented the first official attempt to provide direct assistance to African businessmen. The activities of the Corporation are confined exclusively to the reserves and its objects include (Section 3 (1)) "the provision of capital or means, technical and other assistance, the furnishing of expert and specialized advice, information and guidance" and "the promotion of self-help in the economic sphere". The Corporation is empowered to "lend money with or without security to Bantu persons and to discount their negotiable instruments". (Section 5) The present rate of interest on loans is 7½%. The activities and mode of operation of the Xhosa Development Corporation (a subsidiary body constituted under Act No. 46 of 1968 which functions in the Transkei and Ciskei) will be discussed more fully in later

1. R. B. Savage A Study of Bantu Retail Traders in Certain Areas of the Eastern Cape, (Grahamstown : Institute of Social and Economic Research, Rhodes University, Occasional Paper No. 9, 1966), pp. 16-19.

chapters. To date, the Corporations in conjunction with the South African Bantu Trust have directed a considerable proportion of their resources towards the takeover of White business concerns in the reserves.

In spite of the initially disadvantageous position of African businessmen in the reserves, there has been a trend towards strengthening their competitive status. Although certain peculiarities exist in the legal framework, Government policy has been actively concerned with creating a protected environment for the development of African enterprise within these particular geographical areas.

7.2.2 Policy in the Urban Areas

There does not appear to have been any general policy governing African traders in the urban areas prior to 1923. The Blue Book on Native Affairs (1910) reveals the existence of widely divergent policies towards African traders in different districts. All districts in the Free State, however, consistently refused to grant trading licences to Africans.¹

The first statute to deal in general terms with African trading in non-reserve areas was the Native (Urban Areas) Act (No. 21 of 1923)² which specified that: "Any urban local authority which has under its administration and control any location or native village, may let sites within the location or native village for trading or business purposes . . . provided that no site shall be let to a person who is not a native." (Section 22) It allowed, however, for the urban local authority to carry on various businesses if it were satisfied that the reasonable needs of the inhabitants were not met.

For the most part, the Native (Urban Areas) Act was enabling legislation, defining fields in which the Governor-General, Minister of Native Affairs and urban local authorities could respectively make regulations.³ The 1930 amendment of the Act went beyond the original statute in granting the Minister the power to exert pressure over municipalities which refused to grant trading licences in the locations. Section 22 was repealed, and the following section substituted: "Any urban local authority may, and if so directed by the Minister after consultation with the Administrator and after due enquiry at which the urban local authority shall be entitled to be heard, shall on such conditions as he may prescribe . . . let sites within the location or native village for trading purposes."

1. Africans were, however, permitted to trade as hawkers.
2. This statute only covered trading within urban locations. A number of African business and professional men acquired premises outside the locations, but their status was only defined in 1945, as will be discussed below.
3. R. Davenport "African Townsmen? South African Urban Areas Legislation" African Affairs vol. 68, no. 271, April 1969, p. 100.

A number of Free State Members of Parliament reacted strongly to the amendment, contending that "It is the town council (not the minister) that is the competent authority to decide whether there shall be trading in the location or not".¹ Among the somewhat spurious arguments advanced to justify the refusal of trading rights to Africans were :

- a) that "In the past in his reserves and in Basutoland where the natives have full say, what part have they in the shops? They are in the hands of the white man. This shows that the natives have not the desire and the aptitude to have shops in the reserves and why must we give him the exclusive rights to have shops in the location . . . Trading is not his metier. He does not want it".²
- b) that Free State municipalities "find that in nearly every case where a request for a trading licence is made by natives they are employees of one of the white shops in the villages. The trade is not done for the benefit of the native, but of someone else, and I do not think that it ought to be allowed in the circumstances".³

A more accurate representation of the motives underlying the Free State's refusal to grant trading licences to Africans is to be found in the evidence of the Free State Municipal Association and the Kroonstad Town Council presented at an Inquiry into Native Trading held during 1932. The major arguments against the granting of licences to Africans can be summarised under the following headings :

- a) That the holders of trading licences would acquire a permanent stake in the towns, whereas "The traditional conception of our Native Locations in the Free State . . . undoubtedly is that they are merely convenient reservoirs for the purpose of supplying the legitimate labour requirements of the towns and villages. The old Free State Volksraad . . . resolutely set its face against the recognition of locations in the Urban Areas as townships, and it is obvious that in order to check the possibility of such a metamorphosis the Volksraad imposed the bar against trading".⁴
- b) That the interests of White traders should be protected. "Shopkeepers, whose trade is principally with the Natives, have spent large sums of money in acquiring property and building premises to place themselves in a position to cater for the Native trade. If this trade is to be taken

1. Assembly 27 February 1930 Hansard Col. 1282 (van Rensburg).
 2. *ibid.*, Col. 1282. (van Rensburg).
 3. *ibid.*, Col. 1279 (Visser).
 4. Statement submitted by the O. F. S. Municipal Association at an Inquiry into Native Trading held at Kroonstad during September, 1932.

away from him he will be deprived of a means, not only of carrying out his obligations to the Municipality and earning a reasonable rate of interest on his capital invested, but also of making a livelihood."¹

A number of African organizations and individuals expressed bitter resentment towards the restrictions. The Kroonstad Native Advisory Board contended that the granting of trading rights "is fully in accord and bound up with the whole principle of segregation",² and pointed out that Africans in other provinces had been granted trading licences freely, and there had been no complaints. Argument (a) was rebutted on the grounds that the authorities granted schools and halls in the locations. "We know of no case in the history of the world where a subject race has been restricted in regard to Trading Rights."³

In criticizing the restrictions on African traders in the Free State and elsewhere, Prof. D. D. T. Jabavu commented that "In the United States Negroes make a good living in the grocery trade among their people, especially in the Negro quarters. An essentially British town like East London has constantly refused trading to Natives in their own urban settlement. This unreasonable jealousy is not confined to the Englishmen of the 'Fighting Port' but is the rule throughout the Dutch towns of the Orange Free State".⁴ R. Godlo, president of the South African Congress of Advisory Boards, prevailed upon the Minister of Native Affairs "to set the machinery of his prerogative of compelling defaulting municipalities into operation".⁵

Throughout the 1930's and early 1940's the Free State maintained its intransigent position, and no direct Ministerial powers were exercised, although some pressures were exerted. The Smit Committee Report, for example, commented that "Justice in this matter is clearly on the side of the Natives: if White and Black are to be divided into separate camps, it is manifestly fair and in accordance with the basic principle of segregation that the Black man should be permitted to serve his

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1. Statement submitted on behalf of the Town Council of Kroonstad at the same inquiry.
 2. Statement submitted on behalf of the Kroonstad Native Advisory Board at the same inquiry.
 3. *ibid.*
 4. D. D. T. Jabavu "Bantu Grievances" in I. Schapera (ed.) Western Civilization and the Natives of South Africa (London; Routledge and Sons, 1934), p. 295.
 5. R. H. Godlo "Urban Native Conditions", Report of the Fifth National European-Bantu Conference, Bloemfontein, July 1933, p. 106. (Published by the S. A. Institute of Race Relations).

own people in his own camp", and the Commissioners expressed the hope that the Free State Municipal Association "may be prevailed upon to adopt a more generous view".¹

The Free State was finally persuaded to recant in 1944. The Minister for Native Affairs observed: "I have never yet used that power (to force municipalities to grant trading licences) because I have always felt that it might be detrimental to the proper cooperation between the natives and the authorities concerned, and that it might cause ill-feeling among these people. Last year I explained that as Bloemfontein treated its Natives so well - I can almost say better than in any other place in the Union - I had no intention of using the powers which I have under the Principal Act; but I asked them if they would not do so voluntarily, and I am glad to say that a few months ago the Town Clerk of Bloemfontein wrote a letter stating that the municipality had decided to allow natives to trade in the location."² The Minister gave the assurance that "Europeans will not be allowed to buy in the locations and native shops will not be able to undermine ordinary shops or business concerns in the towns".³

The issue of African trading rights in the Free State highlights the close relationship between the evolution of policy towards African enterprise and official appraisals of the permanence of Africans in urban areas. The (albeit small) degree of liberalization embodied in the 1930 amendment of Section 22 of the Urban Areas Act was indicative of a policy which accepted segregation and interpreted it in terms of conceding certain rights to Africans in those parts of the urban areas which had been set aside for their exclusive occupation. Nevertheless the conciliatory tactics outlined above, and the Minister's reluctance to exercise his prerogative, reflect White apprehension towards competition from Africans.

It is suggested that these two elements, namely the status of Africans in urban areas and demands by White groups for protection from African traders have been the basic factors determining policy towards African enterprise. Until the late 1940's slight concessions in the former sphere cancelled out the latter to a certain extent. An attempt will be made by means of the evidence presented below to show that during the 1950's and 1960's the progressive diminution in the rights of urban Africans combined with pressures for protection put forward by White interest groups have resulted in severe obstacles being placed in the way of urban African businessmen.

The first set of restrictions affected Africans who had acquired premises outside locations or 'native villages'. In 1955 the Government decided to implement Section 6 of the

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1. Report of the Inter-Departmental Committee on the Social, Health and Economic Conditions of Urban Natives 1942, para. 317, p. 25.
 2. Assembly 24 March 1944 Hansard Cols 3824/5.
 3. *ibid.*, Col. 3977.

Native (Urban Areas) Consolidation Act of 1945 which provides that, except in the cases of Africans established in such areas before 1936, the Governor-General's prior permission must be obtained.¹ Local authorities were directed to ensure that those who were in illegal possession of sites be removed to areas where they were allowed to operate. In subsequent press statements officials of the Native Affairs Department stressed that it was in the interests even of those who were in lawful occupation of premises in 'White' areas to start looking for sites in the townships because their continued presence in areas not set aside for African occupation was in conflict with Government policy.² This principle was further stated by the Minister of Native Affairs in Parliament.³

Increased control over the activities of African businessmen was introduced during 1957 in terms of the Native Laws Amendment Act (No. 36 of 1957). Previously Section 23 (1) (g) of the Urban Areas Act had enabled the Governor-General to "prohibit any male Native from working as a togt or casual labourer or from carrying on any work as an independent contractor unless the prescribed officer has by licence authorized him to do so ...". The 1957 Act added, after the word "work", the words "on his own account in any business, trade or other remunerative activity". As pointed out by the Institute of Race Relations, this amendment implies that African business and professional men would require Departmental permission to carry on their work, even in an African township.⁴

The Minister of Native Affairs gave the following justification for his action: "some Natives abuse their presence within the White urban area to trade in competition with the White traders in that urban area. That certainly is not something which I am prepared to tolerate. In the White area the White man should have the right to trade and practice his profession undisturbed by non-White competition ... we have now established extensive trading areas with properly built shops and offices for professional men in the location areas, and all of that is reserved for the use of Natives only I protect the right of the Native to trade with his own people inside the Native residential area; and the reverse of that must also apply ..." ⁵

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1. M. Horrell (ed.) Survey of Race Relations in South Africa 1955-6, South African Institute of Race Relations, p. 132.
 2. A considerable number of people were affected by the regulations. In Johannesburg about 36 Africans had obtained Ministerial authority, but some 160 had not, although their licences were in order. A substantial proportion of licensed traders in Durban were affected and 121 Africans were established outside locations in Cape Town - Survey of Race Relations 1955-6 *ibid.* p. 132.
 3. Assembly 30 January 1956 Hansard Col. 375.
 4. M. Horrell (ed.) Survey of Race Relations in South Africa 1956-7, p. 178.
 5. Assembly 10 April 1957 Hansard Col. 4519.

Restrictions on the rights of Africans to trade within the locations appear to have been precipitated by pressures from the Afrikaanse Sakekamer. At its 1958 conference this organization opposed the granting of trading licences within locations, and recommended that White trading areas be established outside locations.¹ An editorial in the Sakekamer's official journal commented that while Afrikaners were opening up the country and making it safe for White civilization, other groups were taking the opportunity to entrench themselves in commerce and industry. Now that the Afrikaner was trying to catch up, the Government put forward a policy of monopoly for Bantu over Bantu trade, thus placing the Afrikaner at a disadvantage.²

This approach placed the Minister in a dilemma. At a meeting of the Sakekamer at the end of 1959 the Minister said that he was aware of two objections to Bantu trading in the locations. One was that a permanent Bantu trading class was being built up under the Department's protection. The other was that these business concerns constituted a future threat to the White trader. The minister said that the Bantu should realise that he was only temporarily carrying on business in the locations. He continued: "I am considering the practical application of a policy to make it clear to intending traders in the locations that their trading facilities are temporary; that they must go and continue their business in their homeland areas; that the conditions are that they are only gaining experience and building up capital in the locations, for which the opportunities in their home areas are small."³

Section 10 of the draft Bantu Laws Amendment Bill (February 1963) represented an attempt to give legal sanction to the principles enunciated above. The Bill was dropped after it had been read a First Time, and the abridged version did not deal with the issue of African trading rights in the urban areas.

In 1963, however, a Circular Minute (No. A 12/1 - A 8/1) was issued to local authorities by the Department of Bantu Administration and Development which contained the harshest restrictions yet placed on African businessmen. Its provisions are summarised as follows :-⁴

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1. Kuper An African Bourgeoisie op. cit. p. 272.
 2. Volkshandel October 1959.
 3. Quoted in M. Horrell (ed.) Survey of Race Relations in South Africa 1958-9, p. 249. The Minister stated subsequently that he did not intend forcing businessmen from the locations indiscriminately. "I shall not ask any Native enterprise to go to the Reserves until there are comparable towns, markets and opportunities for him there. It would be inhuman to send him out into the country where there is no business to do" - Survey of Race Relations 1958-9 op. cit. p. 249.
 4. Statements not placed in inverted commas have been summarised by the writer. The full context of these statements may be found in Savage Bantu Retail Traders op. cit. Appendix B.

1.1 "Trading by Bantu in White areas is not an inherent primary opportunity for them, but should be allowed only where necessary . . . "

1.2 Prohibits the acquisition by Africans of premises outside their residential areas in terms of the Natives (Urban Areas) Consolidation Act (No. 25 of 1945) and the Group Areas Act (No. 77 of 1957).

1.3 Prevents Africans from trading as pedlars, hawkers or speculators in livestock and produce outside their residential areas.

1.4 "It is the general and therefore overriding policy not to allow, without good reason, an increase in the number of Bantu residents in White areas who are not employees. Where, therefore, it is possible without due inconvenience to satisfy the needs of Bantu at towns in White areas from existing businesses in such towns, no reason exists for the establishment of trading concerns in the Bantu residential areas."

2.0 "If it proves necessary to provide trading facilities in Bantu residential areas, this must be done on the following basis :

2.1 Trading rights may only be granted to Bantu who qualify under Section 10 (1) (a) and (b) of the Natives (Urban Areas) Consolidation Act of 1945.

2.2 "The carrying on of more than one business, whether of the same type or not, by the same Bantu, may not be allowed, not even in different urban Bantu residential areas in the same urban area."

2.3 "The establishment of Bantu businesses which do not confine themselves to the provision of the daily essential necessities of the Bantu . . . must not be allowed. These include dry-cleaners, garages, and petrol filling stations. Existing dry-cleaners, garages and petrol filling stations may however, be allowed to continue until the opportunity arises to close them or to persuade their owners to transfer their businesses to a Bantu town in the Bantu homelands."

2.4 "The establishment in the White areas of Bantu companies and partnerships with the object of combining their resources in order to enable them to embark upon larger and more extensive business propositions is against policy and they must not be afforded trading facilities in the urban Bantu residential areas."

2.5 "The establishment of Bantu-controlled financial institutions, industries and wholesale concerns must not be allowed in the White areas."

2.6 "Local authorities must themselves erect all buildings necessary for trading purposes . . . Bantu to whom trading rights have been allocated may in future under no circumstances be allowed to erect their own buildings."

2.7 "Trading rights may not be granted at all to Bantu originating from areas outside the Republic. . . "

In 1968 further restrictions were placed on urban African businessmen :-¹

- a) No site shall be allocated in an urban Bantu residential area for trading, business or professional purposes to any African who has business or trading interests outside this area.
- b) An African who is already occupying a site for trading or business purposes may not be allocated another site for such purposes whether or not the proposed business is of the same type as his existing one.
- c) An African trader may not deliver or sell goods to a non-African person who lives outside the urban Bantu residential area.
- d) No trader may make structural alterations to buildings or fittings on the site he occupies, or place additional fittings on it, without the written permission of the local authority.

The Government's determination to limit the range and scope of African entrepreneurial activities in urban areas has been demonstrated on at least two occasions :-

- a) At the suggestion the National African Chamber of Commerce the (White) Johannesburg Chamber of Commerce approached the Minister of Bantu Administration and Development and proposed that it establish a commercial college for Africans in Soweto. The Minister approved in principle and comprehensive planning was undertaken. The Minister changed his mind, however, giving as his reasons that "the proposed institution was to be a big day school and that White teachers would be temporarily employed there".²
- b) During 1967 the Johannesburg City Council pressed for the creation of a stabilization fund to assist African businessmen in urban areas. This would be set up by the State, since no authority existed for the Council to do so. The Bantu Investment Corporation intimated, however, that in terms of the legislation of 1959 under which it operated, it could give assistance only to "Bantu persons in Bantu areas"; and the Department of Bantu Administration and Development replied to the Council's representatives by stating that the proposed step would be a retrogressive one, since it was Government policy that "moneyed Bantu and Bantu institutions being desirous of entering the field of trade should establish themselves in the Bantu homelands".³

1. Government Gazettes 2096, 14 June 1968 and 2134, 26 July 1968. Quoted in M. Horrell (ed.) Survey of Race Relations in South Africa 1968, p. 106.
2. M. Horrell (ed.) Survey of Race Relations in South Africa 1966, p. 263.
3. M. Horrell (ed.) Survey of Race Relations in South Africa 1968, p. 107.

As was the case in the Free State during the 1930's, Africans have expressed resentment at the restrictions, but their representations have been to little avail. In 1964 the National African Chamber of Commerce sent deputations to the Minister and in 1969 a memorandum¹ was dispatched to him; neither of which, however, resulted in any alleviation of the situation.

In general, the rationale for the stringency of present measures approximates fairly closely the Free State's stand prior to 1944. Two of the basic reasons why the Free State had refused to grant Africans trading rights - namely the fear that they would acquire permanent interests and the desire to restrict interracial competition - are seen to have been stated explicitly on a number of occasions by official sources. The main difference at present appears to be that the granting of exclusive rights in the reserves, where Africans "may with the fullest freedom aspire to the highest rung in the field of human endeavour [sic],"² is put forward as a moral justification for curtailing the number, range and size of African businesses in urban locations.

7.3 Growth and Characteristics of African Enterprise

Although a substantial African entrepreneurial class developed only after the Second World War, a small group had managed to establish itself in business by 1910. The Blue Book on Native Affairs of 1910 reveals that Africans were licensed as traders in twenty-seven of the one hundred and forty-six districts which were covered in the report.

Table 7.2

Distribution of African Traders, 1910³

Province	No. of Districts	No. of districts in which Africans held trading licences
Cape	35	11
Transkeian Territories	27	4
Natal 3	30	9
Zululand	10	0
Transvaal	27	3
O. F. S.	17	0
	146	27

1. Confidential
2. Circular Minute no. A12/1 - A8/1 1963, op. cit.
3. Extracted from the Blue Book on Native Affairs 1910, UG 17/1911, pp. 179-192.

The actual number of African traders was very small : twenty-one of the twenty-seven district reports specified the number of licences issued to Africans, and these total twenty-eight general dealers, one butcher and a trading company "conducted solely by Natives. It is composed of a syndicate of Natives and consists of two stores carrying on trade with the Native Mission Reserves ".¹

A few of the districts commented upon the efficacy of African traders, and in most cases the remarks were adverse. For example : "A few Natives have trading stations but, with one or two exceptions, they have not yet proved themselves capable traders."² (Herschel)

"There are three Native traders but, beyond taking out licences, they do little more to entitle them to the designation."³ (King William's Town)

"A limited number of licences were taken out by Natives, but they do not prove very successful as traders."⁴ (Nylstroom)

It is difficult to draw any definite conclusions from the locational distribution of early African traders. Nevertheless it is interesting to note that a relatively greater proportion of trading licences had been issued to Africans in the Cape and Natal than in the other two provinces, the Transkeian Territories and Zululand. This might tend to support Kuper's assertion that independent business activity is a product of culture contact. The growth of an African entrepreneurial class subsequent to 1910 is characterized by marked differences between the reserves and urban areas.

7.3.1 Reserves

The growth in the number of African general dealers and other businessmen in the reserves prior to 1936 was relatively slow in comparison with later years. By 1936 there were 556 independent businessmen in the Reserves, distributed as follows :-

Table 7.3

Distribution of African Traders Among Reserves, 1936⁵

	<u>General Dealers</u>	<u>Other</u>	<u>Total</u>
Transkei and Ciskei	19	45	64
Natal and Zululand	37	354	391
Northern Areas	25	14	39
Western Areas	38	24	62
	<u>119</u>	<u>437</u>	<u>556</u>

1. Blue Book on Native Affairs 1910, UG 17/1911, p. 186.
2. *ibid.* p. 180.
3. *ibid.* p. 181.
4. *ibid.* p. 190.
5. Tomlinson Commission Report Vol. 9, Chap. 22, Table 1, p. 13 and Table 13, p. 68.

The Native Economic Commission (1930/2) attributed this to the virtual monopoly of trading which had been obtained by Whites. They commented also that "the aptitude for trading is as yet only slightly developed" among rural Africans. Between 1936 and 1952 the overall number of general dealers in the reserves more than doubled, and numerically there was a significant change in the racial pattern of trading in favour of African traders. The share held by Africans in other commercial activities also underwent considerable expansion, while that of Whites diminished considerably :-

Table 7.4.

General Dealers in the Reserves 1936-52 : All Races¹

	Africans		Whites		Coloureds & Asiatics		Total No.
	No.	%	No	%	No	%	
1936 Transkei & Ciskei	19	2.3	790	95.2	21	2.5	830
Total Reserves	119	9.1	1117	85.9	65	5.0	1301
1946 Transkei & Ciskei	67	7.2	835	89.7	29	3.1	931
Total Reserves	433	24.0	1268	70.2	104	5.8	1805
1952 Transkei & Ciskei	206	17.2	834	77.6	34	3.2	1072
Total Reserves	1199	45.5	1319	50.1	115	4.4	2633

Table 7.5

Other Business Concerns in the Reserves (1936-52) Owned by Africans²

	% of 1936		% of 1946		% of 1952	
	No.	Total Trade	No.	Total Trade	No.	Total Trade
Eating Houses	34	61.8	100	76.5	280	86.7
Butchers	56	59.0	176	69.5	407	78.8
Hawkers & Pedlars	179	93.8	200	90.8	738	93.2
Speculators	133	79.7	312	78.4	797	73.5
Other ³	35	10.0	129	21.7	450	39.5
	437		917		2672	

1. Extracted from the Tomlinson Commission Report Vol. 9, Chapter 22, Table 1, p. 13.
2. Extracted from op. cit. Table 13, p. 68.
3. Consisted of millers, fresh fruit and vegetable dealers, transport and patent medicine dealers.

As late as 1952 Whites still dominated general dealing in the Reserves, but their degree of monopoly had been reduced by the rapid growth in the numbers of African traders. This trend was significantly weaker, however, in the Transkei and Ciskei. The following table highlights the relatively weak position of Transkeian and Ciskeian African general dealers even in 1952 :

Table 7.6

Proportion of General Dealers Licences held by Africans in Particular Reserves, 1952.¹

	No. of African Traders	% of total licences held by Africans
Transkei and Ciskei	206	17.2
Natal and Zululand	239	57.5
Western Areas	532	67.4
Northern Areas	222	62.4

In this year 63% of all White traders in the reserves were located in the Transkei and Ciskei.² The Tomlinson Commission report attributed this situation to the "conditioning environment (which) no doubt played an important part in the Transkei and Ciskei. Europeans entered commerce at an early stage and gained a foothold which will be difficult to uproot".³

Despite the increasing numerical importance of African traders, their share of trade remained relatively small. The Commission estimated the participation of African retailers in the total trade of the reserves as being in the region of 10% in 1952.⁴ Besides lack of capital, education and experience, the weak competitive position of the African trader was attributed to mistrust on the part of customers.

In contrast to the situation on the Reef,⁵ the Commission remarked that "Bantu apparently find it difficult to obtain credit facilities from wholesalers".⁶ It observed that "In general it appears that urban location is preferred to rural settlement where the purchasing power and regularity of incomes are smaller and where Bantu with capital and experience are probably scarcer".⁷

The general conclusions drawn by the Commission as to the future role of the African trader in the reserves were

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1. Extracted from Tomlinson Commission Report op. cit., Table 13, p. 68.
 2. *ibid.* p. 14
 3. *ibid.* p. 15.
 4. *ibid.* p. 61
 5. see sub-section 7.3.2.
 6. Tomlinson Commission Report op. cit. p. 62.
 7. *ibid.* p. 60.

pessimistic : "a long time will elapse before the Bantu will be a successful trader . . . Unless positive steps are taken to assist Bantu traders, all the evidence suggests that the bulk of trade in Bantu areas will remain in the hands of especially Europeans for a considerable time to come, and that the Bantu trader will not be able to take over the trade in the foreseeable future." ¹

Between 1951 and 1958 the number of African traders in the reserves approximately doubled from 3,871 to 6,032. ² It was announced in Parliament that by June 1958 the following licences had been issued to Africans in the reserves :

Table 7.7

Trading Licences Issued to Africans in the Reserves, 1958 ³

General dealers	2166
Butchers	781
Bakers	98
Cafe and eating house owners	493
Millers	128
Fresh produce dealers	209
Sundry (mainly hawkers & speculators)	<u>2157</u>
	6032

This information shows that there was relatively less diversification of African business activity in the reserves than in the urban locations. Moreover, if these statistics are supplemented with those given in Parliament in 1963, ⁴ it can be seen that the rate of increase of the number of African businessmen in the late 1950s and early 1960s was considerably slower than in preceding years. The following tables give a general picture of the growth in numbers of African businesses in the reserves between 1936 and 1963 :-

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1. Tomlinson Commission Report op. cit. p. 64.
 2. Digest of South African Affairs 19 March 1959, p. 2.
 3. Assembly 15 September 1958 Hansard 10 Col. 3814
 4. According to the Minister of Bantu Administration and Development (Assembly 23 April 1963 Hansard 13 Col. 4536) there were 4576 African owned businesses in the Reserves in 1963.

Table 7.8

Rates of Growth of African Businesses in the Reserves, 1936-63¹

a) Including hawkers and speculators

	No.	Overall Rate of Growth	Average Rate of Growth per annum
1936	556	148.2%	14.2%
1946	1350	186.7%	32.1%
1952	3871	55.8%	9.3%
1958	6032		

b) Excluding hawkers and speculators

1936	226	243.4%	24.3%
1946	838	182.3%	30.4%
1952	2366	63.7%	10.6%
1958	3875	18.0%	3.4%
1963	4576		

The relatively high rates of growth between 1936 and 1952 can perhaps be interpreted as a result of the 1934 Proclamation, which relaxed the radius rule for Africans from five to two miles. The fall-off in the growth rate after 1952 can possibly be attributed to licences for shops within two miles of one another having been taken up. It seems likely, however, that the Transkeian Trading Amendment Act (1964) resulted in a substantial increase in the number of African-owned enterprises in that territory.²

7.3.2 Urban Areas

It appears that between 1910 and 1936 there was a fairly substantial increase in the number of African traders in the urban areas. Whereas in 1910 on the Witwatersrand there were "two or three shops kept by Natives in the locations, but

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1. Calculated from (i) the Tomlinson Commission Report op. cit., table 1, p. 13; (ii) Assembly 15 September 1958 Hansard 10. Col. 3814 & (iii) Assembly 23 April 1963 Hansard 13 Col. 4536.
 2. See sub-section 7.2 above. Unfortunately officials in the Dept. of the Interior in the Transkei have said that statistics are not available.

most trade is done by Jews or Arabs ...",¹ Phillips reports that by 1936 "wholesalers estimated that there were between five and six hundred Native retail traders on the Reef, at least four hundred of whom were in the grocery business".² According to the Native Economic Commission of 1932 "In urban areas in the Cape, Natal and the Transvaal a number of Natives have established their own businesses, and though these are conducted on a small scale, the length of time they have been in existence testifies to the fact that the owners have been able to make a living out of them".³ The report quoted testimony from Major H. S. Cooke who commented on the popularity of trading amongst Africans and the fact that "The average trader seems to do reasonably well and few seem to fail to make a living".⁴

Phillips' observations are less optimistic. He found that only two or three African retailers on the Reef were "keeping adequate books, taking inventories of stock and keeping a check-up on their businesses ... wholesalers estimate that not more than ten to fifteen percent of these men are making a living out of their shops. Many of the remainder are in debt...".⁵ Phillips attributed the shortcomings of African businessmen partly to the ease with which they were able to obtain credit from wholesalers: "A number of wholesalers stress the fact that on the Reef, as elsewhere in South Africa, there is keen competition among wholesalers for business with Native traders ... So anxious are wholesalers to retain the custom of Native traders that they are reluctant to press for payment."⁶

Reyburn's 1959 survey of enterprises in Soweto highlighted the extensive difficulties faced by urban African businessmen: "it is almost solely the general dealers who earn high profits and then only if they carry the optimum amount of stock and buy in the best markets. Competition in most areas is keen and even an efficient general dealer can find himself worked out of business. In other categories of trade the poverty of customers and high capital costs and overheads involved make it more the exception than the rule for traders to thrive. A few large-scale undertakings in specialized fields are, however apparently prospering."⁷ He found lack of capital and the means of raising it to be the most severe problems confronting African traders, and suggested that these difficulties derived mainly from

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1. Blue Book on Native Affairs op. cit., p. 191.
 2. R. E. Phillips The Bantu in the City (Lovedale: The Lovedale Press, 1938), p. 20.
 3. UG 22/1932 para. 950, p. 137.
 4. *ibid.*, para. 950 p. 138.
 5. Phillips op. cit., p. 20.
 6. *ibid.*, pp. 24-26 (This could, perhaps be attributed to the depressed economic conditions prevailing at the time.)
 7. L. Reyburn African Traders: Their Position and Problems in Johannesburg's South Western Townships S. A. Institute of Race Relations, Fact Paper no. 6, 1960, p. 37.

the inability of Africans to obtain freehold rights over land, and hence their inability to advance immovable security for overdrafts, loans and mortgages.¹

Despite such problems, African business undertakings in Johannesburg locations appear to have diversified into more sophisticated and specialised spheres than in the Reserves. For example in 1958 Soweto businesses included 53 dairies, 12 undertakers, 23 dry cleaners, 40 shoemakers, 8 motor repair shops and 4 garages.² Reyburn³ includes amongst enterprises in Soweto 14 drapers and outfitters, a newsagent, 3 builders and a burglarproofing manufacturer. By 1969 the degree of diversification was considerable :

Table 7.9

African Enterprises in Soweto, 1969⁴

Blacksmiths	3	Hardware merchants	22
Building Contractors	1	Herbalists	25
Building materials suppliers	2	Milliners	1
Burglarproofing		Leather works	5
manufacturers	6	Market stalls	14
Butchers	208	Motor repairs/workshops	4
Carpenters	10	Nurseries	1
Cartage contractors	1	Offal dealers	28
Cobblers	11	Panel beaters	1
Cycle shops	7	Photo studios	7
Cinemas	1	Plumbers	8
Dairies	1	Printers	3
Drapers	11	Restaurants	97
Dry cleaning factories	14	Scrapyards	2
Dry cleaning depots	9	Scrap collectors	1
Electrical repairs	2	Soft goods dealers	11
Fish fryers	79	Stables	2
Funeral parlours	17	Tailors/dressmakers	39
Garages and filling stations	7	Taxi operators	2
Green-grocers	217	Wood & coal merchants	134
Grocers	361		
Hairdressers/barbers	24		
		Total	1460

1. Reyburn, op. cit. p. 14. Other difficulties included inadequate police protection, scarcity of trained assistants and illegal trading.
2. "Trading as a Career" Bantu Education Journal, Sept. 1959 pp. 385-6.
3. African Traders op. cit. p. 37.
4. City of Johannesburg Non-European Affairs Information Department.

A feature of particular interest is the establishment of small industries in Soweto. Industrialists in the reserves have been extremely slow in developing, and the few notable exceptions are people who originally established themselves in the urban areas, and were only able to move with considerable assistance from the Development Corporations.

Another characteristic of urban African enterprise is the spontaneous development of traders' associations during the 1950's.¹ This contrasts with the situation in the reserves, where formal organization of African business interests was only established in the late 1960s at the instigation of the Development Corporations.

The two major voluntary associations operating in Johannesburg by the late 1950s were the National African Chamber of Commerce and the Johannesburg and District Traders' Association, with a total membership of over two hundred. In addition the Bantoe Winkelierse Helpmekeer Vereeniging and the Ikaheng Finance Corporation offered financial and other assistance to members on a quid pro quo basis. However, as Reyburn has pointed out, these organizations were - and still are - faced with a number of problems.

It is unfortunate that adequate statistics describing the growth in the number of African businesses in the urban areas over the years are not available, and therefore no comprehensive analytical comparison with the reserves is possible. Such information as is accessible relates to the Johannesburg municipal townships,² and these data will be used to indicate orders of magnitude.

In 1938 there were 192 African general dealers, hawkers and coal merchants in the Johannesburg municipal townships.³ There was considerable expansion between 1955 and 1958, when the number of licensed traders increased from 820 to 1683.⁴ Reyburn's data indicate that there were 1,137 businessmen in the municipal townships (i. e. excluding Meadowlands and Diepkloof) in 1959;⁵ the discrepancy probably arises because Reyburn does not include hawkers and speculators. The rate of growth tapered off considerably during the 1960s; according to the Johannesburg municipality there were approximately 1,460 businesses in Soweto in 1969.⁶ This information is consolidated in Table 7.10, which gives a rough indication of trends in the growth rates of urban African businesses.

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1. See Reyburn op. cit. pp. 22-24.
 2. The Non-European Affairs Department of the Johannesburg Municipality is the only one which has an Information Dept.
 3. S. A. Institute of Race Relations Evidence to the Native Laws Commission of Inquiry RR26/1947.
 4. Digest of South African Affairs 6 March 1959.
 5. African Traders op. cit. p. 37.
 6. Non-European Affairs Information Department.
By this time hawking and speculating had been prohibited.

Table 7.10

Rates of Growth of Businesses in Johannesburg Townships, 1938-1969¹

a) Including hawkers and speculators

	No.	Overall Rate of Growth	Average Rate of Growth per annum
1938	192	327.08%	19%
1955	820		
1958	1683	105.24%	35%

b) Excluding hawkers and speculators

1959	1137	28.41%	2.4%
1969	1460		

This tapering-off in the growth rate of enterprises is probably due, in part, to the non-comparability of tables (a) and (b). It appears very likely, however, that the stringent restrictions placed on urban businessmen in the early 1960s, as well as the uncertainty engendered thereby, played an important role in suppressing the growth of African enterprises in urban locations. Moreover, evidence from the writer's sample of African businessmen suggests that a number left the urban areas to go to reserves.

This raises extremely important questions; namely (i) do the advantages to the individual of protection and assistance in the reserves outweigh the disadvantages of the curtailment of entrepreneurial activities in the urban areas, and (ii) what are the benefits and costs to the country as a whole of this planned reallocation of human and physical resources.

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1. Calculated from (i) S. A. Institute of Race Relations Evidence to the Native Laws commission of Inquiry op. cit. ; (ii) Digest of South African Affairs 6 March 1959; (iii) information supplied by the Johannesburg municipality's Non-European Affairs Information Dept.

Chapter 8

METHOD OF APPROACH

8.1 Interview data

The remainder of Part III is devoted to an analysis of factors relating to African entrepreneurial supply and demand within the framework outlined in Chapter 7, and to a critique of the framework itself. These are based primarily on data obtained from interviews with African businessmen which took place during the period September 1970 to April 1971.

Of the eighty-two interviews conducted, information contained in two was found too fragmentary to be useful and was disregarded. Data from other interviews were also found partial, since these interviews were conducted with managers of the enterprises in the owners' absence. They contain fairly comprehensive information about the management of the enterprise, but nothing relating to the entrepreneurs' backgrounds or attitudes.¹

The nature and distribution of the enterprises either previously or currently being operated by entrepreneurs in the sample taken, is depicted in Tables 1, 2 and 3 of Appendix A. The distribution of entrepreneurs and enterprises according to reserves and urban locations may be summarized as follows :

Table 8.1

Locational Distribution of Entrepreneurs and Enterprises in the Sample

Reserves	No. of Entrepreneurs	No. of Enterprises
Transkei	40	67
Ciskei	19	23
Tswana Areas	<u>3</u>	<u>9</u>
Sub-total	62	99
Urban Locations		
Johannesburg	11	18
Port Elizabeth	-	7
Cape Town	-	5
Bloemfontein	-	3
Grahamstown	7	7
Uitenhage	-	1
King Williams Town	-	<u>1</u>
Sub-total	<u>18</u>	<u>42</u>
Total	80	141

1. These two will not be discussed in chapter 9 but will be included in chapter 10.

The discrepancy between columns 1 and 2 of this table arises because (i) three Transkeian entrepreneurs who have moved from urban locations to the Transkei still operate a total of six enterprises in the former areas;¹ and (ii) ten Transkeian businessmen operated a total of eleven enterprises in urban locations prior to moving.² The decision to include these enterprises in the sample was taken because the thirteen entrepreneurs were able to provide comprehensive information about their businesses in urban locations, this being useful for comparative purposes.

8.1.1 Representativeness of the Sample

It is important to note that the sample is not representative of the whole population of African businessmen in South Africa, the main reasons for this being :-³

- a) the small size of the sample;
- b) the deliberate inclusion of a fairly large proportion of enterprises requiring a relatively high level of organizational and technological sophistication;
- c) the fact that all Reserve enterprises in the sample were located in towns.⁴

It is therefore probable that the enterprises in this sample are considerably larger and more sophisticated than is the norm, and comparisons with three other samples tend to confirm this.⁵

8.1.2 Method of Sampling

An attempt was made to interview every businessman in a given area, with the exceptions of (i) Soweto and the Tswana areas where attention was generally focused on a relatively

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1. See Table 2, Appendix A.
 2. See Table 3, Appendix A.
 3. A rough indication of the total number of African businessmen in South Africa is given in Chapter 7 above.
 4. Transkei : Butterworth, Engcobo, Flagstaff, Idutywa, Libode, Lusikisiki, Mount Frere, Ngceleni, Qumbu, Tsolo, Tsomo, Umtata. Ciskei : Zwelitsha, Mdantsane. Tswana areas : Ga Rankuwa, Hammanskraal, Mabopane.
 5. Savage A Study of Bantu Retail Traders in Certain Areas of the Eastern Cape op. cit.
H. J. Redelinghuys A Pilot Study of the Bantu Entrepreneur in the Tswana Homeland (Pretoria : Institute for Manpower Research, 1970) ;
Reyburn African Traders op. cit.

small number of large-scale enterprises,¹ and (ii) Mdantsane, where trading is carefully regulated and there is a considerable degree of uniformity among enterprises.² Great similarity was also found among Grahamstown enterprises.

Table 8.2

Number of Entrepreneurs Interviewed in Relation to Total Number of African Entrepreneurs in each Area.

	No. Interviewed	Total No. of African businessmen ***
<u>Transkei*</u>		
Butterworth	8	10
Engcobo	3	4
Flagstaff	2	3
Idutywa	4	5
Libode	1	1
Lusikisiki	3	3
Mount Frere	3	4
Ngceleni	1	2
Qumbu	2	2
Tsolo	3	4
Tsomo	1	1
Umtata**	11	13
<u>Ciskei</u>		
Zwelitsha	14	16
Mdantsane	5	22
<u>Grahamstown</u>	7	12

* Urban area only - excluding district

** Excluding urban location

*** Herbalists and XDC-managed shops are excluded.

1. The total number of enterprises in Soweto in 1969 was 1460 (see Chapter 7) of which information was obtained concerning 17. Comparative figures for the Tswana areas are : total - 690 (Redelinghuys op. cit. p. 3) no. interviewed - 3.
2. An additional reason for limited samples in Soweto, Mdantsane and the Tswana areas was the frequently unavoidable presence of officials which resulted in generally unsatisfactory rapport with interviewees.

8. 1. 3 Method of Interview

Before commencing field work the writer was warned by XDC officials that they considered it highly unlikely that African entrepreneurs would be prepared to discuss their business affairs with a woman, particularly one of another race. It was suggested, moreover, that businessmen might erroneously suspect that enquiries were being made for tax purposes.

In an attempt to allay such suspicions and create maximum rapport the writer decided against using a formal questionnaire and adopted an interview procedure which was as unstructured as possible. The questions raised during interviews are outlined in Appendix E ; it was, however, seldom convenient to ask questions in that order. After introductions had been made and the nature of the project explained, the writer attempted to engage each businessman in a general conversation about himself, including a discussion of the work he had done before entering business and the reasons for this decision to become a businessman. This technique produced satisfactory results; although initially many of the businessmen were cautious, once they had been encouraged to talk about themselves they seemed far more inclined to answer fairly specific questions relating to the running of the enterprise.

Moreover, the general conversations often revealed some extremely interesting attitudes and additional information, and assisted greatly in establishing rapport. The degree to which rapport was initiated and maintained was thus a major determinant of the quality of the interview. There were wide variations in interview quality; on occasions when the writer was accompanied by her mother the initial degree of suspicion seemed to be relatively low, whereas during interviews when various officials were unavoidably present it proved extremely difficult to create a relaxed atmosphere and the information obtained tended to be fragmentary and to reveal far less concerning individual attitudes. In general, however, businessmen proved extremely co-operative and friendly, and only one interview was refused. The average length of an interview was one-and-a-half to two hours, although some lasted for an entire morning or afternoon.

Contrary to predictions, therefore, the creation of rapport did not generally present a problem. Several difficulties were encountered however :-

- a) The informal nature of the interviews and the desire to avoid asking embarrassing questions resulted in the information being, in certain respects, incomplete. This arose from (i) oversight on the part of the writer as regards some of the questions (fortunately most of these were relatively minor), and (ii) reticence on the part of businessmen. When entrepreneurs seemed unwilling to impart certain information, no attempt was made to force the issue, although this problem could sometimes

be overcome by indirect questioning. The major spheres in which sensitivity was encountered were educational levels, information about the entrepreneur's father, and statistics relating to turnover and profitability of the enterprise.¹ A question about the extent to which the entrepreneur supported other family members was abandoned because it produced no results in the first ten interviews and appeared to antagonise the interviewees; nevertheless in a few subsequent interviews the information was offered spontaneously.

- b) Entrepreneurs were frequently away from their businesses for prolonged periods; in some cases they could not be contacted at all, which accounts for samples of less than 100% in Transkei towns and Zwelitsha.

8.1.4 Data Reliability

In this type of study the reliability of responses is inevitably open to question. Two methods were used to cross-check data reliability: -

- a) Ten of the Transkei businessmen who were visited in September 1970 were interviewed again in January 1971. The pilot survey served the dual function of enabling the original set of questions to be formulated more comprehensively, and facilitated comparison of responses after a four-month interval. Virtually no discrepancies were found, although this is obviously not, in itself, an indication of complete reliability.
- b) Part of the information obtained from XDC- supported businessmen was compared with data contained in the Corporation's personal files.² It was found that in certain cases there was a tendency to exaggerate educational levels and turnover figures. Discrepancies only appeared, however, in approximately 10-20% of cases and tended to be rather minor. The usefulness of this method of cross-checking is limited both by the possibility of unreliability of some of the information given to the XDC and the fact that information available in XDC files was considerably less comprehensive than that elicited during interviews. It is possible, therefore, that the data are not completely reliable in all respects, and that certain pieces of information were withheld for a number of reasons.³

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1. In the case of businessmen who had received XDC loans it was possible to obtain some of this information from personal files.
 2. Available comparable data related to: (i) educational level; (ii) occupational experience; (iii) place of birth; (iv) marital status; (v) turnover statistics.
 3. For example, (i) rumours suggested that certain businessmen had raised capital by illicit means, and (ii) urban businessmen alluded to, but were understandably reticent about disclosing information relating to secondary business interests which are technically not permissible - see Chapter 7.

8. 1. 5 Classification of Entrepreneurs

A fourfold classification¹ of entrepreneurs according to the type of enterprise they operate has been adopted. The four categories and the actual average monthly turnover figures used are:

- I. One-man activities with limited entrepreneurial content.
Turnover range: R100-R800 per month
Average monthly turnover: R320 per month
- II. Relatively small-scale enterprises with generally limited growth potential.
Turnover range: R1000-R2000 per month
Average monthly turnover: R1540 per month
- III. Medium sized, well-established enterprises which have experienced growth.
Turnover range: R2500-R5000 per month
Average monthly turnover: R4040 per month
- IV. Large-scale enterprises.
Turnover range: R6000-R30000 per month
Average monthly turnover: R10400 per month

This classification embodies three major criteria:

- (a) size, measured by average monthly turnover;
- (b) entrepreneurial content - i. e. degree and complexity of gap-filling and input completing activities;
- (c) apparent growth potential.

According to this classification, seventeen (21.8%) entrepreneurs in the sample fall into class I, nineteen (24.3%) into class II, twenty (25.7%) into class III, and 22 (28.2%) into class IV.² Each entrepreneur has been assigned a number, and a more detailed classification which also specifies whether the entrepreneur operates in a reserve or urban location can be found in Appendix A, Table 4.³

1. Used by W. Thomas Kleurlingondernemerskap en Ekonomiese Ontwikkeling van die Kleurlinge (Paper delivered at the Abe Bailey Institute of Interracial Studies, Cape Town, August 1971).
2. The enterprises run by managers both fall into Category III.
3. Where entrepreneurs run more than one enterprise they are classified according to total turnover. In practice, however, most entrepreneurs with more than one enterprise qualified for inclusion in the category to which they were assigned on the basis of the turnover of the major enterprise.

In order to facilitate the making of comparisons which have not been referred to specifically by the writer, most tables in the text of Chapter 9 and appendices indicate entrepreneurs' numbers, and where an entrepreneur's words are quoted, his number is specified. This system has the disadvantage of possible ease of identification; therefore no indication is given of the type of enterprise(s) according to the entrepreneur's number.¹ Numbers have also been omitted from other tables where it appears that the entrepreneur could be identified.

Eight entrepreneurs were reticent about revealing turnover statistics and no alternative source of information was available; in these cases assignments to categories have been arbitrary. However experience gained in the other cases provided a reasonable basis for categorization.

Of the full-time entrepreneurs appearing in this sample, sixty-five were men and five were women. The remaining eight enterprises (termed joint husband/wife) were managed by women whose husbands were in outside employment² but took an active interest in the business. From the interviews it was apparent that major decisions are made by husbands rather than wives; thus unless otherwise specified the tables on educational, occupational and family backgrounds include factors relating to husbands.

8. 2 Questionnaires Applied to Fencing Contractors

According to the Transkei Department of Agriculture, there are at present approximately three hundred independent contractors who undertake to construct fences when locations are rehabilitated.³ Materials are provided by the Department, and the contractor supervises the construction; the operation thus involves relatively little risk-taking, combined with a degree of technical orientation. It was thought that information relating to these contractors might be useful for comparison with the interview data.

The Secretary of the Department of Agriculture agreed to ask extension officers to apply the questionnaire for fencing contractors. Three hundred questionnaires were dispatched in October 1970; 51 were completed, and returned in January 1971. The questions were abbreviated and simplified versions of some of those asked in the interviews.⁴ The data contained in the schedules were found to be somewhat fragmentary and of limited usefulness. Thus only a very small portion of the information has been used.

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1. For this reason, numbers have been largely omitted from Chapters 10 and 11.
 2. Incidentally, these husbands were all in professional employment.
 3. For a discussion of the rehabilitation scheme in the reserves, see Houghton The South African Economy op. cit. pp. 75-76.
 4. See Appendix E.

Chapter 9

AFRICAN ENTREPRENEURIAL SUPPLY
IN SOUTH AFRICA9.1 Occupational Background and Experience9.1.1 Occupational Background of Entrepreneurs in
Comparison with the General Population

The occupational experience of entrepreneurs interviewed differs from that of a sample of the African population employed in the Border region of the Eastern Cape (1955-56)¹ in two important respects - namely the average level of skills and stability of employment.

Table 9.1

Occupations of Entrepreneurs Prior to Entering Business
Compared with Occupations of African Population of the
Border Region in 1955-6.

	Sample of Entrepreneurs		Sample of Population ²	
	No.	%	No.	%
1. PROFESSIONAL				
a. Teachers	11	14.1		
b. Teacher/politicians	2	2.6		
c. Teachers/other employment	4	5.3		
d. Joint Husband/wife	8	10.1		
e. Other *	3	3.8		
sub-total (1)	28	35.9	29	1.54
2. CLERICAL	5	6.4	52	2.77
3. GENERAL EMPLOYMENT				
a. Semi-skilled and skilled				
i Labourers/more skilled jobs	11	14.1		
ii Sales	7	8.9		
iii Drivers	4	5.3		
iv Others **	6	7.6		
Sub-total (3a)	28	35.9	465	24.75
b. Labourers (unskilled)	15	19.2	1294	68.96
sub-total (3)	43	55.1	1647	93.61
4. NO PREVIOUS EMPLOYMENT***	2	2.6		
TOTAL	78	100	1840	98.02Δ

* accountant(1); health educator(1); agricultural demonstrator(1).
** carpenters(2); blockman(1); shoe repairer(1); despatch clerk(1); electrician(1).

*** i. e. entered business directly after leaving school.

Δ the remaining 1.98% is comprised of 39 managers, officials & self-employed.

1. D. H. Houghton Economic Development in a Plural Society
(Cape Town : Oxford University Press, 1960).
2. *ibid.* Table 126, p. 255.

The proportion of entrepreneurs with professional training is greater than that in the population, and the generally higher level of skills of the entrepreneurial group appears significant.

The relative stability of employment of the entrepreneurial group is particularly striking :

Table 9.2

Entrepreneurs' Average Period of Employment and Number of Jobs

	No. of complete job histories	Total no. of years in employment	Total no. of jobs.	Average no. of years per job	Average no. of jobs
1. PROFESSIONAL*					
a. Teachers	10	227	10	22.7	1.0
b. Teachers/politicians	2	72	4	13.0	2.0
c. Teachers/other employment	4	59	13	4.5	3.2
d. Other	3	44	4	11.0	1.3
Sub-total	19	423	31	13.2	1.6
2. CLERICAL	5	56	7	8.0	1.4
3. GENERAL EMPLOYMENT					
a. Semi-skilled & skilled	26	380	49	7.8	1.9
b. Labourers (unskilled)	11	119	24	4.9	2.2
Sub-total	37	499	73	6.8	2.0
TOTAL	61	957	111	8.7	1.8

* excluding husband/wife enterprises.

In contrast, on the basis of one hundred and ninety-three employment histories of labourers in the Border region, Houghton found the average number of jobs per individual to be thirty-four and average length of a job forty-seven weeks.¹ These statistics are, however, only comparable with group 3 (a).

Despite the smallness of the sample it is interesting to note that the average number of jobs diminishes and the period in employment increases with rising levels of skills. Moreover the four teachers who had moved into other occupations tended to have the least stable job histories.

1. D. H. Houghton The South African Economy 2nd Edn (Cape Town : Oxford University Press, 1967), p. 84.

An important factor common to sixty-four (i. e. 82.1%) of the entrepreneurs was a prolonged period of residence and work in 'White' areas, fifty-two in large urban centres, and twelve in smaller towns.¹ Of the fourteen who had spent most of their employed lives in Reserves, thirteen were professional people and only one had gone straight into business after taking a technical course. By and large, therefore, entrepreneurs in this sample represent a fully urbanised group.

9.1.2 The Relationship between Entrepreneurship and Job Experience

There is a remarkably high degree of similarity between the distribution of the occupational groups among the four categories of entrepreneurship :

Table 9.3

Distribution of Occupational Groups Among Entrepreneurial Categories

	<u>Categories of Entrepreneurship</u>			
	I	II	III	IV
1. PROFESSIONAL				
a) Teachers	E's 13, 73, 76	E 39	E 52	E's 8, 30, 53 63, 66, 68
b) Teachers/ politicians			E's 24, 29	
c) Teachers/other employment	E 78	E6	E5	E50
d) Joint Husband/ wife enterprise	E's 1, 5, 6, 73 77	E's 32, 34 36	E 37	
e) Other			E's 15, 31	E49
sub-total	8	5	7	8
2. CLERICAL	E 71	E 43	E's 23, 51	E26
sub-total (5)	1	1	2	1
3. GENERAL EM- PLOYMENT				
a) Semi-skilled & skilled				
i. Labourers/more skilled jobs		E's 4, 27	E's 18, 20, 69	E's 3, 22, 25, 38, 46, 62
ii. Sales	E54	E's 35, 41	E's 57, 67	E14
iii. Drivers	E47	E64	E10	E55
iv. Other	E21	E's 45, 58	E's 44, 70	E61
b) Labourers	E's 9, 59, 65, 72, 74	E's 19, 42, 48	E's 2, 16, 60	E's 11, 12, 17, 40.
sub-total	8	11	11	13
4. NO PREVIOUS EMPLOYMENT		E's 7, 75		
sub-total (2)		2		
TOTAL	17	19	20	22

- The period of residence in non-Reserve areas ranged between 5 and 72 years. The areas in which job experience had been acquired were :- Cape Town, Johannesburg, Port Elizabeth, East London, Durban, Bloemfontein - 52 ; Grahamstown, King Williams Town, Ramsgate - 12.

Hence 46.4% of the professional group fall within the two smaller categories, whereas 53.6% fall into the two larger categories; comparative proportions for the group which was in general employment are 44.2% and 55.8% respectively. Within the two major groups, however, certain irregularities are evident. Although the sample is too small to draw any generalised conclusions from these discrepancies, an attempt is made in the following discussion to outline certain factors which various sub-groups have in common.

a) Professional - group 1.¹

The majority of individuals in group 1(a) (i. e. ex-teachers) and 1(e) (other professions) tend to fall within the two larger entrepreneurial categories. An interesting factor which emerged from discussions with virtually all of these ten entrepreneurs was the suggestion that in spite of having achieved some degree of success in their jobs, they experienced occupational frustration because they felt the potential for further progress was limited :

"I wanted to improve myself. As a teacher I couldn't improve personally." -E30

"They (i. e. the educational authorities) were not interested. They would not promote me further, even though I had obtained higher qualifications by part-time study ... I couldn't see much progress as a teacher." - E53

"I decided to turn to business because I had reached a cul-de-sac in the academic field." - E63

"I had reached the top notch and I knew that I would stick there for ages. I felt I was growing older." E32 (E 49 made a very similar statement.)

Two mentioned the desire for independence :

"I decided I couldn't go along with the government as a teacher any more. I wanted to be independent." - E66

"I did not see eye-to-eye with my employers because I always wanted to be independent." - E15

In contrast to the relatively high opportunity costs of these entrepreneurs, three of the ex-teachers in group 1(a) falling into the lower categories (E's 13, 39 and 73) went into business after retirement; the fourth (E76) said that he had gone into business after having been a teacher in a church school which had refused to submit to Government takeover, the result being infrequent and inadequate salary payments.

The concentration of joint husband/wife enterprises in the two smaller entrepreneurial categories is, to some extent, a reflection of partial commitment to business. During interviews

1. Group 1(c) (i. e. ex-teachers who had held a number of jobs before entering business) will be discussed under the heading of 'Other employment'.

when husbands and wives were present, the former pointed out that they regarded business purely as a means of supplementing income, whereas many wives said that it suited their way of life, in that they were able to attend to family matters at the same time as earning extra income. The exception was E1 (husband) who said: "I will give up teaching when the business is on its feet. I want a feeling of independence. Teaching is just a stepping-stone to business."

In general, however, it appears that within the professional group feelings of occupational dissatisfaction have been an important factor in determining the degree of commitment to business, and hence its size. This is obviously only a partial explanation framed purely in terms of entrepreneurial supply, and must be supplemented by considerations of factors operating in the economic environment. An attempt to do this more fully will be made in Chapter 11; in the interim, however, it is considered to be of possible significance that the two entrepreneur/politicians (group 1(b)) were among those who had taken over extremely remunerative and well-established enterprises in reserve towns.

b) Clerical - group 2.

An interesting factor common to four of the five ex-clerks was the apparently long-held desire to go into business:

"From early on I worked with the intention of a business in _____." - E26

"Business was for me a long idea ... I had no intention of being permanently employed." - E23

"I gave up my job for business because I thought 'if I am promoted to a higher grade I will be getting more money and I won't buy a shop'. Since I was a boy of sixteen I thought of starting on my own." - E43

E51 also mentioned that he had become interested in business as a child after working in relations' shops. E's 23 and 43 said that they had taken book-keeping courses while in employment in preparation for business. These four ex-clerks thus appear to have regarded their jobs as a means to the goal of entering business; they provide an interesting contrast to larger businessmen in the professional group who tended to turn to business after having found their jobs inherently unsatisfactory.

E71, on the other hand, approximates far more closely to the small entrepreneurs in group 1(a) in that his employer's imminent retirement was an important factor in his decision to go into business:

"I knew there would be no future for me when Mr. - retired."

c) General employment - group 3.

The relationship between the occupational experience of those in group 3 and the decision to enter business is far more complex and diffuse than was the case with groups 1 and 2, and it is difficult to identify any single pattern, although the discussion of entrepreneurial motivations in the following subsection gives some insight into this question. A number of interrelationships between job experience and enterprise seem worthy of consideration, however.

Whereas labourers are fairly evenly distributed among the four entrepreneurial categories, a relatively large proportion of those in semi-skilled and skilled employment tend to be concentrated in the two larger entrepreneurial categories. This is particularly marked in the case of those who had started their working lives as labourers and been promoted to more skilled forms of employment - i. e. group 3 (a) (i). Three possible contributory factors, which will be examined in the following discussion, reflect certain similarities arising from a number of the interviews.

(i) The relevance of job experience to self-employment.

Skills acquired on the job appear to have been a significant factor in enhancing entrepreneurs' gap-filling and input-completing capacities. Twenty-six individuals in groups 3 and 1 (c) (i. e. 60.5%) made specific reference to the usefulness in business of skills acquired while in employment :

Table 9.4

Type of Skills Acquired in Employment

	Number	E's
Sales/organizational	12	14, 18, 28, 35, 41, 47, 54, 57, 59, 60, 67, 25,
Technical/organizational	14	9, 10, 21, 22, 38, 45, 46, 48, 58, 61, 62, 65, 69, 76
TOTAL	26	

Although only seven (E's 14, 28, 35, 41, 54, 57, 67) had been employed as salesmen immediately prior to entering business, two (E's 18 and 47) had worked as drivers for commercial travellers and had thereby become familiar with sales techniques; E59 had worked for a large wholesale firm where "I learnt about business" and E60 had worked in a friend's shop for a short period : "This gave me some experience and made me decide I wanted a shop of my own." E25 mentioned that in two of his jobs (i. e. as a shop assistant in a small enterprise and a packer for a chain store) he had learnt a great deal. With respect to the latter job he remarked :

"It was back to business but different from a general dealers. It involved distributing goods and working out ratios for various branches. This experience has been very useful to me."

A close relationship appears to exist between organizational/ technological experience and the form of enterprise :

Table 9.5

The Relationship between Organizational/Technical Job Experience and Type of Enterprise

<u>Type of job</u>	<u>Type of enterprise</u>
Labourer in garage	Garages
Mechanic in garage	Cartage contractor
Labourer in garage	Building contractor
Carpenters	Furniture factory and shop
'Odd-job man'	Small furniture factory
Bus conductor and driver	Bus operator
Electrician	Electrical contractor
'Teaboy' - instructor in cane furniture factory	Cane furniture factory
Blockman	Butcher
'Delivery boy' - African staff manager in newspaper firm	Printer
Labourer - assistant in buying and stock control	3 relatively large commercial enterprises
Labourer - chef in hotel	Hotel
Worker in shoe repair shop	Shoe repair shop

A number of the interviewees commented on the proficiency they had achieved in the course of their work, and the interest which it had elicited. For example :

"I had extensive knowledge of the job and became a specialist in copying designs." - E46

"From my job I had an interest in _____." - E58

In contrast to the large proportion of group 3, whose job experience had been directly relevant to enterprise, only one of the entrepreneurs in group 1 (with the exception of group 1 (c)) had gained technical experience in the course of his work, and this had been incidental. This entrepreneur had been a teacher who had to instruct his pupils in cane work. He had attended a course in this craft and subsequently opened a small cane furniture factory.

Although clerical experience (group 2) probably assists in keeping records, only one had gained experience while working, and this had also been in an incidental manner :

1. The question of job proficiency will be examined in more detail below.

"I had to take work from the lawyer (for whom he worked as a clerk) to a printing firm, and I became very interested in printing. The lawyers' office closed at five and the printers' at six. I used to go there then, as well as on Saturday mornings and learn certain aspects of printing. "

The enterprises operated by both these entrepreneurs are relatively small.

Those who had left teaching for other occupations conform more closely to group 3. Three of these entrepreneurs (E's 5, 6 and 78) had worked as salesmen, although only one had subsequently started a commercial enterprise. E50 (the largest of the group) had worked as a storeman, thereby acquiring organizational experience.

From the foregoing discussion, it would appear reasonable to conclude that occupational experience exerts an important influence over entrepreneurial supply.

(ii) Relationship with employers and other Whites

A less direct, but seemingly important factor which emerged from interviews with seventeen of the entrepreneurs was the effect of employer/employee and other inter-racial relationships. No direct questions were asked, as the writer considered this to be a value-loaded issue, and comments were in all cases spontaneously offered.

Ten of the entrepreneurs said that their relationships with employers had been friendly and that they had received encouragement and advice from them. E46 mentioned having been encouraged by a location official, and E53 by a garage proprietor. Five entrepreneurs had received loans or gifts from employers, and two from other whites. Moreover, many others not included in this group mentioned having been granted generous credit facilities. E3 described how, when he had encountered extensive initial difficulties in obtaining a trading licence in an urban location, his employer had vouched for him and assisted in the negotiations with location officials.

Some of the remarks relating to relationships with employers were :

"Mr H. (employer) was truly a very good man - a father of quality. He left me with a good name ... Mr S. (a garage proprietor) gave me credit I couldn't have managed without and helped me to allow for costing and wear and tear. He really gave a shoulder to the business." - E6

"Mr A. (employer) was a very nice man. I can never be anti-White - all my help came from Whites." (E25 described how Mr A. used to help him with his part-time study.) Moreover "Mr D. (another employer) like Mr A. stands out in my life. He trained me generally in business". (Mr D. encouraged E25's business aspirations and lent him money.) E25 re-

marked that his job with Mr D. "was the best job ever. I was made to feel like a human being". (E25 described how he used to have tea with Mr and Mrs D. every day, and they discussed a wide variety of topics relating to business. The enlightened form of staff management subsequently adopted by E25 will be discussed later.

"I was very happy at L's. I was good at my job and I got on well with Mr. H. (employer). He respected me." - E78

"I used to talk a lot to Mr. S. (employer). He did not treat me like a native at all." - E69

"Mr. O. (employer) taught me about carpentry. He liked me a lot and made me decide on furniture." - E65

"Mr A. helped me a lot and lent me money. I really think that the Jewish people are the salt of the earth." - E35

Thus although the number of entrepreneurs who mentioned having enjoyed good relationships with their employers represents a relatively small proportion of the sample, such experiences seem to have had a profound effect; in most cases individuals in this group made a number of references to the person concerned in the course of the interview.

It must be noted, however, that two entrepreneurs commented unfavourably on employment experiences :

"That Mr A. - I was just too good for him." - E18

E40 worked as an assistant to a young White window dresser. Owing to a misunderstanding, the window dresser shouted at him. E40 described vividly how upset and humiliated he had been by this which, in conjunction with another experience,¹ made him decide to "try on my own".

-
1. E40 related the following story : During the war he used to collect old books and papers and take them to a waste paper collection depot. In one batch he found and read a book about a young orphaned girl in England who was very poor. She worked in a shop where she was ill-treated, but continued to work conscientiously and hard. The shop was owned by two partners and their wives. One wife was cruel, the other kind. The good woman told the girl that she would help her, and lent her £300 to start a shop of her own because she was 'business minded'. The girl went into business (ladies' clothes). She prospered and became a "big somebody". E40 concluded his account of the book by saying "This helped me a lot".

iii) Job proficiency

Job proficiency and the feeling of competence in employment, which has been touched upon in preceding discussions, are factors which emerged particularly clearly in conversation with twelve of the entrepreneurs in group 3,¹ who described how they had progressed from being labourers to holding relatively skilled positions. Five of them (E's 3, 4, 22, 25, 38) had undertaken part-time studies which, they said, had facilitated promotion.

In certain respects the experiences of these entrepreneurs are comparable with those with professional qualifications who entered business because they had felt frustrated. The writer gained the impression, however, that an important additional factor contributing to the decision of a number of entrepreneurs in group 3 to enter business was the feeling of self-confidence which they had obtained while in employment.

9.1.2 Part-time business experience

A feature common to twenty-eight (i. e. 38%) of the entrepreneurs, and particularly prevalent among those in group 3, was the combination of employment with part-time business activities.

Table 9.6

Nature of Part-time Business Activities

	Number	E's
Hawking :		
Clothes	8	2, 17, 27, 35, 60, 62, 66, 72
Sweets and groceries	1	14
Bottles, wood and coal	2	19, 59
Vegetables and fruit	2	11, 18
Self-made items of cane work	1	14
Self-made toys	1	20
Taxi service	3	8, 64, 78
Photography & picture framing	2	3, 11
Tailoring & sewing	2	69, 74
Furniture repairs & carpentry	2	61, 65
Burial fund	1	68
Part-time book-keeping	1	15
Boxing promotion	1	57
Refrigerator at work	1	4
TOTAL	28	

1. E's 3, 4, 18, 20, 22, 25, 27, 38, 46, 62, 65, 69. (9 of these fall into the two larger entrepreneurial categories.)

E4's activities differ from those of the other twenty-seven in that they were carried on at his place of employment. He described how he had lived for many years in a house in a Cape Town suburb where electricity was laid on. When he was moved to a location where there was no electricity his employer allowed him to bring his refrigerator to work and to buy soft drinks from wholesalers through the firm. These he sold to his colleagues "so that they wouldn't have to go out in working hours". Later he expanded his activities to selling cigarettes and sweets, with his employer's encouragement. E4 reciprocated:

"When my boss had customers I gave them cold drinks and cigarettes - I had no tax. I also gave up my lunch hour to work because of the time I took off to serve customers."

(E4 said that he had done this of his own volition.)

Twelve of the entrepreneurs had started shops while still in employment. These shops were managed by their wives. Ten mentioned that they had been unwilling to forego regular wage payments before ascertaining that the enterprise would be viable; the other two were due for retirement soon after the businesses were started.

Income from part-time business activities formed a large proportion of initial capital in several cases. The extent of such activities suggests that many entrepreneurs had a fairly long-standing commitment to private enterprise and had acquired a degree of gap-filling and input-completing experience prior to relinquishing their jobs.

9.2 Attitudes to Employment and certain Aspects of Motivation

9.2.1 The Desirability of Employment in Relation to Self-employment.

As has been pointed out in Chapter 6, entrepreneurial motivations are extremely difficult to appraise by means of direct questioning, and very few definite conclusions have emerged from research into the motivations of African entrepreneurs. It was suggested, moreover, that possibly the only way in which a valid assessment of entrepreneurial motivations can be made is with the aid of comprehensive psychological tests.

In this study an attempt has been made to approach the question indirectly, and entrepreneurs were asked to choose between relatively attractive employment and present self-employment. The question was phrased thus: "If you were offered an interesting job with good working conditions and more money than you are now earning from the business, would you take it and give up the business?" The following answers were obtained from seventy entrepreneurs, excluding the joint husband/wife enterprises:

Table 9.7

Willingness to Accept a Job with Higher Remuneration than
Net Earnings from Self Employment

Answer	Number	%	E's
No	57	81.4	2-18, 20, 22, 23, 25-31, 38-46, 48-53, 55, 58-63, 65, 66, 69, 71, 72, 73, 76, 78
Yes	4	5.7	21, 35, 74, 75
Qualified yes	3	4.3	24, 47, 54
Uncertain	2	2.9	19, 15
Not asked *	4	5.7	64, 67, 68, 70
Total	70	100	

* These interviews took place in an urban location with officials present. The atmosphere was strained and it was decided that it would be unwise to ask this question in view of the vulnerable position of urban businessmen, as described in Chapter 7.

It is interesting to note that of the nine respondents who gave positive, qualified or uncertain answers, five (i. e. E's 19, 21, 35, 47, 74) revealed at other stages of the interview that they were experiencing financial difficulties.¹ For example :

"I would definitely take a good job. I sit up every night and worry." - E35

Of the remaining four, E24 said "I love teaching and I would go back if I could get reliable managers",² E75 that "I would enjoy greater leisure in a job. Here I work all the time", and E57 "I would have to think about it". E54 remarked "Not at my age, but I might have when I was younger and the business was struggling". It would appear therefore that, with certain exceptions, financial considerations were a dominant factor conditioning willingness to relinquish entrepreneurial status.

It is extremely difficult to codify accurately the reasons given by the entrepreneurs who said that they would refuse the job; some gave comprehensive answers containing a number of reasons, while others shook their heads, laughed, and obviously dismissed it as a foolish question. Forty-three did give reasons, and these will be described in order of frequency.

1. In contrast to this, six who gave positive answers alluded to being in financial straits.
2. When it was pointed out to him that the crux of the question was that he would have to relinquish the business if he took the job, he said that if faced with such alternatives he would probably keep the business.

The main reason (given by approximately twenty-seven) was independence and freedom. For example :

"Definitely not. Then I would be committed and I want to be committed to nobody. Independence is very important to me." - E26

"I could never envisage myself going back to salaried employment after I have experienced the independence and challenge of business." - E52

"I could not work for an employer now even though this business is not for rich people." - E65

"I like to be my own boss. If I had a boss I couldn't sit and talk to you like this." - E 65

Several alluded to the relative security of self-employment :

"If you are employed and something goes wrong you get kicked out. Then you have to find another job and that is difficult." - E39

"You are confronted with a lot of difficulties ahead if you are working for somebody. It is better to get a little money happy than a lump of money being a slave." - E48.

The apparent importance to many entrepreneurs of autonomy was highlighted during other parts of the interview, particularly with respect to entrepreneurs' socio-economic background. As will be discussed more fully below, nineteen of the entrepreneurs' fathers and several of their grandfathers had been businessmen or self-employed craftsmen, and in describing their families' tradition of self-employment entrepreneurs invariably mentioned that independence and self-sufficiency meant a great deal to them.

Enjoyment and interest were mentioned explicitly by ten. For example :

"I like to be the boss myself. Here my interest is. I'm always occupied and thinking and planning. Elsewhere I won't be interested in the work. For somebody else you just do the job for the sake of doing it." - E28

"It is good to run a business. I am so much interested in my business." - E60

A number said or implied that it was not possible to earn as much in a job as they made in business, and several raised the issue of increasing remuneration only being possible in self-employment :

"A high salary has no meaning for me. I will always have to ask for an increase. In my own business I just put in more effort." - E58

"In business you are paid according to the sweat of your brow. If you are working for somebody you are always paid the same wage." - E50

"I wouldn't like it. With a job you can't make more money, but you can push a business and build it up yourself." - E51

"In employment the salary is fixed but in business you can always go higher." - E73

"With employment you are rationed. With a business you get what you have worked for yourself and also peace of mind." - E5

E55 alluded to remuneration but introduced an additional consideration :

"I would not under any circumstances consider it. In business you can expand. When you are hired you are only a tool. When you have a job you cannot teach your children anything except that you go to get your wages every week. When you have a business you can teach your children to make a living."

In a rather similar vein to the second part of E55's comment, E63 remarked :

"When I left my job I thought 'My sons can follow in my footsteps'. Business offers greater security for the family."

E11 was most emphatic that his children had become a prime consideration :

"I don't work for myself anymore. I have enough to eat and wear and a nice house. Everything I do now is for the children. I am devoting my life to give each of my four sons a big business."¹

A large proportion had high aspirations for their children which, they said, could only be achieved by their being in business.²

Several additional factors emerged spontaneously in the course of general conversation. For example, three of the entrepreneurs in the larger categories denied that the profit motive was dominant :

-
1. E11 remarked at another stage of the interview that he and his wife postponed having children for 6 years after their marriage "while the business was getting on its feet. This worried the relations a lot. They thought there was something wrong with us".
 2. See sub-section 9.5.

"I don't do this business because I am greedy. They say the African people can't do big things and I want to show them they are wrong." - E18

"I am not working so much for the money. All eyes are on me and I want to show them I can do it." - E3

"When I came to look at this shop in the Transkei with the idea of taking it over, the White owner said to me, 'You chaps will never be able to run this shop'. I was determined to show that he was wrong and now the turnover is higher than when he owned the business." - E25 (the XDC confirmed this).

It is perhaps significant that all three who displayed national awareness were businessmen who had established themselves in urban areas and subsequently moved to the Transkei.

Only one alluded specifically to status in relation to his own race :

"I am proud to be working on my own. My people understand me better." - E45

Several entrepreneurs related experiences which, they said, had been a decisive factor in their decision to go into business. E40's story has been related above,¹ and E17 disclosed that :

"When I was at school in the Transkei I used to go to a White trader's house. Everything was so nice. There was a swimming pool and the children were playing nicely. I thought once I had a chance I must do that too. But I did not like working for somebody. If you want to stay away from work you must think."

E18 described his long-held determination to escape from the bonds of poverty :

"I looked at my father and I decided 'I can't get old and suffer like this'."

An interesting common factor is that all three were ex-labourers who progressed into the larger entrepreneurial categories.

9.2.2 Comparisons with Fencing Contractors and General Implications

As a broad means of comparison, the fifty-one fencing contractors were asked whether they would take a job with higher remuneration than their present earnings. The following responses were received :-

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1. See p. 132.

Yes - 43 (84.3%); No - 8 (15.7%)

The reasons given by the vast majority who answered were "I want more money" or "to have a better living". Related reasons were "many dependents" and "to have permanent work". Three main reasons were given by those who said they would refuse a better-paid job :

- (i) liking for the work (3)
- (ii) too old (2)
- (iii) not to be far from home (3)

For reasons discussed in Chapter 8, no great significance can be attached to these answers; nevertheless the reversal of responses is interesting and as a rough approximation those who answered "yes" may be regarded as somewhat analogous to certain entrepreneurs who gave positive answers to the question, insofar as the precarious nature of self-employment highlighted the need for financial security.

It does not necessarily follow, however, that those in the entrepreneurial group who said that they would refuse more highly remunerative employment were motivated by purely non-economic considerations. From the explanations given for refusal, as well as other factors which emerged during the interviews, it appears that these entrepreneurs find employment relatively unattractive for a number of interrelated economic and non-economic reasons, the major ones being lack of autonomy and job satisfaction as well as limited potential for progress from the point of view of both position in the employment hierarchy and of salary.

It would appear, therefore, that the explanation evolved in the preceding sub-section, as to why a particular group of professionals fell within the upper categories of entrepreneurship, can be adapted and broadened so as to apply to a fairly large proportion of entrepreneurs in the sample :

- a) the entrepreneurs appear to possess certain inherent characteristics which are probably common to most entrepreneurial groups - among them being a relatively high need for autonomy and achievement (from both the economic and non-economic points of view);
- b) the socio-economic environment provides relatively few avenues in both the occupational and political spheres through which these needs can be satisfied legitimately.

Thus, more successful entrepreneurs tend to be those who consider that self-reliance offers the greatest potential for satisfying various needs as well as providing the greatest degree of financial security.

This hypothesis is obviously highly speculative. It must be borne in mind, moreover, that the relative success and security at present enjoyed by many of the entrepreneurs, particularly those in the reserves, is partly attributable to factors operating in the politico-economic environment. The most notable of these is the relatively easy acquisition of well-established enterprises through XDC and BIC loans.

9.3 The Education of Entrepreneurs

The academic qualifications (excluding all diplomas) of entrepreneurs in the sample were as follows :

Table 9.8

Entrepreneurs' Levels of Education¹

Education	No.	%	E's
Std. 1	6	7.7	55, 61, 64, 65, 69, 72
Std. 2	1	1.3	18
Std. 4	3	3.8	4, 48, 70
Std. 5	3	3.8	10, 19, 62
Std. 6	15	19.2	11, 17, 27, 35, 39, 40, 41, 42, 45, 46, 47, 58, 59, 60, 74
Std. 7	5	6.5	2, 6, 10, 14, 28
JC	14	17.9	3, 5, 7, 13, 22, 23, 25, 33, 49, 51, 54, 57, 68, 71
Std. 9	2	2.6	73, 75
Matric	19	24.3	1, 8, 9, 20, 21, 24, 26, 29, 31, 36, 38, 43, 50, 52, 53, 66, 67, 76, 78
Degree	7	8.9	15, 30, 32, 34, 37, 63, 77
No response	3	3.8	16, 44, 56
TOTAL	78	100	

The relatively high proportion of those with degrees is attributable mainly to husbands, in the joint husband/wife enterprises, who are not full-time businessmen. Even if they are excluded, however, the general level of entrepreneurs' education is considerably higher than that of the economically active male African population as a whole.²

1. In the case of joint husband/wife enterprises, husbands' levels of education have been tabulated.
2. See Table 5, Appendix A.

Table 9.9

The Relationship between Size of Enterprise and Education

Education	<u>Entrepreneurial Category</u>				Total
	I	II	III	IV	
Std. 1	2	1	1	2	6
Std. 2	-	-	1	-	1
Std. 4	-	2	1	-	3
Std. 5	-	1	-	2	3
Std. 6	3	6	1	5	15
Std. 7	-	2	2	1	5
JC	4	3	2	5	14
Std. 9	1	1	-	-	2
Matric	5	1	8	5	19
Degree	1	2	2	2	7
No response	1	-	2	-	3
Total	17	19	20	22	78

There does not appear to be a particularly strong tendency for those with relatively high levels of education to be concentrated in larger entrepreneurial categories, although a fairly high proportion of those with matric fall within category III. Nevertheless, ten of the twenty-two entrepreneurs who had risen to category IV were not educated above Standard 7.

In addition to the twenty-three with teaching diplomas or U. E. D.*; fourteen of the entrepreneurs had additional qualifications :

Table 9.10

Additional Qualifications of Entrepreneurs

Type of Course	No.	E's
Commercial	7	3, 11, 25, 38, 43, 51, 67
Technical/trade	7	7, 21, 22, 31, 49, 61, 68
TOTAL	14	

In the five cases, trade courses were directly related to the form of enterprise.¹

1. Courses : E7 building; E21 electrician; E22 mechanic; E61 carpentry; E68 embalming. (E's 39 and 41 possessed Health Education and Agricultural diplomas respectively, which were relevant to their jobs before entering business.)

* University Education Diploma.

Fifteen of the entrepreneurs had engaged in part-time study while in employment :

Table 9. 11

Nature of Entrepreneurs' Part-time Studies

Type of Course	No.	E's
Academic	5	4, 23, 53, 63, 73
Academic/ Commercial	2	3, 25
Commercial	4	11, 38, 43, 67
Technical/trade	4	7, 21, 22, 68
Total	15	

9. 3. 1 Entrepreneurs' Attitudes towards Education

Entrepreneurs were asked whether or not they thought education necessary for success in business, and those who replied "yes" were then asked what they considered to be the minimum level. Forty-eight replied "yes", sixteen "no", seven qualified "yes" and seven gave no comment or said that they did not know. Forty-five suggested minimum levels of education; the remainder implied that they could not commit themselves.

Table 9. 12

Entrepreneurs' Views of Minimum Educational Levels Necessary for Business Success

Suggested Level	No.	<u>Qualification of respondent in relation to suggested level</u>		
		Higher	Lower	Same
Std 6.	1	1		
J. C.	30	12	12	6
Commercial J. C.	1		1	
Form IV	1		1	
Matric	11	1	3	7
B. Comm.	1			
Total	45	14	18	13

Thus eighteen of the forty-five appeared to consider their own qualification was less than that necessary for success, fourteen greater and thirteen that their qualifications were adequate.

The majority of those who did not consider education necessary for success possessed relatively low levels of education; several expanded on their views. For example :¹

"If you have 60% personality, 30% experience and 10% education you can make a success in business. (He mentioned how he could 'talk to travellers and customers'.) If you have education 60% and no personality or experience you are no good." - E17

"Business is like faith. When somebody has faith in what he is doing he can reap good fruits. Without faith, whatever his education, he will be a failure. Business is in the nerves - it is born in you." - E62

"Perhaps if I had higher education I would have done something different. A lot of educated chaps I know have no initiative. They just haven't got it." - E46

Those who did consider education important in business tended to emphasise that it facilitates access to knowledge and enables the entrepreneur to assess trends in his business.

9.4 Sources of Initial Capital

Entrepreneurs derived their initial capital from a variety of different sources :

Table 9.13

Sources of Initial Capital²

Source	No.	%	E's
Single :			
A. Personal savings in employment	34	43.4	10, 16, 19, 21, 23, 24, 26, 28, 30, 33, 34, 37-42, 44-47, 53-62, 64, 70, 76
B. Part-time business activities	8	10.3	2, 11, 14, 17, 18, 35, 68, 72
C. XDC/BIC	4	5.3	13, 22, 48, 51
D. Loan from employer/ other White	3	3.8	6, 9, 25
E. Gift from family	2	2.6	7, 75
F. Pension	1	1.3	4
G. Loan from family	1	1.3	31
H. Gift from employer	1	1.3	71
sub-total	54	69.2	

(Continued on p. 144)

- Each of these three entrepreneurs had Std. 6 or less, started their working lives as labourers and fell into category IV - i. e. they are the owners of relatively large-scale enterprises.
- The relationship between initial capital and subsequent growth of the enterprise will be examined in Chapter 11.

Source	No.	%	E's
Multiple			
A + B	6	7.7	20, 27, 69, 74, 77, 78
A + Partnerships *	6	7.7	1, 5, 8, 12, 50, 52
A + Wife's savings	5	6.4	36, 43, 63, 64, 66
E + A	2	2.6	49, 67
F + A	1	1.3	29
F + B	1	1.3	4
C + A	1	1.3	32
A + B + Wife's savings	1	1.3	3
A + C + partnership	1	1.3	15
sub-total	24	30.8	
TOTAL	78	100	

* 4 family partnerships, 2 non-family partnerships.

Most entrepreneurs in groups A and B said that they had been saving regularly for some time before going into business, and several said that they and their families had lived on very little. (E 11 described how he and his wife had sold their furniture to supplement their initial capital.) Of those who mentioned the savings institutions they had used, building societies appeared to be the most common.

The predominance of personal savings from employment and income from part-time business activities as sources of initial capital may be seen as a reflection of entrepreneurs' need for autonomy outlined in preceding sub-sections. As will be shown in Chapter 11, however, many entrepreneurs (particularly those in the larger entrepreneurial categories) obtained their capital for expansion from exogenous sources.

9.5 The Socio-economic Background and Family Life of Entrepreneurs

9.5.1 Socio-economic Background

The following answers were obtained in response to the question "What was your father's occupation?" :

Table 9.14

Occupations of Entrepreneurs' Fathers¹

Occupation	No.	%	E's
PROFESSIONAL & CLERICAL :			
Teachers	10	12.7	7, 13, 24, 32, 33, 37, 39, 56, 77, 78
Teacher/self-employed after retirement	1	1.3	29
Clergymen	2	2.6	36, 49
Civil Servant (clerk)	1	1.3	20
sub-total	14	17.9	
SELF-EMPLOYED:			
Businessmen & crafts- men	18	23.0	1, 5, 6, 8, 21, 41, 44, 47, 50, 52, 53, 66, 67, 68, 71, 73, 75
Peasant farmers	7	9.0	11, 15, 27, 30, 55, 59, 60
sub-total	24	32.0	
LABOURERS:	26	33.3	3, 4, 10, 12, 14, 17, 18, 19, 22 23, 25, 28, 31, 42, 46, 48, 54, 57, 58, 61, 63, 64, 65, 69, 70, 71
OTHER:			
Catechist	1	1.3	76
Policeman	1	1.3	34
Chief	1	1.3	26
No father, mother domestic servant	2	2.6	35, 38
No response	8	10.3	2, 9, 16, 40, 43, 45, 62, 74
TOTAL	78	100	

Although this table is not strictly comparable with the column in Table 9.1 pertaining to the occupational distribution of the population as a whole, there do seem to be certain significant differences. Entrepreneurs' fathers appear to be relatively highly represented in the professional, clerical and self-employed categories, whereas relatively few were labourers.

1. In the case of husband/wife enterprises, the occupation of the husband's father has been tabulated. With one exception, however, both husbands' and wives' fathers fell into the 'professional' category :

<u>Husbands' fathers</u>	<u>Wives' fathers</u>
5 teachers	6 teachers
1 policeman	1 clergyman
1 clergyman	

In general, therefore, the socio-economic background of entrepreneurs in this sample would appear to be high, relative to that of the general African population.

Table 9.15

Relationship between Occupations of Entrepreneurs and their Fathers

Entrepreneurs' occupations	Fathers' Occupations					total
	Professional	Self-employed	Labourer	Farmer	No response	
Professional	12	10	4	2	-	28
Clerical	1	2	1	-	1	5
Unskilled Labourer	-	-	8	2	5	15
Semi skilled/skilled worker	1	5	17	3	2	28
No employment	1	1	-	-	-	2
TOTAL	15	18	30	7	8	78

This table indicates a general tendency towards constant or upward mobility from father to son. E20, the only entrepreneur in semi-skilled employment whose father was in professional employment remarked :

"When I got my matric my father wanted me to be a clerk in the civil service like him, or a teacher. But I wanted to work in the business world."¹

Several others commented that their fathers wanted them to be well-qualified or were "very keen on education".²

1. He went on to describe the difficulties he encountered in getting a job because he had an academic qualification but no experience. Eventually he applied for a job as a labourer ("I left my certificate at home.") When his employer discovered his qualification he was promoted to a more responsible job, although "This created difficulties when the labour inspector came round".
2. E68 related how, whilst he was a youngster in an urban location, his father was mishandled by police because of a pass offence. His father consulted a friend saying "I have been molested. My boys are not going to carry a pass. They are going back to the farm". The friend advised E68's father to send his sons to 'college' stating "If they learn teaching or carpentry they will get exemption". E68 did get his exemption which entitled him to "trade as a white man", but in 1970 (at the age of 75) E68 had his exemption taken away and it was replaced with a reference book : "As I am self-employed I am placed in the category of a daily labourer and the superintendent of the location has to sign my book."

Entrepreneurs' awareness of their increased status was illustrated by frequent comments that "My father was just an ordinary labourer (peasant farmer)". Two of the entrepreneurs with degrees referred to their fathers as "illiterates" and one as a "peasant".

Eight entrepreneurs¹ commented spontaneously that their fathers had died early and as they were the oldest in their families they had to assume responsibility for educating their siblings. Several related this to their decision to go into business by remarks such as "I was always looking around for ways to make extra money". (E3)

Perhaps one of the most significant factors to emerge from an examination of the socio-economic backgrounds of entrepreneurs is the relatively large proportion whose fathers had been self-employed. If E29 is included, this group amounts to nearly 25% of the total sample. Another four (E's 25, 49, 77 and 78) mentioned having self-employed relations in whose businesses they had worked as children. Thus 30% (i. e. twenty-three) of entrepreneurs had been closely associated with private enterprise for a large part of their lives.

In general, the entrepreneurs gave the impression of being very much aware of the history of self-employment in their families, and of having been influenced by it. The information was, in the vast majority of cases, imparted spontaneously and frequently alluded to during the interviews. Remarks such as "My father (and grandfather) were independent and business runs in my veins" (E53) were common, and several said that the experience of working in relations' businesses as children had made them think "I would like to do that too". Five entrepreneurs² said that their grandfathers were also self-employed, two³ that their brothers were businessmen, and E66 said that both her father and her husband's father had been in business. Several commented that their fathers' (grandfathers') enterprises had been the "first to be owned by an African".

Although most said that they had helped their fathers or relations (usually while still at school) only three had actually taken over their father's businesses. Two of these (E's 41 and 67) had been employed by their fathers as shop assistants for a number of years. The third (E75) reopened his father's shop (which had been closed because of his father's ill-health) immediately after leaving school. His father gave him capital and complete autonomy ("he became my dependent"), and the business was extended and reorganised by E75.

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1. E's 3, 22, 25, 31, 38, 43, 53, and 78.
 2. E's 1, 47, 50, 52 and 53.
 3. E's 2 and 71.

Despite the small proportion who had taken over their fathers' businesses, there was a reasonably high degree of correspondence between enterprises of fathers and sons, particularly in the spheres of commerce, building and crafts :

Table 9.16

Relationship between Enterprises of Fathers and Sons

Sons' enterprises	Fathers' enterprises						TOTAL
	Commerce	Crafts *	Transport	Building	Speculation	Cartage	
Commerce	8	3	-	-	-	-	11
Transport	-	2	1	-	1	-	4
Printing	-	1	-	-	-	-	1
Funeral director	-	-	-	-	-	1	1
Electrical contractor	-	1	-	-	-	-	1
Building	-	-	-	1	-	-	1
TOTAL	8	7	1	1	1	1	19

* 5 carpenters, 2 cobblers

Only one entrepreneur (E8) said that his father had participated personally in the business; E8 and his brother bought a chassis and their father (a carpenter) had built the bus body. The only entrepreneurs who had received capital from their fathers were the three who had taken over the family businesses. It would appear, therefore, that entrepreneurs derived more in the way of experience and inspiration than material assets and other forms of direct help from their fathers.

9.5.2 The Entrepreneur's Immediate Family

a) Wives

Most of the entrepreneurs had children. The frequently crucial role played by wives in the management of the enterprises will be discussed more fully in Chapter 10; the following table indicates the marital status of entrepreneurs and the extent of wives' participation :

Table 9.17

Participation by Wives in the Running of the Business

Marital Status and Extent of Participation	No.	%	E's
<u>Married :</u>			
Full time	53	67.9	1-4, 7, 9-11, 14, 15, 17-20, 22-25, 27-30, 32-34, 36-43, 46, 48, 51-53, 55, 56, 59, 60, 61, 62-64, 67, 70, 71-73, 76, 77.
Part-time	3	3.8	13, 31, 35
Not at all *	14	17.9	5, 6, 8, 16, 21, 44, 45, 47, 49, 50, 57, 58, 68, 69.
Sub-total	70	89.6	
<u>Other :</u>			
Bachelors	3	3.8	26, 75, 78
Widowers	2	2.3	12, 65
Female entrepreneurs	3	3.8	54, 66, 74
TOTAL	78	100	

* The wives of E's 5 and 6 ran their own businesses.

Most of the entrepreneurs whose wives worked full-time in the businesses commented on how indispensable their help had been. For example :

"You can't succeed without a wife. My wife is my right hand." E3

"Without my wife there would be no business." - E18

Four entrepreneurs said, however, that they did not allow their wives into the business :

"We quarrelled. Far more customers were on her side. I discovered notes that were written to her from her friends asking for things. She was in the business for a year but I had to kick her out." - E49

"She is just a nuisance in the business." - E50

"She upsets discipline and throws her weight about." - E68

The only entrepreneur with two wives (E69) said that he disapproved strongly of women in a business unless they were employees.

Two of the bachelors said that they had deliberately postponed marriage :

"(To be successful) you must work as hard as you can until you are thirty-five - after that you can get married and relax." - E26

"I have many family responsibilities. If I married I would have two families to look after." - E78

Information about wives' previous occupations was available in fifty-three cases. Of these, thirty-three had been teachers, eleven nurses, seven domestic servants, one a clerk and one a dressmaker. In seven cases wives had a higher level of education than their husbands, but the majority had the same.

Six wives had contributed towards the initial capital of the enterprise from their savings in employment, and four had taken courses in bookkeeping in order to help their husbands.

b) Children

Fifty-six of the sixty-seven entrepreneurs with whom the subject was discussed and to whom it was relevant said that they had children, the average number being three. Seventeen of the entrepreneurs had children who had left school; in only five cases were children working in the business; in one of these instances the father said that he was sorely disappointed by their lack of acumen. Five had children at university (one overseas), and another four had children who were graduates, three of whom had settled overseas. (A further two entrepreneurs had sent their children to attend school overseas, and another said that he was planning to do this in the near future.) Virtually all the remaining offspring were in professional employment. It would appear that the inter-generation upward mobility observed between entrepreneurs and their fathers also tends to operate between entrepreneurs and their children.

Those with children still at school were asked about their future aspirations for their children; twenty stated emphatically that their children should come into the business after having acquired a commercial qualification (usually matric), although two mentioned B. Comm. and one said he would like each of his sons to acquire a Master's degree in business administration (M. B. A.) at an American University, and had written to inquire about this. Thirteen said that they would very much like their children to come into the businesses but they should make their own decisions. Most of the remaining seventeen hoped that their children would acquire the highest possible education and enter a profession; the most favoured were law and medicine, while only one mentioned teaching. Comments such as "The children's education is the reason I work so hard" (E71) were made by several entrepreneurs.

A large number of entrepreneurs thus appeared willing and able to provide the maximum possible opportunities for their children, and to enjoy a relatively integrated and settled family life which, in a country where unstable family life is the norm, is obviously one of the major benefits to be derived from entrepreneurship. It is difficult to reach any definite conclusions

as to whether this tends to be a contributory cause or a result of entrepreneurship. It should be borne in mind, however, that (i) none of the entrepreneurs had been contract labourers during their married lives, and (ii) virtually all had a relatively stable history of employment which, in sixty-four cases, was in urban areas where those who were married had lived with their wives and families for a number of years prior to going into business.

9.6 Entrepreneurs' Religious Affiliations and Other Interests¹

The majority of entrepreneurs said that they belonged to a church :

Table 9. 18

Church Membership and Regularity of Attendance

Church	No.	Attendance	No.
Methodist	27	Regular	24
Anglican	18	Sometimes	38
Presbyterian	9	Hardly ever	6
Catholic	4		
7th Day Adventist	3	TOTAL	68
Congregational	2		
Other *	5		
Total church members	68		
Not a church member	2		
No response	8		
TOTAL	78		

* Assembly of God (1); Apostolic Faith Mission (1)
Lutheran (1); Church of Zion (1); Order of Ethiopia (1)

Eight entrepreneurs held positions in their churches; three were members of the church board, three were lay preachers and two were elders.

Only five of the entrepreneurs related religious affiliations to business interests; E's 18, 40 and 41 said that they only employed members of their own church, E71 that he obtained a number of orders from his church relevant to his line of business, and another was sent overseas by his church; there he acquired a skill which he later applied in business.

1. Entrepreneurs' numbers have been omitted from the table and most of the discussion because of possible ease of identification.

Of the seventy entrepreneurs who were asked about their sporting, social and cultural interests, thirty-five said that they did have interests apart from the business and church, while the other thirty-five said that they "had no time". Of those who did have other interests, twenty-one said that they watched or played sport regularly, tennis being the most popular; other pastimes included fishing and music. Six of the entrepreneurs evinced a degree of community orientation apart from church activities; these included interests in youth and social clubs, charity work, and school advisory boards. In addition, six of the entrepreneurs who held positions in the Church participated in other community activities. Three of the entrepreneurs were (or had been) members of Urban Bantu Councils.

No questions relating to political affiliations or views were asked, although sometimes in the general course of conversation the issue did arise. Apart from the five who were or had been members of officially recognised quasi-political bodies, five alluded to political affiliations. A number of entrepreneurs (particularly those in the urban locations) were extremely resentful of restrictive trading policies, while, in contrast, several of the more successful entrepreneurs in the reserves pointed out that they had reaped considerable benefits from the policies of the present South African regime.

9.7 Some Comparisons and General Observations

It is necessary to lend perspective to the preceding discussion by comparing African entrepreneurs in this sample with their counterparts elsewhere, and by examining their behaviour and experience in relation to the society within which they operate.

9.7.1 Some Comparisons with African Entrepreneurs in Other Regions

Lloyd suggests that in Africa, on the whole, an entrepreneurial elite is largely absent, because commercial and industrial activities tend to be shunned by the most highly educated groups who find politics and the professions more attractive.¹ He considers, however, that "the principal exception to this pattern would seem to exist in South Africa, where, denied access to most public offices, the educated African goes into retail trading, transport ownership and the like".²

Unfortunately very little comprehensive comparative information is available. Nevertheless two fairly broadly based samples (one Kenyan and the other Nigerian) indicate

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1. P. C. Lloyd The New Elites of Tropical Africa (London : Oxford University Press, 1966), pp. 8 & 54.
 2. *ibid.* p. 8.

that the proportion of entrepreneurs previously in professional and clerical occupations tends to be a function of increasing size of the enterprise.¹ In the present study, however, it was found that those previously in professional and clerical occupations were fairly evenly distributed among the four entrepreneurial categories. Marris' Kenyan sample shows that ex-professional and clerical occupations comprised 17%² of entrepreneurs' jobs prior to their entering business, which is considerably lower than the 42.3% found in the present sample.

The large number of variables and paucity of information make it extremely difficult to arrive at acceptable conclusions. Nevertheless the data do lend broad support to Lloyd's hypothesis, and suggest that the professional and clerical occupations in South Africa provide a relatively rich source of supply to all categories of entrepreneurship.

There appears to be similarity between the present sample and Marris' Kenyan data³ in that the proportion of entrepreneurs previously in relatively skilled echelons of employment tends to be considerably higher than the proportion in the population as a whole. With respect to the relationship between occupational experience and entrepreneurship, Harris and Kilby (on the basis of Nigerian experience) tend to emphasize the importance of skill acquisition,⁴ whereas Marris (in the Kenyan context) attributes primacy to motivational factors: "entrepreneurs are recruited from the frustrated and talented who, because they have been excluded from occupations of the highest prestige, are determined to show that in business they can go one better."⁵ The interpretation adopted in the current study is somewhat eclectic with respect to these two approaches. It has been shown that occupational background has, in certain cases, contributed substantially to the gap-filling and input-completing activities of entrepreneurs, although examples are also cited where former labourers have progressed into larger entrepreneurial categories. It was suggested, moreover, that the attitudes of entrepreneurs towards employment do display significant elements of motivation; for example, the finding in the present study concerning the great value that businessmen attach to autonomy is adequately confirmed in Marris' Kenyan sample.⁶

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1. See Chapter 6, Tables 6.1 and 6.4
 2. Chapter 6, Table 6.4. If, however, only the larger category of Kenyan businessmen is considered (i. e. those supported by the Industrial and Commercial Development Corporation) it may be seen that 32% of entrepreneurs were previously in professional and clerical occupations.
 3. Chapter 6, Table 6.5.
 4. Chapter 6, sub-section 6.1
 5. African Businessmen op. cit. pp. 65-66.
 6. *ibid.* p. 63.

The question of the relative importance of economic and non-economic entrepreneurial motivations is complex and open to a number of interpretations in different contexts; those concerned with West Africa have tended to emphasize the financial aspects of motivation as either a means to the end of status acquisition or as an end in itself,¹ while Marris feels that in Kenya monetary considerations are of relatively little importance.² The South African data analysed above do not appear to offer sufficient grounds for the assignment of primacy to either economic or non-economic motivations; moreover it would appear that, regardless of socio-economic environment, far more sophisticated testing techniques than are presently available will be necessary before any definitive conclusions can be drawn in this connection.

There are less contentious and complex spheres of comparison in which African entrepreneurs in South Africa appear to bear a fairly close degree of similarity to their counterparts elsewhere in Africa :

- a) This is particularly evident in respect of sources of initial capital. The present survey is in close accord with those conducted in Nigeria and Kenya in identifying personal savings as the principal source of initial capital.³
- b) Marris found that "at one time or another" approximately 25% of entrepreneurs in his sample had been engaged in hawking or petty trade;⁴ this is in reasonable agreement with the findings in the present study in which 38% of entrepreneurs had previous part-time business experience. The extent of extra-occupational business activity in West Africa would make it seem likely that the proportion of Nigerian entrepreneurs with such experience is probably considerably higher.

9. 7. 2 The African Entrepreneur in South Africa vis-à-vis His Community

This survey of factors relating to the supply of African entrepreneurs in South Africa has identified a number of areas in which the experience of businessmen in the sample diverges from that of the African population as a whole. To summarise :

- a) In the occupational sphere entrepreneurs tended to possess a significantly high level of skills, and to have experienced job stability far in excess of that of the African population in general. Moreover a number evinced a fairly high degree of job mobility.

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1. Chapter 6, sub-section 6. 2
 2. African Businessmen op. cit. pp. 62-63.
 3. Chapter 6, sub-section 6. 1. Redelinghuys (op. cit. p. 15) found that this was also the case with African entrepreneurs in Tswanaland, who derived 69.4% of their initial capital from their own funds.
 4. African Businessmen op. cit. p. 60.

- b) In the educational sphere, too, entrepreneurs tended to fall into the upper echelons.
- c) Although the majority were born in rural areas, they had lived and worked for comparatively long periods in urban centres. In addition, many enjoyed a high degree of family cohesion in the work environment.

The overall picture which emerges, therefore, is that the 'modal' entrepreneur in this sample tended to be a relatively stable urban dweller, far removed in experience from the life and work patterns of the temporary migrant that Houghton found to be the norm in a sample of the general population.

An interesting question arises concerning the light in which the entrepreneur views himself in relation to his community and, conversely, the attitude of the community towards the entrepreneur. Any analysis in these terms would be extremely complex and is far beyond the scope of this work, in addition to which the paucity of published material precludes all but the wildest speculation.

Nevertheless several writers (notably Kuper² and Brandel-Syrier³) have commented on the isolation of the African entrepreneur from his community. They suggest the following reasons for this detachment :

- a) Entrepreneurs, particularly those in urban locations, are in an extremely vulnerable position. The intricate maze of legislation provides for "the political domestication of the entrepreneur. He dare not be openly militant, save within the framework of apartheid policy".⁴ Kuper suggests that this would tend to alienate him from a large proportion of the population.
- b) Entrepreneurs avoid personal involvement lest they develop feelings of obligation which might become a drain on their resources.
- c) "In traditional society exceptional achievement always incurred the risk of accusation of witchcraft on the part of the less successful."⁵
- d) Brandel-Syrier points out that "continuous rivalries (are such that) every social participation meant entering the social arena and taking sides".⁶ Hence those dependent on the community for their livelihood attempt to avoid partisanship.

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1. The South African Economy op. cit.
 2. An African Bourgeoisie op. cit.
 3. M. Brandel-Syrier Reeftown Elite (London : Routledge and Kegan Paul, 1971).
 4. Kuper op. cit. p. 281.
 5. Brandel-Syrier op. cit. p. 109.
 6. *ibid.* pp. 109-110.

In the current study it was found that fourteen of the entrepreneurs (i. e. 17.9%) were actively involved in church and community affairs; in the absence of comprehensive comparative data for the population as a whole it is not possible to comment on the significance of this figure.

Apart from the inherent difficulty in analysing entrepreneur-community relationships, the issue is complicated still further in that the attitudes involved are subject to rapid modification by the forces involved in social change. It is interesting to note in this respect that a leading proponent of the 'Black identity' philosophy, Mr David Thebahali, recently launched a 'Buy Black' campaign which was described as a "call to Africans to develop a strong and separate economic power".¹ The success of such a campaign would probably depend heavily on the efficiency and competitiveness of African-owned enterprises, and it is to this question that consideration will now be given.

1. The Star Johannesburg, 12 January, 1971.

Chapter 10

FORMS OF ORGANIZATION AND LABOUR MANAGEMENT

10. 1 Forms of Organization

Attention has been drawn to the widely held view that African businessmen are hesitant about entering partnerships or any other form of corporate enterprise, and that this serves as a severe obstacle to expansion.¹ In Chapter 6 Kenyan and Nigerian studies were cited which demonstrated that single proprietorship is the most common form of ownership. In this study it was found that seven of the entrepreneurs were in partnership and that two had formed limited liability companies.² The remaining seventy-two were all individual proprietors. There appears to be a tendency for partnerships to be concentrated in the higher entrepreneurial categories; five of the nine entrepreneurs in joint undertakings were in category IV, two in category III, and one each in categories I and II. In four cases partnerships were with family members, and in five cases with those not related to the entrepreneur. Four were sleeping partners, while the other five were actively involved in the management of the enterprise.

In an attempt to assess attitudes to partnership, entrepreneurs who did not have partners were asked whether they would consider taking one, and those already in partnership were asked whether they would consider taking another partner. Fifty-two entrepreneurs (i. e. 67.7%) said that they were opposed to partnerships, whereas twenty-six (i. e. 33.3%)³ said that they would consider entering or extending partnerships, although most of them imposed conditions.

As was the case with several of the questions relating to attitudes, it was difficult to codify answers accurately; fourteen of the fifty-two who said that they would not take a partner merely said that they "(did) not like it" when asked reasons for refusal, and would not elaborate any further. It is possible to identify certain patterns in reasons which were given for refusal. Autonomy emerged as an important factor in approximately a third of the cases. For example:

"I have very definite ideas about the way things should be done."

"I want to stand on my own feet."

"I wouldn't think of it. One is limited in movements. With partners you have got two bulls in the same kraal. They are equal, and you can't keep equal people together."

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1. See Chapter 4.
 2. Both were large bus operators.
 3. This includes all nine already in partnership.

As a corollary to this, three mentioned that they feared a partner would assume control:

"They (i. e. partners) just want to take over the business."

Six of the entrepreneurs said that they would refuse a partner because they wanted their children to inherit the business, and another six mentioned a fear of dishonesty:¹

"... people can't be trusted. Even with a legal agreement you can't be sure. I had a very bad experience in ____."

"People here have tried it but it is never successful. This is because of dishonesty and people are not yet educated in business."

Miscellaneous reasons given were that wives would resent a partner, fear of incompatibility and not wanting to share. Three Transkeian entrepreneurs mentioned that they saw no advantage in partnership as they were able to obtain all the capital they needed from the XDC.²

Of the twenty-six who said that they were amenable to the idea, only one (who happened to be in severe financial difficulties) said he would take a partner under any conditions.

Two entrepreneurs gave particularly comprehensive reasons and sets of criteria for accepting partners:

"I would definitely take a partner if it would mean improvement and change. My aim is to change to a supermarket and then I need the assistance of somebody who is keen. The only way to make a man keen is to share - salaried people don't worry. He must be a capable, experienced man who has done something for himself that you can see or read of."

He said that the partner would have to invest capital, but "this is less important than the nature of the man". Four other entrepreneurs also considered the prospective partner's character and motives to be of prime importance.

Another imposed the following conditions:

"Firstly capital must be invested fifty-fifty. Secondly he must be more or less level educationally.³ Thirdly there must be a legal agreement, and fourthly the policy must be laid down by the partners together and then one must be a sleeping partner."

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1. This is a considerably lower proportion than that found by Schatz in a Nigerian study - see Chapter 6.
 2. All three were proprietors of relatively large enterprises who had obtained a high proportion of capital for expansion from the XDC.
 3. He mentioned that he had had a bad experience with a partner in a previous enterprise and attributed this to the man's having only Standard 5 in contrast to his own matric.

Twelve of the entrepreneurs said that they considered capital to be the most important criterion, and eight commented that they thought a firm legal agreement was essential. Three said that their choice would be governed by the prospective partner's skill in their line of business, and three that it was essential to have a clearly defined policy and one managing director. Only two said that they would accept only family members as partners, and another that he preferred a relative, but that this was not absolutely necessary.

Two remarked that they were not against partnerships in principle, but did not consider that their present enterprises were suited to it, and four of the entrepreneurs operating in urban locations said that although they were keen on taking partners, this was "not allowed".¹

In general, therefore, it would appear that although the majority were opposed to partnerships, those who were amenable had given the matter fairly close consideration. It is also possible that the number of partnerships actually entered into would have been greater had this not been prohibited in urban locations.

10. 2 Dispersal of Business Efforts and the Delegation of Authority

In other parts of Africa it has been found that the apparent reluctance of indigenous businessmen to enter partnerships or other forms of corporate enterprise is reflected in a general unwillingness and inability to delegate authority; this in turn results in a tendency for entrepreneurial efforts to be dispersed among a number of relatively small enterprises operating at less than maximum efficiency, but over which the entrepreneur feels he can maintain personal control.² Before analysing the question of delegation of authority in more detail, it is necessary to examine the extent to which entrepreneurs in this sample have tended to diversify their business interests.

10. 2. 1 The Extent of Diversification

In this study it was found that thirty-one of the eighty entrepreneurs³ (i. e. 38.8%) had interests in more than one business, but of these, six were sleeping partners in enterprises other than those which they operated. Thus twenty-five (i. e. 31.1%) were sole proprietors of more than one enterprise. Their distribution

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1. Two of the entrepreneurs already in partnership were in urban locations, but these partnerships had been formed prior to the 1963 directive which prohibited it - see Chapter 7.
 2. For a discussion of the nature and extent of this phenomenon in the Kenyan and Nigerian contexts, see Chapter 6.
 3. i. e. including those two instances in which managers were interviewed.

according to the number of enterprises operated was as follows:

Table 10. 1

Entrepreneurs Operating More than One Enterprise

<u>No. of enterprises</u>	<u>No. of entrepreneurs</u>
Two	15
Three	4
Four	1
Five	5
Total	<u>25</u>

The extent of diversification with which entrepreneurs had to cope differed widely. Fifteen operated more than one enterprise within the same town or location, and in seven cases the enterprises were run jointly (e.g. building and cartage contracting) or adjacent to one another. However the enterprises of ten of the entrepreneurs were located in different areas. Seven of these were entrepreneurs who had moved from urban locations to the Transkei and were still operating businesses in the former areas, one of whom had enterprises in two Transkei towns as well as the surrounding district, and one was a businessman in an urban location who had opened a second business in a reserve but still resided in the former area.¹

Although the 1963 regulations prohibited the establishment of more than one enterprise by one entrepreneur in an urban location, those who had expanded prior to 1964 were allowed to remain for the time being, although encouraged to move to a reserve.² Four of the eleven Soweto entrepreneurs interviewed fell into this category. Certain discrepancies were apparent with respect to the ownership of more than one enterprise in reserve areas. In the Tswana reserves and the Transkei a number of entrepreneurs had more than one enterprise, whereas in Zwelitsha and Mdantsane this was strictly forbidden.³

It would appear that the degree of diversification of business interests in this sample is not as extensive as that observed in studies of Kenyan and Nigerian businessmen. Before any conclusions can be drawn about the efficiency or otherwise of such dispersal as does exist, it is necessary to examine the techniques adopted by entrepreneurs in the delegation of authority within and between enterprises.

10. 2. 2 The Delegation of Authority⁴

The nature and extent of delegation of authority can be categorised as follows:

1. This is illegal according to Circular Minute no. A. 12/1-A. 8/1- see Chapter 7.
2. The writer gained a strong impression that these regulations were being applied far more stringently in Cape Town and Port Elizabeth than Johannesburg.
3. See Chapter 7.
4. A number of the issues raised in connection with the delegation of authority will be used as a basis for criticizing the XDC's policy of placing managers in Transkei trading stations which have been taken over from Whites - see Appendix D.

- (a) those who do not employ managers and delegate authority purely to immediate family members, usually wives. Ten of the entrepreneurs with two enterprises fell into this category, as well as a number with only one enterprise;
- (b) those who assume all managerial functions themselves - only one entrepreneur with more than one enterprise fell into this category;
- (c) those who do employ managers. All of the fourteen in this category had more than one enterprise; eight of these may be said to delegate a fairly high degree of authority, whereas six delegated relatively little.¹

Entrepreneurs may be classified as follows:

Table 10. 2

Entrepreneurs Classified According to Form of Management

	Entrepreneurial Category				Total
	I	II	III	IV	
Wives and other immediate family	10	15	15	8	48
Entirely self-managed	7	4	5	2	18
Employed managers*	-	-	2	12	14
Total	17	19	22	22	80

* In addition to employed managers, nine of these entrepreneurs were actively assisted by their wives.

- (a) The role of wives and other immediate family members

In the majority of cases the crucial role played by wives² was an extremely important factor in enabling entrepreneurs to avoid or overcome many problems associated with the delegation of authority. When seeking interviews it was apparent that wives spent most of their time in the business exercising constant supervision, whereas entrepreneurs were frequently out. Apart from routine activities, a number of wives fulfilled duties such as keeping books, selecting staff and choosing commodities such as soft goods; five of the wives of Transkeian entrepreneurs ran dressmaking establishments on the premises in addition to their other duties.

1. The type of criteria used in distinguishing between degrees of delegation of authority are highlighted in the series of case studies in Appendix B.
2. See Chapter 9 for a discussion of the extent of participation by wives.

By and large, wives tended to perform routine managerial activities while husbands seemed to be the source of ideas and initiative for innovation and expansion. Moreover wives appeared to be more conservative and cautious; several entrepreneurs commented that their wives had been most distressed at the prospect of going into business or of implementing changes within an established enterprise but, when they realised that change was inevitable, had worked very hard to make it viable. In many ways, therefore, it would appear that wives are ideal managers in that their commitment, integrity and hard work are not a cost in the sense that an ordinary manager would be. Nevertheless the degree of diversification of business interests which can be attained with the help of a wife only, is limited; the fact that none of the entrepreneurs whose wives worked with them appeared to experience severe difficulties in the sphere of authority delegation can possibly be attributed to none of them having more than two enterprises.

(b) Entirely owner-managed enterprises

From Table 10.2 it may be seen that there is a tendency for enterprises managed only by the entrepreneur to be concentrated in the two smaller categories of entrepreneurship. It would appear significant that eight of the thirteen entrepreneurs who commented that they were experiencing severe financial difficulties managed their enterprises with no assistance from wives or managers; of these, two were extremely small enterprises with no employees, and four had generally poor staff relations. An outstanding example of excessive dispersal of effort combined with poor delegation of authority was an entrepreneur in category IV operating two enterprises which have since gone insolvent.

(c) The delegation of authority to managers

The classification of entrepreneurs according to the degree of authority delegated has been somewhat arbitrary, and in order to give some insight into this issue and isolate common factors, a series of case studies has been described in Appendix B.

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1. The same could not, however, be said of the two entrepreneurs who left second enterprises in the charge of a son and father respectively in different areas. In one case an entrepreneur had taken over a trading station in a small Transkei town and left his son in charge. The son complained that he disliked rural life and pointed out that he was inexperienced and unable to cope. The XDC confirmed that this enterprise was in severe difficulties. The other entrepreneur who had put his father in charge of a second shop in a reserve while still residing in an urban location said that the shop run by his father was satisfactory, but that he made frequent overnight trips to ensure that all was in order, and did all the purchasing and bookkeeping himself; he found this a tremendous strain and said that he did not think that he would be able to carry on in this manner indefinitely.

From the studies it is evident that in several cases (particularly 1, 2, 3 and 4) entrepreneurs had successfully delegated authority. These individuals appeared to have selected and trained their managers carefully, and provided them with incentives. The importance of these factors is highlighted by the disastrous experience in case 8, where complete autonomy was handed to inexperienced and arbitrarily selected people; moreover the entrepreneur's almost complete withdrawal contrasts with the systematic scrutinization of records by entrepreneurs who had successfully delegated authority.

Contrary to statements made by XDC and BIC officials, entrepreneurs in this survey did not show a marked preference for employing relatives as managers. Seven employed non-relatives only, three relatives only, and four both relatives and non-relatives (two in the same enterprise and two in different enterprises). Moreover authority was delegated in more or less equal measure to both relatives and non-relatives:

Table 10.3

Degree of Authority Delegated

Degree of authority Relationship of manager to entrepreneurs delegated

	Not related	Related	Combination of both	Total
Relatively high	4	2	2	8
Relatively low	3	1	2	6
Total	7	3	4	14

It is evident that entrepreneurs who faced the greatest problems were those who operated enterprises in different areas. In cases 8, 9, 11 and 13 these difficulties were intensified by entrepreneurs' unwillingness to accord any significant degree of decision-making to managers, with the result that a great deal of time and effort was spent travelling between enterprises and attending to the type of detail which other entrepreneurs had delegated to managers with satisfactory results. The entrepreneurs who owned enterprises in different areas and failed to delegate authority resemble the Kenyan and Nigerian models of excessive diversification of interests combined with poor delegation of responsibility.¹ In this sample the extent of excessive dispersal of effort does not seem to have been as great as that suggested by writers on other parts of Africa; moreover several of the entrepreneurs were aware of the necessity for concentrating and consolidating their efforts.²

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1. See Chapter 6.
 2. See Chapter 11.

Although, to a fairly large extent, poor delegation probably reflects shortcomings on the side of entrepreneurial supply, it must be borne in mind that a number of the problems faced by entrepreneurs in this study were imposed to some degree by exogenous factors. This is particularly true in the case of those who were operating enterprises both in reserves and urban locations; in attempting to spread the risks of insecurity in urban areas and economic uncertainty¹ in reserves, they incurred considerable difficulties of supervision.

10. 3 Labour Management²

10. 3. 1 The Nature and Extent of Employment

The data of the number of employees per entrepreneur are complete, but only fifty-six entrepreneurs were prepared to divulge wage statistics. This information is tabulated according to location of enterprise and entrepreneurial category in Appendix A,³ and may be summarized as follows:

Table 10. 4

Average Number of Employees and Average Wages According to Location of Enterprise

Area	Average no. of employees	Average monthly wages	Average monthly wage bill
Transkei	17.8	R20.6 *	R366.8
Border areas	7.4	R23.9	R176.9
Large urban locations	10.8	R42.9	R463.3
Small urban locations	0.6	R30.0	R 17.1
Average all areas	9.2	R29.4	R256.0

* This refers to cash wages only. Seventeen of the forty Transkeian entrepreneurs provided their workers with board and lodging, and four with board only.

1. The insecurity in urban areas arose largely because of the prohibition on freehold tenure and its corollary of the pre-supposition of official policy that Africans in urban areas are temporary sojourners. In contrast to this, economic uncertainty in rural reserves can be attributed mainly to obstacles inherent in the economic environment. These factors have been elaborated upon in Chapter 12.
2. Tables and discussion relate only to full-time employees and exclude managers and unpaid family members discussed in the preceding sub-section.
3. Tables 6, 7, 8 and 9.

The significantly larger number of employees of Transkeian entrepreneurs and the lower wages paid by them can be partly attributed to the fact that approximately 60% employed at least two unskilled labourers. Although a number of the enterprises requiring a fairly high complement of unskilled labour (such as brick works and building contractors) were located in the Transkei, entrepreneurs in comparable commercial enterprises appeared to make far more extensive use of unskilled labour for jobs such as cleaning and packing. Several entrepreneurs in other areas employed school children part-time in these capacities at wages averaging R2 per week.

Table 9 of Appendix A indicates that entrepreneurs in the two smaller categories tend to pay significantly lower wages than those in larger categories; this in turn is reflected in labour quality.¹ Differences in wages and labour utilization between areas adjacent to 'White' urban centres and reserves is further illustrated by the entrepreneurs who moved from the latter to the former; in urban locations these entrepreneurs employed an average of 5.9 workers at monthly wages of R37. On moving to the Transkei the average number of workers in comparable types of enterprise increased to 13.8 and average monthly wages fell to R18.3.² The increased number of workers is partly attributable to the tendency for Transkeian businesses of these entrepreneurs to be larger, but the fact that, in general, wages tended to increase according to entrepreneurial category, highlights the relatively low wages paid in that territory. On the whole it would appear that factors in the economic environment are an important constraint on labour utilization and wages, and that it is an oversimplification to regard management as the sole determinant of labour efficiency.

The question arises as to whether differences in productivity exist between urban centres and reserves. As has been discussed in earlier chapters, labour productivity appears to be a function of labour management (i. e. supply factors) to a fairly extensive degree. Those entrepreneurs who had moved to the Transkei, however, provide a useful means of comparison of productivity in different environments in that entrepreneurial supply factors may be assumed constant while exogenous or demand factors vary.

The general consensus of opinion among entrepreneurs in this group was that although in the Transkei it was far easier to find employees, and there was less danger of their leaving once they had acquired a modicum of skill, they tended to be less efficient and require greater supervision and training than their counterparts in urban locations.

One of the most successful urban entrepreneurs (who had moved to the Transkei) described how he had tried to persuade his highly efficient and satisfactory employees³ in a large urban

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1. See p. 166
 2. However the average monthly wage bill increased from R218.3 in urban locations to R252.5 in the Transkei.
 3. The average monthly wages paid by this entrepreneur were significantly above the average - i. e. R57 and R33 in the urban location and reserve respectively.

location to move to the Transkei with him. Most, however, refused:

"All the attractions of city life keep these people in ____; they were not interested in owning anything ... In the Transkei I am hampered by lack of trained people."

He commented at length on the relative laziness of rural people ("While I live I must work and see and think, while these others lie on their stomachs and drink..."), and said that although they were inexperienced these problems could be overcome with sufficient motivation:

"The desire to do well is born within you and is difficult to change. These people (i. e. in the Transkei) just haven't got it." |

Another entrepreneur in category IV who had moved to the Transkei made similar points:

"In the Transkei men are not used to work. Because of the migrant labour pattern they go away in the ploughing season and it is difficult to keep them for a long time. Women only work for immediate needs."

A few had, however, adopted various techniques aimed at overcoming labour problems.²

10. 3. 2 Aspects of Labour Management³

Of the sixty-six entrepreneurs who had to deal with employed staff (other than close relatives), thirty (i. e. 44. 1%) said that labour problems were minimal, whereas thirty-eight (i. e. 55. 9%) experienced relatively severe staff difficulties.

Those who said that employees performed satisfactorily were asked to account for this. The most frequently given answers were:

Table 10. 5

Reasons for Satisfactory Staff Performance

<u>Reasons</u>	<u>Frequency of Response</u>
Good treatment	12
Make employees feel important	6
Careful selection	11
Careful training	5
Pay well	5
Incentive scheme	5
Close supervision and discipline	5
Total	48

1. He has found, however, that since the institution of a bonus scheme things improved slightly (employees are paid R1 per R100 for every R100 of monthly sales over R600).
2. For example regular staff meetings to explain various matters. Two entrepreneurs had provided their employees with sporting and transport facilities which, they said, was an important factor in eliciting commitment.
3. The two managers have not been included in this discussion.

"Good treatment" included comments such as "We treat them nicely - not as servants" and "fair treatment is half the battle won". Several entrepreneurs evinced somewhat paternalistic attitudes such as "You must be concerned with their welfare, and do things like visiting them when they are sick", and "I take a close interest in their personal lives and try to help them with their problems". Six of the entrepreneurs attributed good staff relations to making employees feel important and committed. For example:

"We want employees to feel part of the business. We are in partnership with them and we all benefit. It creates good feeling."

"You must make them feel they have a part to play; in my business nobody is the boss."

Those who exercised careful selection said that they inquired into the prospective employee's background and wanted to know why he had left his last job. Five entrepreneurs said that they only employed fellow church members or their own ex-pupils. Most of the entrepreneurs who laid emphasis on training held regular staff meetings.

The wages paid by entrepreneurs who attributed good labour relations to high remuneration were, in each case, higher than the average for that area. Two of the five who had instituted incentive schemes were relatively large furniture manufacturers who encouraged employees to improve methods and design by means of financial rewards; the other two were commercial concerns which paid bonuses according to turnover. All five said that these schemes worked very well.

In contrast to the techniques outlined above, which involved entrepreneurs' attempting to elicit cooperation, five entrepreneurs considered close supervision and strict discipline to be responsible for satisfactory employee performance.

Of the 55.9% who were dissatisfied with employees, the major problems encountered were:

Table 10.6

Reasons for Dissatisfaction with Employees

<u>Reasons</u>	<u>Frequency of response</u>
Pilferage and dishonesty	16
Irresponsibility	11
Lack of skills	10
Laziness and carelessness	7
Trained labour recruited by other employers at higher wages	6
Disobedience	3
Absenteeism	3
"Only interested in money"	2
Total	<u>57</u>

It would appear that a number of these factors can be attributed partly to deficient labour management, in that other employers managed to avoid or overcome them. The type of job must, however, be taken into consideration - for example, with one exception bus operators encountered extreme difficulties with their drivers, whom they said tended to be reckless with the vehicles, dishonest and treat passengers badly. The only bus operator who said that he experienced relatively few problems with drivers explained how he and his wife selected and trained them:

"We don't take any driver off the street. We look for a good youngster and start him in the garden. Then we promote him to a loader, then a conductor and when he is good enough he becomes a driver."

It would appear that such a technique would be far more difficult for the larger bus operators. He mentioned, moreover, as did five other bus operators in the Transkei and Zwelitsha, that very often well-trained and reliable drivers were recruited by a large bus company in East London at wages with which they were unable to compete.¹

Complaints about shortages of skilled workers were most frequently made by entrepreneurs in higher categories. Although a number of entrepreneurs who were relatively satisfied with their employees had attempted to overcome this difficulty with careful training schemes, it would appear that the problem can be partially attributed to environmental factors particularly where training is beyond the scope of the entrepreneur. For example the groups which appeared to be suffering most acutely from the lack of skilled manpower were bus operators and garage owners who needed qualified mechanics. Two of the largest bus operators said that they would be prepared to pay White mechanics at the going wages if they were fully qualified and reliable; these and several other entrepreneurs said that lack of skilled manpower was the most serious brake on expansion.

In assessing the relative importance, with respect to labour management, of factors endogenous and exogenous to the firm, it is interesting to note that very few of those who experienced problems with employees exercised careful selection, and only one operated an incentive scheme. Much of the evidence seems to suggest that labour problems must be attributed largely to deficiencies on the part of the entrepreneur. Nevertheless with respect to labour problems peculiar to the Transkei, the comments of those entrepreneurs who had moved from urban areas must be borne in mind.

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1. It must be noted, however, that none of the bus companies operated any sort of incentive scheme designed to give key employees such as drivers a profit-oriented interest in the business.

10. 3. 3 Attitudes towards the Employment of Relatives

In his Kenyan study, Marris found that family ties "intruded least into more sophisticated businesses ... (These enterprises) were not characteristically organized to further the interests of the family as an aim of the enterprise. The claims of kinship were generally held to be subordinate to the interests of business, and allowable only where they seemed compatible with it".¹

The following responses were obtained from entrepreneurs to a question about the desirability of employing relatives other than nuclear family members:

Table 10.7

Answers to the Question "Do you consider it advisable to employ family members?"

<u>Answer</u>	<u>Entrepreneurial Category</u>					
	I	II	III	IV	Total	%
No	6	5	11	15	37	47.4
Yes	11	13	6	3	33	42.3
Depends on the individual	-	1	1	3	5	6.4
Close relations yes, distant relations no	-	-	2	1	3	3.9
Total	17	19	20	22	78	100.0

These data appear to lend some support to Marris' findings, in that 70.3% of the thirty-seven who replied "no" fell into the two higher entrepreneurial categories. Moreover those who replied that "it depends on the individual" adopted criteria of efficiency:²

"Relations are no good if they are not qualified."

"I employ any relations I see fit. Relations who are unfit will be dismissed. I had to dismiss my cousin-brother because he was unreliable."

The most frequently given reasons for considering the employment of relatives to be a bad policy was that they help themselves freely because they feel that the business belongs to the family as a whole. Other factors were that it is difficult to dismiss relations if they prove unsatisfactory,³ that they resent

1. African Businessmen op. cit. pp. 139-141.
2. Both of these businessmen fell into category IV.
3. In this connection Marris has commented that "businessmen foresaw not only that the family might resent the sacking of relatives and inhibit the exercise of their authority but also that jealousy and insubordination were likely" - African Businessmen op. cit. p. 145.

being told what to do, that they "don't have the zeal to work" and that they "don't like you to get up (. i. e. progress) and become jealous if you do". Three entrepreneurs said, however, that close relatives tend to have greater commitment to the enterprise than distant ones, and, as one of them pointed out:

"They know that if they do a bad thing and the business falls down everybody will laugh."

Two of the entrepreneurs in category IV who said that they thought the employment of relatives was desirable qualified their answers by saying that they only employed relatives in senior positions lest they identify with the "ordinary workers". Approximately 25% of those who said that they disapproved in principle of employing relatives did employ some, although the proportion of relatives employed tended to be small.

Most of the reasons for feeling the employment of relatives to be desirable can be summed up in the words of the entrepreneur who commented: "I feel I can trust my own people better." However three of the entrepreneurs in the two higher categories made the point that "It is good to train them so that they don't depend on you so much".¹

These data do not provide sufficient evidence to draw any definite conclusions about the effects of the extended family. Nevertheless they do indicate that a relatively large proportion of the more successful entrepreneurs had managed to rationalise feelings of kinship obligation to an extent that they considered as being in the best interests of the enterprise.

1. The reasoning behind this type of comment appeared to be that the more skills possessed by relatives, the greater would be their chances of employment elsewhere.

Chapter 11

ENTREPRENEURIAL PERFORMANCE: THE INTERACTION
 BETWEEN THE SUPPLY OF AND DEMAND FOR
 ENTREPRENEURSHIP

11.1 Access to Capital and the Extent of Capital Shortage

An important feature of the financing of African enterprises in South Africa is that in the reserves entrepreneurs have access to capital on fairly easy terms through the XDC and BIC, whereas in urban locations exogenous sources of capital are strictly limited.

In Chapter 6, four criteria were suggested for testing the validity of the 'capital shortage' thesis. It is difficult to apply all of these tests to enterprises in the present study in a comprehensive manner because satisfactory information on profitability and the degree of capacity utilisation is not available. Nevertheless it is possible to gain some broad insight into the issue of capital shortage by examining:

- (a) whether the provision of XDC and BIC funds has resulted in the establishment of a significant number of viable enterprises which might not otherwise have come into existence;
- (b) whether, in the case of firms which have expanded entirely through reinvested profits, those firms with smaller initial capital tended to grow less rapidly than those in which initial capital was relatively large (as the 'capital shortage' thesis would tend to suggest);
- (c) entrepreneurs' attitudes towards capital shortage.

11. 1. 1 The Role of the Development Corporations in Providing Capital

A striking feature of Table 9.13 is the relatively small number of entrepreneurs who derived their initial capital from the Development Corporations; of the forty-one entrepreneurs in this sample whose first enterprise was established in a reserve since 1960 (when capital from these sources first became available) only four obtained all of their initial capital and two part of their initial capital from the XDC or BIC.² Moreover of these seven

1. i. e. the Xhosa Development Corporation and the Bantu Investment Corporation - see Chapter 7.
2. These firms are distributed among entrepreneurial categories as follows: I - 1; II - 2; III - 2; IV - 1. The average amount lent to each entrepreneur was R5330.

entrepreneurs, two said that they were in severe financial difficulties, and one that he was struggling badly; the other four businesses appeared reasonably viable. From the standpoint of initial capital, therefore, the capital shortage criterion that the provision of funds on easy terms results in the establishment of a significant number of viable enterprises which would not otherwise have come into existence has only been partially fulfilled, although the sample is too small to draw any definite conclusions.

The extent of utilisation of Development Corporation funds is far greater in the case of capital for expansion. From Table 10 of Appendix A it may be seen that twenty-one (i. e. 33.9%) of the sixty-two reserve entrepreneurs in this sample had recourse to XDC or BIC capital for purposes of expansion of established enterprises. Fifteen of these obtained more than 50% of their capital for expansion from these sources. Of the thirteen Transkeian and Ciskeian entrepreneurs in this group, the average proportion of capital borrowed was 88.2%, and the average amount R17,188. Eleven of these were, according to the XDC, viable enterprises,¹ and it would appear that these entrepreneurs would not have been able to attain their present size in the absence of this assistance. The two Tswanaland entrepreneurs had been lent R100,000 and R148,000 respectively by the BIC. The former entrepreneur has since been declared insolvent, while the latter may be included with the eleven Xhosa entrepreneurs who derived substantial benefit from the capital provision scheme.

Two of the six entrepreneurs who obtained less than 50% of their capital for expansion from the XDC were bus operators and one a cartage contractor. They found the XDC's terms preferable to hire purchase and had acquired additional vehicles with their loans; however all said that they would have purchased these vehicles on hire purchase even if XDC financing had not been available. The remaining three had obtained an average of R10,333 from the XDC, which amounted to 29.5% of capital for expansion. Two of these enterprises were experiencing difficulties.²

It may be concluded, therefore, that Development Corporation loans for expansion had facilitated the viable growth of enterprises of thirteen entrepreneurs, which is a fairly small proportion of both the total sample (i. e. 16.2%) and of reserve businessmen only (i. e. 20.9%).

11.1.2 The Relationship between Initial Capital and Rate of Growth

The second criterion of capital shortage for which available data allow testing is whether, considering firms which expanded entirely through reinvested profits, those with smaller initial

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1. One of the two entrepreneurs who were experiencing difficulties continued to operate a successful enterprise in an urban area, while his son managed the Transkei business and encountered fairly severe difficulties.
 2. One of these entrepreneurs was in a similar position to that described in the footnote above, while the other appeared heavily over-capitalised; this was confirmed by the XDC.

capital tended to grow less rapidly than larger ones. Of the fifty-nine enterprises in this sample, all of which had experienced zero or negligible expansion or which grew entirely through reinvested profits, comprehensive information on the amount of initial capital and present capital value of the business was available for forty-eight.

Taking into consideration each entrepreneur's initial capital, date of establishment of the first enterprise and present capital value of business assets, the annual growth rate at compound interest was calculated for each entrepreneur. This was followed by division into four groups on the basis of initial capital,¹ and each rate weighted according to initial capital. The following results were obtained:

Table 11. 1

Average Annual Growth Rate According to Initial Capital

	1	2	3	4
Initial Capital	less than R749	R750- R1,499	R1,500- R2,499	R2,500- R11,500
No. of entrepreneurs	18	13	11	6
Av. initial capital	R367	R1015	R1840	R5250
Weighted av. compound rate of growth	50.5%	40.3%	26.8%	17.2%

This apparently violates the implicit assumption of the 'capital shortage' thesis that firms which are initially smaller will tend to experience lower rates of growth. Any conclusions drawn from these data must, however, be carefully qualified in that:

- (a) within each of the groups classified according to initial capital there were widely divergent annual growth rates, ranging from 0 to 111.5% in group 1, 0 to 119% in group 2, 0 to 63.3% in group 3 and 15.2% to 22.5% in group 4;
- (b) related to this, the present capital value range within initially smaller groups is extremely wide, ranging from R100 to R114,850 in group 1, R800 to R250,000 in group 2, R2,000 to R12,400 in group 3 and R3,500 to R137,000 in group 4;
- (c) a number of different types of enterprises with possibly different economies of scale have been included.

1. The groupings were chosen so as to minimize borderline cases.

This type of test thus masks a wide variety of differences, and results must be interpreted with caution.

Nevertheless the data indicate that a large proportion of entrepreneurs in categories III and IV had relatively little initial capital and were able to achieve substantial expansion entirely through reinvested profits:

Table 11. 2

The Relationship between Initial Capital and Entrepreneurial Category

	<u>Entrepreneurial Category</u>				
	I	II	III	IV	Total
A. No. that experienced no expansion	6	2	-	-	8
B. No. that grew from re-invested profits only	11	13	14	13	51
C. No. of (A) and (B) for which data available	17	11	9	11	48
D. Initial capital:					
1. less than R749	7	5	3	3	18
2. R750-R1,499	4	2	2	5	13
3. R1,500-R2,499	5	4	1	1	11
4. R2,500-R11,500	1	-	3	2	6
Total (D)	17	11	9	11	48

11. 1. 3 Entrepreneurs' Attitudes towards Capital Shortage

Schatz has suggested that "most Nigerian businessmen believe that inadequate capital is their main or sole business handicap";¹ similarly in the Kenyan context, Marris has commented that "amongst all the African businessmen we interviewed - whether in industry or commerce, whether government-aided or eking out a livelihood in a country market - lack of capital was, they said, their greatest difficulty".²

In the present study, no such unanimity was found; when asked whether they considered shortage of capital to be a problem at present, twenty-nine (36.3%) said "yes", five (6.2%) replied "yes, but not a serious problem" and forty-six (57.5%) replied "no".³

Interesting insight is obtained if entrepreneurs' answers are tabulated according to entrepreneurial category:

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1. "Economic Attitudes of Nigerian Businessmen" op. cit. p. 266.
 2. African Businessmen op. cit. p. 179.
 3. The two managers were included in this question.

Table 11. 3

Attitudes towards Capital Shortage According to Entrepreneurial CategoryEntrepreneurial category

	<u>Answer</u>			
	Yes	Yes but not serious	No	Total
I	12	-	5	17
II	9	4	6	19
III	7	1	14	22
IV	1	-	21	22
Total	29	5	46	80

It would appear, therefore, that insofar as turnover was the major criterion for grouping into entrepreneurial categories, there is a significant inverse relationship between size of turnover and the extent to which capital shortage was considered a problem.

It is interesting to examine whether those who have had access to XDC or BIC financing (both initial capital and capital for expansion) tend to differ in their attitude towards capital shortage from those who have not:

Table 11. 4

Comparison of Attitudes towards Capital Shortage According to whether Capital has been Obtained from Development Corporations

Answer	XDC or BIC financed		Not XDC or BIC financed	
	Number	%	Number	%
Yes	13	48.1	16	30.2
Yes but not serious	-	-	5	9.4
No	14	51.9	32	60.4
Total	27	100.0	53	100.0

In this sample, therefore, there was a tendency for a larger proportion of Development Corporation-financed businessmen to consider capital shortage a problem than those who had not obtained capital through these sources. Moreover, if the three entrepreneurs who had only obtained very small loans for the purchase of vehicles had been included in the 'non-XDC-financed' group, this tendency would have been greater.

The general impression which has emerged is that capital shortage does not assume the overriding importance which is frequently attributed to it.

11. 2 Some Possible Relationships between Entrepreneurial Supply and Demand

It would appear that close interrelationships exist between the market in which the entrepreneur operates, competition within that market, the granting of credit and access to sources of supply. In assessing the significance of entrepreneurs' experience and performance in this sphere, the following method has been adopted:

- i) construction of a hypothetical model relating to the interaction between these factors;
- ii) adaptation of the basic model to the legislative framework of African entrepreneurship in South Africa;
- iii) examination of the significance of entrepreneurs' reactions to various situations in terms of the model, followed by an attempt to isolate supply and demand factors and determine their mode of interaction.

The model is formulated specifically within the context of type (b) economies outlined in Chapter 5;¹ the basic assumption being that due to inadequacies of entrepreneurial supply (e.g. lack of experience, entrepreneurial skills and so forth) and small initial capital, African businessmen find it difficult to compete with White and Asian businessmen directly. Therefore they tend to locate themselves relatively far from the central business district in order to achieve some degree of protection. It is likely, however, that in attempting to avoid competition from established firms, indigenous businessmen encounter a hostile economic environment:

- (a) The market is limited and determined by the cost of bus fares and time spent in travelling to the central business district. Assuming that (i) customers tend to make most of their relatively large cash purchases in the central business district, limiting their purchases from local enterprises to small quantities of essential foodstuffs, and (ii) goods have to be transported over relatively long distances, the cost structure tends to be high - as do prices - and the range of commodities is limited. These factors are cumulative, because the smaller the market the more difficult it is to expand sufficiently to take advantage of economies of scale, and thereby attract more custom.
- (b) These problems are further intensified by demands for credit, which pose a severe problem, particularly if competition from other African businessmen within the limited market tends to be strong; if credit is refused the market might be reduced still further, while if it is granted the probable poverty of customers makes it unlikely that regular payments will be made. The granting of credit is made more difficult if wholesalers insist on relatively strict terms of payment.

1. i. e. assuming that urban centres are largely the preserve of non-Africans. The model is based on observations made by Marris - African Businessmen op. cit. Chapter 7.

- (c) The potential for expansion is limited not only by factors in the economic environment, but also by inadequacies on the supply side - such as poor financial management - which contribute to the mortality rate of enterprises.

The model may be termed 'racially competitive' in that it is assumed that if the market within which African businessmen operate were to improve, more powerful entrepreneurs of different races would move there; the size/growth rate of the market and the degree of protection are therefore inversely related.

11. 2. 1 An Adaptation of the Model within the South African Context

- (a) Urban areas

The most obvious manner in which the model has to be qualified in a South African context is that the location of African-owned enterprises away from the central business districts of 'White' urban areas is provided for by legislation. The converse of this is, however, that protection within African locations is afforded by the provision that no entrepreneurs of other races may establish themselves there. Within these areas, therefore, the 'competitive' assumptions of the model are violated, and a 'racially monopolistic' element is introduced. It would appear, moreover, that the degree of monopoly afforded to African businessmen is inversely related to the size of the location and its distance from the central business district, although some of the advantages of distance may be lost if the costs of commodity transportation increase proportionately. However, in the presence of restrictions, such as those which came into operation in 1963, the monopoly held by African businessmen is reduced.

- (b) Reserves

The situation in the reserves approximates to a somewhat different 'racially monopolistic' model insofar as policy is directed towards securing all trading rights for Africans. In areas such as the Transkei, however, an element of racial competition remains in that there are still a number of White businessmen. In the border area townships such as Zwelitsha and Mdantsane, however, the situation is analogous to that in urban locations, although border area entrepreneurs are in an easier position insofar as they have access to Development Corporation assistance, are able to obtain freehold tenure, and are not subject to many of the restrictions which face urban businessmen.

The Transkei provides a particularly interesting field of study in that African businessmen have located themselves in urban

centres¹ which are not almost exclusively 'dormitories' - as are urban locations and many border area reserves - and have thereby encountered direct non-African competition.

A most important question requires elucidation before any policy assessments can be attempted: namely, are the African entrepreneurial activities which are prevented from materialising in urban areas because of restrictions, compensated for by opportunities created in the reserves? Obviously in a limited study of this nature any detailed quantitative analysis is precluded. Nevertheless it is possible to gain some broad indications by drawing comparisons between the experiences of businessmen who operate in different types of politico-economic environment; as pointed out earlier, those who have moved from urban areas to the Transkei provide a particularly useful control factor.

11. 3 Exogenous Factors: the Influence of Market Size²

In Chapter 4 attention was drawn to the size and rate of growth of the market as one of the most significant factors in the economic environment.

11. 3. 1 The Relationship between Market Size and the Degree of Diversification

Data in Chapter 7 on the extent to which African businessmen had diversified into spheres other than general dealing suggest that, on the whole, this phenomenon is far more widespread in Soweto than in the reserves. Moreover this study reveals that within the Transkei there is a close correlation between market potential and the degree of diversification:

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1. Most notably Umtata, Butterworth and Lusikisiki where some industrial employment opportunities exist.
 2. For a breakdown into areas and Transkei towns according to market potential, see Appendix C.

Table 11. 5

Diversification within the Transkei According to Market Potential

<u>Type of enterprise</u>	<u>Towns according to market potential</u>		
	Small	Medium	Large
General dealers	6	6	9
Supermarkets	-	-	3
Restaurants and cafés	-	-	8
Bus operators	-	-	6
Hotels and bottle stores	-	2	3
Furniture shops	-	1	2
Garages	-	1	1
Butchers	-	1	1
Other *	-	-	13
Total no. of enterprises	6	11	46
Total no. of entrepreneurs	6	6	28

* See Table 1, Appendix A.

It appears that the proportion of general dealers varies inversely with market size. Moreover there is a tendency in this sample for general dealers to be concentrated in smaller entrepreneurial categories:

Table 11. 6

Distribution of General Dealers among Entrepreneurial Categories

<u>Entrepreneurial category</u>	General dealers or supermarkets only	Other *	Total
I	12	5	17
II	13	6	19
III	10	12	22
IV	4	18	22
Total	39	41	80

* Where entrepreneurs operated general dealers or supermarkets as well as other types of enterprises, they have been classified 'other'.

In general, therefore, it would seem that the extent of the market is an important factor determining the sophistication of enterprises, and that this in turn is positively correlated with absolute size of enterprises.

11. 3. 2 The Relationship between Market Size and Absolute Size of Enterprises

The model outlined earlier suggests that the absolute size of general dealers tends to be a function of market size, and data in this study suggest that this is the general case:

Table 11. 7

Average Monthly Turnovers of General Dealers According to Market Size

	<u>No. of entre- preneurs</u>	<u>Av. monthly turnover</u>	<u>Range</u>
Transkei towns:			
large	9	R4, 633	R1, 200-R10, 000
medium	6	R1, 750	R1, 000-R2, 000
small	6	R1, 883	R100-R5, 000
Border areas:			
large	4	R6, 000	R2, 400-R10, 000
small	10	R2, 872	R300-R8, 000
Urban locations:			
large*	18	R6, 686	R1, 000-R1, 500
small	6	R683	R100-R1, 000

* including 5 Soweto entrepreneurs, and data on 13 Transkei entrepreneurs who moved from urban locations in the latter areas.

There would appear, therefore, to be a positive relationship between general market potential, as estimated in Appendix C, and average monthly turnover.¹

These considerations, together with those on the extent of diversification, highlight the importance of demand factors and confirm that market potential places an important exogenous constraint on the average absolute size of enterprises, as well as their degree of sophistication. Nevertheless cognisance must be taken of the fairly wide range of monthly turnovers of general dealers within given areas depicted in Table 11. 7. Although this might, to some extent, be explained in terms of relative position within particular areas, it would appear that in a number of cases the exceptional ability and motivation of entrepreneurs (i. e. supply factors) should be regarded as a determinant of their relatively large size.

1. The discrepancy between the average monthly turnover in medium and small towns in the Transkei can probably be explained in terms of the somewhat arbitrary division between the two - see Appendix C.

11. 3. 3 Entrepreneurs' Perceptions of the Market

The most useful responses to questions relating to market size and adequacy were obtained from those who had operated enterprises in different areas. Nine of the thirteen businessmen who had moved from large urban areas to the Transkei were emphatic that the Transkei market was smaller:

"Although urban businessmen have problems, the trade is there."

"In ___ (urban location) I was dealing with up-to-date people who are not the same as these country people - (the former were) a good in quality population." (This statement was made by an Umtata businessman.)

"___ (urban location) was very good; it is heavily populated, and people have jobs and money to spend. In the Transkei demand is medium and depends mainly on the rain. Also people are poor - they are not interested in supermarkets and special offers. If they want sugar, that's all."

The market potential of Transkei towns in which these entrepreneurs operated in relation to their assessment of the relative size of the market was as follows:

Table 11. 8

Assessments of Transkei Markets in Relation to those in Large Urban Locations

	<u>Size of Transkei town</u>			Total
	Small	Medium	Large	
Smaller than urban location	2	1	6	9
Larger than urban location *	1	1	2	4
Total	3	2	8	13

* Of the four who said that the Transkei market was larger, two had owned shops in Langa location in Cape Town which is adjacent to a large shopping centre at Athlone.

Despite these entrepreneurs' generally low opinions of the size and sophistication of Transkei markets, in several of the larger businesses an attempt has been made to reconcile modern marketing techniques with their rural customers' expectations.¹

1. One entrepreneur had converted part of the floor space of his supermarket to resemble a 'traditional' trading store, but at the entrance a high-pressure saleswoman wearing traditional dress explained the advantages of the weekly 'special offer' to customers. Another had several specially trained assistants who accompanied customers through the supermarket and assisted them with their purchases.

This generally favourable assessment of the market in large urban centres was consistent with findings in Soweto; with the exception of a small furniture manufacturer¹ Soweto businessmen described their market in such terms as "very good" and "wonderful if you can capture it". In contrast, Grahamstown businessmen described the market as "low", with the exception of the only entrepreneur in category II.

The market assessments of Transkeian entrepreneurs who had not had experience elsewhere tended in large towns to be more favourable than those of their counterparts who had moved from urban areas. In most small and medium towns, however, the majority of indigenous Transkeian entrepreneurs described the market as "not very good".² The three who had experience in towns as well as rural areas were emphatic that the market in the former was a great deal larger than that in the latter.

The five Mdantsane entrepreneurs were unanimous in concluding that the market there was better than in Duncan Village location (adjacent to East London) from which they had been moved. In Zwelitsha the general pattern was for larger entrepreneurs (categories III and IV) to describe the market as "reasonable" or "good", whereas those in lower categories tended to regard it as small.

In general, therefore, entrepreneurs' perceptions of the market tended to correlate fairly closely with actual market potential, although there was a tendency for larger entrepreneurs to regard the market more favourably than smaller ones.

11. 3. 4 Product and Market Orientation of Industrialists

In considering the type of problems facing the six industrialists in this sample,³ the concepts of product and market orientation outlined in Chapter 6 appear relevant, as does Marris' suggestion that marketing presents a fundamental obstacle to many African businessmen.⁴

In this respect, two of the very small furniture makers⁵ said that they found marketing extremely difficult; both sold

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1. See sub-section 11. 3. 4.
 2. Entrepreneurs in Mount Frere (medium) were, however, enthusiastic about the market, and it is interesting to note that this is the only 'medium' town in which diversification had taken place. It is significant, moreover, that all the other small and medium towns were adjacent to large ones, and it was alleged that the latter drew off a lot of custom.
 3. Four furniture manufacturers and two printers.
 4. See Chapter 6.
 5. One in Soweto, the other in the Transkei (wholly XDC-financed). Both were in Category I.

their entire output to a single source - namely White-owned furniture shops who, as one said, "pay little, but pay cash". The Transkei furniture maker felt that his product was unsuited to the market there and that he experienced difficulties in obtaining access to the best sources of supply of raw materials. Additional difficulties which both said they encountered were (i) approaching White buyers, and (ii) time spent in this manner could be better employed supervising production.

The largest furniture manufacturer (category IV) had, however, built up a country-wide distribution network consisting of White-owned shops and hotels; he described the trepidation which he had first experienced when selling his wares, but said he had since gained confidence and at the time of interview had approximately eight hundred establishments on his books; he maintained this market by extensive travelling.¹

The fourth furniture manufacturer (category IV) who operated in Soweto sold all his output in his Soweto furniture shop. Both of these relatively large-scale industrialists appeared to spend most of their time engaged in market-oriented activities and employed managers to supervise routine production processes, in contrast to the almost entirely product-oriented activities of the smaller craftsmen.

The two printers (both in Soweto) said that marketing was no problem and that they were kept continually busy.² The larger of the two printers had started his enterprise in the central business district of Johannesburg. However:

"In 1959 I was kicked out of the city and thrown on the backyards of Soweto. At first the business went down a lot - there were no customers. It has improved, but it has taken ten years to reach the same level."

He pointed out that in addition to the smaller market, he had to contend with higher costs in Soweto, including a large outlay for the installation of an electricity cable.

In many respects the problems peculiar to industrialists appear to arise from the relatively high degree of complexity of gap-filling and input-completing activities. The fact that a small but significant group of industrialists has developed in Soweto is indicative of the 'pull' of market forces and suggests that heavily-populated and relatively high income areas provide a potential source of African industrialists.

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1. This entrepreneur had originally started his business in Soweto and then moved to a border area. He said that distance from Johannesburg was a problem and that he wasted much time travelling back and forth from the city.
 2. They said that their major market was in Soweto, but both took orders from Lesotho, Botswana and Zambia.

11. 4 Competition

Entrepreneurs were asked whether they considered competition a problem; the general pattern which emerged was that assessments of the extent of competition tended to be a function of the relative size of the enterprise.

General dealers and supermarket owners appeared to be the most vulnerable to competition. In the Transkei, the three entrepreneurs in this group who said that competition was not a problem were all in category IV, and all had moved from urban locations to the Transkei. With a few exceptions, most of the other relatively large general dealers in the Transkei said that they experienced competition from White-owned shops, and smaller entrepreneurs frequently cited African-owned enterprises larger than their own as an additional source of competition. With one exception (a very small general dealer) they all stated that shops run by XDC-managers did not pose any threat. Businessmen in small towns adjacent to Umtata complained that most people went to Umtata for their large cash purchases;¹ this approximated fairly closely to the model outlined above.

Transkeian experience on the whole, however, runs counter to the basic assumption of the model that African-owned enterprises would not be able to survive at all in direct competition from other race groups. Although the majority were very much aware of competition from Whites, only three said that they were in severe financial straits.

Owners of restaurants and cafés appeared to operate particularly successfully in larger Transkei towns where there were a reasonable number of employment opportunities. Several attained average monthly turnovers in excess of R5000 although in Umtata particularly, all said that competition from other African restaurant-owners was fierce.² Several pointed out that the advantage of this type of business lay in quick cash turnover, and in avoiding the necessity for elaborate book-keeping systems.

In border areas and urban locations where African enterprises were situated at a distance from the 'White' business district, the general tendency was for owners of larger businesses to say that they considered White-owned shops in town to be their major source of competition, while proprietors of smaller ones cited local shops³ as their main opposition. This seemed to be

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1. All conceded that their prices were generally higher than in Umtata, but pointed to the expense involved in travelling back and forth.
 2. There did not appear to be White-owned restaurants catering for Africans in Transkei towns in which interviews took place.
 3. In Grahamstown, African shopowners were faced with the additional problem of competition from Chinese-owned shops which operate on the periphery of the location.

the case regardless of distance from the 'White' area; however most of the Soweto entrepreneurs who mentioned competition from White-owned shops were in categories III and IV, whereas the only (and largest) Grahamstown entrepreneur who cited town shops as a source of competition was in category II.

A few businessmen said that they experienced virtually no competition, and attributed this to their relatively good position within the location.¹ All tended to be large relative to other general dealers in the same area; it would not, however, be valid to attribute growth potential solely to relative position as there were frequently wide variations in the size of general dealers who were grouped fairly close together, which tends to focus attention on endogenous or supply factors, as well as those operating in the economic environment.

In general, competition appeared to be far less of a problem for those operating more specialized enterprises, regardless of location. None of the building contractors, garage owners, butchers, printers and bottle store owners said that competition was a problem. Several of the larger bus companies in the Transkei said that their major competition came from South African Railways buses whom, they claimed, were assigned the best routes and could amend timetables to the detriment of private owners. Smaller bus operators identified White-owned and larger African-owned companies as their primary source of competition.

It is difficult to compare the border areas, urban locations and the Transkei with respect to competition; nevertheless of the thirteen entrepreneurs who had experience in large urban locations and the Transkei,² eight said that competition was relatively greater in the Transkei, four that it was relatively smaller, and one that it was the same. Three of those who said that Transkei competition was less than or the same as in the urban location were those who operated correspondingly large enterprises in urban locations where, they said, their main competition came from large chain stores. The other two said that they had been very badly situated in urban locations, and their improved positions in Transkei towns offset the disadvantages of White competition. On the average, however, relatively larger size in the Transkei was not sufficient to overcome the problem of direct competition from White businessmen.

The general pattern which emerges is that perceptions of the form of competition appear to be a function of the relative size of the enterprise. This is revealed by the tendencies

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1. In this respect, Mdantsane general dealers were extremely critical of the policy of grouping shops together.
 2. The Transkei enterprises of these businessmen tended to be larger than in urban locations - the average monthly turnover for the group being approximately R5000 in urban locations, and R6000 in the Transkei. As will be shown in the following sub-section however, the ratio of turnover to stock tended to be considerably lower in the Transkei.

(i) for larger businessmen in urban locations and border area townships to regard White-owned shops in the central business district as their major source of competition regardless of distance, and (ii) for smaller businessmen in Transkei towns to consider both larger African- and White-owned enterprises a source of competition, while the three largest entrepreneurs in these areas said they experienced no competition.

11. 5 Credit and Sources of Supply

11. 5. 1 The Granting of Credit

In the model it was suggested that the granting of credit as a method of competition could pose extremely difficult problems. In this study, however, it was found that difficulties arising from credit were not pervasive. Of the seventy-three entrepreneurs to whom the question was relevant,¹ twenty-six did not give credit at all and twenty-two granted credit only to what they described as a few selected customers;² of the twenty-five who gave credit on a fairly extensive basis, fifteen said that it presented no problems and ten that granting credit involved severe difficulties.

Of the fifteen who experienced relatively few problems in granting credit, six were general dealers ranging from categories two to four who operated carefully planned credit systems based on personal acquaintance with customers' income and buying habits, and placing a limit on the amount of credit granted each month. All considered the granting of credit to be a useful method of competition. The other nine were owners of relatively large specialized enterprises³ who pointed out that credit was essential in their line of business, and that customers were, on the whole, reasonably reliable.

Two of those who experienced difficulties were furniture shop owners in the Transkei who had not availed themselves of the XDC's discounting facilities, and one was a garage owner in a border area who had accepted large repairs which had to be sent to engineering works that demanded cash payment whereas customers were granted credit. Most of the remainder were

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1. i. e. excluding bus operators.
 2. Ranging from five to fifteen customers in the case of entrepreneurs in categories I and II, to between ten and thirty in the case of those in categories III and IV.
 3. Three building contractors, two printers, two furniture manufacturers (one of whom had a furniture shop and sold on hire purchase), one funeral director and one garage owner who sold vehicles and for whom the XDC provided discounting facilities.

relatively small general dealers who appeared to have granted credit indiscriminately.

Eight of those who granted no credit remarked that they had discontinued the practice because of "bad experiences" in the past as a result of making extensive credit facilities available. The general consensus of opinion seemed to be that the risks involved in granting credit far outweighed any competitive advantages. Many mentioned, however, that refusing credit - particularly to extremely poor families - was frequently difficult and distressing, but that they were afraid of establishing precedents.¹ On the whole, smaller general dealers tended to be more vulnerable to this problem than larger ones, who pointed out that bulk buying enabled them to pass on lower prices to customers. The question of size and access to sources of supply thus emerged as important issues interrelated with that of credit, and differences in this respect were evident between large urban locations and border areas on the one hand, and the Transkei and the small urban location on the other.

11. 5. 2 Sources of Supply

It is frequently alleged that a major problem encountered by African general dealers is that they become deeply indebted to wholesalers who, in turn, are in a position to coerce them into accepting large quantities of 'dead stock'. Two systems instituted by large wholesalers in recent years appear to have considerable potential for overcoming this difficulty:

- (a) In the larger centres a number of wholesalers have opened 'cash and carry' sections in which businessmen select their purchases for which they pay cash and provide their own transport. Several of these wholesale supermarkets have been established fairly close to large urban locations.
- (b) Two country-wide wholesale firms have introduced a buying system whereby businessmen pay a 'joining fee' and a monthly subscription.² In return for this they receive a signboard advertising the brand-name of the companies' specially packaged products (which in several cases are cheaper than ordinary brands), as well as a 'promotion' twice a month at cut prices together with advertising material.

Those who had experience of 'cash and carry' wholesalers were almost uniformly enthusiastic. One of the Transkei entrepreneurs who had operated a shop in Cape Town summarised the advantages thus:

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1. One entrepreneur attempted to solve this problem by purchasing large quantities of skimmed milk which he sold below cost.
 2. One of the wholesalers has recently dispensed with the subscription fee which was R4. 33 per month.

"Sometimes 'cash and carry' prices are even lower than the factories which allows you to cut your prices and sometimes even meet the chain stores. Since 'cash and carry' gives no credit, now retailers don't have to give credit - you only give credit if you get it... Also you can get done very quickly and you don't have to cope with rude and cheeky assistants."

Another remarked "this is a wonderful system - it amounts to about 5% discount" and several pointed out that it simplified book-keeping systems enormously.

Virtually all the entrepreneurs in Soweto and those who had moved from the large urban centres made extensive use of wholesale supermarkets. Those who had moved from Port Elizabeth and Cape Town locations to the Transkei were extremely critical of the relatively high prices charged by Transkei wholesalers. Two of the largest in this group who still operated enterprises in locations said that they bought as much as possible from 'cash and carry' wholesalers and transported these goods to the Transkei. Those who no longer had access to this system said that they found it very difficult to adjust to conventional wholesaling after having become used to 'cash and carry'.¹

Another factor which these entrepreneurs encountered in the Transkei was the necessity of carrying far heavier stocks in relation to turnover. The average ratios of annual turnover to stock in different areas is tabulated in Table 12 of Appendix A, and it can be seen that there is a definite tendency for the ratios in the Transkei to be considerably lower than in areas adjacent to urban centres. This is probably a reflection of the smaller market in the Transkei and the wider range of commodities other than groceries carried by Transkeian general dealers.

'Cash and carry' wholesalers were used fairly extensively by Zwelitsha² and Mdantsane general dealers, although the latter group said that distance from East London made regular trips inconvenient and complained that when goods were delivered they had to pay a high delivery fee which tended to increase the price structure. At the time when the Grahamstown interviews took place there was no 'cash and carry' wholesaler.

Membership of buying groups run by wholesalers was most common among relatively large entrepreneurs. In the Transkei the only members were two businessmen who had moved from urban locations and retained membership; both were in category IV. Two of the larger general dealers interviewed in Mdantsane were members, and there were none in Zwelitsha. Three Grahamstown businessmen had belonged in the past, but all said that the size of the market did not warrant the subscription fee and all had withdrawn.

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1. Transkeian entrepreneurs who found higher prices a particularly difficult problem were those located in small towns where there were no wholesalers, and delivery fees had to be paid.
 2. 'Cash and carry' is a relatively recent institution in King William's Town.

In the Transkei there was a tendency for general dealers in categories III and IV to purchase between 50% and 80% of their grocery stocks¹ from manufacturers, while smaller firms bought mostly from local wholesalers. In Zwelitsha, Mdantsane and Soweto the trend was for larger firms to buy between 25% and 50% of their stock from manufacturers and the remainder from 'cash and carry' supermarkets; smaller general dealers' purchases from the latter source ranged between 100% and 50% and the remainder was from conventional wholesalers on credit; all said, however, that they bought "as much as possible from 'cash and carry' ".² Three of the very small general dealers in Zwelitsha had no transport, however, and were unable to make regular use of wholesale supermarkets. Grahamstown businessmen (with the exception of the only entrepreneur in category II) bought most of their stocks from local wholesalers, and certain businessmen have combined to purchase basic items in bulk.³ Credit granted by wholesalers varied from seven to fourteen days for smaller businessmen to thirty days in the case of larger ones. In general, entrepreneurs said that they were satisfied with wholesalers' services.⁴

Most entrepreneurs said that they set their prices according to those recommended by wholesalers, Neaves' retail price manual, or that they make a 25% markup on groceries and 33 $\frac{1}{3}$ % on soft goods. Regular price cutting was common only among larger retailers who were members of one of the two buying groups operated by wholesalers, and in one of the areas there appeared to be fairly extensive collusion aimed at price maintenance.⁵

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1. All soft goods were purchased from manufacturers' representatives.
 2. These patterns were also applicable to businessmen operating in urban areas before they moved to the Transkei.
 3. This was the only such scheme in operation in areas where interviews took place. When questioned about the possibilities for combined purchasing, the general consensus of opinion seemed to be, as one entrepreneur put it, that "This idea had great potential, but many of the businessmen don't trust each other enough". However one of the Transkeian entrepreneurs who had moved from Cape Town described a most successful paraffin buying group in operation there.
 4. The only complaints were made by those in the Transkei who considered prices exorbitant compared to those they were used to in urban locations, and by retailers in Mdantsane and small Transkei towns who had to pay delivery fees.
 5. When asked about price cutting, general dealers in this area said that they considered it "dangerous" and several mentioned that businessmen had got together to decide on prices. It is interesting to note, however, that this area was relatively close to the central business district, and the apparent collusion may be interpreted as a reaction to the relatively close proximity of White competitors.

11. 5. 3 Conclusions

Two major observations appear to be germane to the issues of credit and sources of supply:

- (a) The institution of wholesale 'cash and carry' supermarkets and buying groups are an important factor enhancing the competitive position of African businessmen and also in simplifying gap-filling and input-completing activities.¹ Moreover the proximity of wholesale supermarkets to large urban locations contradicts the possibility raised in the model that some of the market advantages of distance of the location from the central business district might be lost if the costs of commodity transportation tend to be high.
- (b) The larger the enterprise and the greater its access to sources of supply which facilitate price cutting, the easier it is to resist pressures for granting credit.

11. 6 Financial Management

No comprehensive assessment of financial management is possible as the writer did not peruse records; however, entrepreneurs were asked for their attitudes towards keeping financial records, who did the book-keeping and what books were kept.²

The general tendency was for smaller businessmen or their wives to do the book-keeping themselves, and some of them took these records to book-keepers or accountants to be checked and, in the case of larger enterprises, audited. The most common records kept were income/expenditure and cash books and a file of invoices. Those who gave credit frequently kept a ledger. Most of the larger entrepreneurs employed full-time staff-members who had some training ranging from commercial J. C. (which was the most frequent) to accountants with B. Comm. degrees, in the case of two very large firms.

Almost all the entrepreneurs stressed the usefulness of systematic records, and comments such as "With proper books you know where you are and how your business is going" were common. Many regretted that they did not have a better understanding of book-keeping and expressed great interest in attending courses.³

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1. See Chapter 3 for definitions of these terms.
 2. Businessmen are required to submit sufficient information to allow for an assessment of taxable income.
 3. Three of the entrepreneurs in large urban centres had attended courses run by the Junior Chambers of Commerce and all said that they had derived a great deal of benefit from them.

The question arises as to whether a comprehensive knowledge of book-keeping is an important determinant of success. It was shown earlier that several businessmen who progressed to larger entrepreneurial categories had taken commercial courses.¹ The most common pattern, however, seemed to be that elaborate book-keeping systems were a result rather than a cause of expansion; most of the larger businessmen said that they had started out with very rudimentary systems and, as the business grew, employed people with suitable training.²

11. 7 Innovation and Plans for Future Change

It has been argued in earlier chapters (i) that 'innovation' is essentially a relative concept which must be viewed from the standpoint of the individual entrepreneur in relation to his environment, and (ii) that the act of undertaking private enterprise involves gap-filling and input-completing activities which extend beyond the purely routine and therefore contain a degree of innovation. Given a particular area, however, it is possible to distinguish greater or lesser degrees of innovation according to whether enterprises of the type proposed exist or not. In this sample thirteen entrepreneurs³ may be regarded as having undertaken an exceptional degree of innovational activity, although this distinction is to a certain extent arbitrary.

Entrepreneurs were asked whether they had any plans for expansion or diversification. The answers fell into four fairly well-defined groups:

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1. See Chapter 9.
 2. An accountant in the Transkei who had a considerable African entrepreneurial clientele was most emphatic that systematic book-keeping in the early stages of a business is of limited importance and that the "necessity for book-keeping arises from success".
 3. They include (i) two of the first bus companies in the Transkei, (ii) five large undertakings which had been moved to the Transkei from urban areas - the proprietors showed outstanding ability for adapting modern marketing techniques to a relatively backward environment, as well as seeking and exploiting new opportunities; one for example had established sources of supply in Natal for the only specialized fruit and vegetable shop in a large town, and gained access to cold storage facilities; (iii) the furniture manufacturer in the Tswana reserve who imported his raw materials and established a nation-wide market for his products; (iv) four Soweto entrepreneurs (a printer, furniture manufacturer, shoe repairer and former dairy owner) who had all broken new ground.

- (a) Thirty entrepreneurs said that they wished to consolidate and "build up this business". These may in turn be divided into two sub-groups: (i) those respondents (generally in the larger entrepreneurial categories) who had relatively recently undertaken expansion and felt it safer to consolidate before contemplating anything further,¹ and (ii) small entrepreneurs who had experienced little growth in the past and were apparently resigned to this.² One entrepreneur in a large Transkei town said that future plans would depend on industrial growth and expansion of the market.
- (b) Ten entrepreneurs³ who had definite plans for expansion. Of these, three of the Transkeian entrepreneurs' projects could be regarded as innovations, including a franchise for a particular commodity, a company consisting of established businessmen who would take over White-owned shops and employ XDC-trained managers, and a special type of restaurant.
- (c) Twelve who had ideas for diversification or expansion which they were not considering implementing in the near future.⁴ Of the four plans in this category which could be regarded as innovations, two were in the Transkei (a mortuary and a department store) one in Tswanaland (a type of nightclub) and one in Zwelitsha (a wholesaler).
- (d) Twenty-five⁵ who had ideas for diversification or expansion who felt that they were prevented from implementing them. The reasons were: (i) endogenous - three because of ill-health or age, and two because of capital shortage;⁶ and (ii) exogenous - seven because of shortage of suitable personnel (six in the Transkei and one in Zwelitsha), ten because expansion and diversification were not allowed (nine of whom were in Soweto)⁷ and three because of uncertainty (all in Grahamstown).

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1. Transkei 12; Zwelitsha 1; Tswanaland 1.
 2. Grahamstown 4; Zwelitsha 5; Tswanaland 1; Transkei 4; Soweto 1.
 3. 3 relatively small bus owners in the Transkei, 4 others in large towns in that territory, 2 in Mdantsane and 1 in Zwelitsha.
 4. Transkei 5; Zwelitsha 4; Mdantsane 3.
 5. Transkei 10; Zwelitsha 3; Soweto 9; Grahamstown 3.
 6. 'Capital shortage' has been classified as endogenous because these entrepreneurs had applied to the XDC which did not consider their projects viable.
 7. The tenth wished to open a second shop in Zwelitsha where expansion of an existing enterprise is allowed, but the ownership of more than one enterprise forbidden.

The two latter reasons highlight the restrictions and insecurity which face non-reserve businessmen. Seven of the eleven Soweto entrepreneurs interviewed said that they had plans for expansion and diversification which they would already have implemented had they been permitted to do so, and two that they had shelved projects which, had they been allowed, would have been carried out in the foreseeable future.¹ Five of these involved an appreciable degree of innovation.²

The three Grahamstown entrepreneurs were in a particularly difficult position. They were all situated in the Fingo Village - the last remaining African freehold area outside the reserves - which has been rezoned under the Group Areas Act, and the inhabitants are threatened with removal to a reserve approximately fifty kilometres away.³ These three businessmen had plans for relatively minor alterations to existing enterprises but, because of the uncertainty surrounding the future of the area, were fearful of making any changes.

11. 8 Entrepreneurs' Assessments of the Requirements for Success

When asked what they considered to be the requirements for success in business, the vast majority of entrepreneurs referred to personal qualities or aspects of management.

More than 50% mentioned hard work, and twelve added the corollary of devotion and commitment to business:

"You must like the business and feel for it. Then you don't mind working all the time."

"Printing to me is not like work."

On the other hand, four emphasised self-discipline and asceticism:

"Liquor puts the African down. I decided never to drink or smoke. Also businesses go down because of using money from the business for a big car and driving around."

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1. All said that they had adequate financial resources although two admitted that it might be difficult to find suitable personnel.
 2. These entrepreneurs asked that their plans be kept confidential.
 3. See M. Roux and M. St Leger Fingo Village (Johannesburg: South African Institute of Race Relations, 1971). The other two businessmen interviewed in this location also commented at length on the severe misgivings which the threat engendered. The general insecurity of tenure experienced by all businessmen in urban locations was, they said, a major problem. For a discussion of this issue, see Chapter 12.

"I am a strict disciplinarian. I never had a chum because this would lead to night life and drinking and parties.. Fellows who are interested in an easy life will never make much success ... Also starting early in the morning is essential. I always get up at 5 a. m. and start work straight away ... I must always be an individualist and devote everything I have to the business."

Twelve mentioned honesty, determination and courage, and six considered education and awareness as being vital:

"Education is needed for this age. It's a faster age, with younger people getting on. You have to keep informed of what is happening and plough ideas into the business."

Fifteen were of the opinion that good customer relations were of prime importance:

"You must sell yourself before you try to sell goods."

"You must be familiar and free with everybody. Africans when they get shops often look down on the ordinary people."

Four of the most successful entrepreneurs said that in addition to hard work, careful planning towards a clearly defined goal was essential.

"I always set a target for sales. If the target is not reached I have a big inquiry to find out the reasons."

The managerial quality most frequently mentioned was personal control and supervision:

"You must keep both hands on the business and look after everything yourself."

Other factors were keeping systematic books and promoting good staff relations. Seven commented that "You must work with your wife".

It is perhaps significant that only those in the smaller entrepreneurial categories mentioned adequate capital as being essential to success. One of the most successful entrepreneurs (an ex-labourer who at the time of interview owned four large enterprises which had been financed entirely through reinvested profits) vigorously denied this, and his prescription for success contained a clear statement of the primacy of human capital:

"Success involves working all the time, planning for the future and thinking of ways to achieve your plans: nothing is impossible and all difficulties can be overcome. A businessman must work and use his brains - then business is a risk worth taking. The only way of living is by working, and the wealth of a country is in its people's work. The second thing is money. If people will work, money will follow."

Chapter 12

CONCLUSIONS AND POLICY RECOMMENDATIONS

In the preface it was argued that the development of African entrepreneurial talent carries with it substantial economic benefits for the African population and the South African community as a whole, and it is on this assumption that policy recommendations are based. These are framed in terms of the data presented in the preceding three chapters. This information has been analysed within the framework of the model developed in Chapter 3 which identified two basic dimensions of the concept of entrepreneurship:

- (a) entrepreneurial supply, which requires that talents be correlated with identifiable characteristics;
- (b) the demand for entrepreneurship, which focuses attention on the socio-political and economic environment.

12. 1 The Supply of African Entrepreneurs in South Africa

An analysis of the backgrounds of African entrepreneurs prior to their going into business has shown them to be unrepresentative of the African population as a whole. In a number of respects businessmen have emerged as a relatively privileged group with respect to socio-economic backgrounds, educational levels and occupational experience. Nevertheless this observation requires qualification in that several ex-labourers became proprietors of relatively large and sophisticated enterprises; moreover there does not appear to be a significant degree of correlation between entrepreneurial ability and the level of formal education.

The occupational experience of entrepreneurs has highlighted a number of factors which appear to be conducive to entrepreneurship. Entrepreneurs have been shown to possess a high level of skills relative to the population as a whole, to have stable job histories, and in many cases to have experienced a degree of job mobility. Moreover many applied skills were acquired on the job. Hence the opportunity costs of entrepreneurs appeared to be high, and it is possible that had the socio-political system permitted greater access to avenues of advancement in other spheres, fewer might have turned to entrepreneurship. Credence is given to this assertion by their frequent statements of occupational frustration before setting up on their own. In general, however, it would appear that measures which limit African advancement and skill acquisition in commerce and industry militate against entrepreneurial development; much convincing evidence can be adduced from other African countries¹ to support the contention that occupational skills play an important role in entrepreneurial performance.

1. See Chapter 6.

Another significant factor revealed by the data which has extensive policy implications in a South African context relates to residence in urban areas. It has been shown that, with the exception of ex-teachers who had always lived in the Transkei, the vast majority of entrepreneurs had lived in urban locations and worked in 'White' areas for a number of years; it was within this milieu that they had acquired both the occupational skills so crucial to their later performance and a close familiarity with the workings of the money economy. Moreover entrepreneurs had resided in these areas with their immediate families, and the pivotal role of wives has been emphasised on a number of occasions. It must be concluded, therefore, that the lack of stable and settled urban African communities does not easily produce men with the initiative, experience and self-confidence to become entrepreneurs.

12. 2 Factors Affecting the Demand for African Entrepreneurs

One of the basic issues raised in previous discussions is whether the restrictions placed on urban businessmen are outweighed by opportunities created for them in the reserves. The evidence presented in Chapters 10 and 11 suggests that this has not been the case.

The most obvious drawback of the reserves vis-à-vis large urban locations¹ is the limited market, assuming that the size and rate of growth of the market is one of the most crucial factors in the economic environment. It has been shown that market size is positively correlated with the absolute size of enterprises, and also that it is an important determinant of the degree of diversification into spheres other than general dealing. This is of great significance, in that diversified enterprises tend to be larger and to require more sophisticated types of organizational skills than does general dealing. Taking into consideration the fairly extensive degree of diversification which occurred in Soweto prior to 1963, when restrictions on location businessmen were first imposed, as well as the innovative projects which Soweto entrepreneurs said they would have implemented had they not been prohibited from doing so, it appears likely that a potentially wide range of diversified activities has been denied to African entrepreneurs in large urban locations. As an offsetting factor, some Transkeian businessmen have progressed into more sophisticated spheres, and it was in this territory that the first substantial African-owned bus companies evolved. The data have shown, however, that such activities are limited to a few of the relatively large Transkei towns, and Table 1 of Appendix C demonstrates the small market size of these areas compared to

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1. It would appear that businessmen in Grahamstown locations, who are in close competition with Chinese, Indian and White businessmen for a relatively small market, experience considerable difficulties.

large urban locations.

Unless there is a sudden improvement, it would appear that the potential for further diversification in the Transkei will reach saturation point sooner than in the urban locations because of limited markets and their corollary of a relatively poor and unsophisticated buying population. Furthermore there is a tendency for migrants' remittances to form an increasing proportion of the income of residents of the Transkei,¹ which does not augur well for market growth. Arguments framed in terms of opportunities which will be created in reserves and border areas by industrial decentralization are of dubious validity; the achievements of the decentralization programme over the past decade have been unimpressive² and, in the interim, entrepreneurial opportunities which already exist in the established industrial centres are suppressed for reasons devoid of economic justification.

There are other factors inherent in the economic environment of largely rural reserves such as the Transkei which complicate gap-filling and input-completing activities. In the case of retailers, it has been shown that the substantial advantages of wholesale supermarkets have, to date, been denied to Transkei businessmen, although this situation could probably be fairly easily remedied. Far more fundamental obstacles are intrinsic to the constellation of problems which inevitably face African industrialists in these areas. Apart from impediments pertaining to the market, the hostile economic climate of rural reserves is closely analogous to factors outlined in Chapter 4 relating to underdeveloped areas in general; these include difficulties of access to sources of supply of raw materials and equipment, problems of maintenance, rudimentary physical infrastructure, a largely unskilled labour force and many others which interact to produce a situation in which the demand for entrepreneurship is closely circumscribed. In contrast to this, the relatively high degree of innovation which has taken place in Soweto, as well as projects which entrepreneurs there said they would have implemented had these been permitted, bear witness to the superior market and easier access to a wide range of services.

To counterbalance the emphasis of arguments thus far, cognisance must be taken of the drawbacks of urban areas and the benefits offered by reserve areas. In these latter areas the most obvious factor is access to assistance provided by the Development Corporations; furthermore Africans in reserves are permitted ownership of extremely lucrative enterprises such as bottle stores and hotels, whereas all dispensing of liquor in urban locations is placed under the surveillance of municipal authorities. The disadvantages of urban locations were discussed by the thirteen entrepreneurs who moved from these areas to the Transkei, and by the

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1. G. Hart The Economic Implications of Separation of the Races for the Development of the Reserves in South Africa (Rhodes University, Grahamstown: Unpublished honours paper, 1969), pp. 32-33.
 2. R. T. Bell Industrial Location and Government Policy in South Africa (Rhodes University, Grahamstown: Unpublished Ph. D. Thesis, 1968).

eleven interviewed in Soweto. Of these twenty-four businessmen twenty-three said that prohibition of the acquisition of freehold title, and the related insecurity of existence in urban locations, was the major disadvantage; those who had since left, gave this as the primary reason for deciding to move to the Transkei:

"It was always a worry. I never felt safe. The building does not belong to you. It can never be yours."

"I was feeling very insecure in _____. We only had trading rights for a year at a time."

"The main reason why I left _____ was that I couldn't get freehold title. Here in the Transkei I can sell or my children can inherit the business."

Related to the issue of insecurity, two also mentioned coercion:¹

"The police said we must get out of _____."

"They (apparently the local authorities) were chasing us in _____."

Four gave as additional reasons for moving the desire to expand:

"In the towns we are curbed - we couldn't have got another business. We decided to come to the Bantustan because we wanted to expand."

When asked about the overall advantages of the Transkei in relation to urban areas, these entrepreneurs frequently identified non-economic factors - notably an easier way of life, a feeling of relative freedom from restrictions (both economic and non-economic) and a better environment for bringing up children.

In making broad comparisons between the demand for entrepreneurship in the different areas, it appears that the major advantages of large urban locations and disadvantages of rural reserves are inherent in the economic environment; in contrast, the primary disadvantages of large urban locations and attractions of rural reserves have been imposed by conscious policy decisions. It is interesting to note, moreover, that ten of the eleven Soweto entrepreneurs expressed strong opposition to the prospect of moving to the reserves, despite the insecurity which all said they experienced.² For example:

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1. When questioned further, both entrepreneurs refused to elaborate.
 2. Two of the seven Grahamstown businessmen said that they would not mind moving to Mdantsane. This would, however, be impossible as all business rights in this township have been reserved for those who had owned shops in East London's Duncan Village location. Moreover the writer was told by officials in Mdantsane that not all of the Duncan Village traders could be accommodated in Mdantsane because of the policy of controlling the issue of trading rights to avoid 'over-trading' - there did not, however, appear to be any clearly defined relationship between population and number of general dealers.

"I am not interested. There is no demand for my type of business."

"The market is inadequate. I will only think of going there when people have enough money."

12. 3 Policy Recommendations

The analysis thus far has taken place within the existing legislative framework of African enterprise. It has been found that the opportunities created in the reserves do not appear to compensate for extensive restrictions placed on urban businessmen. If the maximum possible development of African entrepreneurial talents is accepted as a policy goal, not only would all such restrictions have to be lifted, but a number of issues relating to protection, forms of assistance and the general environment of African enterprise would require substantial modification. In this concluding discussion, some tentative suggestions will be made for possible ways in which a climate more conducive to the development of entrepreneurship might be created.

12. 3. 1 Protection

The granting of exclusive trading rights to particular groups raises extremely complex issues of balancing the advantages conferred on those in receipt of such rights with possible damage to consumer welfare. In an African context, two extreme positions are evident: Bauer¹ has argued strongly against protectionism in any form because of the dangers of net losses in efficiency; in contrast a number of African countries have refused trading rights to non-citizens. As Olakanpo² has pointed out, any decisions ought to be based on a careful appraisal of the structure of the particular branch of trade or industry concerned.

The existence in South Africa of de jure residential segregation must unavoidably comprise the foundations of any analysis of the question of protection.

(a) Urban areas

Within this framework, it seems likely that if there were open racial competition, White-owned firms would establish themselves in the urban locations to the detriment of African businessmen there, and that although some African businessmen might be sufficiently competitive to locate themselves in the 'White' urban areas, their total turnover would probably be less

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1. West African Trade op. cit. Chapter 3.
 2. O. Olakanpo "Distributive Trade - A Critique of Government Policy" Nigerian Journal of Economic and Social Studies vol. 5, no. 1, March 1963.

than that of White businessmen in the locations. This being the case, the 'racially monopolistic' aspects of current policy in terms of the Group Areas Act probably confers net advantages on African businessmen.¹

The effect that protection has on the welfare of consumers in the location is a far more complex issue; however, the fact that they have access to retail outlets in the 'White' area tends, to some extent, to compensate for such welfare losses as might arise from protection for African businessmen in the locations.

The role of African businessmen in 'White' urban areas raises a number of possibilities. In Chapter 7 it was shown that by the 1950's several hundred African business and professional men had established themselves in 'White' group areas, and in Chapter 11 the case of a successful African printer in the centre of Johannesburg was described. It is suggested that the combination of protection of trading rights for Africans in locations combined with open racial competition in urban areas is an optimum situation from several points of view. In the first instance, it is likely that only those businessmen of exceptional ability would enter into direct competition with established businesses in urban areas, and it is most probable that the majority who did choose to do so would establish enterprises in which they had a comparative advantage. For example, experience in larger Transkei towns suggests that African-owned restaurants in towns and cities offer great potential for both African entrepreneurial development and the provision of services to workers away from home. In higher income areas there are possibly a number of other types of service establishments which would confer the same type of benefits.

(b) Reserves

The suggestions made above are equally applicable to border area townships. In rural reserves, however, the question is less clear cut, and it has frequently been alleged that the handing over of country trading stations, formerly owned by Whites, to African managers trained by the XDC has imposed substantial hardships on the population.² The most important welfare-reducing factors appear to be the prohibition on credit and the smaller range of stock allowed.

It is interesting to note, however, that the activities of several entrepreneurs in towns in the Transkei - particularly those who moved from urban locations - appear to have had a number of beneficial results. Several of those who took over previously White-owned shops in large Transkei towns enlarged the premises and widened the range of stock, and two opened new enterprises. One of the most outstanding of these businessmen remarked that:

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1. This must, however, be viewed as a corollary to the present inequality of resource allocation.
 2. The policy of placing salaried managers with relatively little experience in previously White-owned trading stations has been described and criticised in Appendix D.

"We were the first in ___ to have a sale ... The local business people are jealous, but the general public would rather have us - we are worth more."

It would be extremely difficult to construct a formula for the racial distribution of trading rights in rural reserves which would arrive at a balance between the possibly contradictory goals of African entrepreneurial development and consumer welfare. As a general principle, however, it would appear far sounder to grant relatively substantial degrees of protection to African businessmen only where consumers have reasonable access to a fairly wide range of retail outlets. Although this formulation is vague and in need of a great deal of refinement, it does seem to imply that the potential for optimum combinations of efficiency and protection is greater in border area townships and urban locations than in rural reserves.

12. 3. 2 Forms of Assistance

Many of the preceding arguments have emphasized the extreme economic irrationality of restrictions on urban African businessmen. Consequently this sub-section is based on the assumption that assistance should not be confined solely to enterprises located in reserves, as is the case at present.

(a) Capital

Experience in the rest of Africa has shown that capital provision schemes have had generally disappointing results,¹ and it has been argued in Chapters 6 and 11 that the prime importance frequently attributed to capital shortage tends to be misplaced. Regardless of whether the reasons for the large proportion of failures are traced to factors operating from the side of entrepreneurial supply or demand (or the interaction between the two) it seems probable that the provision of large numbers of relatively small loans could represent a mis-allocation of resources. In this respect, Schatz² found a tendency for the cost-benefit ratio to decline as the size of the loan increased; with one notable exception the present study seemed to indicate a similar trend, although this view lacks empirical corroboration as no detailed cost-benefit analyses were carried out.

The basic rationale behind arguments which reject the primacy of the 'capital shortage' thesis is that businessmen with a high degree of ability and motivation, operating in a reasonably equitable environment, will devise means of raising the capital necessary to afford them sufficient impetus to start some sort of enterprise, however rudimentary it may be. Those enterprises

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1. See references in Chapter 6.
 2. i. e. in a study of the Nigerian Federal Loans Board - S. P. Schatz "Government Lending to African Businessmen - Inept Incentives" Nigerian Journal of Economic and Social Studies vol. 6, no. 4, December 1968, p. 523.

which are likely to be the most credit-worthy are ipso facto those with the highest propensity to grow by means of reinvested profits, although at some stage access to capital may be an important factor enabling the entrepreneur to implement change or expansion. In short, the fundamental criteria for loans should be the efficiency of the entrepreneur and the demonstrable viability and growth potential of the enterprise. Capital provision schemes based on the assumption of compensating for the inferiority of the entrepreneur, or as a means of overcoming inherent environmental obstacles, would seem doomed to failure.

(b) Training

Training schemes are obviously an important element in any programme designed to encourage entrepreneurial development. The immediate need is probably greatest in the sphere of part-time courses which businessmen can attend after hours; many of the entrepreneurs in this study expressed great enthusiasm for such projects, and those who had attended courses of the type run by Junior Chambers of Commerce in some of the urban centres said that they had derived much benefit from them. In the longer term, full-time business administration courses at technical colleges and universities should be regarded as a planning priority.¹

Another important aspect of training is need for communication and an exchange of ideas across the colour line. It would appear that contact and cooperation between White Chambers of Commerce and the National Development and Management Foundation and African businessmen's associations has great potential. In the Kenyan context, Marris has commented on the need to create a social network through which to establish mutual confidence and understanding.²

(c) Services designed to reduce uncertainty and disseminate information

Regular market surveys and making information available pertaining to sources of supply might prove useful.³ In addition to services of this type, Marris⁴ suggestion for the creation of a marketing agency which would put industrialists in touch with distributors, and introduce them to companies needing local supplies, seems to have considerable value. The provision of discounting services⁵ in the case of distributors of consumer durables would probably also overcome a number of problems.

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1. Although African technical colleges and 'universities' at present offer commercial courses, no high-level business administration courses are available.
 2. See Chapter 6.
 3. The National African Chamber of Commerce does publish a journal (albeit rather infrequently), but this does not contain much technical information relating to market potential and so forth.
 4. African Businessmen op. cit. pp. 173-174.
 5. The XDC is providing such a service at present for a car salesman in the Transkei, and one of the furniture shop owners said that he was considering approaching the Corporation for assistance in this sphere.

(d) Industrial estates

From the viewpoint of technical assistance, industrial estates appear to have a number of advantages. An industrial estate may be defined as "a tract of land which is subdivided and developed according to a comprehensive plan for the use of a community of industrial enterprises"; possible services include the construction of factory buildings, roads and railroad sidings, and the provision of water, electric power, telephone services, facilities for workers, technical advisory services and engineering workshops.¹ Stepanek² has suggested that the economic benefits of industrial estates arise from:

- a) economies of scale derived from the development of the estate;
- b) external economies accruing largely from the clustering of enterprises;
- c) provision of services which become feasible as a result of an aggregation of a sufficiently large number of firms;
- d) reduction of risk to the individual entrepreneur and financing agencies due to concentration of firms.

Despite these apparent advantages, Schatz³ and Kilby⁴ found that the Yaba industrial estate outside Lagos was not an unqualified success.⁵ Kilby has suggested that the difficulties arose because of the relatively high cost of industrial land, which meant that a high proportion of inefficient tenants were attracted by subsidized rents rather than the extensive services, and he recommended that "the provision of inexpensive accommodation should be kept quite separate from the nursery function of providing development assistance".⁶ With respect to the latter point, his suggestion for criteria for the provision of facilities in addition to low rent are similar to those put forward in connection with capital: "The qualifications for tenancy should be twofold: a clear potential for further entrepreneurial development on the part of the proprietor, and the enterprise should in some sense represent a pioneer venture. Old, small industrialists have remained small because, by and large they lacked the requisite entrepreneurial potential."⁷

Kilby's analysis of the difficulties encountered by industrial estates focuses on entrepreneurial supply and must, therefore, be

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1. S. P. Schatz "Aiding Nigerian Business - The Yaba Industrial Estate" Nigerian Journal of Economic and Social Studies vol. 6, no. 2, July 1964, p. 199.
 2. J. Stepanek Industrial Estates (Glencoe, Illinois: The Free Press, 1960), Chapter 3.
 3. "Aiding Nigerian Business - The Yaba Industrial Estate" op. cit. pp. 206-212.
 4. Industrialization in an Open Economy op. cit. pp. 316-320.
 5. Major problems included a number of tenants being in arrears with rent payments, and gross under-utilization of the engineering workshop.
 6. Industrialization in an Open Economy op. cit. pp. 317.
 7. ibid. p. 320.

supplemented by a consideration of factors operating on the demand side; Schatz has pointed out that the formidable nature of the economic environment confronting businessmen in underdeveloped areas makes it difficult for firms to attain the size and sophistication necessary to benefit from industrial estate tenancy.¹ If an industrial estate were considered in a South African context, therefore, location would be a matter of prime importance.

12. 4 General Considerations

In the foregoing chapters much emphasis has been placed on the social, economic and political factors which mould, direct and at times circumscribe the entrepreneurial function. An attempt has been made to demonstrate that the provision of capital and services should be regarded as a supplementary ingredient only, and that a firm foundation of entrepreneurial experience and ability is the sine qua non for progress in this sphere. Any programme which relies mainly on external assistance and does not take full cognisance of the broad spectrum of non-economic (as well as economic) factors that shape the total environment, must inevitably lead to intense frustration and gross misallocation of resources.

The fundamental irrationality of the present legislative framework has been revealed; the system represents an attempt to stimulate enterprise in areas where a number of major obstacles exist in the economic environment, while prohibiting or placing extremely stringent restrictions on African entrepreneurship in areas which have been shown to be inherently favourable for development. Although the Development Corporations have done some useful work, the stimulation of entrepreneurship in South Africa extends far beyond their possible sphere of influence. Moreover, the civil-service-oriented institutional structure within which they operate cannot be expected to allow for the maximization of those qualities which Schumpeter has called "the ability to perceive new opportunities that cannot be proved at the moment when action has to be taken, and the will-power adequate to break down the resistance that the social environment offers to change".²

Personal liberty and access to a full range of decision-options are essential in order to develop these qualities. In South Africa the African entrepreneur has, in many cases, not only to contend with the inhibiting factors common to most developing economies, but also with the labyrinth of restrictive legislation which seeks to relegate the status of the African in 'White' areas to that of temporary migrant. The richest source of entrepreneurial supply is thus prevented from realizing its full potential.

1. "Aiding Nigerian Business" op. cit. p. 216.

2. "The Creative Response in Economic History" op. cit. p. 157.

ADDITIONAL TABLES

Table 1

Type of Enterprise and Locality

	Transkei	Swartkops	Midlands	Teyateyan Amana	Senzoela (Johannesburg)	Grahamstown	TOTAL
General dealers & grocers	21	17	5	6	1	6	56
Cafes/Restaurants	1	1	1	1	1	1	6
Taxi operators	1	1	1	1	1	1	6
Supermarkets	1	1	1	1	1	1	6
Barbers	1	1	1	1	1	1	6
Hat & Shoes	1	1	1	1	1	1	6
Wholesale sales	1	1	1	1	1	1	6
Furniture shops	1	1	1	1	1	1	6
Excelsior manufacturers	1	1	1	1	1	1	6
Leather contractors	1	1	1	1	1	1	6
Printing and cartage contractors	1	1	1	1	1	1	6
Clerks	1	1	1	1	1	1	6
Millworkers	1	1	1	1	1	1	6
Leatherworkers	1	1	1	1	1	1	6
Carpenters	1	1	1	1	1	1	6
Electricians	1	1	1	1	1	1	6
General director	1	1	1	1	1	1	6
Training school	1	1	1	1	1	1	6
Furniture	1	1	1	1	1	1	6
Leather contractor	1	1	1	1	1	1	6
Leather distributor	1	1	1	1	1	1	6
Bookshop	1	1	1	1	1	1	6
Shoe repairer	1	1	1	1	1	1	6
Total enterprises	59	46	15	17	11	7	155
No. of entrepreneurs	34	13	5	3	11	2	78
Native entrepreneurs	-	1	-	1	-	-	2
Total No. entrepreneurs	34	14	5	4	11	2	78
No. of managers interviewed	1	-	-	-	-	-	1

APPENDICES

Appendix A

ADDITIONAL TABLES

Table 1

Type of Enterprise and Locality

	Transkei	Zwelitsha	Mdantsane	Tswana Areas	Soweto (Johannesburg)	Grahamstown	TOTAL
General dealers & grocers	21	10	4	-	1	6	42
Cafés/Restaurants	8	-	-	1	1	-	10
Bus operators	6	1	-	-	-	-	7
Supermarkets	3	-	-	-	4	-	8
Butchers	2	1	-	1	3	1	8
Bottle Stores	2	1	1	1	-	-	5
Hotels/off sales	3	1	-	-	-	-	4
Furniture shops	3	-	-	1	1	-	5
Furniture manufacturers	1	-	-	1	2	-	4
Cartage contractors	1	-	-	-	-	-	1
Building and cartage contractors	2	-	-	1	-	-	3
Garages	2	1	-	-	-	-	3
Brickworks	2	-	-	-	-	-	2
Drapers	1	-	-	2	-	-	3
Drycleaners	1	-	-	-	1	-	2
Printers	-	-	-	-	2	-	2
Fisheries	1	-	-	-	-	-	1
Funeral director	-	-	-	-	1	-	1
Driving school	1	-	-	-	-	-	1
Fruiterer	1	-	-	-	-	-	1
Elec. contractor	1	-	-	-	-	-	1
Grain distributor	1	-	-	-	-	-	1
Bookshop	-	1	-	-	-	-	1
Shoe repairer	-	-	-	-	1	-	1
Total enterprises	69	16	5	9	17	7	123
No. of entrepreneurs	38	13	5	3	11	7	77
Retired entrepreneurs	-	1	-	-	-	-	1
Total No. entrepreneurs	38	14	5	3	11	7	78
No. of managers interviewed	2	-	-	-	-	-	2

Table 2

Number and Type of Enterprises Currently Operated by
Sample Entrepreneurs in Other Areas

	Port Elizabeth	Uitenhage	Total
Supermarkets	3	-	3
General Dealers	1	1	2
Butchery	1	-	1
Cartage Contractor	1	-	1
Total	6	1	7

Table 3

Number and Type of Enterprises Previously Operated by
Sample Entrepreneurs

	Cape Town	Bloerfontein	Zwelitsha	Port Elizabeth	Soweto (Johannesburg)	King Williams Town	Total
General dealers	6	-	1	1	-	1	8
Restaurant	-	1	-	-	-	-	1
Supermarket	-	1	-	-	-	-	1
Filling station	-	1	-	-	-	-	1
Furniture factory	-	-	-	-	1	-	1
Bus operator	-	-	1	-	-	-	1
Total	6	3	2	1	1	1	14

Table 4

Classification of Entrepreneurs According to Categories

<u>Category I</u>	
<u>One-Man Activities with Limited Entrepreneurial Content</u>	
Range of monthly turnover : R100 - R800	
Average monthly turnover : R320	
<u>Reserves</u>	<u>Urban locations</u>
E's 1, 9, 13, 21, 33, 47, 54, 56, 59	E's 65, 71, 72, 73, 74, 76, 77, 78
n = 9	n = 8
Cat. I : total n = 17 % of total sample : 21.8%	
<u>Category II</u>	
<u>Relatively Small Enterprises with Apparently Limited Growth Potential</u>	
Range of monthly turnover : R1,000 - R2,000	
Average monthly turnover : R1,540	
<u>Reserves</u>	<u>Urban locations</u>
E's 4, 6, 7, 19, 23, 27, 28, 32, 34, 35, 36, 39, 41, 42, 45, 48, 58	64, 75
n = 17	n = 2
Cat. II : total n = 19 % of total sample : 24.3%	
<u>Category III</u>	
<u>Medium-sized Well-established Enterprises</u>	
Range of monthly turnover : R2,500- R5,000	
Average monthly turnover : R4,040	
<u>Reserves</u>	<u>Urban locations</u>
E's 2, 5, 10, 15, 16, 18, 20, 24, 29, 31, 37, 43, 44, 51, 52, 57, 60	E's 67, 69, 70
n = 17	n = 3
Cat. III : total n = 20 % of total sample : 25.7%	
<u>Category IV</u>	
<u>Large-scale Enterprises</u>	
Range of monthly turnover : R6,000 - R30,000	
Average monthly turnover : R10,400	
<u>Reserves</u>	<u>Urban locations</u>
E's 3, 8, 11, 12, 17, 22, 25, 26, 30, 38, 40, 46, 49, 50, 53, 55	E's 14, 61, 62, 63, 66, 68
n = 16	n = 6
Cat. IV : total n = 22 % of total sample : 28.2%	

Table 5

Entrepreneurs' Education in Relation to that of Economically Active Male Population

	Sample *		Population **	
	No.	%	No.	%
None/unspecified	3	3.8	1,998,231	65.1
Sub A to Std. 2	7	8.9	403,963	13.2
Std. 3 - Std. 5	6	7.7	438,398	14.4
Std. 6 - Std. 7	18	23.1	157,582	5.1
Std. 8 - Std. 9	10	12.7	39,102	1.2
Std. 10	8	10.3	5,863	0.2
Degree only	3	3.8	762	0.024
Teaching diploma	19	24.3	16,379	0.6
Teaching diploma & degree	4	5.2	642	0.021
TOTAL	78	100	3,050,922	100 (approx)

* Classified differently from Table 9. Those with teaching diplomas have been placed in a separate category.

** Calculated from 1960 Population Census vol. 4, Table D7, p. 464.

Table 6

No. of Employees per Entrepreneur According to Location of Enterprise*

Location of Enterprise :	None	2-5	6-10	11-15	16-20	21-30	30-40	90-60	Total
Transkei	2	12	8	4	-	8	5	1	40
Border areas**	3	5	9	2	1	1	-	1	22
Large urban locations ***	3	5	7	3	1	2	1	-	22
Small urban locations ****	6	1	-	-	-	-	-	-	7
	14	23	24	9	2	11	6	2	91

* Including information on eleven of the thirteen Transkeian entrepreneurs who presently or previously operated enterprises in urban locations.

** Zwelitsha, Mdantsane, Ga Rankuwa, Hammanskraal, Mabopane.

*** Johannesburg, Cape Town, Port Elizabeth and Bloemfontein.

**** Grahamstown.

Table 7

No. of Employees per Entrepreneur According to Entrepreneurial Category *

Entrepreneurial Category	No. of Employees								Total
	None	2-5	6-10	11-15	16-20	21-30	30-90	90-160	
I	9	5	3	-	-	-	-	-	17
II	3	10	5	-	-	-	1	-	19
III	-	3	8	7	1	2	1	-	22
IV	-	-	6	3	-	6	5	2	22
Total	12	18	22	10	1	8	7	2	80

* i. e. those presently employed.

Table 8

Monthly Wages According to Location of Enterprise

Location of Enterprise	R10 or less	R11-15	R16-20	R21-30	R31-40	R41-50	R51-60	R60 & over	Total
Transkei	4	11	3	11	5	-	-	-	34
Border areas	-	1	1	4	1	-	-	-	7
Large urban locations	-	-	1	2	6	-	2	2	13
Small urban locations	-	-	-	1	-	-	-	-	1
Total	4	12	5	18	12	-	2	2	55

Table 9

Average Monthly Wages According to Entrepreneurial Category

Entrepreneurial category	Average monthly wages	No. for which data available	No. with employees
I	R22.1	6	8
II	R16.2	13	17
III	R31.0	17	21
IV	R31.1	19	22
Total	R25.0	55	68

Table 10

Sources of Capital for Expansion According to Entrepreneurial Category and Location

<u>Area and source of capital</u>	<u>Entrepreneurial Category</u>				Total
	I	II	III	IV	
<u>Transkei</u>					
No expansion	3	1	-	-	4
Reinvested profits	2	7	5	5	19
More than 50% from XDC or BIC loan	-	3	5	4	12
Less than 50% from XDC or BIC loan	-	1	2	2	5
Sub-total	5	12	12	11	40
<u>Border Areas</u>					
No expansion	1	1	-	-	2
Reinvested profits	3	4	6	3	16
More than 50% from BIC or XDC loan	-	-	1	2	3
Less than 50% from BIC or XDC loan	-	-	-	1	1
Sub-total	4	5	7	6	22
<u>Large urban location</u>					
No expansion	-	-	-	-	0
Reinvested profits	2	1	3	5	11
<u>Small urban location</u>					
No expansion	2	-	-	-	2
Reinvested profits	4	1	-	-	5
Sub-total	6	1	-	-	7
TOTAL	17	19	22	22	80

Table 11

Amounts Lent by BIC or XDC for Expansion

	6,000 or less	6,001-15,000	15,001-25,000	25,001-50,000	over 50,000	Total
More than 50% from XDC or BIC loan	3	5	4	1	2	15
Less than 50% from XDC or BIC loan*	2		1			3
TOTAL	5	5	5	1	2	18

* excluding three entrepreneurs who obtained loans for vehicles.

Table 12

Average Ratios of Annual Turnover to Stock According to Location

<u>Location</u>	<u>Average ratio of Turnover to Stock *</u>
Transkei	2.51
Border areas : Large	6.21
Small	5.82
Urban Locations : Large	7.20
Small	4.98

* Weighted according to stock.

Appendix B

CASE STUDIES ON THE DELEGATION OF
AUTHORITY TO MANAGERS

a) Managers with a relatively high degree of autonomy

Case 1

The entrepreneur interviewed operated a large bus company in the Transkei (eighteen vehicles): this case relates to a second bus company (nine vehicles) in another town in which he had a shareholding. The manager of the second company was an ex-teacher who had a 4% shareholding. He had been managing for eleven years and his performance had been "most satisfactory". He made all decisions other than the purchase of new vehicles.

Case 2

Another large bus company in the Transkei had four branches. Two of these were managed by relatives, one by a man who began with the company as a conductor ("we encourage good men to get to the top"), and one was a manager-trainee who had been recruited from another company. These managers also made most decisions other than the purchase of new vehicles, although the final accounts were submitted to the head office.

Case 3

This case concerns an entrepreneur in an urban location who owned a furniture and burglarproofing factory and a furniture shop approximately three miles away. The entrepreneur controlled the shop and a distant cousin managed the factory. He was chosen because he was a trained carpenter. He had no share in the business, but an incentive scheme was in operation which applied to all employees. The manager selected employees and ordered raw materials himself, but production targets were set in consultation with the entrepreneur; all marketing was done by the entrepreneur. This arrangement has, according to the entrepreneur, worked very well.

Case 4

A Transkeian entrepreneur who owned cement block and brick-making, cartage and building contracting enterprises employed his brother (a trained builder) and another builder as managers.

They each received a "fairly small" (undisclosed) basic salary and 25% of the profits. They made all employment and technical decisions and ordered raw materials. Each week-end the entrepreneur consulted them on the following week's work. This arrangement has proved satisfactory.

Case 5

An entrepreneur in an urban location who owned a butchery, supermarket and dry-cleaner employed a manager in the latter enterprise who was experienced on the technical side and a woman who supervised at the counter. The entrepreneur made employment decisions in consultation with them, and remarked "These individuals can work without me. They can bear responsibility". They were paid relatively high wages and a bonus once a year.

Case 6

This entrepreneur owned three large commercial and service enterprises in a town in the Transkei. He employed only relatives in higher positions: "You take people from your side and mix them with people from your wife's side. These two groups will compete and in that way you'll never go wrong." He also remarked: "These people are entrusted with powers of solving problems." They were paid relatively high salaries for the area and their level of education, which in no case was higher than Std. 6.

Case 7

This concerns an entrepreneur who owned two service enterprises in a Transkei town and employed managers to run his two trading stations in the surrounding district. He remarked that he was satisfied with their performance: "This is because you must make them feel like bosses. They must feel proud of what they are doing." They were both fairly young, with relatively low levels of education - Std. 6 and 7 respectively - in relation to the entrepreneur's degree. Their salaries were R40 per month with a bonus once a year.

Case 8

This entrepreneur (who has since retired) owned two general dealers in a border area. He fell ill and, as his wife did not assist at all in the businesses and staff relations were generally bad, he had to employ managers who were new to the business: "These chaps let me down." When asked what criteria he had used in selecting these men he replied "Somebody directly interested in me. Then you feel he is more responsible". He estimated that their dishonesty had cost him in the region of several thousand rands, although he only discovered this after a considerable time as he had kept no check whatsoever on what they were doing.

- b) Managers with a relatively low degree of autonomy

Cases 9 and 10 relate to entrepreneurs who moved to the Transkei from urban locations where they had several substantial enterprises; they retained large businesses in the latter areas to which they commuted once a month. Both emphasised that finding suitable managerial staff was a major problem.

Case 9

This entrepreneur's Transkeian enterprises were located in different towns. His managers were not relatives, as he felt that the latter "don't take it as if they were working", and they had risen in his organization and been carefully trained by him. He mentioned that education is not nearly as important as motivation and experience. The entrepreneur had an elaborate system of checks on sales and receipts, and did all the ordering and selection of staff himself. He said that he was reasonably satisfied with their performance, but attributed this to his supervision and said that he was anxious to be rid of the urban location enterprises, as soon as a satisfactory purchase price could be negotiated with the city council,¹ because of the considerable inconvenience which his commuting between the Transkei and the urban location involved.

Case 10

This entrepreneur exercised a similar degree of control and was also trying to sell his enterprises in the urban location on acceptable terms. In contrast to case 9, his criterion for choice of managers was education and all were ex-professional people (both relatives and non-relatives) their minimum qualification being matric. He did not wish to disclose their salaries, but remarked that he did not think an incentive scheme would "iron out staff problems" which were considerable.

Case 11

This case concerns an entrepreneur who owned three enterprises in a Transkei town, and employed a manager in each. Two were relatives and one not; his criteria were ability and formal education. He found them satisfactory and attributed this to the fact that "I pay them better than anybody in _____; R120 a month and 2½% of the profits after tax". However he allocated a certain portion of every day to each enterprise and supervised the managers very closely.

Case 12

An entrepreneur operated two commercial establishments and a café in a Transkei town with the help of his wife and sons, and employed a manager for each of his two trading stations in the district. He said that he was reasonably satisfied with their performance but attributed this to his visiting each shop twice a week, and doing all the buying, staff control and books himself. He said that he was planning to dispose of the trading stations: "It's much safer to get established in town."

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1. He was resentful of the fact that he would not be paid goodwill: "I built these big businesses up from nothing."

ESTIMATES OF MARKET POTENTIAL

Table 1

Indices of General Market Potential (1960) in Areas in which Interviews Took Place

	1	2	3	4	5	6	7
Johannesburg	21.66	77.53	52.09	151.29	15.12	20.4	3.08
Cape Town *	5.95	19.44	21.26	46.66	4.66	3.0	.2
Port Elizabeth*	5.18	14.91	9.86	29.96	2.99	15.1	.4
East London (Mdantsane)	3.16	8.89	4.71	16.77	1.67	33.4	.5
Albany (Grahams- town locations)	.68	1.53	1.05	3.28	.32	18.7	.05
King William's Town (Zwelitsha)	.67	1.44	.99	3.10	.31	39.4	.12
Transkei :							
Umtata	.42	.82	.61	1.85	.18	51.8	.09
Lusikisiki	.82	.51	.20	1.54	.15	86.8	.13
Engcobo	.50	.44	.27	1.21	.12	77.0	.09
Idutywa	.48	.34	.29	1.12	.11	75.4	.08
Butterworth	.46	.29	.25	1.01	.10	54.5	.05
Flagstaff	.59	.30	.11	1.01	.10	88.1	.08
Libode	.59	.27	.14	1.01	.10	89.8	.08
Mt. Frere	.50	.26	.15	.92	.09	85.5	.07
Tsolo	.30	.28	.29	.89	.08	77.8	.06
Ncqeleni	.45	.29	.11	.86	.08	86.0	.06
Qumbu	.36	.24	.18	.79	.07	84.4	.05
Tsomo	.33	.16	.14	.64	.06	86.0	.05

Source : P. A. Nel Calculation of Market Potentials of Consumer Goods and Development of Regional General Market Indices (Pretoria : Bureau of Market Research Report No. 23, 1969), Tables 5 & 7.

Key : 1. - Weighted Population Index

2. - Combined Income Index

3. - Index of Retail Sales

4. - 1 + 2 + 3

5. - General Market Potential Index : 4 + 10

6. - Percentage share of Africans in total disposable income in that district

7. - 5 + 6

* Port Elizabeth and Cape Town have been included as most of the thirteen entrepreneurs who moved to the Transkei had operated enterprises in the area.

On the basis of data in Table 1, areas may be classified as follows :

Large urban locations	:	Johannesburg, Port Elizabeth Cape Town.
Small urban location	:	Grahamstown.
Large border area	:	East London (Mdantsane)
Small border area	:	King William's Town (Zwelitsha)
Transkei :		
large	:	Umtata Lusikisiki Idutywa * Butterworth *
medium	:	Flagstaff Libode Mount Frere
small	:	Tsolo Ncqeleni Qumbu Tsomo

* Idutywa and Butterworth have been included as 'large' Transkei areas, as much of the development in the Transkei during the past ten years has been concentrated in these areas.

A REVIEW OF THE XDC'S POLICY OF PLACING MANAGERS IN TRADING STATIONS PREVIOUSLY OWNED BY WHITES

1. Aims of the Policy

In 1966-7 a system was instituted which sought to train African managers to take over trading stations previously owned by Whites.¹ Loans are made available to managers when they have acquired what is considered to be an adequate level of proficiency. These loans are expected to be repaid from profits, and the individual is thereby enabled eventually to become the proprietor of the enterprise.

2. Method of Selection, Training and Placement

The XDC advertises for managers, and applicants are required to submit a letter containing information such as education and previous job experience. Those with less than J.C. are automatically disqualified. The remainder are then required to complete a formal application questionnaire. Those who are found to have police records are excluded, and the remainder are invited to Umtata for an aptitude test² and interview.

Those whose test performance is satisfactory are then placed in a training trading station where they acquire practical experience and a working knowledge of book-keeping. At present there are three of these training institutions in the Transkei.

The period of training is normally required to extend over three months, but the writer was informed that the rate of take-over of trading stations is so rapid that, in practice, the training period rarely exceeds six to eight weeks. Trainee managers are assessed according to their ability in book-keeping and various other practical aspects of management,

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1. These enterprises are actually purchased by the South African Bantu Trust, and then handed over to the XDC. According to the Daily Dispatch Supplement on the XDC (East London, 19 Aug. 1970), p. 34 : "We (i. e. the XDC) are about half-way now with takeover from White traders. About 300 trading stations still have to be taken over." (Presumably this refers to those in rural districts.)
 2. The battery includes tests of comprehension, mental alertness, vocabulary, spelling and computation, and results are rated on a five-point scale.

as well as personal factors such as 'dependability' (which includes 'following instructions', 'willingness' and 'punctuality'), 'compatibility with customers and fellow workers', 'responsibility' and 'personal appearance'. An individual's performance determines the size of the trading station in which he is placed initially. Trainee managers are paid R25 per month, and this increases to R60 per month for those who are placed in trading stations.

A manager has to have had a minimum of two years' experience before a loan to take over the enterprise can be negotiated. During this time he is visited once a week by a White supervisor.¹ The supervisor's job involves continued training and advice, as well as stock control. In the latter respect close control is exercised. Wholesalers approved by the XDC telephone the manager regularly for grocery orders. These orders then have to be scrutinized by the supervisor who adjusts them to the extent he considers necessary before delivery. All orders are paid for C. O. D. Soft goods are ordered from manufacturer's representatives by the managers; however, before goods are delivered, supervisors have to confirm the orders. Moreover, all price reductions have to be authorized by supervisors, who also check cash takings regularly, and any shortfalls are deducted from the manager's salary. Furthermore stock is supposed to be checked every three months. Supervisors report on factors such as cleanliness of the shop and adjoining house, and on any damage that has occurred - as one XDC official put it "We are looking after the trading station on behalf of the Government". Managers are not permitted to give any credit, and in an attempt to ensure what is considered to be satisfactory performance, they are not permitted to leave the premises during business hours or to own a vehicle.

Once a loan has been authorized, supervision continues on a somewhat relaxed basis - for example, accounts are checked monthly and the supervisor's visits are less frequent, but all purchases are expected to be made in cash.

3. The Effectiveness of the Programme and the Type of Problems Encountered.

The following statistics were calculated from information given in a 1971 XDC Training Division report :

-
1. Most of the supervisors are ex-traders. At present there are approximately 30 supervisors, each of whom has responsibility for up to 10 trading stations. Supervisors are responsible to 4 area managers who in turn are responsible to the manager of the Commercial Division of the XDC.

	1967	1968	1969	1970	Total
No. of trainees taken on	62	117	92	167	438
No. left while training	3	11	11	24	49
No. completed training	59	106	81	143	389
No. placed in trading stations	48	97	95	115	355
No. left while managing	38	46	26	3	113

Of those placed in trading stations, fifty-two were granted loans. Too much reliance cannot, however, be placed on these statistics, as different divisions of the XDC gave conflicting information; for example the Commercial Division said that one hundred and thirty-two managers had left while managing, while the Training Division put the figure at one hundred and thirteen.¹

A senior official of the XDC expressed the opinion that "50% of managers don't make the grade", and attributed the high turnover rate to the following factors :

- (a) stock shortages arising from carelessness or fraud;
- (b) drunkenness and general 'misbehaviour';
- (c) mismanagement.

The writer was told, moreover, that during 1969-70 there was a particularly severe shortage of stocktakers, and stock was not taken at a number of stations for up to twelve months, instead of the regulation period of three months. When stock-taking was eventually carried out, a large number of stations were found to be very short-stocked, and there was a wave of dismissals. This in turn made it necessary to admit a number of trainee managers considered to be 'borderline' in order to keep the training schools full; moreover the training period had to be curtailed still further in order to maintain an adequate supply of managers.

4. An Assessment of the Programme

This broad survey indicates that the system has a number of weaknesses, and it is necessary to examine :

- a) the implications for consumer welfare;
- b) the method of selection, and training before and after placement;

1. Furthermore the Trading Division said that one shop had been closed by Jan. 1971, the Commercial Division that 11 shops had been closed by Sept. 1970, and several of the non-XDC wholesalers expressed the opinion that a 'large number' of shops had been closed.

c) the overall viability of the programme.

(a) The implications for consumer welfare

Consumer welfare is a particularly important issue insofar as the vast majority of shops included in the scheme are in outlying rural areas, where the consumer relies on a single trading store unless he is prepared to travel a considerable distance.

Moreover, White traders frequently played a vital - if somewhat paternalistic - role in the lives of rural communities, in that they gave credit (which is particularly important in bad seasons), lent money for children's education and made facilities such as transport available in emergencies; in addition many of the traders' wives gave advice on matters such as child care and even performed quasi-medical functions. Most of these advantages have fallen away under the XDC programme. Furthermore the limiting of stocks and the restrictions on price-cutting must have deleterious effects on consumer welfare.

(b) The system of selecting and training managers

This can be seen to have many shortcomings :

- (i) In a random sample of one hundred managers, it was found that few possessed less than Standard Nine. These relatively high educational qualifications are not necessarily an assurance of satisfactory performance; the survey of independent businessmen has shown that although the normal level of education tended to be higher than the average for the general population, there was little correlation between education and success. (Chapter 9) These findings were confirmed by studies in other parts of Africa. Furthermore the psychological tests used in the selection process appear extremely superficial, although it is questionable whether more comprehensive testing would produce better results.
- (ii) It would seem that six to eight weeks in a training school is totally inadequate to equip an individual who has no previous business experience to operate a fully-fledged enterprise.
- (iii) The extremely limited duration of the training period probably necessitates follow-up supervision, but the present system of rigid supervision seems to violate many of the basic principles of the delegation of authority. More adequate initial training might obviate the need for some of this supervision.

In the situation in which the XDC is placed, as a result of taking over White-owned trading stations as rapidly as possible and putting them under African management, a system along the lines of that adopted at present may be inevitable. However the policy of training and follow-up supervision - if efficiently carried out - may produce satisfactory managers but inhibit the development of true entrepreneurship, in which the element of personal risk-taking is crucial.

Even if viewed purely in terms of the development of efficient managers however, the present system may be seen to have a number of drawbacks. In addition to those outlined above, the policy of paying managers a salary with no bonus for good performance is a severe weakness. As a successful independent African businessman (whose formal education was Std. 1) remarked in advocating an incentive system: "A man will only polish his own boots."

(c) The overall viability of the programme

It may be argued that any relaxation of supervision and of the general constraints under which managers operate at present would facilitate fraudulent practices and jeopardise the financial position of trading stations still further, and there may be a substantial element of validity in this argument. This in turn raises the question of whether the goals of "looking after the trading stations on behalf of the Government" and creating a class of creative entrepreneurs are not mutually incompatible.

On the basis of the survey of 'self-made' entrepreneurs, there is much evidence to suggest that this might well be the case. Perhaps the most fundamental consideration is that, above all, entrepreneurs seemed to derive their commitment from an intense desire for autonomy and independence. The XDC managers, on the other hand, are placed in the conflicting situation of being promised such autonomy, but in the interim of being drawn into the vortex of White control. It has been argued, moreover, that the need for factors such as book-keeping knowledge and capital are a result of rather than a prerequisite for success, and are therefore ancillary to a high level of individual ability (both innate and acquired) and motivation, and a favourable economic environment. It seems likely that there are extreme difficulties involved in more or less arbitrarily selecting people with the requisite personal qualities, and in subjecting them to rigid control, which surely runs counter to the evolution of entrepreneurial abilities. Furthermore the isolation of rural trading stations would hardly seem to provide an ideal economic milieu for the acquisition of such abilities.

The XDC's programme for the creation of 'synthetic entrepreneurship' is thus based on an inherent contradiction, and a high manager turnover rate seems inevitable. In addition, the cumbersome bureaucracy which its operation requires, as well as probable losses in consumer welfare, seem a high price to pay for the relatively small degree of success likely to be achieved. This wastage appears all the more irrational when considered in relation to the stringent restrictions which exist in urban areas, which have been shown to be far more conducive to the spontaneous genesis of African enterprise.

- 1. Did you start the business yourself?
 - a) Yes
 - b) No
- 2. Do you have previous business experience?
 - a) Yes
 - b) No
- 3. How do you rate the following?
 - a) Financial - i.e. capital shortage
 - b) Inadequate market and/or inadequate demand
 - c) Any other factor which you believe was a major problem
- 4. What are the main difficulties which you experienced?
 - a) Financial - i.e. capital shortage
 - b) Inadequate market and/or inadequate demand
 - c) Any other factor which you believe was a major problem
- 5. Do you extend credit to your customers?
 - a) Yes
 - b) No
- 6. How do you estimate the credit risk?
 - a) High
 - b) Low
- 7. Do you experience any difficulties?
 - a) Yes
 - b) No
- 8. How many people do you employ?
 - a) 1-5
 - b) 6-10
 - c) 11-20
 - d) 21-30
 - e) 31-40
 - f) 41-50
 - g) 51-60
 - h) 61-70
 - i) 71-80
 - j) 81-90
 - k) 91-100
 - l) 101-120
 - m) 121-150
 - n) 151-200
 - o) 201-300
 - p) 301-400
 - q) 401-500
 - r) 501-600
 - s) 601-700
 - t) 701-800
 - u) 801-900
 - v) 901-1000
 - w) 1000+
- 9. What is their remuneration?
 - a) High
 - b) Low
- 10. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 11. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 12. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 13. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 14. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 15. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 16. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 17. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 18. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 19. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 20. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 21. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 22. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 23. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 24. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 25. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 26. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 27. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 28. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 29. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 30. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 31. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 32. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 33. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 34. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 35. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 36. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 37. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 38. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 39. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 40. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 41. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 42. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 43. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 44. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 45. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 46. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 47. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 48. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 49. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No
- 50. Do you consider it a good idea to employ relatives?
 - a) Yes
 - b) No

Appendix E

BASIC QUESTIONNAIRE

I. Establishment of the Enterprise

1. Did you have a job before entering business?
 - a) where, what type?
 - b) how long?
 - c) any other information?
2. Did you start the business yourself?

If so,

 - a) what made you decide on this type of enterprise?
 - b) how did you raise the capital?
 - c) any other information.

If not, details.
3. Do you have previous business experience?
 - a) what fields?
 - b) how long?
 - c) any other information.

II. Various Aspects of the Present Management of the Enterprise

4. What are the main difficulties which you experience?
 - a) financial - i. e. capital shortage;
 - b) inadequate market;
 - c) competition;
 - d) any other.
5. Do you extend credit to your customers?
 - a) if not, why?
 - b) is so, (i) how do you operate the credit system?
(ii) do you experience any difficulties?
6. Employment
 - a) how many people do you employ?
 - b) what is their remuneration?
 - c) do you experience any particular difficulties with employees?
 - d) selection and provision for advancement?
 - e) do you consider it a good policy to employ relatives?
7. Premises
 - a) size
 - b) adequacy at present
 - c) room for expansion
 - d) rent
 - e) length of tenure
 - f) (urban areas) : would you prefer to buy or build your premises or rent them from a local authority?

8. General
- a) do you have a telephone, electricity, bank account, insurance?
 - b) how many vehicles do you own?
 - c) do you deliver?
 - d) do you advertise?
 - e) are you a member of the Chamber of Commerce or Traders' Association?
9. Sources of Supply
- a) do you have a source of supply other than wholesalers?
 - b) what wholesalers do you deal with?
 - c) do they (i) deliver
(ii) extend credit (terms)?
 - d) do you find their services satisfactory?
 - e) do you belong to any buying group?
 - f) how do you set your prices?
10. Do you think that keeping detailed records is necessary for success?
- a) what records do you keep?
 - b) do you employ a qualified book-keeper or accountant?

III. Attitudes towards Entrepreneurship and Innovation

11. What do you consider to be the requirements for success in business?
12. If you were offered a job in which the working conditions were pleasant, and which offered the same or greater remuneration than you now earn, would you consider taking it?
13. Would you be prepared, under certain conditions, to take a partner into your business?
- a) if so, what are these conditions?
 - b) if not, why?
14. Do you feel that there is potential for the expansion of business activity in your area?
15. Are you satisfied with your business as it is, and have you implemented any changes to date?
16. Do you plan to implement any changes in your business in the (a) near or (b) distant future?
- a) Details.
 - b) Reasons for delaying change, or reasons why a desired change is not considered possible.

IV. Acculturation

17. Where were you born and what was your fathers occupation?
18. How many years of education do you have?
19. Do you belong to a church?
20. Do you belong to any sporting or cultural association?
21. Does your wife help you in the business?
22. What level of education would you like your children to attain?
Would you like them to take over the business when you retire?

V. Measures of the Size and Profitability of the Business

Initial and present capital value of the business, turnover and value of any loans.

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