

# The influence of BBBEE regulations on entrepreneurs in the (luxury) food industry in the Western Cape of South Africa



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## Management Summary

Black Empowerment (BBBEE) is an hot issue on the moment in South Africa. BBBEE is a supportive government regulation to help the black participation in the main stream economy after a long period of the Apartheid era. Many entrepreneurs in Cape Town have heard about BBBEE and deal with it in practice. Soulicious Chocolate is a small entrepreneurial company that may grow to a successful business. This report gives insight in how these macro environmental regulations influence the business of entrepreneurs in the luxury food industry in the West Cape of South Africa.

In the theoretical framework the concept entrepreneurship is elaborated on, and the theory of planned behavior. The 2 models are taken together and a new model is proposed to explain how entrepreneurs deal with BBBEE in their business and on personal level.

In order to do this, 19 companies in the (luxury) food industry in and around Cape Town are interviewed and questioned about the 7 factors that eventually lead to working with BBBEE and the presence of a score card. A lot of qualitative data was gathered from these companies and the highlights are mentioned in the results.

Key words:

BBBEE, Broad Based Black Economic Empowerment, entrepreneurship, entrepreneurial behavior

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## Table of content

Management Summary.....	3
Table of content .....	4
Acknowledgement.....	7
Acknowledgement.....	7
1 Introduction.....	8
1.1 Background.....	8
1.2 Soulicious Chocolate.....	10
1.3 Research questions .....	10
1.4 Report overview .....	11
2 Outlines of the BBBEE program.....	13
2.1 Background of the system.....	13
2.2 Overall structure of the system.....	13
2.2.1 Direct Empowerment .....	14
2.2.2 Human Resource development and employment equity .....	15
2.2.3 Indirect empowerment .....	15
2.3 Conclusion .....	15
3. Theoretical framework.....	16
3.1 Firm performance.....	16
3.2 Entrepreneurship .....	16
3.2.1 Entrepreneurship and Network model alone not sufficient .....	19
3.3 The Theory of planned behavior .....	20
3.3.1 Some limitations of the theory of planned behavior .....	21
3.4 Integrating E&N and the Theory of Planned Behavior .....	21
3.5 Conclusion .....	22
4 Methodology .....	23

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4.1 Operationalization.....	23
4.1.1 Construct validity.....	23
4.1.2 The success indicators .....	23
4.1.3 Scope .....	24
4.1.4 Scale.....	25
4.1.5 Skill and value.....	26
4.1.6 Social network.....	27
4.1.7 Attitude .....	28
4.1.8 Subjective norms .....	28
4.1.9 Perceived behavioral control .....	28
4.1.10 Conclusion .....	30
4.2 The sample .....	30
4.2.1 Research design.....	30
4.2.2 Units of analysis.....	31
4.3 Developing the questionnaires .....	33
4.4 Conduction of the in-depth interview.....	33
4.5 Conclusion .....	33
5 Research results .....	35
5.1 Distinction between good and bad performers.....	35
5.1.2 Some general remarks.....	35
5.2 The three best performers .....	36
5.2.1 Influence of BBBEE on the four capitals.....	36
5.2.2 The determinants of behavior towards BBBEE .....	37
5.3 Second three best performers .....	37
5.3.1 Influence of BBBEE on the four capitals.....	37
5.3.2 The determinants of behavior towards BBBEE .....	38
5.4 The middle group of performers .....	39

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5.4.1 Influence of BBBEE on the four capitals .....	39
5.4.2 The determinants of behavior towards BBBEE .....	40
5.5 The five worse performers.....	42
5.5.1 Influence of BBBEE on the four capitals.....	42
5.5.2 The determinants of behavior towards BBBEE .....	43
5.6 Cross case analysis.....	44
5.6.1. Some general remarks.....	44
5.6.1 Influence of BBBEE on the four capitals.....	44
5.6.2 The determinants of behavior towards BBBEE .....	47
6 Conclusion .....	49
6.1 The outcome .....	49
6.2 Limitations of the research.....	50
6.3 Discussion .....	50
6.4 Implications .....	51
6.4.1 Theory.....	51
6.4.2 Soulicious Chocolate.....	51
References.....	53
Appendix 1: Question lists A, B and C .....	55
LIST A: .....	55
LIST B .....	59
LIST C .....	62
Appendix 2: In-depth interview open questions.....	64
Appendix 3: Performance of the businesses in order .....	70
Appendix 4 Score Table .....	72

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*The end result is in front of you, my master thesis for Business Administration at the University of Twente track Innovation and Entrepreneurship.*

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# 1 Introduction

*South Africa emerged from the apartheid regime in 1994. In order to stimulate economic growth and create wealth for a black middle class, macro economic stimulation programs were implemented. The influence of one of these macro economic stimulation programs, Broad Based Black Economic Empowerment (BBBEE) act, on entrepreneurship in the West Cape is researched.*

## 1.1 Background

When in South Africa in the 1940's the Afrikaner National Party was able to gain a strong majority, strategists of the party invented Apartheid as a means to strengthen their control over the economic and social system. Aim of the apartheid was to maintain white domination while extending racial separation. In the 60's a plan of Grand Apartheid was executed. One example of the laws, which extended racial separation, was the Homeland policy. The homeland policy was an instrument of the Apartheid government whereby black African's were forced to move and become citizens of designated rural areas (Haucka & Sowmanb, 2001).

In 1994, after 45 years, South Africa emerged from the apartheid era with an urgent need to complement its political liberation and its openness to global trade and investment with economic growth that would benefit all members of the population (Khamfula 2004). In 1996, the new government to help economic development introduced macroeconomic regulations. These macroeconomic policies have driven South Africa's impressive economic performance over the last decade, but huge problems remain, especially in tackling unemployment (OECD 2008).

South Africa produces 45% of the Sub Sahara GDP, and there for the strongest economy in this region. However, high unemployment rates under the black population remain in South Africa. Therefore, the government implemented the so called Broad-based black economic empowerment act. (BBBEE) this is one of the government program's that support black people in finding a job and earn an income. The act is brought into life to promote the achievement of the constitutional right to equality, increase broad-based and effective participation of black people in the economy and promote a higher growth rate, increase employment and more equitable income distribution. (Broad Based Black economic empowerment act).



Table 1: Unemployment rate per population group per year

Population group	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06	Sep'07
	Percent						
<b>Male</b>							
Black African	31.5	31.5	30.0	27.6	26.6	25.3	23.3
Coloured	19.5	19.9	18.8	19.7	20.6	16.6	20.0
Indian/ Asian	15.7	15.6	15.5	12.4	14.0	6.6	7.4
White	4.7	5.0	4.0	5.1	3.6	4.6	3.5
<b>Average</b>	<b>25.8</b>	<b>25.9</b>	<b>24.7</b>	<b>23.1</b>	<b>22.6</b>	<b>21.2</b>	<b>19.8</b>
<b>Female</b>							
Black African	40.7	42.3	38.7	36.0	37.1	36.4	30.9
Coloured	23.1	26.6	23.6	24.1	24.6	22.6	21.3
Indian/ Asian	23.5	27.1	18.4	15.4	18.6	14.3	10.2
White	7.4	7.4	6.2	5.8	6.9	4.4	4.2
<b>Average</b>	<b>33.8</b>	<b>35.9</b>	<b>32.0</b>	<b>30.2</b>	<b>31.7</b>	<b>30.7</b>	<b>26.1</b>

Source: Labor force survey 2007

One of the reasons for the Broad Based Black Economic Empowerment program (BBBEE) is shown in Table 1 with the unemployment rates of different groups in the South African population. It is clear the white population has lower unemployment rates than other groups. Black Africans have the highest unemployment rates.

Compared to European countries South Africa has high unemployment rates. The average for Europe is 6,9 per cent. Netherlands for example has the lowest unemployment rate with 2,6 per cent, Spain the highest with more than 11 per cent which is still half the percentage of South Africa's official 22,7 per cent. (eurostat.eu & statsa.com, 2008) These are only official numbers. During a meeting at the Dutch consulate, it was announced that unofficial unemployment rates go up to 40 per cent. This is just an indication of the problems in this country concerning employment. In order to fight unemployment the BBBEE program does not obligate, but stimulate companies to employ black people, share ownership and do business with them. The BBBEE program will be elaborated on later in this report.

BBBEE is one of several programs that are implemented by the government to attack unemployment problems. In February 2006, the deputy president Ms. Phumzile Mlambo-Ngcuka launched AsgiSA (Accelerated and Shared Growth Initiative). AsgiSA has its origin from the commitment to half unemployment and poverty by 2014. BBBEE is a program that especially focuses on businesses in South Africa. The South African government has claimed only to do business with BBBEE registered companies. This registration is a point-based system and to increase the amount of point a company has, it has to share ownership, employ and do business with other black people (companies). Through this system, the government tries to increase the black participation in the working class and higher management in businesses. It appeared though that some companies/organizations not connected with the government also apply BBBEE regulations for their suppliers like supermarkets, mainly to increase their social status. And because of factors like preferential procurement it is likely that also smaller companies get confronted with the question if they are BBBEE registered. One of these small companies is Soulicious Chocolate. This is still a very small company which is in a start up phase. When and if Soulicious Chocolate grows, BBBEE is one of the macro environmental factors it has to deal with. How BBBEE regulations influence entrepreneurs in the food business is therefore researched. In the following paragraph Soulicious Chocolate will be introduced.

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## 1.2 Soulicious Chocolate

Soulicious Chocolate is an entrepreneurial business led by Ms. Van Reijendam in Cape Town. It is a small chocolate producing company that just started business. Soulicious Chocolate produces an innovative dairy and sucrose free chocolate with herbs, fitting in a dairy sugar free diet. The current potential production is about 10.000 bars per month. At this point, the production is cost covering with around 1500 bars per month. Soulicious Chocolate may be promising and worth while to sell in a while, though the company is so small that the chance of failure is still significant. As mentioned in paragraph 1.1 one of the macro environmental regulations that have influence on entrepreneurs is BBBEE. It is helpful for companies like Soulicious to gain insight on how entrepreneurs in the (specialty) food industry around Cape Town cope with and are influenced by these micro environmental regulations. This will not only benefit the entrepreneur with its business, but is also gives insight in how entrepreneurs cope with this type of regulations in general. Indirectly it will be beneficial for governments, lawmakers and consultants. In this research, BBBEE regulations will be the focal point, and the influence of it on entrepreneurs in the luxury food producing industry. In particular the difference between good and less performing businesses. In the theory, there is plenty information on success factors of companies, but there is no data on how successful and less successful businesses cope different with macro environmental factors like BBBEE. Van de Veen and Wakkee (2004) notice that there not enough information on how the macro environment influences entrepreneurs. This research will give some of this information.

## 1.3 Research questions

In order to find out how other entrepreneurs in the west cape cope with BBBEE, in this paragraph the research problem is formulated in a central question. The central question cannot be answered in once, though it is divided in three sub questions in order to eventually answer the central question. Sub questions one will be answered with practical information in chapter two. Sub question two, will be answered on basis of the theoretical framework and the results of 19 in-depth interviews performed with entrepreneurs in the (luxury) food industry. Finally, the last sub question is answered in the form of recommendations towards entrepreneurial companies in the (luxury) food industry, with in particular Soulicious Chocolate.

### Central question

Are good performing entrepreneurs coping different with BBBEE than less performing entrepreneurs?

The central question cannot be answered in once, that is why sub-questions are formulated.

### Sub questions

1. What are the outlines of the BBBEE program?
2. What different attitudes/behavior can be distinguished between successful and less successful entrepreneurs towards BBBEE, and how does that influence entrepreneurship?
3. What recommendations can be made towards entrepreneurial companies like Soulicious Chocolate in order to cope best with these regulations?

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In order to get more insight on how BBBEE influences the behavior of entrepreneurs in the West Cape, first the outlines of the program are discussed, what the purpose is of the system, and how it is supposed to work. Second, differences in success between companies need to be determined, in order to find relation between successes of a company and how they cope with BBBEE. The following step is to explain what entrepreneurship is in order to have a theoretical basis on which any influences can be determined. Therefore, the Entrepreneurship and Network (E&N) model will be used. The E&N model describes the entrepreneurial process and the factors that influence it. This model will be elaborated on in chapter 3 Theoretical framework. To determine different attitudes and behavior theory on individual behavior is used as well and combined with factors from the E&N model in a new model. With research question 2 the different attitudes and behaviors between entrepreneurs is explained. To give consistent explanations the E&N model is used together with other variables to explain the differences based on theory. To get the results 19 in-depth interviews were done with entrepreneurial businesses in the (luxury) food producing industry in and around Cape Town. Finally from the research results recommendations are made that increases the insight of the influence of these macro environmental regulations on entrepreneurship. Moreover, will be helpful for entrepreneurs that are confronted with these kind or similar regulations.

On of the concepts that were already mentioned in the research question is the entrepreneurial process. In the theoretical framework, this concept will be elaborated thoroughly. Entrepreneurial companies are companies, which are still led by the founder of the business. In this report, the oldest company is 25 years old, and the youngest just a year. The entrepreneur is the person that found the business. In some cases there are more founders; in those cases just one of the entrepreneurs is interviewed.

In order to get grip on differences between companies, a distinction is made between good performing and less performing. This is a difficult distinction because of the different backgrounds between companies. They all operate in the food producing industry, and most of them deliver to central organizations that come back in most of their network, though they are very different. In this distinction, the opinion of the researcher is considered acceptable next to the quantitative data of successfulness.

## 1.4 Report overview

This report describes the research that is done to fulfill the Master Business Administration at the University of Twente. Macro environmental regulations and their influence on entrepreneurial companies in the (luxury) food producing industry will be the focal point. It concerns entrepreneurs in the Western Cape of South Africa mainly in the Cape Town region.

Soulicious Chocolate is a small entrepreneurial company in the Western Cape region of South Africa. It produces and markets an innovative chocolate product in and around Cape Town. When talking to entrepreneurs, BBBEE regulations is one of the things that keep entrepreneurs busy on this moment. There seems to be a pressure from the outside to work with it, or around it. Some entrepreneurs are positive; some find it difficult or do not agree with it. It is important for Soulicious Chocolate to know what it is about, and how other companies in this specific sector work with it.

Chapter 2 starts with the central question of this research, followed by the sub questions. In order to give proper answer on these questions, the BBBEE program is elaborated on, and a theoretical review among entrepreneurship is given. The theory and the local macro environmental aspects

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among BBBEE are operationalized and the combination of these two aspects are brought together in an interview that is conducted with 19 companies in the food producing industry. Chapter 3 gives the methodology and the procedures that are followed in order to find the companies fitting in the focal group. The results from the interviews are brought together in chapter 4. Not all results are discussed in detail, only the highlights and the aspects worthwhile to mention. Finally, in chapter 5 the research is concluded and recommendations towards companies like Soulicious Chocolate on how to cope with these macro environmental regulations are done.

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## 2 Outlines of the BBEE program

*The government program Broad Based Black Economic Empowerment is already mentioned in the introduction, and will be elaborated on in chapter two. This in order to answer research question one. It gives the global outlines of the BBEE program in order to get good insight and understanding of the rest of the research and the results.*

### 2.1 Background of the system

Black empowerment has a long history that has its roots back in the Apartheid regime. Politicians were searching for ways to create economic wealth for black people. The empowerment process though was re-invigorated by the 2001 report of the Black Economic Empowerment Commission (BEECom). When in 2003 the Broad based BEE act was implemented, the commission came to the following; capital de-racialisation, employment equity, business development, preferential procurement and skills enhancement, and all in a framework of voluntary compliance flexible enough to accommodate the full diversity of SA businesses. The key instrument is the balanced scorecard that measures every enterprise against wide ranging criteria for broad based empowerment. Every element (later called the seven pillars) of the scorecard is clarified by 'codes of good practice' dealing with employment equity, skills, procurement, enterprise development, the status of transformation charters, and a framework for BEE rating agencies. In theory the codes are binding for all state and public entities, and will be applied in all decisions involving procurement (Butler, 2007)

### 2.2 Overall structure of the system

Black economic empowerment is the economic transformation of South Africa, with the goal of increasing black participation at all levels of the economy, with transferring management, ownership and control of economic and financial resources and by this, decreasing income inequalities. The black economic empowerment program is developed to benefit black people in South Africa. Black people are considered non-white citizens from South Africa being;

- Black
- Colored
- Indian
- Chinese

Black empowerment can have significant influence on enterprises. The system works with a balanced scorecard, which shows the proportion of black empowerment in a company. Though not all enterprises are treated the same in becoming BBEE registered. The system makes three distinctions in companies; enterprises up to SAR 5 million revenue are exempted and are a level four contributor if 50% of the enterprise is black owned, enterprises from SAR 5 million up to SAR 35 million of revenue apply the small enterprise scorecard. They can choose four of the seven elements, and all four weigh 25 percent. Enterprises with more than SAR35 million of revenue the generic scorecard is applied. The companies in this research are spread over all the categories. However, to get a good basic understanding of the system, the total program as it is for companies with more than SAR 35 million revenue is discussed

The broadbased black economic empowerment act, is not a law, it is a supportive regulation. Companies that deal with the government need a certain score in order to be able to deal with the government. The system is based on the seven pillars. The seven pillars are the seven aspects that can increase a company's score on the scorecard. In the following list, the seven pillars are mentioned.

**Direct Empowerment**

- 1. Ownership
- 2. Management

**Human Resource Development and Employment equity**

- 3. Employment Equity
- 4. Skill Development

**Indirect Empowerment**

- 5. Preferential Procurement
- 6. Enterprise Development
- 7. Social Economic Development

The seven aspects that increase the score of a company are called the seven pillars of the scorecard. Every pillar has a target percentage, and a weight. If all the targets are reached, a score of 100 points will be the result. Additional in every pillar bonus points can be earned, so a company can reach a score above 100 points. Every pillar is divided in itself, so there are a large variety of factors where a company can earn points with. The first pillar is for example split up in black or white ownership, male/female, and there are different ways to share ownership. All these possible forms are mentioned, and recognized with an amount of points.

The other pillars are divided as well. In Table 2 the weight and the target to get the full weight is shown.

*Table 2 Structure of BBBEE*

<b>The seven pillars</b>	<b>Target</b>	<b>Weighting</b>
<i>Direct empowerment</i>		
1. Ownership	25% plus 1 share	20
2. Management	40% - 50%	10
<i>Human recourse development and employment equity</i>		
3. Employment equity	43% - 80%	15
4. Skill development	3% PR; 5% WF	15
<i>Indirect Empowerment</i>		
5. Preferential procurement	70%	20
6. Enterprise development	3% NPAT	15
7. Social-Economic development	1% NPAT	5

**2.2.1 Direct Empowerment**

Direct empowerment is split up as can be seen in Table 2 in Ownership and management. Direct empowerment can be performed in both ways, by giving shares to black people, and by placing black persons in the management of a company. Actual ownership of the business weights more than management. Ownership from Private Equity Funds may be treated as if that is owned by black people when the equity fund meets certain criteria.

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## **2.2.2 Human Resource development and employment equity**

Two of the seven pillars fall under Human Resource Development and Employment Equity. These are employment equity and skill development. Employment equity means that there is no discrimination in the company looking at functions. The distribution of labor and race should be the same as the area a company operates in. Meaning, up to 80 percent of the management functions from Senior, middle and junior management. But also the total amount of black employees is taken into consideration.

Skill development can also earn points in the system. Especially skill development of black employees with disabilities. Skill development expenditures are measured as a percentage of the total expenditure. Next to this, the amount of black employees as a percentage of all the employees participating in trainee programs also counts for the score card.

## **2.2.3 Indirect empowerment**

The last category is indirect empowerment which covers three of the seven pillars. Starting with preferential procurement, for the development of the BBBEE status of companies. Preferential procurement means that companies can earn points when the suppliers of companies are BBBEE registered as well. The target is to have 50 percent of your suppliers being BBBEE registered within 5 years, and up to 70 percent within 10 years. Within this group of suppliers a target of 10 percent in 5 years and 15 percent in 10 years is set to have small and micro enterprises that are BBBEE recognized. By this system an attempt is made to drain BBBEE though to all layers of companies. The average annual value of enterprise development to become BBBEE recognizes counts for 15 points. These contributions consist of monetary or non monetary, recoverable or non recoverable contributions to sustain, assist or accelerate the development of operational and financial independence of the beneficiary (black people). The last pillar is social economic development. This counts for 5 points. The amount spend on social economic development is measured as percentage of the Net profit after tax. In this case the target is 1%. Under Socio economic development fall contributions both monetary or non-monetary with the specific objective of facilitating sustainable access to the economy for the beneficiaries (black people). (Dutch Embassy Pretoria)

## **2.3 Conclusion**

This chapter gave some background information on the BBBEE system, and how it is implemented in the society. It gives the reader an idea how the government tries to set back what was considered wrong during the Apartheid regime.

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### 3. Theoretical framework

*In chapter three Theoretical framework, the theory to answer research question two is given. Firm performance is the first subject discussed in paragraph 3.1. In paragraph 3.2 the concept entrepreneurship is elaborated on with the explanation of the E&N model, and the reason why the E&N model is used. The individual behavior and opinion of the entrepreneur seems to have significant influence on how BBBEE is dealt with in different companies, therefore the theory of planned behavior is explained in paragraph 3.3. Finally, factors are brought together in one model, which visualizes how BBBEE regulations eventually lead to the presence of a scorecard or not.*

#### 3.1 Firm performance

To research the relationship between performance of the company and how they cope with the BBBEE regulations, it is important to know how firm performance is measured. Miller (1983) did research on the relation between environment and strategy making. He measured firm performance with the variables profitability and sales growth. Lumpkin and Dess (1996) conducted research on the relationship between entrepreneurial strategy and firm performance and offered a framework in which they measured firm performance with the following variables:

- Sales growth
- Market share
- Overall performance
- Profitability
- Stakeholders satisfaction

These factors can be measured both subjective and objective. Covin (1988) measured firm performance on a subjective way by asking the respondent to fill in the performance of the business according to their opinion. Other authors such as Dess, support this subjective type of measuring and Robinson (1984) Perceptual measures of performance can be significantly correlated with objective measures and serve as good substitute in the absence of 'hard' data. (Cited from Covin 1988). In this thesis, the profitability and market share are not taken into account to measure the success of a business. The research was done under (specialty) food producers. These companies were sometimes the only ones with their specific product, meaning 100% of the market share. This would be a very successful business, though in such nice markets it is not a good indicator for success. Profitability of a business is measured with ratios. Some entrepreneurs were able to give these numbers, but others were not skilled enough to give them. In place of these variables, the total revenue with the age of the company and growth of employee numbers per year is taken into account to determine the success rate of a company.

#### 3.2 Entrepreneurship

In the previous paragraph it is discussed what success of a company is. However, to see if there are differences between good and less performing businesses in how they cope with BBBEE, the business needs to be "measured" as well. Therefore, in this case, entrepreneurship needs to become more tangible. This is done with the E&N model. The E&N model is developed by the A.J. Groen and it portrays the entrepreneurial process with four factors that influence this. The reason that the E&N model is used is because it captures the completely entrepreneurial process. Not like many other



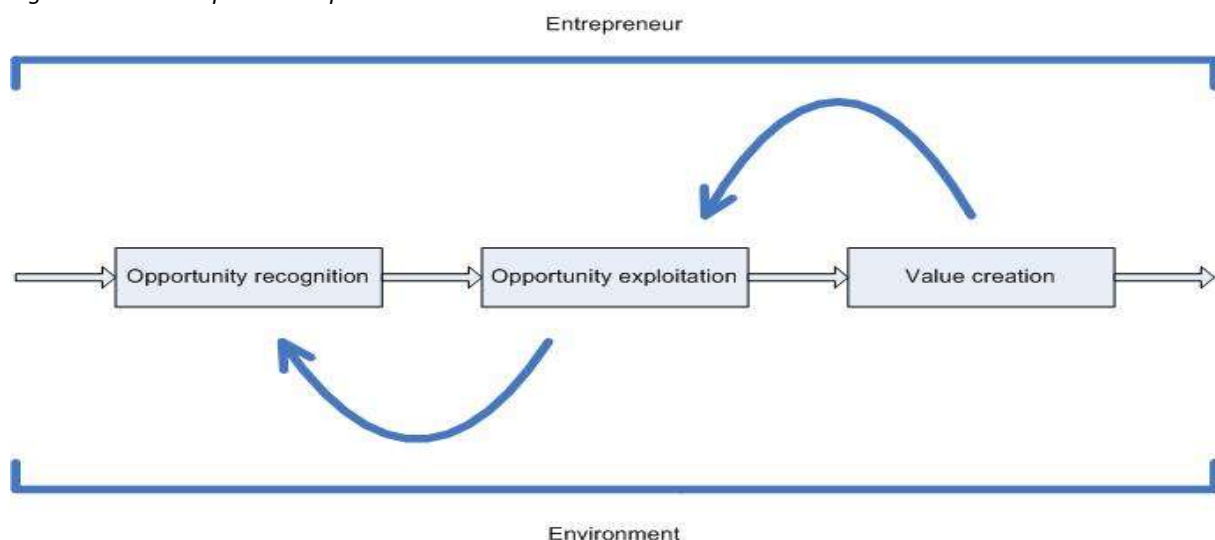
models where just one aspect of entrepreneurship is central. This makes the model very suitable for determining where and how BBBEE influences entrepreneurial companies.

Most literature on entrepreneurship concentrates on just one aspect on the phenomenon. Nevertheless, Van der Veen and Wakkee, (2004) did literature research on the whole process of entrepreneurship. An early definition of entrepreneurship by Weber reads:

*“Entrepreneurship means the taking over and organization of some part of an economy, in which people’s needs are satisfied through exchange, for the sake of making a profit and at one’s own economic risk.”* (Quoted in van der Veen and Wakkee 2004).

Most authors see entrepreneurship as a process that is gone through. In figure 1 this entrepreneurial process is visualized. Van der Veen and Wakkee (2004) could distinguish three phases in the entrepreneurial process; Opportunity recognition, opportunity exploitation and value creation. The bend arrows indicate that an entrepreneur can go forward and backwards in the process. At any point during the exploitation process, the entrepreneur may realize that a particular resource base to exploit the opportunity is not viable. Likewise, the demand for the product or service may turn out to be insufficient for profitable exploitation. As the model indicates, there is also an end and a beginning. Opportunity recognition begins with the initial idea, however where the entrepreneurial process ends, is not completely clear yet. Sometimes opportunity exploitation fails to lead to value creation. In other words, the entrepreneurial process is not finished, but abandoned.

Figure 1: The entrepreneurial process



Source: Van der Veen and Wakkee (2004)

Whether or not being able to go through the entrepreneurial process successfully, is depending on the entrepreneur/actor and the environment as can be seen in figure 1. The figure looks like a linear process, though it is dynamic and iterative.

The influence of the environment and the actor/entrepreneur is a social process. Because both the entrepreneur and the environment is of influence in this model, it fits well in this research where the influence of BBBEE (a macro environmental factor) on the business is determined.

Groen, (2005) captures the literature research of van der Veen and Wakkee (2004), with over 100 papers analyzed, under one framework. The basis of this framework is the social system theory of Parson (1964); he defines a social system as follows:

*A social system consists in a plurality of individual actors interacting with each other in a situation, which has at least a physical or environmental aspect, actors who are motivated in terms of a tendency to the optimization of gratification and whose relation to their situation, including each other, is defined and mediated in terms of culturally structured and shared symbols.*

(Quoted in Groen, 2002)

In this definition, Groen (2002) sees four mechanisms embedded.

1. Interaction between actors
  2. Striving for goal attainment
  3. optimization of processes and
  4. Maintaining patterns of culturally structured and shared symbols.
- The interaction mechanism needs social capital, which is based on positional and cohesive relations of actors in social networks.
  - Goal attainment processes establishing the scope of the actions use (or result in) strategic capital which is based on power or authority.
  - Economic optimization (seeking the efficient scale) is performed using financial capital (money)
  - Pattern maintenance is fed with cultural capital based on closeness to societal norms, knowledge, skills and experience.

These four mechanisms produce the own type of processes and within those processes its own type of capital (Groen 2002) which is shown in table 3.

Table 3

<i>Dimension</i>	<i>Relates to</i>	<i>Capital</i>	<i>Resources</i>	<i>Some interventions</i>
Scope	Strategic goals	Strategic capital	Power, authority, influence, strategic intent	Using power Redefining strategy
Scale	Economic optimization	Economic capital	Money	Using financial intensives Cost cutting
Skill & Value	Institutions and pattern maintenance	Cultural / human capital	Values, organization, knowledge, skills, experience, technology	Training and education Teambuilding Organizational systems New technology
Social network	Interaction pattern/ process	Social capital	Contact (multiplex, filling structural holes, cohesive equivalent)	Relation management Changing network structure Using brokers Supply chain mngt

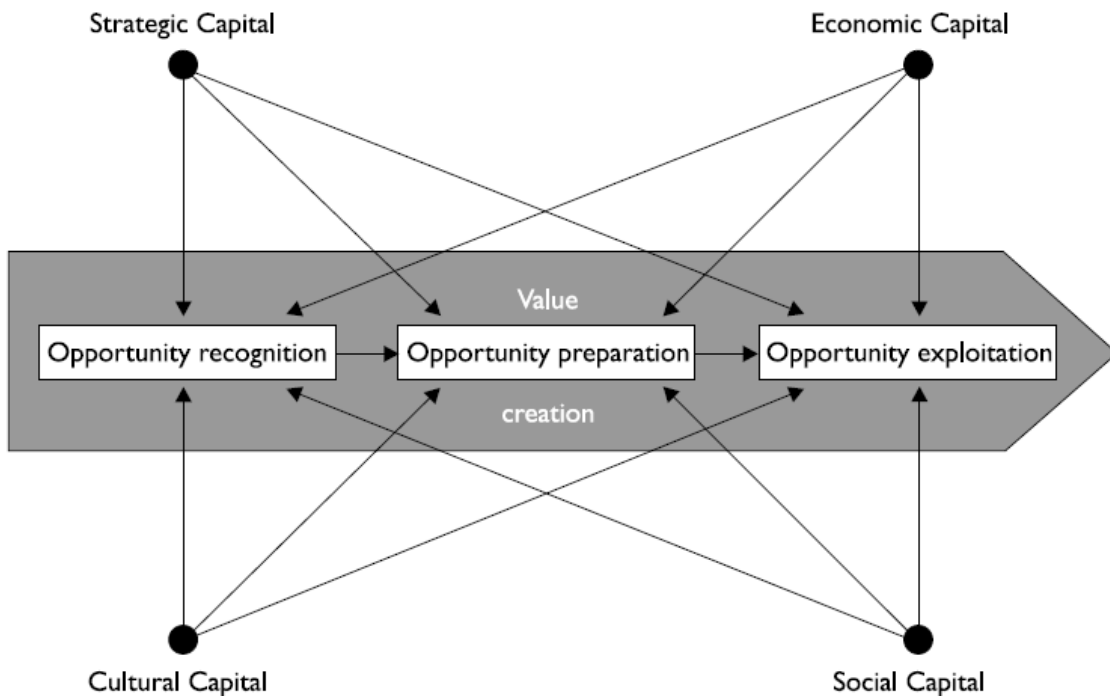
Source: Groen 2005

The framework developed by Groen (2005) is multi level and dimensional, which makes it useful for this particular research, since it focuses on the whole entrepreneurial process. The framework is based on a revision of classical social system theory. Based on Van der Veen and Wakkee (2004), *the entrepreneurial process can be defined as processes, in which an entrepreneur sees business opportunity (ies) develops it in to a business concept and brings it into exploitation.* (Groen 2005).

The framework developed by Groen is to accommodate in a systematic theoretical view that could accommodate the analysis of multilevel networks of entrepreneurs, organizations and microenvironment aspects focusing on micro interaction patterns in networks leading to the changes in structures on micro,- meso- and macro-levels. Figure 2 shows the Entrepreneurship and Network model.

However, the entrepreneurial process is now called value creation process. The three phases are influenced by; Strategic capital, economic capital, social capital and cultural capital.

Figure 2: Entrepreneurship and Network model



Source: NIKOS, Enschede

The four capitals that influence the value creating process are as Van der Veen and Wakkee already mentioned influenced by the environment and the entrepreneur. In other words, BBBEE as a macro environmental factor theoretically influences the four capitals and thus the business.

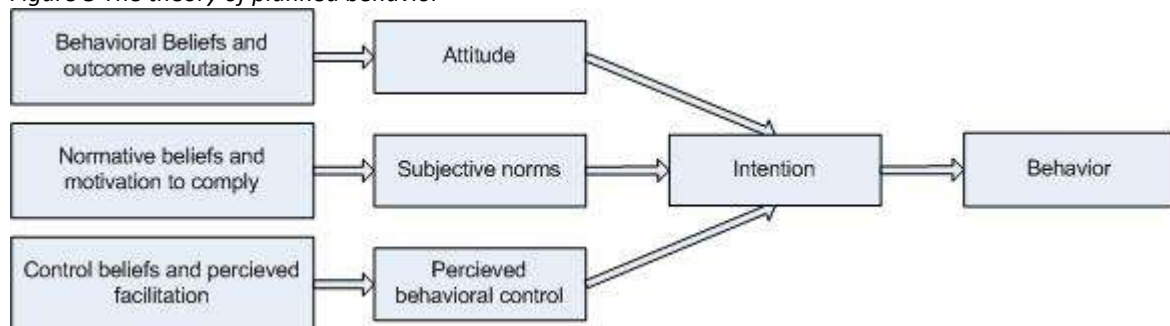
### 3.2.1 Entrepreneurship and Network model alone not sufficient

The Entrepreneurship and Network (E&N) model as described in paragraph 3.2 is a model on firm level; the four capital influence the value creation process on firm level, which on their turn are influenced by the entrepreneur and the environment. During the interviews, I noticed that the four capitals of a business are not only influenced by BBBEE but that the opinion and behavior of the entrepreneur himself is of particular influence in how they deal with BBBEE on firm level. The theory of planned behavior is a model that is used to predict and explain behavior of individuals. In paragraph 3.3 this model is elaborated on.

### 3.3 The Theory of planned behavior

Mathieson (1991) compared two behavioral models; one is the theory of planned behavior. In this model behavior is determined by intention that is depended on three factors. Attitude towards the behavior, subjective norms, and perceived behavioral control. Subjective Norms is the individual's perception of social pressure to perform the behavior. Perceived behavioral control is the individual's perception of his or her control over performance of the behavior (Mathieson 1991). In the figure 3 the model is drawn.

Figure 3 The theory of planned behavior



Source: Mathieson (1991)

The theory of planned behavior fits well in this research. Other behavioral studies are approached at many levels, from concern with physiological processes at one extreme to concentration on social institution at the other. The model of theory-planned behavior is a model describing an individual's behavior at an intermediate level; the fully functioning individual who is processing of available information mediates the effects of biological and environmental factors on behavior. The model can be used for either predicting or explaining an individual's behavior.

The theory of planned behavior contains three determinants of intention.

**Attitude towards the behavior** refers to the degree to which a person has a favorable or unfavorable evaluation or appraisal of the behavior in question.

**Subjective norm** refers to the perceived social pressure to perform or not to perform the behavior.

**Perceived behavioral control** is one of the factors that are of influence on the actual behavior of the individual. Behavioral control represents the likelihood of behavioral achievement with the recourses and opportunities available to a person. The perception of this is the psychological side of this aspect. Perceived behavioral control refers to people's perception of the ease or difficulty of performing the behavior of interest. Another view on perceived control is most compatible with Bandura's (1977, 1982) concept of perceived self-efficacy which "is concerned with judgments of how well one can execute courses of action required to deal with prospective situations." Studies have shown that people's behavior is strongly influenced by their confidence in the ability to perform. (Ajzen, 1991)

Ajzen (1991) gives as a general rule the more favorable the attitude and subjective norm with respect to a behavior and the greater the perceived behavioral control, the stronger should be an individual's intention to perform the behavior under consideration. The importance of attitude, subjective norm, and perceived behavioral control in the prediction of intention is expected to vary across behaviors and situations.

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The theory of planned behavior can be used in predicting a certain behavior in certain circumstances, but it is an effective model to explain behavior as well. Particularly explaining the behaviors is interesting for this research. Using it as an explaining model, it deals with the antecedents of attitudes, subjective norms and perceived behavioral control. At the most basic level of explanation, the theory postulated that behavior is a function of salient information or beliefs, relevant to the behavior. These are behavioral beliefs, normative beliefs and control beliefs. Behavioral belief is assumed to influence the attitude toward the behavior, normative beliefs is the underlying determinant of subjective norms and control beliefs provide the basis for perception of behavioral control.

### **3.3.1 Some limitations of the theory of planned behavior**

Ajzen has acknowledged that the theory of planned behavior has some limitations as well. Sheppard, (1988) gives these limitations. There appears to be a difference in goal and actual behavior. The first intention of the model was to explain the taking of a pill by a patient or similar behaviors. However, Sheppard (1988) argues that the model only applies with behavior but not with outcomes or events that result from the behavior. (Such as having a BBBEE scorecard). Sheppard argues that when knowledge, skills, resources or other's cooperation is needed, the model is not applicable for predictive purposes. In this research, the model is not used to predict but to explain. However, the factors mentioned by Sheppard are applicable here. To become BBBEE registered an entrepreneur needs knowledge and resources to do so. This "lack" of the Theory of Planned Behavior does not apply in the model that is created in paragraph 3.4. In this model, these environmental factors are included to explain the behavior with help of the four capitals from the E&N model.

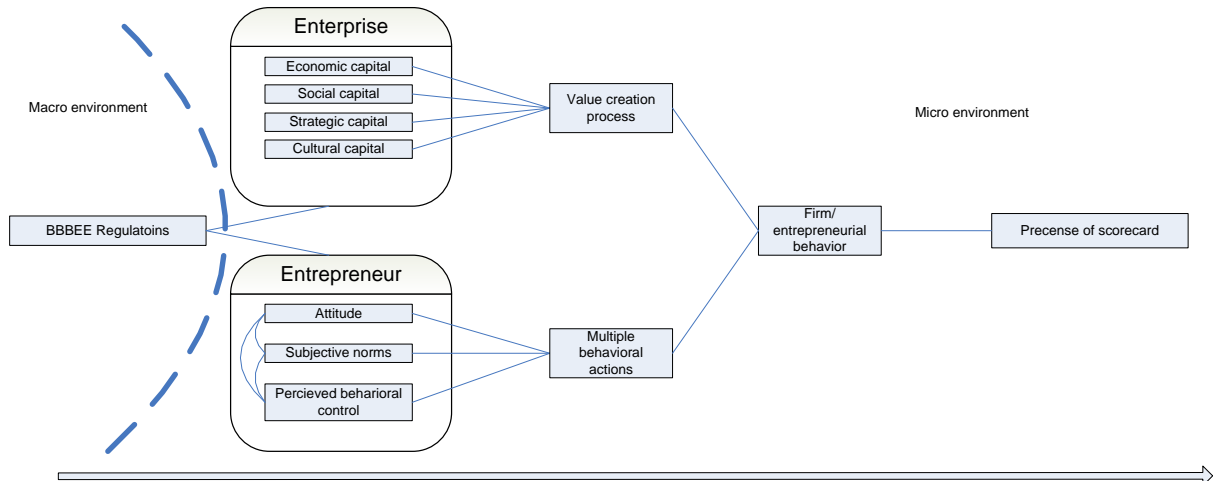
### **3.4 Integrating E&N and the Theory of Planned Behavior**

The relation between behavior of the entrepreneur and his firm seems to be evident. Covin and Slevin (1991) give in their paper a model of entrepreneurship as firm behavior. Covin and Slevin include in here the relation between the individual behavior that has strong and direct impact on the entrepreneurial potential, behavior and effectiveness. Firm performance is a function of organizational –as well as individual-level behavior. The entrepreneur/manager has often been portrayed as the key component in theories and models of the entrepreneurial process.

In figure 4, factors of both the E&N model and the theory of planned behavior are portrayed. One of the measurable facts of companies is the presence of a scorecard. With this card, a company shows what the score is on BBBEE compliancy. The presence of a scorecard at a company is the eventual result of behavioral factors and enterprise factors combined. It is a schematic representation of the influence of a macro environmental factor (BBBEE regulations) on the microenvironment in the business. The value creation process can be described as behavior on firm level, the entrepreneur himself has a behavior as well. As explained before these two factors together cause firm/entrepreneurial behavior which results in this case in the presence of a scorecard or not.

The question in this research is if there are differences between successful and less successful companies in how they cope with BBBEE. Applying this to the model, the question becomes if there are differences between the factors that eventually lead to the presence of a scorecard or not.

Figure 4: The influence of BBBEE regulations on entrepreneurial businesses



### 3.5 Conclusion

Chapter 3 laid the theoretical basis that is necessary to perform good research on how entrepreneurs in the (luxury) food industry in the west cape cope with BBBEE. First the factors that determine the success of a business were explained where after the E&N model gave insight in the entrepreneurial process and entrepreneurial businesses. The four capitals are in theory influenced by the macro environmental regulations of BBBEE. However, the particular behavior of the entrepreneur in especially an entrepreneurial business is of great importance as well, in how the business copes with the regulations. This was explained in paragraph 3.4, how this happens is drawn in figure 4.

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## 4 Methodology

*In Chapter 4 Methodology the methods used to collect the necessary data is elaborated on. The theories of the previous chapter, together with the factors that are portrayed in the model in figure 4 are the basis of this chapter. In paragraph 4.1 the operationalisation of the measured factors (in figure 4) is explained. To actually measure these factors, 19 in-depth interviews were held with entrepreneurial companies in the (luxury) food industry in the Western Cape of South Africa. How this sample was selected is explained in Paragraph 4.1.*

### 4.1 Operationalization

*In order to answer the research question, and find out if there is a difference between good and bad performing businesses in how they cope with BBEE, the factors that are mentioned in the theoretical framework need to be determined. Paragraph 4.1 starts with some theory how the correctness of this process is guaranteed. After this the success factors, the four capitals and the three behavioral factors are operationalized one by one.*

#### 4.1.1 Construct validity

Construct validity is the degree to which a measure relates to other variables as expected within a system of theoretical relationships. (Babbie 2007). In this case, are the factors being measured during the in-depth interviews really measuring the factors that are mentioned in the theoretical framework? Table 3 provides the indicators that measure the factors in the first column. To ensure the construct validity, the factors are in most cases literature based from scientific journals. The authors based their conclusion on other authors with significant proof. In this way, a chain of evidence exists. This maximizes the validity of the construct, because others already research a relationship between the measure and the variable.

Table 3 will form the basis to further operationalize the capitals. The E&N model is based on the 4s framework, so I will work from that perspective.

#### 4.1.2 The success indicators

*Part of the research question is to determine the difference between successful and less successful companies. In the following paragraph the success indicators and their weight in the determination of success is explained. In appendix 4 the success factors are mentioned, together with the score and the weight. Indicators that are more important weigh greater in percentage than the less crucial success indicators. (Roozenburg en Eekels, 1998)*

##### **Revenue growth per year**

One of the two most important indicators of success is revenue growth per year. As with the other indicators as well; the total current revenue is divided through the age of the companies. This gives the average revenue growth per year, resulting in a score between 0 and 5. In appendix 4 the range of revenue growth per year and the score is given. The revenue of companies with revenue greater than 35 million rand per year is asked during the interview and known. When the range is too big, covering more than one number is the score between 0 and 5, the average is taken. It counts for 23 percent.

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### **Sales growth per year**

The sales growth per year is filled in by the entrepreneur himself in a multiple choice question ranging from A through to E. For the score, A is equal to 1 and E equal to 5. In the score, the sales growth counts for 24 percent, together with the revenue growth. These two indicators are the best measurable indicating the growth of a company.

### **FTE growth per year**

FTE growth per year counts for 16 per cent. The growth of FTE is an indicator of growth, but not necessarily. Other factors like working more efficient with the labor force or mechanization can result in more productivity/success of the company, which does not lead necessarily to a bigger labor force. It can even lead to a smaller labor force. So growth can be a good indicator of firm performance, but shrink does not mean the opposite. One example is the company Wild Africa Cream, who increased their production but went from 60 laborers in the factory to 20, by investing in mechanization.

In appendix 3 and 4, the growth per year and the score are noted. The three best performers with this score are given the maximum score automatically. This results in a better spread of the score. This applies for the sales growth and revenue growth as well.

### **Development of FTE**

This indicator counts for 13 percent. For this indicator the same arguments apply as discussed under 'FTE growth per year'

### **Expected growth difference**

This indicator must be taken into account as well, though it is an estimation of the entrepreneur himself. The difference between the current revenue and the expected revenue is measured. It says something about the expected potential of a company. Because it is estimation of the entrepreneur, and in that sense not hard data, it counts for 10 percent in the score.

### **Performance own / Performance according to stakeholders**

On a Likert type scale from one to five the own opinion of the entrepreneur about the performance is also taken into account. One being a poor performance according to the entrepreneur, and five being excellent. This is not hard data, and for that reason, it only counts for eight percent. The reason that this score is taken into account is that it tells also something about the reached goal of an entrepreneur. Some entrepreneurs are happy with the performance of their business but are not very successful according the hard data, and vice versa. The same applies for the performance according to stakeholders, this counts for six percent.

## **4.1.3 Scope**

As explained table 3 the scope of a company relate to the strategic goals it has. The resources used to actually reach these goals are power, authority, influence and strategic intent. Strategic capital is the combination of the goals a company has and the ability to actually reach these goals. Therefore, to measure the strategic capital of a company, all these factors need to be evaluated and measured.

Lumpkin and Dess (1996) define entrepreneurial strategy as entrepreneurial orientation. Entrepreneurial orientation has five dimensions; autonomy, innovativeness, risk taking,



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proactiveness, and competitive aggressiveness. What these dimensions mean will be discussed below

### **Autonomy**

Autonomy refers to the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion. In general, it means the ability and will to be self-directed in the pursuit of opportunities.

### **Innovativeness**

Innovativeness reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes. Although innovation can vary in their degree of "radicalness", innovativeness represents a basic willingness to depart from existing technologies practices and venture beyond the current state of the art.

### **Risk Taking**

Risk taking behavior extends from some nominal level "safe" risk, such as depositing money in a bank, investing in T-bills, or restocking the shelves. To high-risk actions, such as borrowing heavily, investing in unexplored technologies, or bringing new products into new markets. Miller (1983) asked managers to their propensity to take risk. This is a widely accepted way to measure risk.

### **Proactiveness**

Proactiveness refers to how a firm relates to market opportunities in the process of new entry. It does so by seizing initiative and acting opportunistically in order to "shape the environment" that is, to influence trends and, perhaps, even create demand.

### **Competitive aggressiveness**

Competitive aggressiveness refers to how firms relate to competitors, that is, how firms respond to trends and demand that already exist in the marketplace.  
(Lumpkin and Dess, 1996)

These five dimensions of entrepreneurial strategy include power and authority, since they include the manner how the entrepreneur reacts on the market. By measuring these five dimensions, the amount of strategic capital can be measured.

## **4.1.4 Scale**

The scale of a company relates to economic optimization of a company. The recourses used to accomplish this, are money. Cost efficiency, or high-income lead to more economic capital for the actor. Important questions here are related to the necessary scale of an operation: How can more efficient production of products be realized and what kind of financial contribution can be expected and for whom? (Groen, 2002). Financial indicators are used to measure the economic capital of the firms.

### **Break even point:**

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The break even point of a product is an important indicator for product success. This is the point when the revenue covers the cost of a product. When a product is more cost efficient, the break-even point will be reached sooner.

#### **Funds/venture capitalists / private capital**

The available financial capital through funds, venture capitalists and private capital is of influence on the financial capital of a firm. The more money available, the better the financial capital will be

#### **Bank loans**

Bank loans are also recourse of financial capital, though interest rates need to be paid on those loans. Depending on the macroeconomic environment, these rates can be higher or lower, influencing the access to these recourses.

When good income is realized with low costs, soon a break even point will be reached. Another indication of the available financial capital is which sources of economic income are generated. The availability for financial recourses is another way in which the economic capital of a company can be improved.

### **4.1.5 Skill and value**

Skills and value relate to institutions and pattern maintenance. The recourses used to do this are values, organization, experience, knowledge skills and technology.

In the E&N model, this is called cultural capital. This can be view from different aggregation levels. This particular capital is interesting to look from a higher aggregation level since the macro environment in Cape Town is different than in the other regions from where the E&N model is developed. The social network of the entrepreneur is important in the strategic capital.

#### **Experience**

Entrepreneurial experience is important to gain skills and values. The amount of years in business is an indicator of the amount of experience. Not only the year in the last business are important, but also experience from previous businesses. Entrepreneurial failure is even a good learning school for entrepreneurs, which give a lot of experience. (Gunter and Mcgrath 1999).

#### **Knowledge and skills**

Knowledge and skills depend on the experience an entrepreneur has, but also the level of education. Knowledge and education can also come from outside the company, by employing people. This is an interesting factor in the macroeconomic settings of Cape Town. The BBBEE program makes it interesting for companies to hire a certain race of people. This has nothing to do with the qualities. Therefore, if BBBEE influences the people a company hires, it also influences the level of knowledge and skills of a company. To make this connection, not only the level of education of employees needs to be measured, but also the reason for hiring these people.

#### **Values**

Shared values and culture is important in a network. Bordieu (1973) stated that homogeneity in shared symbols, culture and language is good for communicating with other actor in the social network. However, heterogeneity in this context has the benefit that the entrepreneur can generate new recourses to perform business from. This combination and how the entrepreneur uses it is of importance to his own success.

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#### 4.1.6 Social network

Social network relates to interaction pattern and interaction process. The social network is an important spill between the other capitals. The other capitals are gained by social skills of the entrepreneurs.

Burt (1989) elaborates social capital on. Entrepreneurs are in a structural hole, and the quality and motivation to build social contacts is essential for the success of a good network. Social capital is a critical variable. This is truer where financial and human capital is abundant (Burt 1989, p.283). Starting enterprises like Soulicious chocolate do not have a lot of human and financial capital. This makes the social capital even more important.

##### **Information benefit**

Burt distinguishes two types of benefits in a network, which can increase the return on investment; Information benefit, and Control benefit. Information benefits occur in three forms; access, timing and referrals. Access refers to receiving a valuable piece of information and knowing who can use it. However, there is a limit to the amount of information a person can use intelligently. The timing of receiving this useful information is also important. The early warning is an opportunity to act on the information yourself and invest it back into the network by passing it on to someone else who could benefit from it. In addition, the information coming from you, going into the network is important. People in the network that heard about you and your product in this case the chocolate could benefit you by knowing you and passing information through.

The information coming to a person in the network of course has to be reliable. One need to trust another in order to act correctly on the information offered. From social science, one can conclude that strong mutual relations tend to develop between people with similar social attributes such as education, income, occupation and age. Though making contacts with people with these same characters only thickens the network, it does not expand it. The BBBEE program discussed before pushes organizations and enterprises to trade with and employ people that are considered black. Most of those people come from other social backgrounds and have other social attributes. Following the line of Burt, this would reduce the amount of redundant ties in ones network, and therefore increases the structural holes in ones network, since the entrepreneur is forced to find new other contacts.

A practical example of this occurred during the meeting on the Dutch consulate. One of the attending entrepreneurs mentioned; “government rules force me to employ and do business with black people, but when I do my social activities, I never meet these people.”

##### **Control benefit**

The second benefit of the network was control. The structural holes that generate information benefits also generate control benefits, giving certain players an advantage in negotiating the relationships. This negotiating process is broken by Burt into structural, motivational and outcome components.

The outcome referrers to the applied strategy, when a player in the network has multiple offers to choose from, and strategically can bent the situation to its own benefit. Motivation to do so is an important factor, though motivation will be higher when the opportunity is more likely to bring successes along. The opportunity is its own motivation.

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In general, one can say that the quality and amount of valuable social capital can be measured by the amount of structural holes and the ability to control them successfully.

#### **4.1.7 Attitude**

Because the TPB was implemented later in the theoretical framework, there were no questions formulated in order to measure or get an idea of the three factors that lead to behavior of the entrepreneur. Because of this, the researcher used signal words and his own intuition to get an idea of these three factors, to begin with attitude. The general attitude of the entrepreneur towards the BBBEE system is quite important. Opinion and attitude are close related concepts and from these questions the attitude was distilled. The main issue was to determine if the general attitude towards BBBEE was positive or negative.

#### **4.1.8 Subjective norms**

In the theoretical framework subjective norms is explained as the social pressure one feels to perform certain actions. This happens on individual level, but as well on company level. Entrepreneurs want to put their business in the market with a certain image. BBBEE regulations anticipate on this factor as well through preferential procurement which is discussed in paragraph 2.2.3. The pressure an entrepreneur feels from his customers to become BBBEE would influence the behavior of the entrepreneur with his business according to TPB. By asking the entrepreneur about his business network and the BBBEE registration of his customers and suppliers, an idea about this social pressure can be formed.

#### **4.1.9 Perceived behavioral control**

Perceived behavioral control is the perception of an individual that a certain action or behavior is successful. In this case where the registration of BBBEE is a central issue, one could translate this to the perception of an entrepreneur that is capable of successfully implementing BBBEE in his company, and that this will help to reach his eventual goal. These goals of course can differ. One entrepreneur would have the primary goal to find new market opportunities or increase the competitive advantage. Others have the goal to actually help society with their individual actions. In most of the cases when an entrepreneur was asked about his general opinion, his perceived goal with a possible registration became clear as well. By giving the entrepreneur time in formulating his answers, reasons for participating in the registration process or not became clear as well. In table 4 all factors and indicators are given in one table.

Table 4 Factors, operationalisation and indicators

Factor	Operationalisation	Indicator
Entrepreneurial success	Firm performance	Revenue growth
		Sales growth
		FTE growth per year
		Development of FTE
		Expected growth difference
		Performance own opinion
		Performance stakeholders
Scope	Market orientation	Narver and Slater scale
	<b>Entrepreneurial orientation</b>	
	Autonomy	Self directed
		Goal settings
		See opportunities
	Innovativeness	amount of new products
		differences with existing products
	Risk taking	Bank loans/savings
		Risk propensity
		Presence of family
		Generator of main income
Proactiveness	promotion budget/time	
	advertisement	
	Attendance of shows	
	ability to react on opportunities	
	Competitive aggressiveness	Awareness of competitors
		Knowledge of competitor strategy
		Acting on competitor action
Scale	Financial indicators	Break even point
		Time to market
	Availability of free financial capital	Funds, venture capitalists % of revenue
	Availability of bank loans	% of revenue
		Interest rate
Skills and value	Experience	Number of ventures
		Years in business
		family background
	Knowledge and skills	Education level
		Education level available
		BBBEE compliancy
		Courses
		Availability of branch magazines
		Membership of branch magazines
	Values	Shared culture in the social network
		Variety of culture in the social network
Social network	Network benefits	Information benefits
		Control benefits
		Structural holes (Burt)
	Connections	Intensiveness
		type of connection
	Variety of recourses	Focus on BBBEE compliancy
	Theory of Planned behavior	Attitude
Subjective Norms		Pressure from network and society
Perceived behavioural control		Believe in helping society



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Case study research includes both single and multiple case studies. As mentioned before, in this research 19 case studies will be performed. 19 is a reasonable number, but statistically not really reliable. Though, because a lot of qualitative data is gathered, and the time is limited, 19 is considered enough for this research.

## 4.2.2 Units of analysis

### External validity

Single or a few cases have low external validity since the external validity refers to the possibility to generalize the conclusions to larger groups (Yin, 2003). The purpose of this particular research is not to generalize to larger population. The units being studied are selected, and to a certain point similar. The purpose is to test a general theory to a specific group of companies. Because in the research the E&N model is tested, it will improve the external validity when the model appears to be correct and applicable in specific environmental contexts.

### Selection

The organizations used have large lists of (entrepreneurial) companies. The ones taken in the case studies have to operate in the Cape Town region, luxury-food/food industry, and have a recent past in which they had entrepreneurial properties. The entrepreneurial properties mean that something of a value creating process should be recognizable which contains at least one of the three aspects of opportunity recognition, opportunity preparation and opportunity exploitation. (Van der Veen and Wakkee 2004) These three phases are also discussed in the chapter 'Theoretical Background'

The aim in finding participants for the research was to find companies within the food industry. In order to get a good distribution of the companies in and around Cape Town, company information from the following organizations was obtained;

- Brybas (Business directory),
- Cape Town regional chamber of commerce and industry
- Wesgro

This resulted in a list of 380 companies that were operating in the food business.

The business directory Brybas gives selection options concerning the geographical area where a company is located, its size and the sector the business is operating in. The geographical area "Western Cape" was selected and the sector "Health food" in order to stay as close to the product characteristics of Soulicious Chocolate. This resulted in a list of 46 companies.

Searching in the database of the Western Cape chamber of commerce was done within the category Food, beverage and tobacco products and related services; this gave a list of 318 companies.

At last, the organization Wesgro was contacted. Wesgro is the official investment and trade promotion agency for the Western Cape. A list of 16 producers of chocolates, Cakes, Ice creams and other snacks was selected by one of the employees of Wesgro.

The company list of the Western Cape chamber of commerce needed further selection. Out of the list of 318 companies, the producers of food products were selected according to the company description given. This resulted in a remaining list of 61 food producers.

The result was a group of 123 companies that were producing food products in the Western Cape with its main distribution in the Cape Town area. The 123 companies were reached by phone to inform if the company was fitting in the focal group. The internet sites were visited if they were available before calling. All the companies were asked the following questions;

- Is your company producing food products?
- Is the founder of the business still active in the business?
- Has your company brought any new products on the market in the last 5 years?

These questions were asked to get participating companies as close as possible to Soulicious Chocolate, an entrepreneurial company that has brought an innovative product on the market. Besides this Groen (2005) based it on the following definition of the entrepreneurial process

*The entrepreneurial process can be defined as processes, in which an entrepreneur sees business opportunity (ies), develops it in to a business concept and brings it into exploitation.*

When the company could answer yes to all questions, participation with the research was proposed. If the companies answered no to one of the questions or were not willing or able to participate, the question was asked if they knew any other companies that would answer yes to the above stated questions. The last question was to guarantee the minimum of 15 companies that had to be in the field research.

Eventually 14 companies that were fitting in the focal group agreed to participate in the research. Most companies that were not participating were not fitting in the focal group. Four companies were fitting in the focal group but had no time or feeling to participate in the research. Twelve companies that were not answering the phone were reached by email in which the purpose of the research was explained. Five of these companies were able and willing to participate in the research.

Making appointments with the companies was not accepted by most of the companies and a request for contacting after the summer stop was done.

Eventually from the 19 companies that first announce to be participating were refusing after summer, all of them were very busy and could not find the time to participate in an in-depth interview. Because of that, the critical number of a minimum of 15 companies came in danger. To secure a minimum of 15 participants, snowball searching (Babbie, 2007) was applied with the participants. This appeared a well working system in finding other companies in the same focal group. Eventually it succeeded to reach 19 entrepreneurial food-producing companies in the West Cape of South Africa. A list of the participating companies is shown in alphabetic order in table 6.

Table 6

Name	Size in FTE	Age	Core activity
Coffee Roast	3	4	Roasting coffee
Dried Fruit	160	6	Packing and processing of dried fruit
Natural Cheese	30	20	Production of processed cheese
Tea Town	30	12	Processing and packing of Tea products
Vino Foods	350	15	Production of coated chicken products
Fruit Bars	21	25	Production of health bars



Pie Shop	23	12	Production of meat pies
Biltong Beef	12	10	Production of Bultong dried beef
Magic Food	24	8	Manufacturer of premium and niche lifestyle food products
Bolly Veggy Baby Food	25	3	Producer of organic baby food
Meat Pie	26	7	Producer of meat pies
Queen of Pesto	20	8	Producer of Pesto sauce
Good Food	6	8	Packing of SOGO food products
Soulicious Chocolate	1	1	Marketing and sales of Soulicious Chocolate
Chocotho	9	4	Production of chocolate and truffles
Verdy Foods	20	4,5	Production of olive oil and vinegar
Healthy Foods	300	70	Production of health food and nutritional supplements
Belgium Chocolate	10	8	Production of chocolates
African Cream	30	5	Production of cream liquor

### 4.3 Developing the questionnaires

The questionnaires developed exist out of an open question list and three closed question lists. The three lists were taken over from previous research and a number of questions were used in the results. The open question list was developed as a lead in the conversation with the entrepreneur. Some questions were asked to judge the questions is the right context, other had to do with BBEE and the capitals of the E&N model. The operationalisation in Paragraph 4.1 was leading in the development of the questionnaires.

### 4.4 Conduction of the in-depth interview

Except for one interview, all the interviews were done with the founder of the business. African Cream had a founder in the US, and the interview was done with the general manager. Because of that, some questions were not valid. In all cases except for two, the interviewee traveled to the company, and the interview was conducted in their own office. Two interviews with Pie Shop and Biltong Beef was done in public places. This can make the respondent sensitive in sharing information.

All the interviews were recorded after consultation, the recording could have hold back the respondent to share sensitive information, but after thorough explanation that the recording was pure for interview purposes, this risk is considered expectable.

Per company only one person was interviewed; the founder or in some of the cases one of the founders. A single responded bias must be taken into regard, especially with questions concerning the employees, or other business behavior.

In order to taken serious as a researcher, the interviewee was dressed appropriate, introduced himself, showed his student card, and the interview was started after an explanation and the goal of the research.

### 4.5 Conclusion

Chapter 4 gave insight for the reader how the research was performed. It shows that the research is both based on theory and induction of the researcher. Where paragraph 4.1 was more based on

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theory, paragraph 4.2 was a more practical description on how the units of analysis were found. From here on the paper comes its final stage, the results.

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## 5 Research results

After explaining the problem, the theory around it and the way the research is conducted, now it is time for the results in Chapter 5. The 19 interviewed food companies are divided in 4 groups that were close together in terms of success. Per group, the four capitals and the three determinants of behavior are discussed.

### 5.1 Distinction between good and bad performers

In Table 4 is shown that question 5 and 6 of list A and question 8, 9,10,11,35 and 36 are indicators of firm performance. These questions are dividable in two parts, question 8,9,10 and 11 are about the opinion and expectations of the entrepreneur, the other ones are quantitative and thus measurable. In appendix 4 the weight and the score of every indicator is given, resulting in the list in appendix 3. In a sense, all the interviewed companies are successful and they still exist. Only five of them are not 5 years old yet. Therefore, a distinction needs to be made between very successful and less successful.

#### 5.1.2 Some general remarks

Before discussing the companies and their behavior, some remarks need to be made. The names of the companies are fictive to ensure the anonymous. The apartheid regime ended in 1994 but as was mentioned in the introduction as well, still huge problems remain in the society of South Africa. BBBEE regulations are a form of positive discrimination to make up for the past where the black people were discriminated on a negative way. Some questions in the interview were political loaded questions, and for the precise work out of the interviews all the interviews are recorded. Two remarks by interviewees were made about this. One of the entrepreneurs of Meat Pie said; *“is it still recorded?”* and started to laugh, the entrepreneur of Good Food said; *“this is a very political loaded question”*. Only two entrepreneurs motioned it outloud, but the combination of the recording of the interviews and the political sensitive questions are worthwhile to mention. One entrepreneur was a lot freer in talking about his black unmotivated personnel after the interview in an informal conversation.

The best performing company is relatively old and not entrepreneurial anymore. Table two shows what questions relate to what capitals? To be able to answer the research questions, the results first will be split up in four groups, namely the three best performers, the second three best performers, the six middle performers and the seven worse performers. In this way, the difference between the good and the bad performer, and their handling of BBBEE can be determined.

Per group, first influence of BBBEE on the four capitals is discussed where after the three determinants of behavior are discussed as well as the knowledge on BBBEE. In paragraph 3.3.1, some limitations of the theory of planned behavior are mentioned. Sheppard (1988) mentions in his paper that if knowledge is necessary for the behavior with the following event is required; this influences the behavior to perform as well. Because the amount knowledge of the entrepreneur on BBBEE regulations was noticeable in the interviews, this is taken into account in the results as well.

With the discussion on Social capital, the Subjective norm is taken into account as well. From chapter 2 it appeared that BBBEE is a political loaded subject, and depending on the score of one’s

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partners in the network. Some entrepreneur look at the business opportunities BBBEE offers other feel social pressure to become registered. Since there is a lot of overlap in the social network of the enterprise and the social contacts of the entrepreneurs that is why these are taken together.

## 5.2 The three best performers

A distinction can be made in the score of the six best performers. As can be seen the chart in appendix 3 the 3 best performers have a score close together around the 375 points. Number four, African Cream leaves a small gap, while the score steadily decreases. For this reason the three best performers will be discusses first, and than the other three companies in the best performers group. The performing of three best performing companies follows the intuition of the researcher. The growth rates of these companies were high, and the businesses appeared to be very successful during the conduction of the interviews.

### 5.2.1 Influence of BBBEE on the four capitals

#### **Economic Capital**

Of the three best performers, one of the companies expected to gain on economic capital because of BBBEE in the way of government grants. This was the best performer. None of the companies gained financially because of more business, or lost businesses because of lost customers or suppliers.

#### **Cultural Capital**

BBBEE did not influence the cultural capital of any of the organizations. On of the entrepreneurs noticed that having more black people working of him was a natural process. The level of education was never adapted to get more black people in one of the companies.

#### **Strategic Capital**

None of the companies was held back in their growth because of BBBEE regulations. This had different reasons though. In one of the cases, the customer companies had already such a BBBEE status that the company as being a supplier did not had to be BBBEE regulated as much to a point of collaborating. The other company told me that if it was necessary to change their strategy in order to grow, they would do it immediately, and the last one did not need to change their strategy because it was already their because of personal reasons.

#### **Social Capital/Subjective norm**

None of the three best performing entrepreneurs were influenced on their social capital by the BBEEE regulations. One of the entrepreneurs used a black empowered transporting company, but that was historically like that. Noticed was that as mentioned before that if the entrepreneurs could choose between a Black empowered partner or a less black empowered partner, and the quality and price were equal, the black empowered one was chosen. One company though felt social pressure to be BBBEE registered which can lead back to Subjective norm, since it was the pressure felt by the entrepreneur himself.

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## 5.2.2 The determinants of behavior towards BBEE

### Attitude

Positive attitude towards the system was noticed. Looking at practical behavior all companies look at it when they employ people. In the first place, the best one will be chosen, but all three companies said that if they had to choose between a black applicant and a white one, with both the same qualifications, the black one was chosen.

The three best performers had a positive attitude towards BBEE regulations. One company noticed that it was not driven by the scorecard, but by its own believe to empower his employees, both black and non-black. Another found it important to work on the creation of an unhappy middle class.

### Knowledge

None of the companies had significant knowledge on the BBEE regulations. They knew that partnership with a BBEE partners was important but they did not appear as being knowledgeable in how the rules exactly apply.

### Perceived behavioral control

The opinion of the three entrepreneurs towards the system was good. They all agreed that it was good to help the black people. One entrepreneur even let know that it was not because of the regulations he worked with the system, but because of his own believe. The entire entrepreneur did not seem to see it as an obstacle not knowing how to work with the system.

### Presence of scorecard

Two out of the three companies had a scorecard. The one company that did not have one said that it did not came to its mind yet since he was busy growing his business, but if it would lead him to more business, or it was necessary for his customers he would certainly do it.

## 5.3 Second three best performers

Before discussing, the second three companies of the 6 best performing companies a few remarks need to be made. In one of the companies, the general manager was interviewed. This company worked with an external investor from the United States. Politically loaded questions were therefore not asked to the right person. This company was exporting his products as well, which make the opinions about national regulations in this case less important for the performance of the business. Another company was through its entrepreneurial stages. The interviewee was the CEO of the business, but he was third generation, which makes this the oldest business in the research.

### 5.3.1 Influence of BBEE on the four capitals

#### Economic Capital

One of the entrepreneurs had a scorecard for commercial reasons. Though the BBEE system did not influence the economic capital significantly, there were requests from the market, his costumers to become registered with a scorecard. In this way the entrepreneurs goes with the market, not to gain economically form it, but not to lose any potential economic capital with it.

#### Cultural Capital

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In the family owned third generation company, a clear family culture was described in the business. This was not really influenced by the BBEE system. The other company that has a foreign investor scored good in the employment of black females. This was done though according to the general manager because the employees choose for that their selves. They made the agreement to make sure there was enough employees' every day, and that they would take care for replacement if one of the employees became sick. The female on the floor preferred other female in this case and it helps with the scorecard in the same time. In this way, the BBEE regulation is at the least a limitation to employ only females. If it really helps is difficult to determine but if it was vice verse, it is questionable if the same would apply.

### **Strategic Capital**

One of the entrepreneur found that the regulations created a vision for them. Like a handhold on how to treat the black people in the society. Therefore, they took it in regard and it influenced their vision.

The strategy of the two bigger entrepreneurs was not influenced by the BBEE regulation. Companies with revenue greater than 35 million rand have to share ownership with black investors, which may be one of the reasons to be fewer influences. One entrepreneur was owner himself together with three other management members and the investor from the US. He was open for investors with enough knowledge to take over some part in the business, but since they were exporting a lot, they did not really care for BBEE. When there was enough money offered and there was enough potential with the investors, they did not really care.

The other company with the third generation CEO was a family owned company. This company was 'in the fortunate position' not to need other investors. The main reason that the company was not changing its strategy to become more BBEE was because of personal reasons; "we always fought the "apartheid" regime, so I am not going to pay for that.

### **Social Capital/Subjective Norm**

On the question if the companies adapted their employee requirements, the smaller entrepreneur answer was that personal reasons were the most important ones. "We sit here with three people in this office. When we employ an accountant, the most important requirement is that we like the guy, because we sit in this office together all day.

## **5.3.2 The determinants of behavior towards BBEE**

### **Attitude**

In practical sense the two skeptic entrepreneurs towards the system agreed that if it would benefit their business they would do it anyway. This would be commercial motivation. Their decision to increase their score would be grounded in commercial reasons. They make their decisions therefore on a more rational basis.

### **Knowledge**

This discrepant in attitude towards the system stands out. It appears that the two entrepreneurs that are skeptical have grounded reason for that. It appears they have more knowledge on the subject.

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This knowledge on the system is clearly not based on 'I don't want to know' behaviour, but on grounded reasoning.

#### **Perceived behavioral control**

Two of the three entrepreneurs have a skeptical opinion about the BBEE regulations. It is surprising to see that they have many reasons to see flaws in the system. The two entrepreneurs (one is the general manager) see well in the purpose of the system, but see flaws in how it is executed in practice. The other entrepreneur said it is good to help the poor among us.

#### **Presence of scorecard**

Two of the three businesses have a scorecard in this group. One company stood open for it but it they were not busy with it yet.

### **5.4 The middle group of performers**

The third discussed group are the middle performers. They were not excellent performers, but are at the least not the worst performers. (All the entrepreneurs but one is already successful) The middle group of performers exists out of 8 entrepreneurs. The age of the companies varies from 4 years to 20 years. This group has on first sight a lot of variety in how they cope with BBEE. Some companies are too small and young to already care about it; others are family owned which creates a lot of resistance.

Some of the companies are worth to be mentioned before analyzing them as a group. One company is black owned, by more entrepreneurs. The business was founded with five persons, all being black. This is the only company interviewed established and operated by black people only. Two of the companies export about 75% of their products to Europe and U.S.. This fact influences how the companies treat the national macro environmental circumstances. At last, one of these groups of entrepreneurs is from Europe; he immigrated to South Africa which can influence his opinion or behavior, since he feels less political connection with the past.

Unfortunately, the amount of interest, behavior or attitude is not rising or falling within the rate of success of the business. If there was a minor difference between these indicators, 19 companies have statistically seen not a lot of validity. There might be differences between the best and the worst performers.

#### **5.4.1 Influence of BBEE on the four capitals**

##### **Economic Capital**

As is also discussed in social capital, two entrepreneurs missed (potential business). In this sense, BBEE also had influenced the financial capital of the entrepreneurs. One entrepreneur believed the BBEE gives new opportunities. When you score well on your BBEE status, it will give you a competitive advantage he believed. Two entrepreneurs that were already mentioned, export about 75 % of their, they did not miss any business, but that is not surprising when taking their business model in regard.

##### **Cultural Capital**

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Most of the companies did not change the persons they employ in the business, and therefore they did not change the knowledge level in the business. One business, the one that was already black owned. She was only employing black people. The main reason though for this was not directly because of BBBEE regulations, but because they were black there selves as well. One might call this positive discrimination, but again, this has more to do with the vision of the entrepreneurs to do so than with the regulations of the government. One other entrepreneur said that the available receptionist happened to be black,, and because it helps him with the score on his scorecard, he offered her a job. The other six entrepreneurs, the major part said they were not influenced by the BBEEE regulations by what persons they employ.

### **Strategic Capital**

One of the entrepreneurs changed his strategy because of the BBBEE regulations. *“For us it is an opportunity to empower our employees on share holder level.”* One other company believed in the empowerment of their employees. *“We give all our employees a skill, they have enough knowledge to go and work for somebody else.”* Another entrepreneur was not yet in the stage that she needed to worry about it. But she was teaching herself what the BBBEE regulations were meaning, and what the procedures were to become BBBEE. Two businesses were exporting a lot, and did not really care for BBBEE. One entrepreneur was not going to give away or sell any of his business; *“I worked too hard for it.”*

One entrepreneur actually agreed on the fact that he was working around BBBEE. He had the chance to deliver his product to a large organization but therefore he had to become registered. This was not the only reason why the business was not working, but it was one of the factors according to the entrepreneur. *“I could also start a franchise business, but therefore I need a scorecard as well. In that way we steer away from everything that has to do with BBBEE.”*

### **Social Capital/Subjective norm**

Two entrepreneurs missed business because of their desired BBBEE status was not meeting with their actual status. In one case, the Cheese maker lost a small customer, but he came back after a while. *“They just wanted my product back”.* The other entrepreneur did not lose any business, but he did not get potential business because of his BBBEE status. The rest of the eight entrepreneurs in the middle group of performers did not experience any influence in their social capital. What interesting is to make notion of is the knowledge the entrepreneurs have about their supplier and customers in their status of BBEEE. Most of the companies know that some of their customers or suppliers are BBEEE compliant. Especially the supplier side of the business is important of the score of a company on the scorecard. The entrepreneur that knew what his score was and his contribution knew exactly what supplier helped him with increasing his score. In this case, if it were farmers that delivered directly to him, they were not having a scorecard. He was setting up another production area with black farmers, which would help him with his scorecard. This entrepreneur was very conscious of the network around him and tried to set it to its own needs.

## **5.4.2 The determinants of behavior towards BBBEE**

### **Knowledge**



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The knowledge and awareness of this group of entrepreneurs is average. One entrepreneur was quite enthusiastic about his scorecard and showed it. He was very conscious of how to implement the system through his company. It was though not only his knowledge about the BBBEE regulations but also his vision on it. He was clear that BBBEE does not stop with practice by the rules, but a vision of the company is necessary to implement it on the way it is meant to be. According to this entrepreneur, too much was done solely to gain more points on the scorecard, without looking what it actually does for the staff.

Some entrepreneurs do not really have a vision on the system, and find it not applicable for them, because they are too small, or don't know the exact rules.

### **Attitude**

One entrepreneur had a very positive attitude and was motivated to empower his employees, his attitude was very positive. Others were positive as well, but most critics on the system were that it was not implemented well.

One company was negative; the entrepreneur found it another hassle where entrepreneurs were confronted with. He was more worried if he could continue his company tomorrow, and if his employees were showing up. The entrepreneur did not show any vision in empowering his employees. This was the business that was exporting a lot of its products, so he was not really concerned. Others that were too small that they needed any sharing of ownership said that they would work with it if that were necessary.

Three of the eight entrepreneurs had a scorecard. One knew exactly what his percentage was, which was 125 on a maximum score of 150 per cent. Another entrepreneur knew his level of contribution, which was a level four. (The lower the number, the better.) The last one was not sure of the score, but knew that it was high. One entrepreneur was working on it, but did not have a scorecard yet. He lost one customer because of his BBBEE status, but came back after a while. His general attitude towards the system was not very positive. He worked too hard for his business to let him tell what to do to increase his status. Four entrepreneurs were not having a scorecard at all. One had the argument that he was too small for that. There was another company within the same revenue. If this argument stands is a question on its own. Looking at the revenue of this company, it scored that same as several other companies, though they did something with BBBEE. It was probably not necessary for its company.

### **Perceived behavioral control**

Three companies had a negative perception of how they had to work with BBBEE. One older entrepreneur thought it not something of his time, and said that is something for the next generation to take care of. Another found that it was more important for him to worry about real things than about working with BBBEE. This negative perception of how it would be with BBBEE seems to have an impact on how it comes to expression in the business. These companies did not have a scorecard.

### **Presence of scorecard**

Only two companies had a scorecard in this largest group. One entrepreneur was very motivated to empower his employees, and he enjoyed seeing people grow. Another smaller chocolate producer was also in the run to get a scorecard. The entrepreneur was a foreigner, and for him this was his way to give his share. The other five companies did not have a scorecard.

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## 5.5 The five worse performers.

Prior to the analysis of this group of entrepreneurs, some remarks need to be made. One of the companies is a very small entrepreneur in the middle of the value creation process, looking at the E&N model of A.J.Groen. This entrepreneur is the worse one looking at success rate. Reasons for this are a very low revenue, and because of the age of the company one cannot speak of a revenue growth yet. The same applies to the sales growth where the score was very low on. These two heavy indicators pulled down the score of this company. Another entrepreneur was not really an entrepreneur, but an self employed butcher. This entrepreneur generated a consistence income for his family but missed the characteristics of an entrepreneur described in the theoretical framework. These reasons make that these two entrepreneurs are the two worse performers of the group of 19 entrepreneurs. Though it emphasizes the judgment of the success rate of the companies follows the basic intuition of the researcher.

### 5.5.1 Influence of BBBEE on the four capitals

#### **Economic Capital**

None of the entrepreneurs gained in any way financially from the BBBEE system. This has to do with the fact that only one of the five entrepreneurs had a scorecard. The one that had a scorecard applied once for a grant, but did not get one.

#### **Cultural Capital**

In this group of entrepreneurs, the BBBEE did not have a lot of influence on the cultural capital. Most of the entrepreneurs did have black employees but it happened to be like this.

#### **Strategic Capital**

As mentioned before, some entrepreneurs in this last group of performers did adapt their strategy to work around the BBBEE system. One chocolate producer said it was not really his thing to produce high volumes for large customers that were also BBBEE registered. On the other hand, he let me know that his goal in growth was not reached yet, he was on his way, but he hoped to reach it sooner than where he was on this moment. It is not completely clear that BBBEE regulations hold this entrepreneur back in growing fast with big BBBEE registered customers, but it is certainly an aspect that helps in making such decisions.

#### **Social Capital/Subjective norm**

One of the five entrepreneurs notices that *“they push it down the chain”* [the customers] but the rest of the entrepreneurs did not notice any differences in their network because of their BBBEE status. Though as mentioned before that some entrepreneurs work around BBBEE, they are not conscious selective about their contacts, but in a way they are. The chocolate producer for example chooses a certain market to offset his product. These are mainly top end hotels and other low quantity customers. This has direct connection with the strategy of the entrepreneur and indirect connection with the network around him. Although the entrepreneur mentions that, he is not influenced by BBBEE with establishing his contacts, in a way he does because ‘working around BBBEE’ was in his case already part of his strategy.

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## 5.5.2 The determinants of behavior towards BBBEE

### Knowledge

Two of the four entrepreneurs did know what their score was, and knew to tell the researcher quite some things on how to deal with BBBEE.

*“Well we employ 45 instead of 50 staff; this keeps us a small enterprise. Next to that we bought a new factory, these are my daughters, so two separate companies which makes both companies still small enough. Now each company can go up to 50 staff before we need to work on BBBEE.”*

This is an example of how to work around the system. But to know this, it requires some knowledge on what the requirements are of the BBBEE program. 1 of the 4 entrepreneurs was as mentioned before a self employed one; he was as the second company a black owner. Only 2 companies in the sample were black owned. These two black owners were quite relaxed about their status, we are black anyway, and only employ black people. Positive discrimination is a daily legal thing now a day in South Africa. One other company, the very small one, was aware of the BBBEE, also because of personal interest. However, not a lot of knowledge we present about the fact of the system.

### Attitude

The statement made just before, makes clear that this entrepreneurs is clearly working around BBBEE regulations. Another entrepreneur noticed that when it would become necessary to become BBBEE he would work with it, but he did not really bother about it. His network was quite fixed;

*“You notice that they push it down the chain, but the network is quite fixed, If new suppliers appear, they will look more closely to it. But I have not notices something severe like that.”* Compared to other entrepreneurs that are discussed, this one in not doing anything to walk up front compared with his competitors. Where others saw some social responsibility or even a competitive advantage, this entrepreneur cannot really be bothered with it.

### Perceived behavioral control

All Five entrepreneurs were agreeing with the incentives of the BBBEE system. However, four out of the five entrepreneurs were negative about the execution of it. *“It is exploited to an extend”* or *‘the government does not care about the people in the street’* were heard arguments. All the entrepreneurs see the problems is South Africa regarding poverty, unemployment and education, but few agree with the way they are tried to be solved now.

*“Well, it is a bit like confirmative action, is it to benefit the masses or just a few? That is not really happening. It is a good system, but the people should behave like it, like financial responsibility. They want a car, the best schools, big house, but they cannot finance it, and they continue with debt.”*

*“It is a good thing; I went to a talk, on where Mbeki said this country is ungovernable because of the crime rate. I think crime is mostly economic crime. I do think it is a good thing [BBBEE], but the government does not care about the average person. They want us to care, but they do not.”*

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These two opinions are much heard under entrepreneur. They have a negative perception about their ability to help society with the BBBEE regulations, *“Because the system is not made to help the masses”*. This clearly has a negative impact on how the entrepreneurs treat the system in real life.

#### **Presence of scorecard**

Four out of the five worse performers did not have a scorecard. One entrepreneur had to because of his customers, they asked him. Most of this group and the middle group of performers do not have a scorecard. If this holds any connection with the success factor of a company is analyzed in the cross case analysis.

### **5.6 Cross case analysis**

In the following paragraph a cross, case analysis is done in where any correlation between the success of a company and the 7 factors are determined. In table 6 the companies from successful to less successful are listed. From the interviews, it was determined whether an entrepreneur or the business was influenced by the BBBEE and on which of the seven factors. The O means that decisions were made on basis of this factor, X means the opposite. The discussion of the cross case analysis is done in two groups, the 9 best and the 10 worse performers.

#### **5.6.1. Some general remarks**

Before the cross case analysis is done, some remarks about the companies in the two groups need to be made. These remarks are made earlier as well, but because now the whole group is divided in two, they will be done again in short. Healthy Foods is not entrepreneurial anymore, the CEO of the company is the third generation, the business is 70 years old. The rest of the companies have an average age of 7 years. African Cream works with an overseas investor, and the general manager of this company was interviewed.

#### **5.6.1 Influence of BBBEE on the four capitals**

##### **Economic Capital**

Economic capital seemed to be an important factor for the companies to decide if a score card was implemented in the company or not. 11 out of the 19 companies used this as an argument whether or not work with the system. It seemed as well that 8 out of the first 9 performers were sensitive for economic capital in their decisions. The 9 best performers were relatively fast growers, and had a successful product. In the interviews no direct questions were asked about what the decision process of the entrepreneurs was. Though in this group of entrepreneurs it was mentioned several times that if a scorecard, and gaining of extra points would give financial benefit for the company, they would immediately take it in consideration. VINO foods is 15 years old and his strategy of the business holds together with an appropriate exit strategy;

*“Finding a BBBEE investment partner is a pro in this case, this has to do with our largest customer that has high BBBEE standards”*

Table 7 Factors that are influence per company

Company Name	Company score	Presence of scorecard	Economic Capital	Cultural Capital	Social Capital / Subjective norm	Strategic Capital	Knowledge	Attitude	Perceived behavioral control
Bolly Veggy Baby Foods	386	X	O	X	X	O	O	O	O
Dried Fruit	375	X	O	O	X	X	O	O	O
Vino Foods	368	O	O	X	O	X	O	O	O
African Cream	320	O	O	X	X	X	X	X	X
Verdy Foods	299	X	X	O	O	O	X	O	O
Healty Foods	285	O	O	X	X	X	O	O	X
Magic Foods	259	X	O	X	X	X	O	X	X
Chocotho	256	O	O	O	O	O	X	O	O
Tea Town	244	O	O	O	O	O	O	O	O
Natural Tea	232	X	O	X	X	X	X	X	X
Meat Pie	230	O	X	O	O	O	X	O	O
Good Food	218	X	O	X	X	X	X	X	O
Coffee Roast	217	X	X	X	O	O	X	X	X
Queen of Pesto	214	X	X	X	X	X	X	O	X
Belgium Chocolate	204	X	X	X	O	O	X	O	X
Fruit Bars	198	O	O	X	O	O	O	O	X
Pie Shop	194	X	X	X	O	O	O	X	X
Biltong Beef	168	X	X	X	X	X	X	X	X
Soulicious Chocolate	68	X	X	O	O	O	X	O	O

<b>Amount of correlation with BBBEE</b>	7	11	6	10	10	8	12	9
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[And thus increases the market value with a potential BBBEE investment partner] other economic comments from for example African Cream is

*“Our management and the American family have all the shares. Sharing this with a BBBEE partner is therefore a problem. But if they come up with enough money, we will certainly discuss it.”*

Although this statement is almost the opposite of the Vino foods statement, they both have clear economic arguments to work with or without BBBEE. Healthy foods had a scorecard *“for commercial reasons”* Other arguments like efficiency, and competitive advantage were stated in this group, which are indirectly economic arguments.

In the interview no specific questions were asked what the exact reason was to work with or without BBBEE. Given this, it is remarkably that the first group of entrepreneurs give statements like above. In general it can be concluded that successful entrepreneurs use more economic arguments in their decision process in regard to BBBEE.

### Cultural Capital

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Cultural capital was the factor that was least influenced by the BBBEE. Experience, knowledge and skills are not changed because of this macroeconomic regulation. However, the companies that had a culture of sharing and empowering employees had a more positive attitude towards the system as well. One factor of cultural capital is knowledge and skills. Educations and skill of employees and entrepreneur are therefore of influence on cultural capita. None of the 19 interviewed companies changed the qualifications for their employees because of BBBEE regulations. Though, they admitted to use positive discrimination in case two potential employees with the same qualities applied for a job. Shared culture and habits were which can have a positive influence on business were found more in the successful businesses than in the less success. Though, it was also mentioned that liking a potential employee was very important as well. As table 6 shows in a quantitative way, there is not a lot of differences between successful and less successful companies in regard to how they cope with BBBEE. It is very likely that companies with strong shared values, BBBEE works as an incentive on these values. *"We have female disabled persons, but also because of simple humanity"* was a comment of Verdy Foods

### **Strategic Capital**

This capital was also a capital that was influenced by BBBEE as well. Either companies worked around BBBEE or they worked with it. However, in many of the cases the strategy was influenced by the BBBEE system. Worthwhile to mention is that the strategies of less successful companies are more influenced than the strategy of successful companies. A possible explanation might be that success and having a clear strategy is correlated (this follows the theory of the E&N model). When the strategy is not clearly defined, it is easier to change as well.

In the group of the best 9 performers 4 companies changed their strategy because of reasons that relate to BBBEE. One heard argument was *"BBBEE created a vision for us that we like"* (Verdy Foods). The entrepreneur of Tea Town was pro empowerment of his employees in general. BBBEE regulations strengthened him in his vision to empower.

6 Out of 10 worse performers were influenced by BBBEE in regard to their strategy. This is remarkably more than in the first group. Surprisingly the strategy of these companies did not always change in order to work with BBBEE but to work around the regulations. 4 Of the 6 entrepreneurs tried to work around BBEEE regulations. *"We were able to supply for African Airways but we have to be BBBEE for that, and we had to produce high volumes for them which is not my thing."* was a comment of Belgium Chocolate. Another comment of Fruit Bars;

*"We have two separate factories now, instead of one big one. This keeps us small enough"*

Looking back at the theory, a strong strategy of entrepreneurial companies is related to a number of factors (paragraph 4.1.3). One is Proactiveness which is the opposite of behavior described in the two statements just made. It is clear in this research that successful entrepreneur have a clearer strategy and vision. Turning this statement around, would mean that less successful companies may lack a clear vision and strategy. The non proactive behavior in regard to BBBEE [the macro environment] of these less successful companies can therefore be explained with the theory.

### **Social Capital/Subjective norm**

In the group of the first 9 companies there were 4 that based their decision whether to work or not with BBBEE on social pressure that they either felt from their network or from society. In the group of 10 worse performers there were 6 entrepreneurs that felt social pressure from either their

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network or society. Bolly Veggy felt pressure from society, in the way they considered to employ black people if they offered equal qualifications. Verdy foods employed disabled black female “*simply because of humanity*” but the existence of BBBEE and their comment “*It created a vision for us*” shows that they feel pressure from society. The entrepreneurs that did not feel social pressure made their decisions more on an economic basis as discussed in the previous paragraph.

In the group of 10 worse performers there were 6 entrepreneurs that felt social pressure. In this group the same applies as with strategic capital; Some entrepreneur feel the social pressure, and therefore adapt their strategy and vision to work around the system. This is not in line with what the theory of planned behavior postures. This theory claims that when general approval of behavior exists in the environment, it is more likely that the individual performs the behavior. These cases show that when there is general approval or pressure is felt from the environment, in some cases other strategies are applied to work around the system.

Another fact worth while to mentions is that in table 6 a high correlation in the whole group exists between the influence on strategic capital and social capital. Feeling social pressure and therefore adapting the strategy seem to relate to each other and vice versa.

## 5.6.2 The determinants of behavior towards BBBEE

### Presence of scorecard

Of the nineteen companies that were participating in this research seven companies had a scorecard. Five of them were in the group of the nine best performers. This may indicate correlation between success and the presence of a scorecard. One thing needs to be taken into account though. The best performing companies had large revenue as well. In chapter 2 the outlines of BBBEE is explained. In Paragraph 2.2.3 preferential procurement is a heavy indicator for companies to become BBBEE. Taking this into account, the presence of a scorecard would increase when the importance of a company to its supplier is bigger. Though this does not apply, the three best performers in this research Bolly Veggy, Dried Fruit and Vino Foods were important suppliers to their customers, generating up to 30 percent of their customers revenue. For the other 19 companies there is no correlation found in their importance and the presence of a scorecard. Concluding their seems to be a relation between the presence of a scorecard and the success of a company.

### Attitude

Attitude is also one of the most important factors for entrepreneurs in their decision to take a scorecard or not. Nine out of nineteen companies had a clear opinion about the BBBEE. Six of them were under the nine best performers. An explanation for that could be that successful entrepreneurs have clearer opinions among subjects. They have to decide over many dilemmas and doubting people have more problems taking clear decisions.

A clear attitude can be determined by statements like; “*We had bad experience with BBBEE investors. It should not be focussed on ownerships etc.*” Of Dried Fruit. Vino Foods said:

“*It is good to have a system where there are created more chances for the black people. It is important to create a middle class that is not unhappy*”

One statement is positive towards BBBEE, the other one is negative. More important is that the entrepreneur has a clear attitude. When the success of companies decreases statement become more vague like “*I am getting myself familiar with the concept*” was what the entrepreneur of Pesto Queen said. Concluding; In this research, a clear attitude and opinion about BBBEE either positive or negative seems to correlate with the success of the company, although there is no difference in being positive or negative about the system and the success of a company.

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### **Perceived behavioral control**

According to the theory of planned behavior, behavioral control is the perception whether or not being successful in performing the behavior. Putting this in the larger context of an entrepreneur with his business one would describe it as being successful to become BBBEE registered and help society (which is the purpose of the system). Some entrepreneurs mentioned that being BBBEE registered did not help the poor, which was the initial goal the act. They had a low perceived behavioral control. Here again the more successful entrepreneurs have a better-perceived behavioral control. This can have a similar explanation as in the previous paragraph. Successful entrepreneurs are surer of the decisions they make, and have the belief they can make a difference with their business.

### **Knowledge**

Knowledge in general on the system was hard to measure. The interviews did not have specific questions on facts on the BBBEE system. Knowledge about the regulations seemed to be of less influence. Whether or not an entrepreneur knows a lot about the system, his general attitude is more important in the decision process to become BBBEE registered. However, knowledge about the system can influence the attitude of the entrepreneur, but that is not being investigated here.



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## 6 Conclusion

*In chapter 6 Conclusion, the findings that were based on the research problem are concluded. A lot of information was passed by in the results, but a few points are worthwhile to mention. In the conclusion per research question, the findings will be discussed and concluded. The limitation of this research will be discussed as well in paragraph 6.2.*

### 6.1 The outcome

As may become clear, there is not a distinct line to be found between how companies are coping with BBBEE and the success of these companies. However, a few points are worthwhile to mention.

Going through the analysis of the companies, roughly three groups are distinguishable;

- Focus on growth → Decisions made on commercial and economic basis
- Focus on societal responsibility → Decisions made on an intuitive basis
- Family business → Decisions made on basis of strong culture, less sensitive for external environment.

The businesses that developed very fast had a clearer strategy, and made decisions more based on a commercial basis. Economic capital is an important factor that is taken in regard in the decisions process to become BBBEE registered or not. Most of these companies also have greater knowledge on the procedure as a whole. They develop a clear attitude, and make rational decisions based on that. Their strategy is also not influence by it that much. Businesses that are more successful have a clearer strategy and are therefore less influenced by regulations.

Another group of entrepreneurs feels a great responsibility towards the society wherein they work with their enterprise. They make decisions more based on a feeling. Cultural capital is a more important capital in their decision process as well as subjective norms. Pressure from the society and colleagues makes the entrepreneurs behaving a certain way.

Finally, the family type of businesses seemed to have a strong culture, and there for the strategy would be for example keeping the business family owned. Because of this strong culture and strategy the external environment of less influences these entrepreneurs.

Going back to the central research question “Are good performing entrepreneurs coping different with BBBEE than less performing entrepreneurs?” there seems to be correlation between the decision process and the successfulness of these companies. The amount of companies deciding whether to become BBBEE registered based on factors like Economic capital, their attitude and strategic capital seems to be higher in the better performing half of the companies.

The less performing companies have a less clear strategy, and base their decision whether or not to become BBBEE registered or not more and cultural capital, perceived behavioral control and subjective norms.

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In figure 4 a model was presented wherein 7 factors were shown that eventually lead to the presence of a scorecard for BBBEE. After analyzing the results some statements can be done;

- Successful entrepreneurs use more economic arguments in their decision process in regard do BBBEE
- There is no difference between successful and unsuccessful companies in cultural capital, though when shared values are in line with BBBEE background, the system works as an incentive.
- Strong strategic capital leads to an open opinion towards BBBEE, and clearer decisions among the concept. Less successful entrepreneur have less strategic capital, and therefore avoid BBBEE (macro environment)
- Social pressure from the network does not always lead to the presence of a scorecard, but avoiding it. Sensitivity of social pressure and strategy seems to relate to each other.
- There are more scorecards present at successful companies
- Successful companies have a clearer attitude, or posture a clearer attitude about BBBEE
- Successful entrepreneurs have better perceived behavioral control, and believe they can help society with their acts

Looking at these statements, the presence of a scorecard and the success of a company do not directly relate to each other. Though, the way the decision process is done, and what capitals are important for an entrepreneur are of influence whether or not a scorecard is implemented. The main conclusion that can be drawn from these statements and results is that Successful entrepreneurs use rational arguments, have a clear strategy, and are open to their macro environment, which eventually lead to the presence or not of a scorecard. It appears that, taking this in regard, having a scorecard is considered to be economically relevant, and fits within the strategy of these successful entrepreneurs.

## 6.2 Limitations of the research

It is important to realize though that this is not a rule, but the amount of companies that are successful and base their decisions on the previously mentioned factors seems to be higher when the successes of the companies become bigger. However, statistical validity plays part in this conclusion. Nineteen companies were interviewed which is not a lot. Next to this, there may be a correlation between participating in the research (making this decision) and the other decisions an entrepreneur makes (such as having a scorecard or not).

Although the companies were all in the (luxury) food industry, they still had very different backgrounds. Therefore, it is harder to make clear distinctions between outcomes in the research. A good thing about this is that although it is harder to draw conclusions, when conclusions like stated before are drawn, the generalizability of this conclusion can be done for a larger group of companies.

## 6.3 Discussion

The model developed in this thesis seems to be sufficient to explain how entrepreneurs deal with a macro environmental factor, and make decisions about this. The individual behavioral factors though came in the theory a bit later because these observations were done doing the interviews. Therefore,

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exact information on these three factors lack in some cases, and the researcher had to use his intuition and signals from the interviewee to determine what kind of person was sitting in front of him. To increase the applicability of this model more quantitative data should be gathered.

It is very likely that the way entrepreneurs deal with BBBEE is similar to the way they deal with other factors in the environment. It is hard though to explain why some entrepreneurs base their decisions more on one factor than another. Nevertheless, it seems to be evident that there is a distinction in the way successful entrepreneurs do this how less successful entrepreneurs do this. Knowing this, entrepreneurs should not cope with BBBEE on a particular way in order to increase success, but they should work on their decision making process, and ask their self the question why they do things as they do.

## 6.4 Implications

### 6.4.1 Theory

While assessing the results of this research some things worth while to mentions came up. The Theory of Planned Behavior as discussed in the theoretical framework states that social pressure to perform certain behavior helps to actually do it. Critics on this theory have to do that the theory only applies with behavioral acts standing on its own like taking a pill. When using this theory in a larger context looking at not the actual behavior, but with the outcomes and results of the behavior this straight line does not apply. In this research it appeared that some entrepreneurs feel indeed the pressure from society and their network to work with BBBEE, but the opposite happened. Some entrepreneurs avoid working with BBBEE, and therefore the social pressure pushes them away. A reason for this may bet that the general attitude of the entrepreneur is so negative that the social pressure is not influencing the entrepreneur enough, though negative attitudes were found at companies with scorecards as well. Further research on how social pressure can also inhibit behavior might be interesting

Van der Veen and Wakkee, (2004) mention in their paper that not a lot of research is done on the influence of the macro environment on the value creation process. This paper gives information on this topic. In this particular research it appeared that less successful entrepreneurs have a less clear strategy. Because of this, the strategy and scope of a company is easier manipulated by regulations in the macro environment.

In this research it also appeared that strong capitals from the Entrepreneurship and Network model relate to success of a business. Strong cohesion between the capitals is also proved. Though, it remains difficult to explain how this happens. Do strong capitals lead to success, or have successful companies strong capitals?

Finally the model proposed in this research seems to be good in explaining why entrepreneurs perform certain behaviors, personally as well as on business level. It explains in a very clear way how the personal decision process of the entrepreneur influences the business behavior.

### 6.4.2 Soulicious Chocolate

Following the last alinia of paragraph 6.4.1, one main recommendation can be done;

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Handling factors from the macro environment that influence the business successfully, is much easier when a company has stronger capitals. Although their seemed to be a correlation between success of a company and the presence of a scorecard, does not mean that therefore a scorecard is helping the success of a business. There were very successful companies in the sample without a scorecard. Though these companies had a clear vision on the system, and made rational decisions about it. It is therefore more important to have strong capitals and develop a clear attitude about (in this case) BBBEE, and decide what to do with it. Making decisions on rational and economic basis seemed to happen more with successful companies. Determining how a scorecard can help businesses financially, or from a competitive point of view is very useful.

Next to this, having a scorecard can be beneficial to a company. When the culture in a company is in line with the BBBEE, the system works as an incentive. An open mind towards the system is certainly better than avoiding it. Though as many entrepreneurs do, they choose BBBEE if the offer is equal is a good standpoint. Working with the best persons and companies in the network is more important than choosing on basis of a BBBEE status.

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### Internet sites:

- [www.eurostat.eu](http://www.eurostat.eu)
- [www.statsa.com](http://www.statsa.com)

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## Appendix 1: Question lists A, B and C

### LIST A:

This question is asked to know how to qualify the firm.

1. How would you define the strategy of the firm?
  - This firm aims to innovate, take risks, seek new opportunities and grow
  - The main concern of this firm is its stability
  - The firm aims to maintain its stability, but also aims to innovate
  - This firm aims to respond to environmental threats in an ad hoc fashion
  
2. The philosophy of this company is to....
  - Sell goods and/or services
  - Solve problems of customers
  
3. What kind of innovation is preferred within the company?
  - Improvements on existing products
  - Development of new products and services
  
4. What is the return on investments of this company?
  - 0-25%
  - 26-50%
  - 51-75%
  - 76-100%

---

What return on investments do you think will be reached 5 years from now?

0-25%

26-50%

51-75%

76-100%

5. What were the total revenues of the company in 2007?

Less than 2,5 Million ZAR

2,5 - 5 Million ZAR

5 - 10 Million ZAR

10 - 35 Million ZAR

no revenues were made

What do you expect to be the total revenues of this company 5 years from now?

Less than 2,5 Million ZAR

2,5 - 5 Million ZAR

5 - 10 Million ZAR

10 - 35 Million ZAR

no revenues will be made

6. How much profit did this company make in 2007?

Less than 2,5 Million ZAR

2,5 - 5 Million ZAR

5 - 10 Million ZAR

10 - 35 Million ZAR

no profit was made

How much profit do you think will be made 5 years from now?



- 0 Less than 2,5 Million ZAR
- 0 2,5 - 5 Million ZAR
- 0 5 - 10 Million ZAR
- 0 10 - 35 Million ZAR
- 0 no profit will be made

	Not at all	To an extreme	Not applicable
7. We regularly share information within our business concerning competitor's strategies	1 2 3 4 5 6 7		0
8. Our business objectives are driven primarily by customer satisfaction	1 2 3 4 5 6 7		0
9. We rapidly respond to competitive actions that threaten us	1 2 3 4 5 6 7		0
10. We constantly monitor our level of commitment and orientation to serving customer's needs	1 2 3 4 5 6 7		0
11. Our strategy for competitive advantage is based on our understanding of customers' needs	1 2 3 4 5 6 7		0
12. Our business strategies are driven by our beliefs about how we can create greater value for customers	1 2 3 4 5 6 7		0
13. We measure customer satisfaction systematically and frequently	1 2 3 4 5 6 7		0
14. We give close attention to after-sales service	1 2 3 4 5 6 7		0
15. We regularly discuss competitors' strength and strategies	1 2 3 4 5 6 7		0

---

16. We target our customers where we have an opportunity for competitive advantage	1	2	3	4	5	6	7	0
17. Our company is market oriented	1	2	3	4	5	6	7	0
18. Our patents, licenses and certificates are unique compared to those of other in the industry	1	2	3	4	5	6	7	0

## LIST B

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Not Applicable
1. I agree with the current strategy of the company	1	2	3	4	5	0
2. My firm typically initiates actions which competitors then respond to	1	2	3	4	5	0
3. My firm has been the first in the industry to introduce new products/services, administrative techniques, operating technologies, etc.	1	2	3	4	5	0
4. In general, this company has a strong tendency to be ahead of others in Introducing novel ideas or products	1	2	3	4	5	0
5. In this company, there is a strong emphasis on R&D, technological Leadership and innovations	1	2	3	4	5	0
6. In the past 5 years, very many new lines Of products/services have been marketed	1	2	3	4	5	0
7. We have experienced quite dramatic Changes in product or service lines	1	2	3	4	5	0
8. This company has a strong tendency for High-risk projects (with chances of High returns)	1	2	3	4	5	0
9. Owing to the nature of the environment, Bold, wide-ranging acts are necessary to Achieve the firms' objectives	1	2	3	4	5	0
10. When confronted with decisions involving Uncertainty, my firm adopts a bold posture						

---

In order to maximize the probability of Exploiting opportunities	1	2	3	4	5	0
11. My firm adopts a very competitive “undo-the-competition” posture	1	2	3	4	5	0
12. My firm is very aggressive and Intensely competitive	1	2	3	4	5	0
13. In this company, experimentation is rewarded	1	2	3	4	5	0
14. In this company, taking initiative is rewarded	1	2	3	4	5	0
15. This company is adequately skilled in financial management	1	2	3	4	5	0
16. This company is adequately skilled in marketing management	1	2	3	4	5	0
17. We use our means efficiently	1	2	3	4	5	0

The facilities of the company are related to its economic capital.

18. What facilities does the company use?
- Office space
  - Production space
  - Laboratory
  - Storage space
  - Shop/showroom
  - Cars
  - Other.....

---

19. How much funding do you currently receive from external partners (including subsidies)?

0 0-25%

0 26-50%

0 51-75%

0 76-100%

How much funding do you expect to receive from external partners in 5 years from now (including subsidies)?

0 0-25%

0 26-50%

0 51-75%

0 76-100%

20. What is your own current contribution to the funding of the company?

0 0-25%

0 26-50%

0 51-75%

0 76-100%

How much do you expect to contribute yourself to the funding of the company in 5 years from now?

0 0-25%

0 26-50%

0 51-75%

0 76-100%

21. If yes. do any of these fundings relate to your BBBEE status?

## LIST C

1. What is the average size of your three main customers measured by their employees? (If applicable)
  - One man only
  - Very small (1-5 employees)
  - Small (6-50 employees)
  - Medium (51-100 employees)
  - Big (101-250 employees)
  - Very big (251 and more employees)

2. What percentage of revenue do your three main customers generate for this company?

... %

3. What percentage of revenues do you generate for your three main suppliers?

... %

Strongly Disagree   Disagree   Neutral   Agree   StronglyNot  
Disagree   Agree   Applicable

- |  |   |   |   |   |   |   |
|--|---|---|---|---|---|---|
| 4. In formulating our strategy, we take the goals of our partners into account | 1 | 2 | 3 | 4 | 5 | 0 |
| 5. We are able to persuade other parties in our network to do something for us | 1 | 2 | 3 | 4 | 5 | 0 |
| 6. Other parties in this industry stay informed about our activities           | 1 | 2 | 3 | 4 | 5 | 0 |
| 7. Our network partners consider us very important                             | 1 | 2 | 3 | 4 | 5 | 0 |

---

8. The current network of the company is very  
valuable to the company

1 2 3 4 5 0

---

## Appendix 2: In-depth interview open questions

### General information

*First of all some general information is gained of the company in order to get a better understanding of it.*

1. What is your function in the business?
2. Can you give me some general information about your firm?
3. What are the main activities of your firm?
4. What was the reason to start up a business?
5. Can you tell me something about an opportunity you saw?
6. How old is the business?
7. What market segment is your company targeting at?

### Firm performance

*In order to be able to measure if firm performance related to the amount of the capitals, first of all the firm performance needs to be analyzed.*

8. How did the sales grow developed the last 5 years in your company (per year)?
  - a. 0-10%
  - b. 10-20%
  - c. 20-50% We doubled in the last 5 years.
  - d. 50-100%
  - e. 100-more
9. How big is the market share of your product in the Western Cape region?



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10. How would you grade the overall performance of your business on a scale of one to five? 1 2 3 4 5

11. How would you rate the satisfaction of the stakeholder of your company, like customers, suppliers, employees, on a scale from one to five? 1 2 3 4 5

*The next questions will concern the autonomy of the entrepreneur, and the ability to see opportunities*

Not at all – to an extreme – not applicable

12. I do often come up with ideas, or actions concerning routines of the business. 1 2 3 4 5 6 7 0

13. I make the decision to continue with these ideas myself. 1 2 3 4 5 6 7 0

14. I consider myself as a self-directed person. 1 2 3 4 5 6 7 0

*The next questions concern the goal setting behavior of the entrepreneur*

15. What was your initial goal with the company?

16. Did you reach the initial goal you had with your company?

17. If not, what were the reasons for that?

18. What are your long and short-term goals of the company?

19. Did these goals change because of BBBEE regulations?

20. Do the employees of the company know this goal?

21. Do you tempt to get the company goal known to your employees?

---

*The next questions will concern the innovativeness of the company*

22. With how many products did you start your company?
23. How many products do you currently have on the market?
24. How many of these products are renewed existing products?
25. How many of these products are new to the market?
26. How many products already existed in the market?
27. Do you have any trademark or other property rights on your products?
28. If yes, on how many products?

*The next questions will concern the risk taking behavior of the entrepreneur*

29. What is the company's solvability?
30. If yes, in what areas can you save money?
31. Would you consider yourself as a risk-taking person?
32. Would other people consider you as a risk-taking person?
33. Do you have a family to take care of? (*especially at the start up phase but in general also important*)
34. Are you the generator of the main income in your family?

*The following questions mainly concern cultural capital.*

- 
35. How many full time employees do you currently have?
  36. How did this amount develop in the past of your company?
  37. What requirements do you have when employing new people?
  38. What educational level do your employees have? If not one level, please segment how many and what level.
  39. Do you consider yourself as a technical specialist?
  40. Do you employ any specialists in certain fields? If yes, how many and what kind? E.g. marketing, financial, business, technical fields
  41. Do you offer courses for your employees to require certain skills? If yes, how many and what kind? E.g. marketing, financial, business, technical fields
  42. Does BBBEE influence what persons you employ?
  43. Did you adapt your requirements for new personnel because of BBBEE
  44. If yes, please explain
  45. Are you aware of a certain company culture? (habits, or common goals)

*Following questions concern knowledge and skills of the entrepreneur*

46. How many businesses have you set up?
47. How many years have you been an entrepreneur?
48. What is your educational background?
49. Have you done courses to increase your knowledge?

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50. Do you come from an entrepreneurial background?

*The following questions are to measure social capital*

*Try to work on the network, draw contacts of contacts, and involve the entrepreneur in this process.*

51. How many customers do you have? (total)

52. How many suppliers do you have? (total)

53. How many direct competitors do you have

54. Who are your main customers? (names please)

55. How often do you have contact with each of them (weekly, monthly, quarterly etc)

56. Who are your main suppliers? (Names)

57. Who are your main competitors (Names)

58. Do any of the organizations/persons in the network know each other?

59. What are their relationships?

60. What is your benefit with each of these relationships?

61. Do you benefit from certain relationships because others do not? (information benefits, control benefits, establishing good name, helping each other)

*Following questions concern the network, and BBBEE regulations*

62. Are you BBBEE compliant?

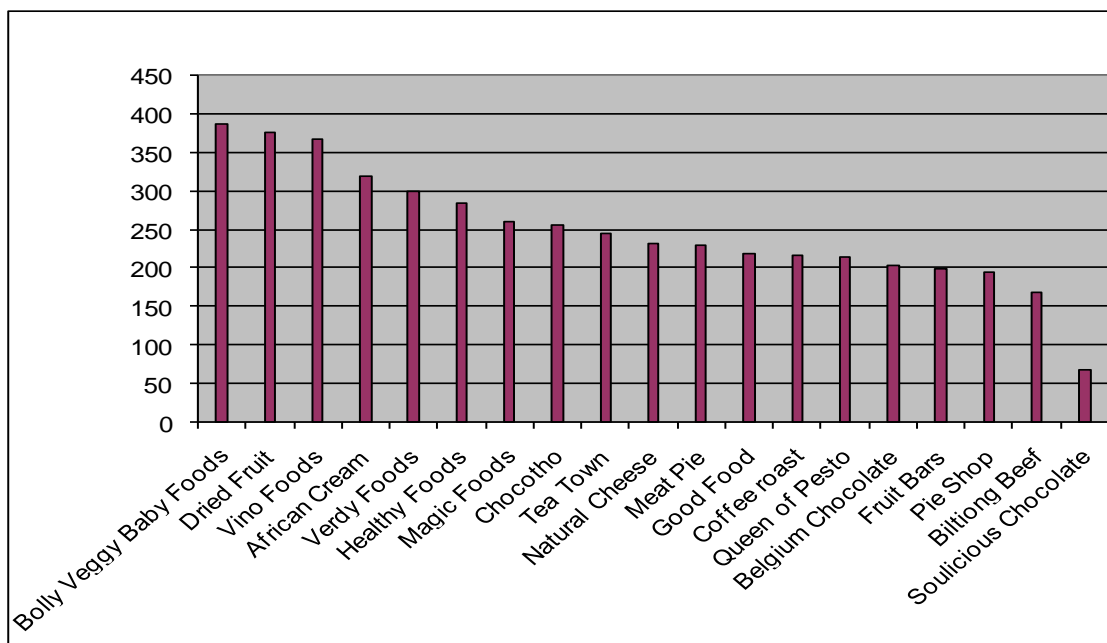
- 
63. Are your customers BBBEE compliant?
  64. Are your suppliers BBBEE compliant?
  65. Did the BBBEE program make you selective in establishing new contacts?
  66. If yes, did these new contacts influence your financial resources positive or negative?
  67. If yes, in what form? Subsidies, more or less revenue
  68. Have you been refused or chosen as partner because of your BBBEE status
  69. In what category of BBBEE is your company, looking at the revenue?
  70. Do BBBEE regulations hold you back in your growth?
  71. What is your general opinion about BBBEE?

Next questions concern entrepreneurial survival

72. How long did it take you to from initial idea to interaction with the market?
73. When did you reach your breakeven point?
74. Did you struggle to survive as an entrepreneur?
75. If yes, what were the main reasons for this struggle (answer indication one of the four capitals)
76. What is the success factor of your company?
77. Do you know any other entrepreneurial companies in the food producing industry of where the founder is still present?

### Appendix 3: Performance of the businesses in order

- Bolly Veggy Baby Food 386
- Dried Fruit 375
- Vino Foods 368
- African Cream 320
- Verdy Foods 299
- Healthy Foods 285
- Magic Foods 259
- Chocotho 256
- Tea Town 244
- Natural Cheese 232
- Meat Pie 230
- Good Food 218
- Coffee roast 217
- Queen of pesto 214
- Belgium Chocolate 204
- Fruit Bars 198
- Pie Shop 194
- Biltong Beef 168
- Soulicious Chocolate 68



## Appendix 4 Score Table

		Pie Shop	Bilong Beef	Meat Pie	Bolly Veggy Baby Food	Queen of Pesto	Soulicious chocolate	Dried Fruit	Chocotho	Magic Foods	Good Food	Vino Foods	Belgium Chocolate	Healthy Foods	Coffee Roast	African Bars	Natural Cream	Tea Town	Verdy Foods	Weight
<b>Questions list A</b>																				
5	Revenue	2	2	3	2	2	1	5	2	4	2	5	1	5	2	4	4	4	4	2
	Reven. 5 years	3	3	4	5	3	2	5	4	4	4	4	5	3	5	3	5	5	4	4
	<b>Expected growth difference</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>2</b>
6	Profit	1	1	0	1	1	1	2	1	1	1	4	1	4	1	2	2	1	1	1
	Profit 5 years	1	1	1	4	1	1	4	3	3	2	4	2	5	2	4	5	2	2	2
<b>Questions General list</b>																				
6	Age	12	10	7	3	8	1	6	4	8	8	15	8	63	4	25	4	20	12	8
8	<b>Sales growth</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>5</b>
9	Market share		3,00		10,00		0,00	1,50		1,00	1,00	4,00	1,00	2,70	0,10	1,00	0,05	2,00	1,20	
10	<b>Perf. Own</b>	<b>3</b>	<b>4</b>	<b>3,5</b>	<b>3</b>	<b>4</b>	<b>3,5</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>3,5</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3,5</b>
11	<b>Perf. Stake</b>	<b>3</b>	<b>4</b>	<b>4,5</b>	<b>3,5</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>2,5</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4,5</b>	<b>3,5</b>	<b>4</b>
35	FTE	35	12	26	25	20	0	160	9	24	6	350	10	300	3	45	30	30	30	20
36	<b>Dev. FTE</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>4</b>
	Rev. Growht per year x100000	2-4	2,5 -5	7-14	8-16	3-6	0	58	6-12	12-44	3-6	330	0-3	40	6-12	4-14	25-87	5-17	8-29	3-6
	<b>Score on rev growth</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>5</b>	<b>1</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>1</b>
	FTE growth per year	2,9	1,2	3,7	8,3	2,5	x	26,6	2,3	3	0,75	23,3	1,25	4,7	0,75	1,8	7,5	1,5	2,5	2,5
	<b>Score FTE growth per year</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>2</b>		<b>5</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>2</b>

100

<b>Total score</b>	Total score growth diff	10	10	10	30	10	10	0	20	0	20	0	20	0	10	10	10	0	10	20
	Total score sales growth	48	24	48	120	48	0	72	72	72	72	72	48	48	72	48	72	72	72	120
	Total score perf. Own	24	32	28	24	32	28	32	40	32	24	32	28	24	40	32	32	32	24	28
	Total score perf. Stake	18	24	27	21	30	30	24	30	15	24	30	30	24	30	30	24	27	21	24
	Total score dev. FTE	39	39	39	65	39	0	52	39	39	39	39	39	26	26	39	26	39	39	52
	Total score rev growth	23	23	46	46	23	0	115	23	69	23	115	23	115	23	23	92	46	46	23
	Total score FTE growth	32	16	32	80	32	0	80	32	32	16	80	16	48	16	16	64	16	32	32
	<b>Total score per company</b>	<b>194</b>	<b>168</b>	<b>230</b>	<b>386</b>	<b>214</b>	<b>68</b>	<b>375</b>	<b>256</b>	<b>259</b>	<b>218</b>	<b>368</b>	<b>204</b>	<b>285</b>	<b>217</b>	<b>198</b>	<b>320</b>	<b>232</b>	<b>244</b>	<b>299</b>

	<b>Explanation score</b>	
Age	Years	
Sales Growth	0 to 10 %	1
	10 to 20 %	2
	20 to 50 %	3
	50 to 100 %	4
	100 % or more	5
Market share	%, for specific product	
Perf. Own	1 being poor, 5 being excellent	
Perf. Stake	1 being poor, 5 being excellent	
FTE	Number of fulltime employees	
Dev. FTE	Decrease	1
	Steady	2
	Steady growth	3
	fast growth	4
	Exponential growth	5
Revenue	< 2,5 million	1
	2,5 - 5 million	2
	5 - 10 million	3
	10- 35 million	4
	> 35 million	5
	No revenues	0
Profit	< 2,5 million	1
	2,5 - 5 million	2
	5-10 million	3
	10- 35 million	4
	> 35 million	5
	No profit	0
	Age score 1-5	1-5
		6-10
		11-15
		16-20
		20 >
	Score on rev growth	1-10
		11-20
		21-30
		31-40
		41 >
	Score FTE growht per year	0-1,9
		2-3,9
		4-5,9
		6-7,9
		8 >