

**UNIVERSITY OF KWAZULU-NATAL**

**“An exploratory study of the relationship between government contracts and entrepreneurship in South Africa”: a case study within eThekweni Metropolitan Municipality**

**By**

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## **Abstract**

Public procurement of goods, services, and infrastructure has the potential to create synergies between entrepreneurship and economic growth. The South African Supplier Diversity Council (SASDC) concurred with OECD findings and added that procurement through both public and private sector could be used as leverage to promote entrepreneurship. The 1997 Green Paper on public procurement reforms had intended for public procurement to be utilised for the advancement of entrepreneurship and SMME development. At the time of public procurement reforms in 1997, government spending accounted for 13% of GDP. National Treasury has budgeted R1.56 trillion in 2017 for public expenditure accounting for 29% of GDP. However, despite this significant public expenditure from which public procurement is derived, the Global Entrepreneurship Monitor (GEM) reported that South Africa's (SA) rate of entrepreneurial activity is very low for a developing nation compared to other sub-Saharan African countries. GEM also found that the level of business discontinuation is higher than the rate of business start-ups in SA. Within public procurement, 'tenderpreneurship' has taken centre stage and is seen to be preventing entrepreneurs from participating in government tenders. This happens during a period of entrepreneurship evolution where in countries like China, entrepreneurship is transitioning from network-based to innovation based in anticipation of the 4<sup>th</sup> industrial revolution. The study aims to explore whether a relationship between government tenders and entrepreneurship exists in SA. The data collection instrument used was a survey questionnaire which was administered by the researcher within eThekweni Metropolitan Municipality. Dependence on government tenders was found to be high as descriptive statistics indicated that participants' businesses derived 90.48% of income from government tenders. Data was further analysed using Principal component analysis and regression analysis. Principal component analysis was used to explore the dimensions of tender recipients' opinions on the relationship between entrepreneurship and tenders and to further explore the dimensions on the personality traits exhibited by tender recipients in relation to entrepreneurship. Ordinary least squares regression modelling was used to develop a model of the degree of dependence on government tenders. The results show that 'tender-minded', 'non-tender minded,' 'business growth-minded,' and 'conservative driven' participants had a significant higher degree of dependence on government tenders.

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## **List of Abbreviations**

Broad-Based Black Economic Empowerment Act – BBBEE  
Corporate Governance and Traditional Affairs – COGTA  
Department of Trade and Industry – DTI  
Entrepreneur Scan - E-Scan  
Entrepreneurial Attitude Orientation – EAO  
eThekweni Metropolitan Municipality – Metro  
Gross domestic product – GDP  
Industrial Development Corporation – IDC  
International Labour Organisation – ILO  
Kaiser-Meyer-Olkin – KMO  
KwaZulu-Natal Province – KZN  
Municipal Finance Management Act – MFA  
Myers-Briggs Type Indicator – MBTI  
National Empowerment Fund – NEF  
National Youth Development Agency – NYDA  
Ordinary Least Squares – OLS  
Organisation for Economic Co-operation and Development – OECD  
Preferential Procurement Policy Framework Act – PPPFA  
Principal component analysis – PCA  
Public Finance Management Act – PFMA  
Research and Development - R&D  
Small Enterprise Development Agency – SEDA  
Small Enterprise Finance Agency – SEFA  
Small Micro and Medium Enterprises – SMME  
South Africa – SA  
South Africa Micro-Finance Apex Fund – SAMAF  
South African Revenue Service – SARS  
State owned entity – SOE  
Statistical Package for social Sciences – SPSS

Supply Chain Management – SCM  
Tax clearance certificate – TCC  
Technology and Innovation Agency – TIA  
The Constitution of the Republic of South Africa – Constitution  
The Global Entrepreneurship Monitor – GEM  
The National Federated Chamber of Commerce – Nafcoc  
The National Treasury – Treasury  
The South African Supplier Diversity Council – SASDC  
United Kingdom – UK  
United States of America – USA  
University of KwaZulu Natal – UKZN

# **CHAPTER ONE**

## **Introduction**

### **1.1 Introduction**

According to the Organisation for Economic Co-operation and Development (OECD), public procurement on goods, services and infrastructure development on average accounts for 13% of GDP (Ahmad and Seymour, 2008). One of the findings of OECD was that public procurement has the potential to create synergies between entrepreneurship and economic growth. However, this may be constrained in many countries by the fact that overall public procurement is organised as an administrative function as opposed to a strategic function to encourage innovation, create sustainability and economic growth (Ahmad and Seymour, 2008). This study therefore seeks to examine and explore whether a relationship exists between entrepreneurship and public procurement through government issued tenders. This chapter outlines motivation for the study including benefits that may be derived. The chapter also identifies the problem statement, including study objectives and questions that were answered by the study. Methodology employed is briefly outlined including chapter outline for the entire study.

### **1.2 Motivation for the Study**

In its February 2017 budget review, The National Treasury (Treasury) had budgeted R1.56 trillion towards total South African government expenditure for the 2017/18 fiscal year which was expected to increase to R1.68 trillion for the 2018/19 fiscal year and R1.81 trillion for the 2019/20 fiscal year (Treasury, 2017). This government expenditure accounts for 29% of GDP and signifies the purchasing power of the state and the potential for the public purse to be utilised as leverage to support the country's broader economic objectives (Turley and Perera, 2014). The South African Supplier Diversity Council (SASDC), concurred with OECD findings and added that procurement through both public and private sector can be used as leverage to promote entrepreneurship and develop Small Micro and Medium Enterprises (SMMEs) (Joseph, 2013). The 1997 Green Paper on public procurement reforms published by the Minister of Finance and Minister of Public Works, had also stated that one of the key elements of public procurement would be SMME

development, promotion of entrepreneurship and enterprise development (Ministry of Finance and Public Works, 1997). In this context, an argument can be advanced that the purchasing power of the state through an open tendering system can be used as leverage to promote entrepreneurship and develop SMMEs as part of the broader economic objectives of the country. This becomes particularly imperative considering deteriorating economic conditions and pressurised government spending.

However, despite continuous public procurement, the Global Entrepreneurship Monitor (GEM) reported that South Africa's (SA) rate of entrepreneurial activity is very low for a developing nation; it's even lower in comparison to other sub-Saharan African countries and the level of business discontinuation is higher than the rate of business start-ups, only 7% of the adult population is engaged in entrepreneurial activities (Herrington et al., 2014). The low levels of reported entrepreneurial figures are particularly worrisome given the significant size of public procurement. This therefore brings into question the effectiveness of utilising government spending in promoting entrepreneurship and to support SMME development. Schoeman (2015) questioned the sustainability of SA's public debt in line with current levels of spending which are considered to be particularly on the high side, more so given the fact that government has been running a budget deficit since 2009. This also brings into question whether government tenders are sustainable at the current rate within particularly defined objectives more so given the budget deficit the country is currently operating at. Government spending has been outstripping revenue collection since the financial meltdown in 2008, and from a public debt level of 26% of GDP in 2009, debt/GDP ratio rapidly increased by almost 70% to 43.9% of GDP in 2014 (Schoeman, 2015).

Therefore from a sustainability perspective and improved utilisation of state spending power, this study seeks to examine and explore whether any relationship exists between entrepreneurship and procurement by the state through government issued tenders.

### **1.3 Focus of the Study**

Due to the significant size of the SA government which spreads over nine provinces, the study was thus conducted within eThekweni Metropolitan Municipality which is one of the major Metros in SA with a total expenditure budget of R41.66 billion in 2016/2017 financial year (eThekweni, 2016). The participants in the study were therefore limited to eThekweni Metropolitan Municipality suppliers. Also for the purposes of the study the term ‘tender recipients’ was adopted particularly because the criteria for participation was that the supplier must be in possession of an existing tender or would have been previously granted a tender by the Metro.

### **1.4 Problem Statement**

The 1997 Green Paper published by the Minister of Finance and Minister of Public Works on Public Procurement Reforms, recorded consolidated total government procurement at R56 billion across all spheres of government which represented 13% of GDP (Ministry of Finance and Public Works, 1997). This made government the largest procurer in the country with enormous spending power in the economy. The reforms proposed by the Green Paper were to realign public procurement in line with the objectives of post-1994 democratic order. There was a realisation by the democratic government that public procurement had previously favoured big and established businesses, and it had been difficult for start-up businesses or SMME’s to enter the public tendering system. The 1994 democratic government therefore, resolved that the tendering system had to be opened up and made accessible to previously marginalised groups of society in order to support the development of SMMEs within previously disadvantaged societies. The development of SMMEs was seen by the government as a means of dealing with some of the social ills of society such as inequality, poverty, and unemployment (Ministry of Finance and Public Works, 1997).

In this context, the spending power of the state would become a vital tool for the previously disadvantage groups in fighting poverty and other social ills that had engulfed society for decades during apartheid. However, in delivering the 2006 Nelson Mandela Lecture, President Thabo Mbeki stated that “wealth acquisition produced through



exploitation of black majority during apartheid, had become the defining social value of white society pre-democracy, and because white society was the dominant social force in SA, it entrenched in society including amongst the oppressed, a deep-seated understanding that personal wealth constituted the only true measure of individual and social success (Mbeki, 2006).” Accordingly, in post-1994 democracy, wealth acquisition had become the dominant social value entrenched in society at large and inevitably as an established social norm. Wealth acquisition therefore, manifested in the democratic government that had replaced the apartheid government, unavoidably the democratic SA inherited a well-entrenched value system that placed individual wealth acquisition at the very centre of society as a whole, (Mbeki, 2006).

In line with the pronouncements by President Thabo Mbeki, when government tenders became available to the black-owned businesses in line with public procurement reforms, the opening up thereof fell into the value system where individual success was measured by wealth accumulation and eagerness by new beneficiaries to emulate previous beneficiaries socially and to catch up with them economically (Mbeki, 2006). Therefore, for most companies that were started up by people who were previously denied access to tenders, it can be argued that government tenders unintendedly created market opportunities that have led to some form of high dependence on tenders among several businesses for survival. Madi (2016) also noted that the notion of tenderpreneurship has significantly grown and has resulted in the sharp decline of the township economy and based on the membership of Nafcoc which is used to measure entrepreneurial activity amongst black people, the statistics thereof point to the fact that in 2013 Nafcoc had 55000 members compared to 155000 in 1998.

Given this conundrum, it becomes vital from an academic perspective to explore whether a relationship does exist between government contracts and entrepreneurship.

### **1.5 Objectives of the Study**

The general objective of this study is to find the key relationship between government tenders and entrepreneurship. The specific objectives are to:

1. Examine the tender recipients' opinions on the relationship between government tenders and entrepreneurship.
2. Examine personality traits exhibited by tender recipients in relation to entrepreneurship.
3. Examine the reliance on government tenders based on:
  - (i) Tender recipients' opinions on the relationship between government tenders and entrepreneurship, and
  - (ii) Personality traits exhibited by tender recipients in relation to entrepreneurship.

### **1.6 Questions to be Answered in the Study**

- Does government spending through tenders encourage entrepreneurial activity?
- Do business people who are recipients of government tenders exhibit any entrepreneurial traits?
- Can the recipients of government tenders sustain and grow their businesses outside of government tenders?

### **1.7. Research Hypotheses**

The study sought to test the following null and alternative hypotheses:

- $H_0$ : Government spending through tenders encourages entrepreneurial activity.  
 $H_1$ : Government spending through tenders does not encourage entrepreneurial activity.
- $H_0$ : Business people who are recipients of government tenders exhibit entrepreneurial traits.  
 $H_1$ : Business people who are recipients of government tenders do not exhibit any entrepreneurial traits.
- $H_0$ : Recipients of government tenders can sustain and grow their businesses outside of government tenders.  
 $H_1$ : Recipients of government tenders cannot sustain and grow their businesses outside of government tenders.

### **1.8 Methodology in Brief**

A quantitative approach and a descriptive survey design were followed in this study. A survey questionnaire which was administered personally by the researcher was used to collect data from a convenient sample of 105 willing participants.

### **1.9 Chapter Outline**

The study contains five chapters as follows; Chapter One is introduction, followed by Chapter Two which is literature review, which is then followed by Chapter Three which is research methodology, and then followed by Chapter Four which is analysis and presentation of results and lastly Chapter Five which contains study summary, conclusion and recommendations.

### **1.10 Chapter Summary**

This chapter introduced the topic, outlined motivation for the study, and identified the problem statement, followed by study objectives and questions to be answered. Methodology was briefly outlined including a chapter outline for the rest of the study. The next chapter is a careful analysis of relevant literature review in line with study objectives.

## **CHAPTER TWO**

### **Literature Review**

#### **2.1 Introduction**

A literature review is the careful selection of available published and unpublished documents on the topic being examined, and which covers relevant information, data, and theoretical ideas that express views on the nature of the study being researched (Sekaran and Bougie, 2013). In this context and in line with the topic being examined in this study, this section examines the term entrepreneurship, entrepreneur, and entrepreneurial activity and will further examine traits that are exhibited by entrepreneurs. The literature review will also look at government initiatives and legislation in South Africa (SA) that promote entrepreneurship. Public procurement will also be broadly examined with particular focus on promoting entrepreneurship and SMME development including governance framework that governs public procurement in SA. The literature review will also examine the term ‘tenderpreneurship’ which has not received sufficient academic development and its lifespan within academic space is unknown at this stage. However, it becomes crucial to examine available literature on this term in relation to government procurement and its effect on tenders. The term ‘tenderpreneurship’ will therefore be looked at in relation to the development of entrepreneurship over years and how this has evolved within the context of government contracts. The genesis of the academic definition of the terms entrepreneurship, entrepreneur and entrepreneurial activity therefore crucial within the context of examining the progression thereof in order to explore whether a relationship exists between entrepreneurship and government contracts in SA.

#### **2.2 Definition of Entrepreneurship**

Generally there is no homogenous or coherent definition of entrepreneurship amongst researchers and scholars (Ripsas, 1998). Schumpeter (1934) was among the first to recognize the entrepreneur as an entity deserving of a study different from business owners and managers. He defined entrepreneurs as individuals whose functions were to carry out new combinations of means of production, which to Schumpeter, was crucial to economic development. The work by Schumpeter (1934) was of interest to many researchers such as Carland et al. (1984), Ripsas (1998) and Ahmad and Seymour (2008). Carland et al. (1984)

highlighted that the term entrepreneurship may denote the creation of some combination that did not previously exist. Cunningham and Lischeron (1991) stated that the term entrepreneur is generally used to define the founder of a new business and in applying this narrative, the implication is that anyone who inherits or buys an existing business or manages a business successfully on behalf of another person or turns around a failing enterprise, is by this definition not an entrepreneur. Other scholars, however, identified entrepreneurship as identification and exploitation of an opportunity or gap in the market or creating a market niche or developing a market strategy to satisfy a particular market need (Cunningham and Lischeron, 1991). Ahmad and Seymour (2008), held a view that Schumpeter's definition of entrepreneurship was centered on innovation and identification of market opportunities whereby innovation is used to exploit them. Ahmad and Seymour (2008) further reviewed the academic evolution of entrepreneurship definitions by authors over decades which are presented in **Table 2.1** below:

**Table 2.1: The Evolution of Entrepreneurship Theory A Synthesis**

| Definition  | Source                 |
|---|------------------------|
| Entrepreneurs buy at certain prices in the present and sell at uncertain prices in the future. The entrepreneur is a bearer of uncertainty.   | (Cantillon, 1755/1931) |
| Entrepreneurs are "projectors".   | (Defoe, 1887/2001)     |
| Entrepreneurs attempt to predict and act upon change within markets. The entrepreneur bears the uncertainty of market dynamics.   | (Knight, 1921, 1942)   |
| The entrepreneur is the person who maintains immunity from the control of rational bureaucratic knowledge.  | (Weber, 1947)          |
| The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. These can take several forms: <ul style="list-style-type: none"> <li>• the introduction of a new good or quality thereof,</li> <li>• the introduction of a new method of production,</li> <li>• the opening of a new market,</li> <li>• the conquest of a new source of supply of new materials or parts, and</li> </ul> | (Schumpeter, 1934)     |

|   |  |
|---|--|
| <ul style="list-style-type: none"> <li>the carrying out of the new organisation of any industry</li> </ul>  |  |
| <p>The entrepreneur is always a speculator. He deals with the uncertain conditions of the future.</p> <p>His success or failure depends on the correctness of his anticipation of uncertain events. If he fails in his understanding of things to come he is doomed...</p>  | (von Mises, 1949/1996)                         |
| The entrepreneur is co-ordinator and arbitrageur.   | (Walras, 1954)                                 |
| The entrepreneurial activity involves identifying opportunities within the economic system.   | (Penrose, 1959/1980)                           |
| The entrepreneur recognises and acts upon profit opportunities, essentially an arbitrageur.   | (Kirzner, 1973)                                |
| Entrepreneurship is the act of innovation involving endowing existing resources with new wealth-producing capacity.   | (Drucker, 1985)                                |
| The essential act of entrepreneurship is a new entry. A new entry can be accomplished by entering new or established markets with new or existing goods or services. New entry is the act of launching a new venture, either by a start-up firm, through an existing firm, or via “internal corporate venturing”. | (Lumpkin & Dess, 1996)                         |
| The field of entrepreneurship involves the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them.   | (Shane & Venkataraman, 2000)                   |
| Entrepreneurship is a context-dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities.  | (Ireland, Hitt, & Sirmon, 2003)                |
| Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organisation.  | (Commission of the European Communities, 2003) |

Source: adapted from Ahmad and Seymour (2008)

The conclusions made by Ahmad and Seymour (2008) were as follows:

- **Entrepreneurs** “are those people or business owners who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.”
- **Entrepreneurial activity** “is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.”
- **Entrepreneurship** “is the phenomenon associated with entrepreneurial activity.”

### *Further literature development*

Recent literature as observed by Eisenmann (2013) however, suggested that entrepreneurship is still a working definition that is still developing and further stated that, scholars throughout the history of the term have identified entrepreneurship in various categories and in recent history has been defined closely as; venture capital backed start-ups, corporate entrepreneurship or any small business development. Eisenmann (2013) however, found a more acceptable definition of entrepreneurship to be, ‘the pursuit of opportunity beyond resources controlled’. With the evolution in entrepreneurship theory, Pittaway (2011) found that entrepreneurship education has become quite diverse encompassing study and themes such as studies on: teaching methods, education policy and institutional support for student entrepreneurs. The entrepreneurship evolution has been recognition that entrepreneurship can also be taught through behavioural focus (Pittaway, 2011). Within the context of entrepreneurship evolution, Li (2006) also noted that China’s economic growth is attributed to emergence of entrepreneurship and a decline of state owned enterprises, supported by strong education on entrepreneurship to the extent that China’s entrepreneurship is transitioning from network based to innovation based in anticipation of the 4<sup>th</sup> industrial revolution.

### *Tenderpreneur defined*

According to Terry MacKenzie-Hoy (2012) cited by Nyamnjoh (2012), a ‘tenderpreneur’ in SA is a person who has made an extraordinary sum of money from a government contract. The reason why such a lot of cash would flow from such a contract is because the

award value significantly exceeds the cost of the services, and the surplus then goes into the pockets of the contractor and the officials who awarded the contract.

### **2.3 Entrepreneurship Development**

According to Nawaz (2009), entrepreneurship is important to the making of new enterprises that empower and revitalise the economy. Entrepreneurship also plays a vital role in economic development. Nawaz (2009) noted that the emergence and growth of entrepreneurship is mainly dependent on several factors such as economic, social, cultural, and psychological factors. Nawaz (2009) further noted that these factors can also be divided into regulative, normative and cognitive factors based on institutional theory. Regulative factors refer to the rules and regulations of government and other institutions that influence entrepreneurship development. Aidis et al. (2008) explored ways in which institutions and networks have influenced entrepreneurial development in Russia. The work of both Baumol (1990, 1993, and 2005) and North (1990, 1994, 1997, 2005) highlighted the relationship between the institutional environment and entrepreneurship development in Russia. According to Aidis et al. (2008), Russia's institutional environment is crucial in demonstrating its relatively low levels of entrepreneurship development. Also, Russia's business conditions and its consequences for the role of business networks contribute to the relative advantage of entrepreneurial insiders (those already in business) to entrepreneurial outsiders (newcomers) regarding new business start-ups.

The Global Entrepreneurship Monitor (GEM) reported that SA's rate of entrepreneurial activity is very low for a developing nation; it's even lower in comparison to other sub-Saharan African countries (Herrington et al., 2014). This is despite the fact that underemployment is very high in SA, which Herrington et al. (2014) contended that it should increase the rate of necessity entrepreneurship, due to a number of people having no other option for work. Herrington, et al. (2014) pointed out that despite the low entrepreneurship activity in SA, it has however, marginally increased over 10 years, and that the number of women entrepreneurs has particularly increased due to government support. They further outlined that the reasons attached to the decline in the rate of entrepreneurial activity are due to the perceptions regarding the lack of opportunities to start a business and the low confidence levels in one's ability to start a business. The level



of business discontinuation remains higher than the rate of business start-ups and exceeds the rate of established businesses, this consequently results in the net loss of small business activity and subsequently an increase in job losses. Businesses cite amongst other reasons, lack of finance and low-profit margins as the main drivers for business shutdowns, (Herrington et al., 2014).

GEM further reported that only 7% of the adult population in SA is engaged in entrepreneurship activities, and only 2.7% of the adult population already own or manage established businesses (Herrington et al., 2014). This is despite the fact that 35.5% of South Africans see good opportunities to start businesses; however, 25.4% of the population is prevented from pursuing entrepreneurship activity by fear of failure. For every 10 males engaged in entrepreneurial activity, there are 8 females. Regulatory requirements are also found to be making it difficult for people to start businesses, which includes burdensome labour laws and low efficiency of the labour force due to lack of education amongst other things, (Herrington et al., 2014).

## **2.4 Environmental Conditions for Entrepreneurship Development**

The environmental conditions important for entrepreneurship development can be classified into five categories which are government policies and procedures, socioeconomic conditions, entrepreneurial and business skills, financial support, and non-financial support. These are discussed briefly below:

### **2.4.1 Government Policies and Procedures**

Government policies and procedures have often been associated with bureaucratic processes. These processes have often stifled a lot of entrepreneurial related ventures. In order to facilitate entrepreneurship, Dana (1987) highlighted that in the Cayman Islands, entrepreneurship was enabled by low requirements for keeping paperwork and procedural requirements. According to Dana (1990), a lot of procedural requirements had shown to discourage entrepreneurship in Malaysia. Also in Mexico, extreme government regulation, high tax rates, and increasing inflation were identified by Young and Welsch (1993) as

main barriers that start-up face and thereby slowing down entrepreneurial development. On the other hand Dana (1990) noted that reasonably low regulation and procedural requirements may encourage entrepreneurship as was the case in Sim Maarten. Alvarez, et al. (2011) also noted that the presence and quality of direct government programmes to assist new firms was crucial for entrepreneurial growth at all levels of government. In New Zealand research showed that restrictions on imports and exports and procedural requirements for registration and licensing produced more negative effects on entrepreneurship (Sadeghi, et al., 2013). Isaiah (2013) also noted that cumbersome government regulations may delay the process of business start-ups and discourage entrepreneurs.

#### **2.4.2 Socioeconomic Conditions**

According to Davidsson (1991), the impact of tax and other incentives were found to have a greater impact on individuals in Sweden that were more motivated to start a business rather than those that were not. Correctly applied tax policies such making tax payments easier through online filing and self-assessment have been by Isaiah (2013) to encourage entrepreneurial activity. In the Czech Republic and Slovakia, Swanson and Webster (1992) found that negative attitudes by public officials towards entrepreneurs had the effect of discouraging entrepreneurship. Feiock (1987) noted that cities with larger economic development programs are able to achieve higher growth in several new firm start-ups than cities with the smaller amount of such programs. Phillips (1993) continued to add that a larger proportion of small firms within a growing sector would result in correspondingly higher jobs that are created by these small firms in that sector. Sadeghi, et al. (2013) also noted that a positive of the society towards entrepreneurship and a public support program for entrepreneurial action is likely to motivate people to start their own businesses.

#### **2.4.3 Entrepreneurship and Business Skills**

In a study in Sweden, Davidsson (1991) mentioned that the ability of the entrepreneur to start up and run the business was highly correlated with business education and experience. Phillips (1993) further noted that an increasing population with a college education is associated with a corresponding increase in opportunities and jobs that are created by small

firms. Sadeghi, et al. (2013) also noted that training programs for prospective entrepreneurs are greatly needed in developing countries in order to increase entrepreneurial activity. Specialised entrepreneurial courses and prior business experience can be considered as the potential entrepreneur's knowledge capital with positive effect to entrepreneurial activity (Isaiah, 2013).

#### **2.4.4 Financial Support**

A number of financial support strategies are responsible for creating the opportunities that are necessary for entrepreneurship development. Dana (1987) summarised his findings from the study in the Cayman Islands and pointed out that entrepreneurship was facilitated by the creation of investment companies. In Singapore, Dana (1987) established that the availability of low-interest loans and government grants are critical for entrepreneurship development. Pennings (1982) reported that the availability of financial resources is important in contributing to the increased number of business start-ups in the United States of America (USA). Hawkins (1993) mentioned that in Japan, start-up businesses have access to loans from credit guarantees and the government support of SMMEs which is important in entrepreneurial development. Government incentives in the United Kingdom (UK), such as the provision of tax relief to private investors who invest in new companies, were highlighted by Harrison and Mason (1988) as another strategy that bolstered entrepreneurial development. Alvarez, et al. (2011) also found that access to bank credit and creation of investment companies coupled with credit guarantee schemes contribute significantly to promotion of new businesses. Improving access to credit entails some reforms in order to loosen conditions for credit granting, such reforms may include enacting legislation for secured transactions which will then allow for a wide range of assets to be used as collateral and permitting out of court enforcement proceeding (Isaiah, 2013).

#### **2.4.5 Non-Financial Support**

The main non-financial support that emerges from the literature is training, certain tax considerations by the government, government procurement from entrepreneurial ventures and availing market information. In Australia, for example, the new business start-ups were supported by the availability of management training programs that were nationwide

that focused on business start-ups (Dana, 1987). Also, Pennings (1982) identified the presence of universities dedicated towards training entrepreneurial related programs and involvement in research assistance as key factors in the creation of start-ups in USA. Government interventions through mechanisms such as tax concessions and exemption from customs duty on certain imports were identified to facilitate entrepreneurial development in the Virgin Islands (Dana, 1987). According to Hawkins (1993), entrepreneurship development in Japan had been facilitated by enhancing the dissemination of market-related and other relevant information, the access to free computers and providing free consulting for SMMEs. Procurement of products from SMMEs by the government in countries such as Canada and Japan had not only facilitated the growth of SMMEs but had also enabled these enterprises to competitively produce for local and international markets (Doutriaux, 1988; Hawkins, 1993). It was also noted by Aldrich (1986) that in the USA establishing contacts for start-ups was a time-consuming process taking up as much as half the business time. In Spain one of the effective non-financial strategies has been found to be an entrepreneurship incubator (Sadeghi, et al., 2013). The incubator would provide positive environment to the early-stage business ventures by offering office space, shared office services and business counselling (Sadeghi, et al., 2013).

## **2.5 Psychological Make-Up of an Entrepreneur**

According to Lazear (2005), diversity in education and work experience is an essential feature that separates entrepreneurs from non-entrepreneurs. Backes-Gellner and Moog (2013) stressed the importance of a diverse social network in which their study distinguishes students who would go on to become entrepreneurs from those who do not proceed in that direction.

A study by Sexton and Bowman-Upton (1990) revealed that the mental abilities of female and male entrepreneurs are more alike than they are different. Several other studies suggested that entrepreneurs possess strong negotiating skills, although the male entrepreneur is dominantly in possession of these skills (Navale, 2013; Llazo, 2016). Navale (2013) and Llazo (2016) also mentioned that entrepreneurs possess consensus-

forming abilities. Hansson (2012) observed two phenomena which are that: (i) the likelihood of becoming entrepreneur declines with age for women, although rise with age for men, and; (ii) the probability of an individual becoming an entrepreneur increases with marriage. According to Hansson (2012), past experiences may also be crucial in driving entrepreneurs towards entrepreneurship. These experiences may include work stoppage and unemployment. Nanda and Sørensen (2010) identified that those who have worked with entrepreneurs are more likely to become entrepreneurs themselves, compared to those who have not had such exposure. Nanda and Sørensen (2010) further pointed out that peers primarily motivate the decision to become an entrepreneur in the workplace and that social composition plays a positive part in influencing entrepreneurialism among peers as the success of one may motivate others.

Entrepreneurs who are distrusting persons have been found to easily employ non-routine procedures when required to do so and they outperform trusting persons (Gudmundson and Lechner, 2013). Gudmundson and Lechner (2013) further argued that the firms of distrusting entrepreneurs had a higher likelihood of surviving than those entrepreneurs who are either optimistic or overconfident. According to Kets de Vries (2003), the distrusting entrepreneurs tend to be more aware of their external environment.

## **2.6 A Review of the Measurement of Entrepreneurship**

Chandler and Lyon (2001) suggested that significant research interest has been garnered in the area of entrepreneurship. They further advanced that researchers need to take stock of the existing methodologies in use, which they argued that researchers should keep pace with the developing entrepreneurship paradigm. According to Chandler and Lyon (2001), the research paradigm keeps developing and researchers are moving towards more complicated research designs away from simple descriptive statistics. Low and MacMillan (2007) urged entrepreneurship researchers to pursue causality related research more aggressively. Robinson et al. (1991) argued that a preferable approach to describing entrepreneurs would be to consider their attitude, rather than the examination of personality characteristics or demographics. Robinson et al. (1991) further explained the

use of the Entrepreneurial Attitude Orientation (EAO). Their work involved the development and testing the reliability of the EAO on a group of undergraduate students.

Murphy et al. (1996) underscored the fact that in understanding new venture and small business success and failure, accurate performance measurement is crucial. According to Murphy et al. (1996), there is inconsistent performance management across entrepreneurship studies and instead, their observation was that the measures which were relied upon were diverse. Venkatraman and Ramanujam (1986) developed a scheme to classify several approaches to the measurement of business performance in strategy research. In their review, they also gave an indication to several other approaches in measuring business performance, which may also be applicable to entrepreneurship. Venkatraman and Ramanujam (1986) cited Bettis and Hall (1982), and Montgomery and Singh (1984) to illustrate those who have used financial data from secondary sources. The main benefit identified in using this kind of data includes the provision of data on financial aspects. However, the main limitation with the use of the data has been identified to be that the differences emanating from accounting policies which make comparisons difficult. In using this approach, the main methodological consideration is that the examination of feasibility relies on stock-market indicators. Dess and Robinson (1984) used financial data from primary sources as cited by (Venkatraman and Ramanujam, 1986). This method was preferred due to the provision of self-reported data (Dess and Robinson, 1984). Recent studies in literature such as Driessen and Zwart (2007) used the Entrepreneur Scan (E-Scan), which they argued that it provides insight into necessary traits and capabilities of entrepreneurship. They add that E-Scan is an objective tool that allows entrepreneurs and those who want to start businesses to self-reflect. The E-Scan uses a seven-point Likert-scale for each characteristic and capability identified in the model.

The Big Five Factor Model by Hoekstra et al. (1993) had been cited by Driessen and Zwart (2007) as one method in the literature that researchers have used in evaluating characters and abilities of entrepreneurs. Essentially the dimensions which the Big Five Factor Model represent are Extraversion, Emotional stability, Altruism, Openness (for experience), and Conscientiousness. This model has attracted the attention of researchers studying entrepreneurship and success such as (Nandram et al., 2000) and (Ciavarella et al., 2004).

Driessen and Zwart (2007) noted that the major weakness of this model is the results which were not statistically significant. Driessen and Zwart (2007) also cited the Myers-Briggs Type Indicator (MBTI) by (Myers, 1962). According to Reynierse et al. (2001), the application of MBTI in entrepreneurship research has been limited. 'The MBTI (Myers, 1962) identified preferences for perception and judgement based on bipolar or dichotomous dimensions: Extraversion (E) – Introversion (I); Sensing (S) – Intuition (N); Thinking (T) – Feeling (F) and Judging (J) – Perceiving (P)' (Driessen and Zwart, 2007:6).

One of the multivariate procedures used to obtain perspectives or dimensionality of the data is Principal component analysis. In a study by Razin and Langlois (1996), principal component analysis was used to determine the characteristics of entrepreneurship among immigrants and ethnic groups in Canada. Olawale and Garwe (2010) used the principal component analysis approach in their study which sought to identify the obstacles to the growth of new SMEs in SA.

## **2.7 Entrepreneurial Traits**

Pendergast (2003) argued that individuals with attributes that are suited to the challenges in entrepreneurial situations are by their very nature attracted to those situations. Pendergast (2003) further pointed out that individuals in possession of such attributes do not only find it comfortable being in such entrepreneurial situations but also have the needed qualities that enable them to succeed in those situations. These attributes can be interchangeable with the terms “traits,” “personality” or “mindset.” Pendergast (2003) also mentioned that the entrepreneurial profile is made up of a mutually supportive cluster of traits.

Pendergast (2003) identified the entrepreneurial traits to be comprised of: (i) Opportunity-orientation, (ii) Unstructured, Uncertain, (iii) Resource Scarcity, and, (iv) Fluid, Dynamic, Turbulent. Entrepreneurial traits were then identified in this context by Pendergast (2003).

The entrepreneurial traits listed by Pendergast (2003) with respect to Opportunity-orientation were:

- Inquisitiveness and opportunity recognition;
- Action-orientation (pro-active), and;
- Need for achievement.

The entrepreneurial traits listed below fall under the Unstructured, Uncertain entrepreneurial context (Pendergast, 2003):

- Tolerance of ambiguity, uncertainty;
- Independence, self-starting, internal locus of control, individualism;
- Risk propensity, and;
- Creativity, innovative.

According to Pendergast (2003), the Resource Scarcity entrepreneurial context is formed by the following traits of entrepreneurs:

- Networking, coalition building;
- Teamwork, hero-making;
- Belief in personal efficacy;
- Niche craft, and;
- Persistence, determination.

The entrepreneurial traits which are: Improvisation; Empirical, pragmatic experimental; and, Muddle through, are what makes up the Dynamic, turbulent, fluid entrepreneurial context (Pendergast, 2003).

Based on the self-reflection by entrepreneurs reflected in the E-Scan by Driessen and Zwart (2007), the traits and capabilities for entrepreneurship were concluded to be; a need for achievement, need for power, need for autonomy, flexibility, and creativity. Also, market awareness, endurance, self-belief, and social orientation are considered. The main characteristics of an entrepreneur were identified by Cuervo et al. (2007) as discovering



and exploiting opportunities, creating or initiating and motivating the process of change. Cuervo et al. (2007) further highlighted that the behaviour of entrepreneurs includes accepting risks, using intuition, being alert, and exploring new businesses. Cuervo et al. (2007) also added that leadership, initiating new ways of acting, identifying business opportunities and the creation of new firms are also part of the behaviour of entrepreneurs.

## **2.8 Government Initiatives to Promote Entrepreneurship**

Minniti (2008) emphasised the fact that entrepreneurship is essential for economic growth. Government policy is responsible for shaping the institutional environment where entrepreneurship takes place (Minniti, 2008) and for creating an enabling environment for the development of entrepreneurship (Herrington et al., 2014). The government is, however, not directly responsible for starting enterprises (Herrington et al., 2014). Therefore, government policy is crucial for fostering entrepreneurship. Minniti (2008) contended that government policies are responsible for shaping institutional structures for which entrepreneurship needs to thrive. According to Smith (2010), some government policies may increase the level of entrepreneurship within a country. Herrington et al. (2014) mentioned that government, through other reforms, can decrease the bureaucratic burden of doing business and thereby promote entrepreneurship. On the other hand, Yu (1997) noted that entrepreneurship has been confined to private enterprises by most scholars and they fail to note that government is also capable of undertaking the same task. Yu (1997) argued that governments are in fact capable of acting like entrepreneurs, and such governments are referred to as entrepreneurial states when they exhibit entrepreneurial characteristics. According to Luedde-Neurath (1988) cited by Yu (1997), government intervention can be divided into facilitative and directive. When the government has a direct intervention, it strives to avail public goods that may include infrastructure, health, and education, etc., more so when these may not be adequately supplied in the private sector. On the other hand, indirect intervention is targeted towards the achieving of predetermined results by consciously interfering with market forces.

The development of SMMEs and promotion of entrepreneurship is seen in SA as central to economic growth, job creation, and poverty eradication. It was in this regard that in May

2014, following the 2014 general elections, President Zuma announced a new Ministry for Small Business Development. The primary mandate of this Ministry is the development of SMMEs and growth of entrepreneurial activity around the country. Besides the introduction of this Ministry, the government already has initiatives in place for promotion of entrepreneurship and development of SMMEs, some of these are (Herrington et al., 2014):

#### ***2.8.1 Small Enterprise Development Agency (SEDA)***

SEDA was formed in December 2004 by the Department of Trade and Industry (DTI). SEDA provides a national network for small enterprises, and through this network which is in partnership with other role players who support small businesses; SEDA is then able to provide business development and other support services to small enterprises.

#### ***2.8.2 Small Enterprise Finance Agency (SEFA)***

SEFA was established in 2012, with a funding budget of R1.4 billion provided by the Industrial Development Corporation (IDC) and the South African government. In 2014, SEFA merged with South Africa Micro-Finance Apex Fund (SAMAF), and Khula Enterprise Finance Limited which previously operated as IDC. SEFA provides funding to small enterprises in need of financing business models and operations up to the value of R3 million.

#### ***2.8.3 National Youth Development Agency (NYDA)***

NYDA was formed in 2009 following the merger of Umsobomvu Youth Fund and the National Youth Commission. The mandate of NYDA is to coordinate and promote youth development, by assisting the youth to start new businesses and finance existing businesses, with the aim of reducing youth unemployment and promote social cohesion. NYDA's target group are young South Africans between the ages of 14 – 35 years.

#### **2.8.4 *Technology and Innovation Agency (TIA)***

TIA was established in 2008 by the Department of Science and Technology. TIA is mandated with enabling and supporting technological innovation across all sectors of the economy, in order to enhance South African business competitiveness. This also entails, supporting and advancing research outputs from higher education institutions, science and research councils and public entities; commercialisation of these research outputs is then brought into the market.

#### **2.8.5 *National Empowerment Fund (NEF)***

The NEF was established in 1998, and the aim is to fund and to be “the driver and thought leader in promoting and facilitating black economic participation by providing financial and non-financial support to black empowered businesses and promoting the culture of saving and investments among black people.” The NEF provides loans from R250 000 to R75 million to black-owned businesses, for start-ups, expansions, and equity acquisition purposes, (Herrington et al., 2014).

### **2.9 Public Procurement**

The following section explores entrepreneurship within the context of public procurement.

#### **2.9.1 Public Procurement Definition**

Public procurement was defined by Ambe and Weiss (2012) as having its origins in the fiduciary obligation of a particular government or state to deliver goods and services to its people, such as various infrastructures (e.g. roads, power stations, dams, healthcare, education, security, etc). Public procurement includes various activities that are necessary for a government to deliver goods and services to its people, it may range from routine activities and services to more complex infrastructure projects. Public procurement may also be used to support political objectives of a government and to promote social justice (Ambe and Weiss, 2012). Rolfstam (2013) also stated that public procurement is the acquisition of goods and services by government entities and various public sectors for general use of the public in general. Brammer and Walker (2011) noted that public

procurement is particularly concerned with how taxpayer's money is spent by government on goods and services and is driven by principles of transparency, accountability and achieving value for money on public money spent.

### **2.9.2 Public Procurement and Entrepreneurship**

According to Arzeni (1997), governments can assist the development of entrepreneurship in public procurement. Loader (2013) also noted that public procurement vehicle is a mechanism by which governments can directly provide support to SMMEs particularly because governments are the primary consumers of goods and services. McKevitt and Davis (2015) highlighted public procurement process as consisting of three stages which are pre-tender, tender, and the post contract award. To succeed in the tendering process, McKevitt and Davis (2015) noted that government officials should have the right interaction and engagement with the market players at pre-tender stage. Vincze (2010) pointed out that it is crucial for the owners of SMMEs to also know the decision-makers. The issuing of the tender contract takes place in the second stage which is known as the tendering stage (McKevitt and Davis, 2015). According to Mateus et al. (2010), in the final stage, government officials are responsible for managing the performance of successful bidders.

One of the greatest challenges that entrepreneurs face is in the area of late payments by the administrations and Arzeni (1997) argues that an efficient payment system to SMMEs may boost entrepreneurial development. Preuss (2011) noted that in industrialised countries, public procurement forms a significant part of the gross domestic product (GDP). Therefore, it is important that the potential of assisting small businesses and entrepreneurs be realised and fully utilised for local, regional and national economic development (Preuss, 2011). Loader (2013) argued that public procurement attracts suppliers of different sizes and that governments may need to improve the chances of success of SMMEs. The public procurement process has however, received criticism. Jones (2009) argued that the presence of corruption in the government acquisition of goods, services and public works affect the service delivery and the provision of vital infrastructure. The introduction of reforms to reduce corruption in the procurement processes has not been very successful,

and Jones (2009) identified two reasons for this. Firstly, the changes are usually lacking in precision and often fail to tackle the corruption spectrum in the procurement process. Secondly, the enforcement bodies are often not adequately equipped with the necessary legal authority needed to deal with corrupt practices.

According to Bates and Williams (1995), some businesses benefit from participating in government preferential procurement programs, while some others do not, however, the preferential procurement program may be a useful tool in fostering business development. The acquisition programs were viewed by Magoro and Brynard (2010) as a tool that can be used to achieve certain socio-economic objectives. Before 1994, the government procurement system in SA made it tough for newly established businesses to penetrate the acquisition system as that system favoured large and established businesses (Bolton, 2006). To address the discriminatory policies and practices of the past, government procurement was granted constitutional status (Bolton, 2006). Granting this status was a way of dealing with the past discriminatory practices. The use of such a provision in legislation in SA is similar to what other countries have done. In USA for instance, the use of preferential programs was used to address discrimination tendencies within state procurement (Bates and Williams, 1996).

### **2.9.3 Regulatory Framework for Public Procurement**

International Labour Organisation (ILO, 2013), covered public procurement regulatory framework in SA as follows:

- The Constitution of the Republic of South Africa, Act No. 108 of 1996;
- Public Finance Management Act, 1999;
- Municipal Finance Management Act, 2003;
- Preferential Procurement Policy Framework Act, No. 5 of 2000 (PPPFA);
- Preferential Procurement Regulations, 2001;
- Broad-Based Black Economic Empowerment Act, No. 53 of 2003 (BBBEE)
- Preferential Procurement Regulations, 2011;
- Treasury Regulations 16A;

- National Treasury Practice Note Number SCM 001 of 2006: Tax Clearance Certificates;
- National Treasury Practice Note Number SCM 002 of 2006: 1. Prohibition of Set Asides;
- National Treasury Practice Note Number SCM 008 of 2007: Threshold Values for the Procurement of Goods, Works and Services by means of Petty Cash, Verbal/Written Price Quotations or Competitive Bids;
- National Treasury Practice Note Number 29: Allocating Sustainable Work Opportunities to Contractor Development.

Magoro and Brynard (2010) noted that several organs of state in SA have each established a Supply Chain Management (SCM) policy suitable for their particular situations, thereby ensuring that procurement is consistent with the constitution and other regulatory frameworks such as various treasury regulations treasury and instructions on public procurement.

## **2.9.4 eThekwini Metropolitan Supply Chain Management Policy**

According to eThekwini (2016), the Metro has developed a supply chain management policy in conformity to the constitution, Municipality Financial Management Act (MFA), Public Financial Management Act (PFMA), and Preferential Procurement Policy Framework Act (PPPPFA). Format of the Metro SCM policy is as follows (eThekwini, 2016):

### **2.9.4.1 Demand Management**

“The aim of demand management is to ensure that the resources required support the strategic and operational commitments are delivered at the right time, at the right price and the right location, and that the quantity satisfies the need of the Municipality” (eThekwini, 2016).

### **2.9.4.2 Acquisition Management**

Within acquisition management we start with the range of procurement processes:

- Petty purchases for transactions up to R500;
- Written or verbal quotations for procurements or transactions up to R5 000;
- Formal written quotations for procurements valued at R5 000 up to R200 000 including Vat;
- Competitive bidding for procurements above R200 000 (including Vat).

#### **General preconditions for a bid consideration:**

- Tax reference number and Vat registration number;
- Tax clearance certificate (TCC) from South African Revenue Service (SARS) that the tax matters are in order;
- Declaration of municipal fees;
- Declaration for local production and content;
- Declaration of bidder's past supply chain management practices

#### **Committee system for competitive bids**

##### **1. Bid specification committee**

“The bid specification committee must approve the compilation of the specifications for each public invitation for competitive bids, and where authority has been sought to invite bids by the Municipality” (eThekwini, 2016).

Bid Specification requirements:

- The bid must be drafted in an unbiased manner to allow for all potential suppliers to offer their goods and services.
- The bid must take into account any acceptable national standards as well as international standards or an authority accredited by the South African Accreditation System.

- Where possible, the bid must be described in terms of performance requirements.
- The bid may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification;
- The bid may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the words equivalent.
- The bid must indicate each specific goal for which points may be awarded in terms of the points system set out in the Preferential Procurement Regulations.
- The bid specification committee must be composed of multi-disciplinary team of municipal officials which include at least one member from supply chain and one technical representative and may include where appropriate an external specialist advisor.
- All contracts exceeding R10million must be accompanied by project-specific procurement and BEE strategies when presented to the committee.

## **2. Bid Evaluation Committee**

“The evaluation committee approved evaluation of bids in accordance with the specifications for a specific procurement, and ensures that an appropriate assessment of eligible bidder’s ability to execute the contract has been undertaken and ensure that in respect to the recommended bidder, the bidder complies with municipality rates and taxes and is not in arrears for any municipality services, and to also that the recommended bidder has a valid tax clearance certificate and BEE certificate is in order,” (eThekwini, 2016).

## **3. Bid Adjudication Committee**

“The bid adjudication committee considers the report and recommendation of the bid evaluation committee and either make a final award or make a recommendation to the accounting officer to make a final award,” (eThekwini, 2016).



#### **4. List of Accredited Prospective Providers**

The accounting officer must keep a list of accredited prospective providers. At least once a year, the municipality must invite prospective suppliers to apply for accreditation to be listed in its central supplier database. No quotations for bids may be solicited from a supplier who is not accredited and listed in the municipality central database (eThekwini, 2016).

##### **2.9.4.3 Logistics Management**

“Logistics management provides for an effective system in order to provide for the setting of inventory levels, placing of orders, receiving and distribution of goods, stores and warehouse management, expediting orders, transport management, vendor performance, maintenance and contract administration” (eThekwini, 2016).

##### **2.9.4.4 Disposal Management**

“Is a system that must be in place to deal with disposal or alienation of assets, including unserviceable, redundant or obsolete assets in conformity to sections 14 and 90 of MFA” (eThekwini, 2016).

##### **2.9.4.5 Risk Management**

“The accounting officer must ensure that there is an effective system of risk management for the identification, consideration and avoidance of potential risks in the SCM system” (eThekwini, 2016).

##### **2.9.4.6 Performance Management**

“The accounting officer is required to ensure that there is an effective internal monitoring system in order to determine on the basis of a retrospective analysis, whether the

authorised SCM processes were followed and whether the desired objectives were achieved” (eThekwini, 2016).

### **2.9.5 Preferential Procurement Policy Framework**

An organ of state is required to determine its preferential procurement policy and implement the plan according to the preferential points system and section 217(1) of the Constitution, which in terms of section 217(1) of the Constitution, “fairness, equity and transparency can be characterised as affirmative action, while free market thinking is specifically represented by transparency, competitiveness and cost efficiency (Magoro and Brynard, 2010).” Section 217(2) and (3) of the Constitution, however, specifically provides for introducing preferential procurement policies to benefit previously disadvantaged groups, such policies are:

- Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA);
- Preferential Procurement Regulations, 2001;
- Broad Based Black Economic Empowerment Act 46 of 2013;
- Preferential Procurement Regulations, 2011

### **2.10 Entrepreneurship and Tenderpreneurship**

There are concerns about entrepreneurship especially with the view of what has been termed in some sections of society as tenderpreneurship, a term appropriated to businesses who tender mainly for governments contracts. There is widespread concern that tenderpreneurs prevent the potential for other entrepreneurs that are not affiliated with the government in making their mark (Penfold, 2012). According to Penfold (2012), the perceptions surrounding tenderpreneurship raises thought-provoking questions about how SA is promoting and supporting entrepreneurial activity. Mothoagae (2013) argued that tenderpreneurship has propagated nepotism and the culture of entitlement among individuals who are politically connected. Madi (2016) argued that Black Economic Empowerment (BEE) has resulted in the decline of black enterprise and gave rise to tenderpreneurship. According to Madi (2016), BEE has resulted in the sharp decline of the township economy and based on the membership of The National Federated Chamber of Commerce (Nafcoc) which has been used to measure entrepreneurial activity amongst

black people, the statistics thereof point to the fact that in 2013 Nafcoc had 55000 members compared to 155000 in 1998 (Madi, 2016). In SA the term tenderpreneurship is generally used to refer to a politically well-connected person who has gotten very rich purely by receiving government tenders (Madi, 2016). Tenderpreneurs usually try to legitimise their activities by covering them under the noble ideology of BEE which in turn provides ammunition for detractors of BEE to conveniently equate it to the rise of tenderpreneurship (Madi, 2016).

According to James (2015), it is difficult to make a breakthrough as an entrepreneur in the economic landscape of the present day SA. This is also connected to the historical legacy of apartheid wherein entrepreneurial activity of black people was prevented by unfair state regulation, where black people were deprived trading licences to ply trade in various sectors of the economy (James 2015). Post-1994, aspiring black entrepreneurs were affected by the notion of needing to be politically connected in order to get a business off the ground. This has been more prevalent within government tendering system which consequently causes a decline in entrepreneurial activity (James 2016). Politically connected people form companies in order to submit bids for government contracts, once contracts have been received, they use the wealth received on government tenders to engage in conspicuous patterns of consumption leading lavish lifestyles (James, 2015).

### **2.10.1 Theoretical Gaps - Entrepreneurship vs Tenderpreneurship**

Below is a highlight of theoretical gaps between entrepreneurship and tenderpreneurship based on literature already highlighted in this chapter.

**Table 2.2: Theoretical Gaps - Entrepreneurship vs Tenderpreneurship**

| <b>Entrepreneurship</b>   | <b>Tenderpreneurship</b>  |
|---|---|
| The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations (Schumpeter, 1934). These can take several forms: | Terry MacKenzie-Hoy (2012) cited by Nyamnjoh (2012) defined a ‘tenderpreneur’ as a South African term to define a person who has made an extraordinary sum of money from a government contract. |

|  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• the introduction of a new good or quality thereof,</li> <li>• the introduction of a new method of production,</li> <li>• the opening of a new market,</li> <li>• the conquest of a new source of supply of new materials or parts, and</li> <li>• the carrying out of the new organisation of any industry</li> </ul> | <p>Reasons for such wealth are:</p> <ul style="list-style-type: none"> <li>• the award value for the tender significantly exceeds the costs of services,</li> <li>• the surplus then goes into the pockets of the contractor,</li> <li>• the balance of the surplus goes into the pockets of government officials who awarded the contract</li> </ul> |
| Entrepreneurship is the phenomenon associated with entrepreneurial activity (Ahmad and Seymour 2008).  | Tenderpreneurship has propagated nepotism and culture of entitlement among politically connected individuals (Mothoagae, 2013)  |
| Entrepreneurial activity is the enterprising human action in pursuit of the generation of value through the creation or expansion of economic activity by identifying and exploiting new products, processes or markets (Ahmad and Seymour 2008).  | Tenderpreneurship has resulted in the decline of black enterprise and township economy which was used as a measure of entrepreneurial activity amongst black people (Madi, 2016).   |
| Entrepreneurship is the pursuit of opportunity beyond resources controlled (Eisenmann, 2013).  | Tenderpreneurship is dependent on government tenders which causes a decline in entrepreneurial activity (James, 2015).  |
| Entrepreneurs are those people or business owners who seek to generate value through the creation or expansion of economic activity by identifying and exploiting new products, processes or markets (Ahmad and Seymour 2008).   | Tenderpreneurs are politically connected people who form companies in order to submit bids for government contracts, once contracts have been received, they use the wealth received on government tenders to engage in conspicuous patterns of consumption leading lavish lifestyles (James, 2015).  |

Based on literature highlighted on Table 2.2, the gaps between entrepreneurship and tenderpreneurship are glaringly significant. The study therefore seeks to explore whether a relationship exists between entrepreneurship and government contracts and to also identify

opportunities where synergies between entrepreneurship and tenderpreneurship may be explored in order to increase entrepreneurial activity and increase economic growth. The term tenderpreneurship is still in developmental stages and it is the aim of this study to find strategies of bridging the gap between tenderpreneurship and entrepreneurship in order to increase entrepreneurial activity. However, more academic analysis is still needed in exploring the concept of a relationship between the two terms.

## **2.11 Chapter Summary**

Many definitions of what an entrepreneur is have been extensively reviewed incorporating the Schumpeter definition. The literature review revealed the environmental conditions that are essential for entrepreneurship development. The study also showed that it is important to understand the psychological make-up of an entrepreneur. In endeavouring to understand the measurement of entrepreneurship, the emerging issues point towards the fact that researchers should keep pace with the developing entrepreneurship paradigm, and entrepreneurship researchers to pursue causality related research more aggressively. Researchers suggested that a preferable approach to describing entrepreneurs would be to consider their attitude, rather than what the examination of personality characteristics or demographics. The use of a Likert-scale for each characteristic and capability of entrepreneurs are recognized in the review. The literature review also looked at government initiatives and legislation in SA that promote entrepreneurship. Public procurement was also broadly examined with particular focus on entrepreneurship within government tenders including governance framework. The literature concludes with the exploration of tenderpreneurship and how this has risen within public procurement and how it affects entrepreneurial activity. Theoretical gaps between entrepreneurship and tenderpreneurship have also been highlighted and how this study seeks to address them. The next chapter outlines the research methodology that was used to obtain data for the study analysis.

## **CHAPTER THREE**

### **Research Methodology**

#### **3.1 Introduction**

This chapter describes the research methodology that has been used, the geographical area where the study was conducted, the research approach and design, the population and sample selection. The instrument used to collect data, including methods implemented to maintain validity and reliability of the instrument are also described.

#### **3.2 Aim of the Study**

The study aims to explore whether a relationship exists between government contracts and entrepreneurship, accordingly the objectives of the study are to:

- Examine the tender recipients' opinions on the relationship between government tenders and entrepreneurship.
- Examine personality traits exhibited by tender recipients in relation to entrepreneurship.
- Examine the reliance on government tenders based on:
  - (iii) Tender recipients' opinions on the relationship between entrepreneurship and government tenders, and
  - (iv) Personality traits exhibited by tender recipients in relation to entrepreneurship.

#### **3.3 Research Approach and Design**

A quantitative approach was followed. Creswell (2003:18) defined quantitative research as using postpositivist claims to develop knowledge, where strategies of inquiry such as experiments, survey questionnaires are employed; data is collected on predetermined instruments that yield statistical data, the results of a quantitative research are primarily objective. The other research approaches that could have been followed were qualitative or mixture of both quantitative and qualitative. Rahman (2016) defines qualitative research as any type of research that produces findings not arrived at by statistical procedures or other

means of quantification. Qualitative research though not used in this study has its own advantages and disadvantages Rahman (2016), the advantages are:

- It does not a strict design plan before it begins;
- It gives the researcher freedom to let the study flow naturally;
- This type of research is rich in detail in the form of written descriptions or visual evidence.

Disadvantages of qualitative research identified by Rahman (2016) are:

- The researcher is heavily involved in the process and gives the researcher a subjective view;
- The researcher interprets the research according to his/her own biased view, and possible skews data gathered;
- This type of research is very time consuming and may take years to complete and may also be very expensive to conduct.

Owing to the above advantages and disadvantages for a qualitative research and the fact that the study population involved is very large with impact to government in general beyond eThekweni Metropolitan Municipality, a quantitative approach was therefore followed based on advantages noted by Rahman (2016) as follows:

- Quantitative findings can be generalised to a whole population;
- It is less time consuming and uses statistical software SPSS to analyse data gathered;
- The researcher is more objective about findings;
- Quantitative research can be used to test hypotheses in experiments because of its ability to measure data using statistics.

Rahman (2016) however, also noted that Quantitative research its own disadvantages which are:

- Quantitative research does not things in natural setting or discuss the meaning things have for different people;
- Larger sample of the population must be studied;
- It has tendencies of taking a snapshot of a phenomenon.

### ***Research Design***

A survey questionnaire is a preformulated set of questions to which participants must respond and record their answers, where alternatives are closely defined; the survey questionnaire may be used for the descriptive, explanatory and exploratory study (Sekaran and Bougie, 2013). A survey questionnaire can be administered personally, posted to the participants or electronically distributed (Sekaran and Bougie, 2013). In this study, personally administered survey questionnaire was selected as the most appropriate method of data collection as it was less expensive, it ensured efficiency and consumed less time (Sekaran and Bougie, 2013). More advantages and disadvantages of this approach are found in 3.6.1.

Exploratory study is conducted to gain new insights, discover new ideas, and for increasing knowledge of the subject at hand (Burns and Groove, 2001). This method is appropriate for this study as there was limited theoretical framework available which seeks to link entrepreneurship and tendering by business people who do business with the state. The term ‘tenderpreneurship’ is also new in literature and is still evolving. This study through a survey questionnaire, therefore seeks to explore experiences of tender recipients who were bidding for tenders between 21 October 2016 to 11 November 2016 (Burns and Groove, 2001).

The study however, also carriers elements of being descriptive in nature as it seeks to describe characteristics of an entrepreneur and characteristics of a business person who



does business with the state and if there are synergies between the two or if a relationship exists (Sekaran and Bougie, 2013).

### **3.4 Research Setting**

The study was conducted within eThekweni Metropolitan Municipality (Metro) which is the largest municipality in the KwaZulu-Natal Province (KZN). EThekweni Metro had an expenditure budget of R41.66 billion for 2016/2017 financial year; R34.9 billion represented operating expenditure budget, and R6.73 billion represented capital expenditure budget (eThekweni, 2016). The Metro had fifty-four thousand five hundred and six (54 506) suppliers registered within its supplier database who are registered for the sole purpose of submitting bids for tenders that are regularly issued by the Metro in order to fulfill its service delivery mandate. The Metro has nine departments which at departmental level carry the mandate of fulfilling the service delivery objectives the Metro has committed to in terms of its budget priority plans (eThekweni, 2016).

### **3.5 The Study Population and Sample**

The population was defined by (Sekaran and Bougie, 2013) as the entire group of individuals, events, things, or objects that the researcher wishes to investigate and to include in the study. The study population consisted of all suppliers/tender recipients who had submitted bids for tenders that were opened and closed between Friday 21 October 2016 and Friday 11 November 2016. The tender opening and closing session takes place every Friday starting at 11:00 and this session is attended by suppliers who have submitted bids for tenders that are opened and closed on a particular Friday. A total number of 446 bids for 207 tenders were opened and closed during the period Friday 21 October 2016 to Friday 11 November 2016.

A convenient sample of 105 willing participants was selected from a population of 446 suppliers/tender recipients who had to bid for the tenders. Convenient sampling refers to data collection from members of the population who are conveniently available and willing to provide the information (Sekaran and Bougie, 2013). The convenient sample was made

up of suppliers representing fifteen different industries who were conveniently present during the tender opening and closing sessions (Burns and Groove, 2001). This sampling method was most appropriate for the study due to supplier information confidentiality that exist between the Metro and tender recipients. At the tender opening and closing sessions, the municipality official would announce the presence of the researcher prior to the questionnaire being distributed to willing participants so as to not breach supplier confidentiality.

### **3.5.1 The Sampling Criteria**

Participants included in the sample were selected to meet set criteria. The criteria for participants were as follows:

- They must be owners or shareholders in the business.
- They must be natural persons.
- They must be willing to participate and sign a consent form.
- They must have an ongoing tender or have been granted a tender previously by the Metro.
- They must reside anywhere within eThekweni Metropolitan boundaries.
- They must be from any industry.
- They must be of any sex or race

### **3.6 Data Collection**

During the Friday sessions of opening and closing of tenders which were attended by the researcher between 21 October 2016 to Friday 11 November 2016, the Metro official presiding over the sessions would announce the researcher's presence to all bidders at the beginning of every session, the researcher would soon thereafter distribute the survey questionnaire to all bidders and willing participants would then complete the survey questionnaire and return it back to the researcher together with a signed consent form. This process was followed until a sample size of 105 bidders was reached in line with the sample criteria.

### **3.6.1 Data Collection Instrument**

A questionnaire was selected as a data collection tool. A questionnaire is an efficient data collection tool and is less expensive and not time-consuming; questionnaires are also most effective in collecting large numbers of quantitative data (Sekaran and Bougie, 2013).

Data was collected with the use of a questionnaire in order to evaluate the relationship between entrepreneurship and government contracts, based on personal knowledge and experiences of tender recipients who tender with eThekweni Metropolitan Municipality. The questionnaire was used because of the following advantages:

- It was less expensive and ensured efficiency and consumed less time.
- It was easy to administer as it could be administered personally and data was also collected personally.
- It ensured high response rate as the questionnaires were distributed to participants during the opening and closing session of tenders.
- It ensured high anonymity of participants in line with ethical practices.
- It also ensured high impartiality to responses to the questionnaire as the questions were standard and cut across any industry bidding for advertised tenders.

Having the listed the above advantages, however, there are some weaknesses or disadvantages to a personally administered questionnaire. One main disadvantage is that the researcher may explain certain concepts of the study to the participants which may introduce biases; also the participants may provide responses in order to align themselves to the attitude of the researcher to certain principles and therefore may not provide true and accurate responses. A personally administered questionnaire also requires time and effort (Sekaran and Bougie, 2013).

One set of questionnaire was used to collect data from participants. The questionnaire was distributed to tender applicants who were bidding for Metro contracts during the period 21 October 2016 to 11 November 2016. The questionnaire consisted only of close-ended

questions as they are easy to analyse. The questionnaire had twenty-five (25) questions and was separated into five (5) parts separated into:

- Part A: Personal data
- Part B: Profile of the participant and his/her business
- Part C: Opinion on the relationship between entrepreneurship and tenders
- Part D: Awareness of government initiatives to develop entrepreneurship
- Part E: General opinions

The language used in the questionnaire was English and the reason is because tender documents are submitted in English and therefore participants were expected to have a good grasp of interacting with English. Once the participants had completed responding to the questionnaire, the researcher collected the responses together with consent forms.

### **3.6.2 Data Collection Procedure**

Questionnaires were personally distributed by the researcher to the participants during tender opening and closing sessions. All questionnaires were completed independently of the researcher, only on few occasions, the participants would request to discuss the research topic further with the researcher and would thereafter request the results of the study to be made available once completed.

## **3.7 Reliability and Validity**

### **3.7.1 Reliability**

Sekaran and Bougie (2013) described reliability as an indication of the extent to which the instrument used to measure is without biases, ensures consistency of measurement across various items measured. The questionnaire that was answered by participants shows consistency in responses provided. Reliability also refers to the extent to which the instrument used is error free like data collector biases to a particular perspective. Data collector biases was minimised by ensuring that the researcher was the only person who administered the questionnaire and data collection was without the aid of assistants. This

ensured consistency in how the questionnaires were distributed to all participants, same courtesy and support were offered in the same manner to all participants. The environment to which the participants responded to the questionnaire was the same and offered similar comfort to all participants.

The participants responded to the questionnaire in the Metro boardroom which has comfortable chairs and is air-conditioned. The researcher remained with the participants during the process of responding to the questionnaire in order to ensure that any questions the respondents may want to ask would be responded to promptly. The participants were also requested not to write their names or contact details in the questionnaire in order to ensure confidentiality in line with ethical requirements.

### **3.7.2 Validity**

Sekaran and Bougie, (2013) referred to validity as a test of the effectiveness of the instrument used to measure a particular concept it is designed to measure. Content validity ensures that the instrument used as a measure is representative of the items and adequately covers the scope of the concept (Sekaran and Bougie, 2013). To achieve content validity, the questionnaire covered items that define an entrepreneur, knowledge of the participants on starting a business and entrepreneurship in general, how their business came into existence, also covered the extent their businesses rely on government contracts for survival and the extent into which the participants are diversifying their income streams or seeking new markets to grow their businesses.

The literature review was used as the basis to draft the questions that were contained in the questionnaire in order to ensure that the questions represented the knowledge of tender applicants and concept of entrepreneurship in general. Content validity was also ensured by applying consistency in administering the questionnaire. The questions were in a simple and understandable language and the researcher was always available to provide clarity where necessary. The participants also responded to the questions personally in the

presence of the researcher to ensure that personal knowledge of the participant is what is contained in the questionnaire as a response.

External validity refers to the degree to which the study results can be generalised to other situations other than for the study and sample size for which it was done (Sekaran and Bougie, 2013). The researcher is satisfied that all persons who were approached to participate in the study were willing to participate without hesitation and completed all questionnaires. The findings can therefore be generalised as justifiable on this basis.

### **3.8 Pretesting Questionnaires**

Pretest refers to the preliminary testing the instrument used for measurement to identify any errors before the instrument is used on all participants (Sekaran and Bougie, 2013). This is to ensure that the questions would be easily understandable and can be answered within a given time frame. The researcher conducted a pretesting exercise on eight (8) participants who met the criteria at the Metro offices. All the participants responded to the questions without any glitches and the questionnaire was therefore not amended post pre-testing.

### **3.9 Bias Minimisation**

During data collection, the researcher encountered on a few instances where some participants would request that the researcher discusses each question contained in the questionnaire prior to responding. The researcher would politely inform those participants that the responses must be provided independently of the researcher in order to remove any form of biasness. The researcher would, however, broadly discuss the study topic including study objectives without influencing the responses. Data collector biases was also minimised by ensuring that the researcher was the only person who administered the questionnaire and data collection was without the aid of assistants.

### **3.10 Ethical Considerations**

Conducting research requires several ethical issues to be considered to ensure impartiality of the researcher, honesty, due diligence and highest degree of integrity.

Written permission to conduct this study was obtained from eThekweni Metropolitan Municipality Head of Supply Chain, and Humanities & Social Research Ethics Committee at University of KwaZulu Natal (UKZN) as per (appendix 2). Verbal communication was also obtained from the Manager Supply Chain for data collection and questionnaire distribution during the tender opening and closing sessions which takes place every Friday, the period set for data collection was 21 October 2016 to 11 November 2016.

In the study, anonymity and confidentiality of the participants was ensured and rights of the participants to withdraw at any time from the study or not to respond to any particular question was observed, including obtaining informed consent prior to the participant responding to the questionnaire. The participants were informed about the study objectives, the process to be followed for data collection and were further advised that there was no financial benefit for participating in the study.

The participants were informed that the study results will not reveal their identities and no identity information were captured into the questionnaires. The participants were also treated professionally as independent representatives. They were informed about the study and were allowed to participate voluntarily, with a right to withdraw at any time should they so desire. The researcher contact details were also provided to the participants, including details of the UKZN ethics office and study supervisor should the participants wish to pose further questions or lay any particular complaint about the manner in which the study was conducted.

The researcher also recorded the answers truthfully in the manner in which they were provided by the participants without any manipulation of data.

### **3.11 Data Analysis**

Once the data had been collected, it was cleaned by ensuring that all respondents met the criteria to participate in the study and thereafter organised and subjected to an analysis. Statistical Package for social Sciences (SPSS) and STATA 13 were used to analyse the data. Several approaches were used in analysing the data. Firstly, descriptive statistics were used. Principal component analysis was also used to explore the dimensions in the data. Finally, regression analysis was used to explain some causal relationships in the data.

### **3.12 Chapter Summary**

This chapter covered research methodology, population, sample size, data collection, ethical considerations, reliability as well as the validity of the study. The researcher followed a quantitative approach and a descriptive survey design. One set of questionnaire was administered by the researcher personally to collect data from a convenient sample of 105 participants. The questionnaire was closed-ended and was distributed consistently amongst participants and all participants who participated were willing to participate and consented into participating in the study. Permission to conduct the study was obtained from eThekweni Metropolitan Municipality and an ethical clearance was obtained from the ethics office at UKZN. The next chapter is presentation and analysis of data.



## **CHAPTER FOUR**

### **Presentation and Analysis of Data**

#### **4.1 Introduction**

This chapter discusses data analysis and findings from 105 questionnaires that were completed by tender applicants who visited eThekweni Metropolitan Municipality offices for opening and closing of tenders from 21 October 2016 to 11 November 2016. Data analysis comprises of; descriptive statistics, principal component analysis, and regression analysis. The data presentation, analysis, and findings are in line with the purpose and objectives of the study described in Chapter One.

Descriptive statistics findings are discussed in accordance with the sections contained in the questionnaire and with reference to available literature in Chapter Two. The questionnaire contained five sections as follows:

- Part A: Personal data
- Part B: Profile of the participant and his/her business
- Part C: Opinion on the relationship between entrepreneurship and tenders
- Part D: Awareness of government initiatives to develop entrepreneurship
- Part E: General opinions

The last section in this chapter is principal component analysis which is used to explore dimensions in the data and regression analysis which is used to explain some casual relationships in the data.

#### **4.2 Personal Data**

This section is part of the descriptive statistics and covers respondents' age group, gender, number of years in business and highest education qualification. Personal data helped with contextualisation of the findings and formulation of suitable recommendations in developing a sustainable relationship between government contracts and entrepreneurship.

#### 4.2.1. Respondents' Age Group

The respondents were not asked a specific age but were asked to identify their age group. Table 4.1 shows the age group.

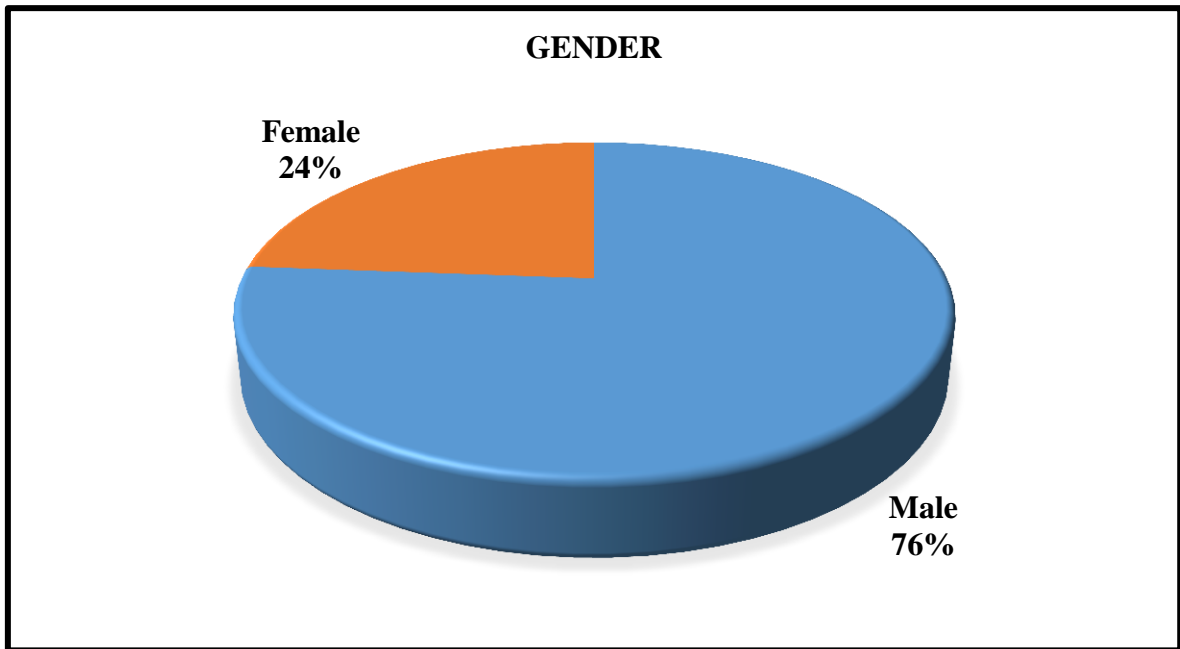
**Table 4.1 Respondents' Age Group**

| <b>Age group in years</b> | <b>Percent</b> |
|---------------------------|----------------|
| 16 – 25                   | 4.76           |
| 26 – 35                   | 22.86          |
| 36 – 45                   | 29.52          |
| 46 – 55                   | 32.38          |
| over 55                   | 10.48          |

The results showed that the age group (16-25) had the least percentage of participants namely (4.76%). The next age group with the least percentage of participants was the (over 55) category with (10.48%). The age group (46-55) represented the highest percentage of participants namely (32.38%) followed by age group (36 – 45) with (29.52%). This depicted an observation by Herrington et al. (2014) that only 7% of adult population in SA is engaged in some form of entrepreneurial activity. Herrington, et al. (2014) further argued that due to underemployment in SA, necessity entrepreneurship should likely increase. Data collected depicted a picture that, young people below age 26 have low entrepreneurial abilities. However, due to underemployment, this rate picks up at age 26 to 55 and drops sharply at retirement age of over 55. The highest activity of tender applicants is at age group 46 – 55 and slows down sharply at retirement age. This may also be linked to high unemployment rate in the country, and may therefore suggest that government tenders are used as an escape from unemployment.

#### 4.2.2 Gender

Respondents were asked to specify their gender and Figure 4.1 below show the gender of respondents:

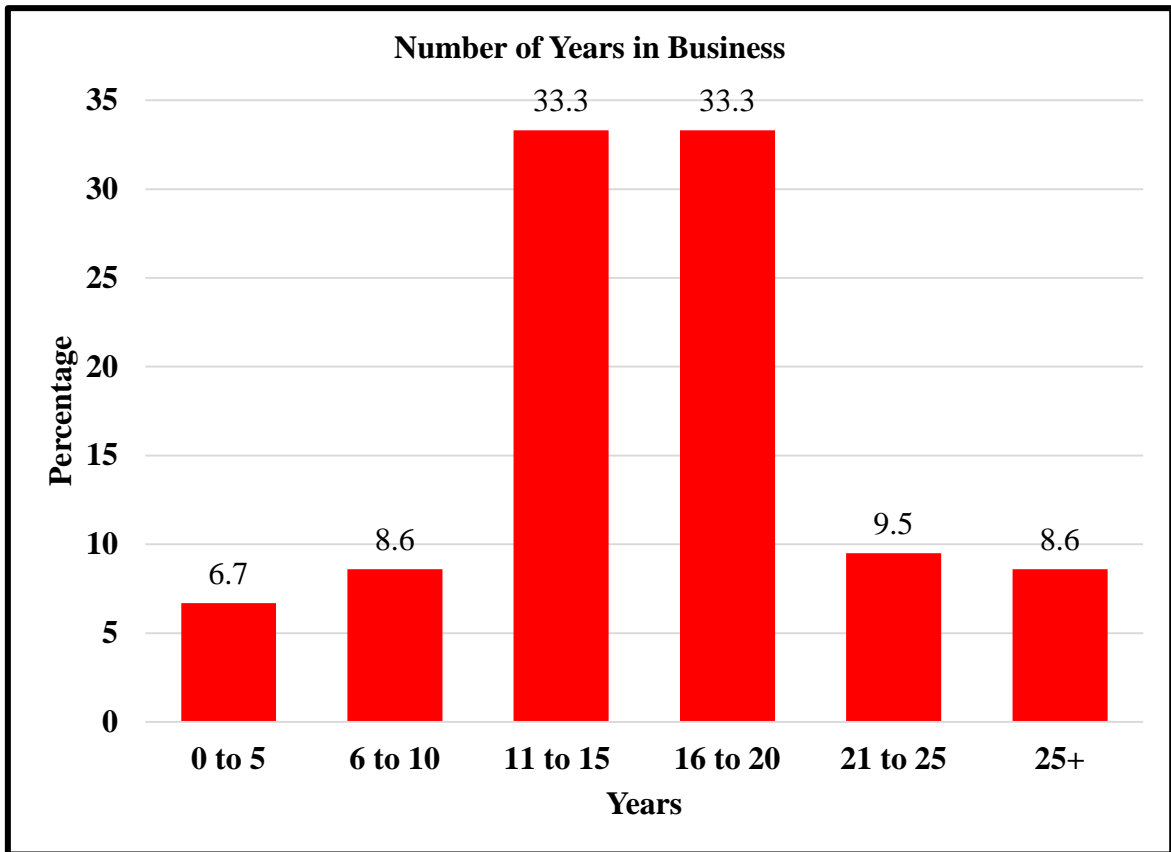


**Figure 4.1: Gender of Participants**

The results showed that (76%) of the respondents were male and only (24%) were female. Studies by, Navale (2013) & Liazo (2016) had a similar observation that male entrepreneurs tended to dominate the business environment compared to their female counterparts. According to Nanda and Sorensen (2010) males are likely to have associated closely with other male entrepreneurs as males already dominate the business environment. Herrington, et al. (2014), however, noted that women entrepreneurship is on the increase due to deliberate government support towards women. (Hansson, 2012) also observed that the likelihood of women becoming entrepreneurs declines with age, whereas the likelihood increases for men as they age.

#### **4.2.3 Number of Years in Business**

The respondents were asked to state their experience in business and Figure 4.2 illustrates business experience between 0 – 5 years to over 25 years business experience:

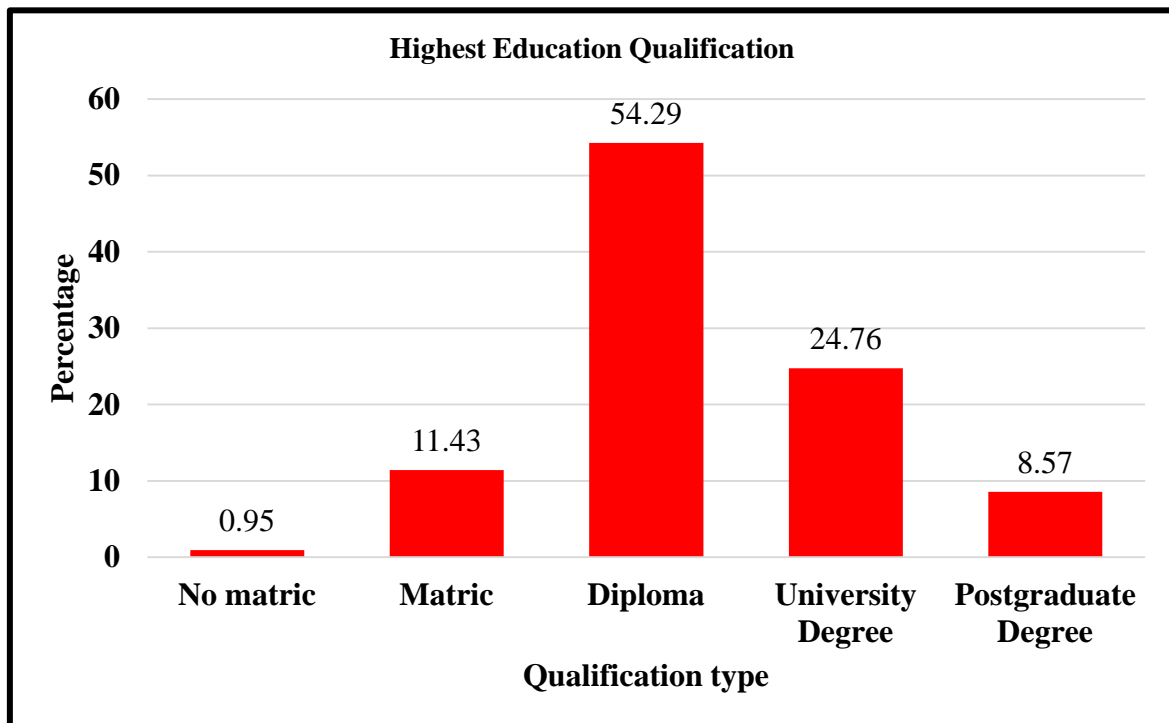


**Figure 4.2: Number of Years Participants are in Business**

The results showed that majority of respondents namely (66.6%) had business experience between 11 to 20 years. Only (9.5%) had business experience between 21 years and 25 years and (8.6%) had over 25 years business experience. Davidson (1991) observed that the ability of an entrepreneur to start up and run a successful business might be directly linked to the amount of business experience acquired. However, this finding may also be attributable to 1997 public procurement reforms which opened up government tenders to the majority of people particularly the previously disadvantaged groups. Arguably, the 66.6% majority may be the first generation of previously disadvantaged people to do business with the state and having had such a head start in government business, the first generation may today out-compete the new players particularly as Mothoagae (2013) observed that tenderpreneurship works on the basis of entrenched patronage networks, which may work for the first generation of tender recipients and against the new players in government tender space.

#### 4.2.4 Highest Education Qualification

Respondents were asked specifically to state their level of highest education at the point of responding to the questionnaire. Figure 4.3 depicts the respondents' highest level of education.



**Figure 4.3: Highest Education Qualification of Participants**

The results showed that most respondents namely (54.29%) had a diploma as their highest education qualification, followed by those who were holders of a university degree (i.e., 24.76%). Those with matric qualification were (11.43%), and those without a matric qualification were less than (1%). Van der Sluis et al. (2008) found that education significantly and positively affected performance of entrepreneurs, which may explain a higher percentage of post matric qualifications obtained by more than 85% of respondents in this study. Furthermore it is observed that in SA better-paying jobs within formal employment are likely to be offered to people who hold post graduate qualifications, while the informal sector jobs or semi-skilled jobs are likely to attract people with at most a matric qualification. This situation may therefore necessitate individuals with a Diploma as the highest qualification to participate more in tender opportunities as a way to earn a means of survival and gateway to economic prosperity.

#### 4.2.5 Summary - Part A

Part A revealed the respondent's age group, gender, the number of years in businesses and highest standard of qualification. Most of the respondents were between the age group 46 – 55 years old, most of them were male, and they possessed 11 – 20 years business experience and had a Diploma as the highest standard of qualification.

#### 4.3 Profile of the Participant and his/her Business

This section comprises of ten questions that were responded to by participants. The questions were about the business profile of the respondents, their business acumen and entrepreneurial abilities

##### 4.3.1 Sector/Industry of Tender Recipients' Businesses

Respondents were asked to specify the industry/ sector in which their businesses were operating. The results are shown in Figure 4.4 below.

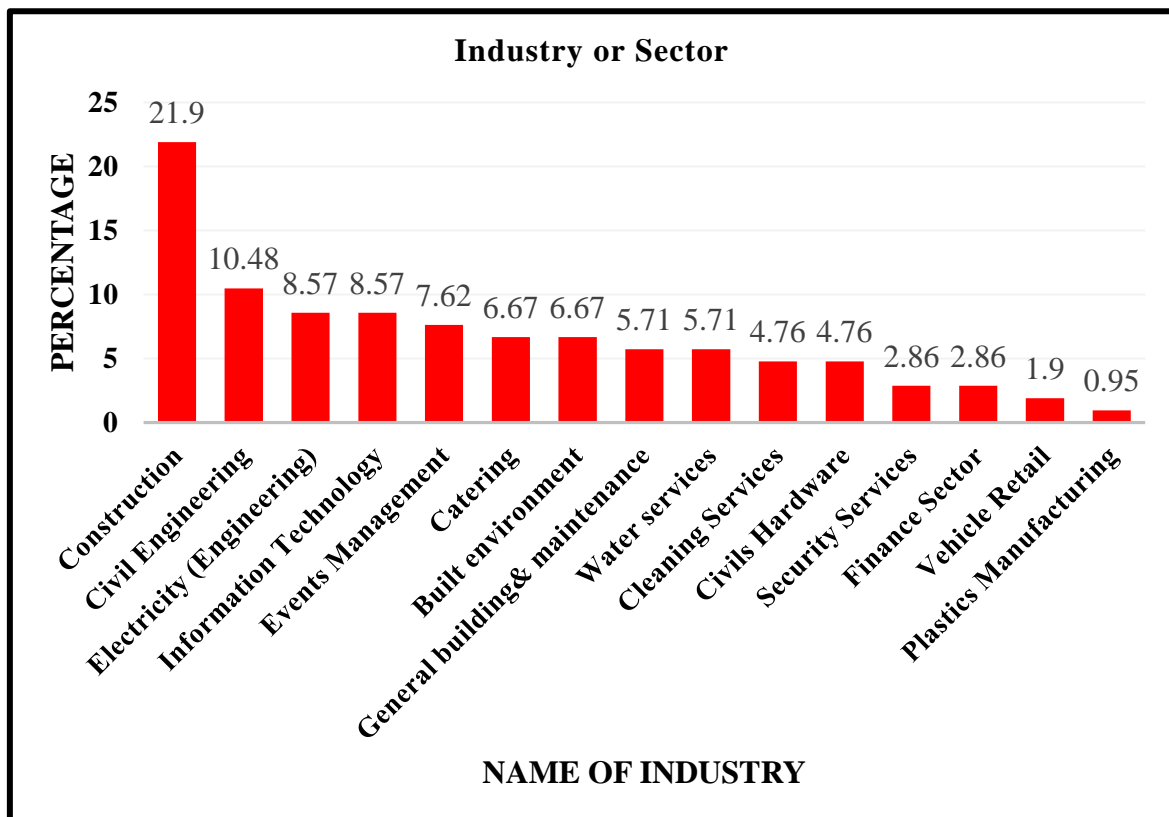
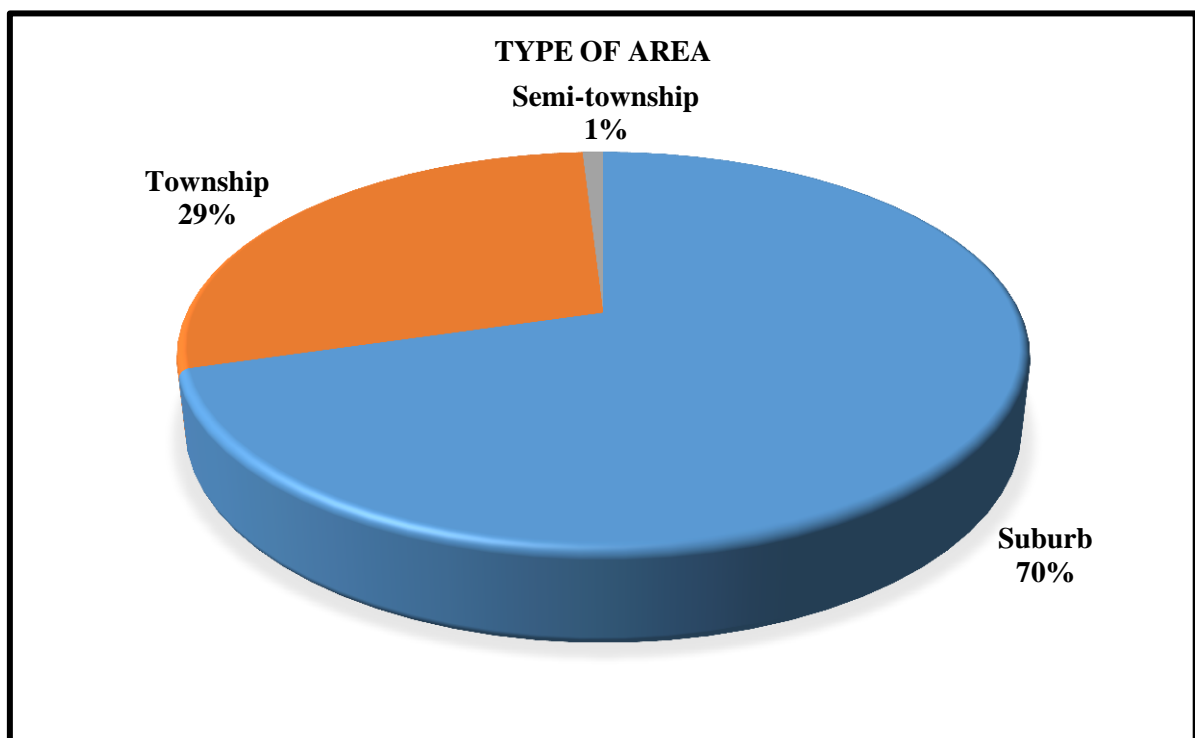


Figure 4.4: Sector/Industry of Tender Recipient's Business

The results in Figure 4.4 revealed that the majority of participants namely (21.90%) were in the construction industry, followed by civil engineering at (10.48%). If the results are analysed in terms of sectors, the construction sector would remain the majority sector encompassing; construction, civil engineering, electrical engineering and built environment with (47.62%) of the respondents. This finding may relate to an observation by Schoeman (2015) that since the 2008 financial meltdown, SA significantly increased its public debt by among other things engaging in massive infrastructure development plans in order to bolster economic growth. This may therefore explain the dominance of the construction sector amongst the participants and by observation eThekweni Metro is also likely to follow the national developmental plans of national of government.

#### **4.3.2 Type of Area the Business is Located**

The respondents were asked to state the area and the type of area within eThekweni Metropolitan in which their businesses were located. Figure 4.5 show the results of the respondents for the type of area.



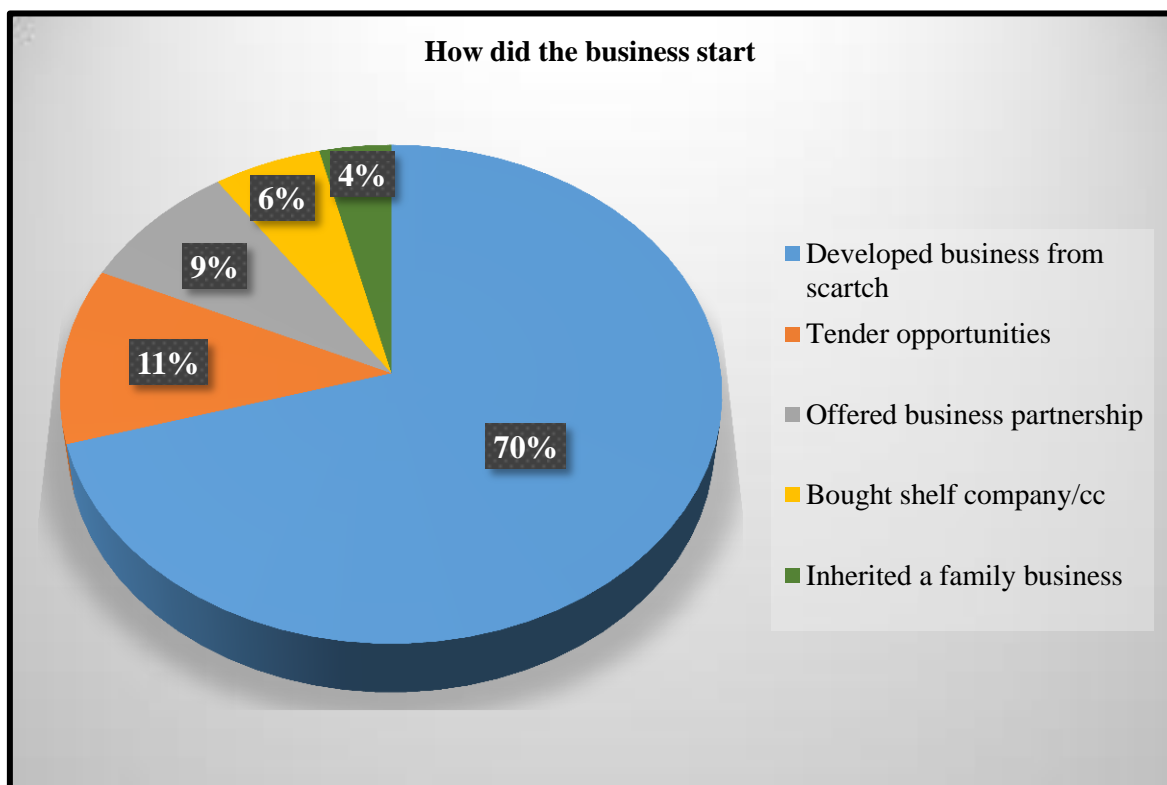
**Figure 4.5: Type of Area in which the Business is Located**

Majority of businesses namely (13%) were located at Umhlanga, closely followed by Pinetown at (12%), then Hillcrest at (8%) and Westville at (7%). uMlazi and kwaMashu

each recorded (3%) of participants. It then follows that Figure 4.5 shows that a Suburb was the majority type of area namely (70.48%) where businesses of the respondents were located. Madi (2016) observed that empowerment policies such as BEE have unintendedly resulted in the decline of black enterprises and the rise of tenderpreneurship with a sharp decline of the township economy. This finding may also suggest that suburban areas are the primary beneficiaries of the investment made in public procurement. One of the reasons to explain this finding could be due to the general migration of people from townships to suburbs post-democracy as they enter the middle-class category.

### 4.3.3 Starting the Business

Respondents were provided with five options to state how they started their businesses. Figure 4.6 illustrate the results.



**Figure 4.6: Indication of how the Tender Recipient's Business Started**

The findings in figure 4.6 revealed that (70.48%) of businesses were developed from scratch by participants, while (11.43%) started their businesses out of tender opportunities. Cuervo et al. (2007) mentioned that an entrepreneur is someone who discovers and



explores opportunities, creating or initiating and motivating the process of change. While the results show that 70.48% of respondents developed their businesses from scratch, which is an attribute of entrepreneurial activity, however, the other attributes of an entrepreneur of creating or initiating and motivating the process of change may not find resonance within government tenders. As observed by ILO (2013), government tenders are strictly regulated by the Constitution, PFMA, MFA and other regulatory frameworks; this high regulation may not bode well for an entrepreneur who is creating or initiating and motivating the process of change in the market. With tenders, government determines the specifications of what must be supplied and these cannot be seen to be favouring a particular supplier or brand. This means that any person interested in supplying government has to modify the product or service in terms of government specifications which may unintendedly stifle entrepreneurial ability and ingenuity.

#### 4.3.4 Respondent's Individual Description as a Business Person

Respondents were asked to describe themselves in pursuit of business whether they are conservative, ambitious, radical, smart, creative, money/profit driven and business growth driven. Table 4.2 shows the participant's individual responses.

**Table 4.2: Respondent's Individual Description as a Business Person**

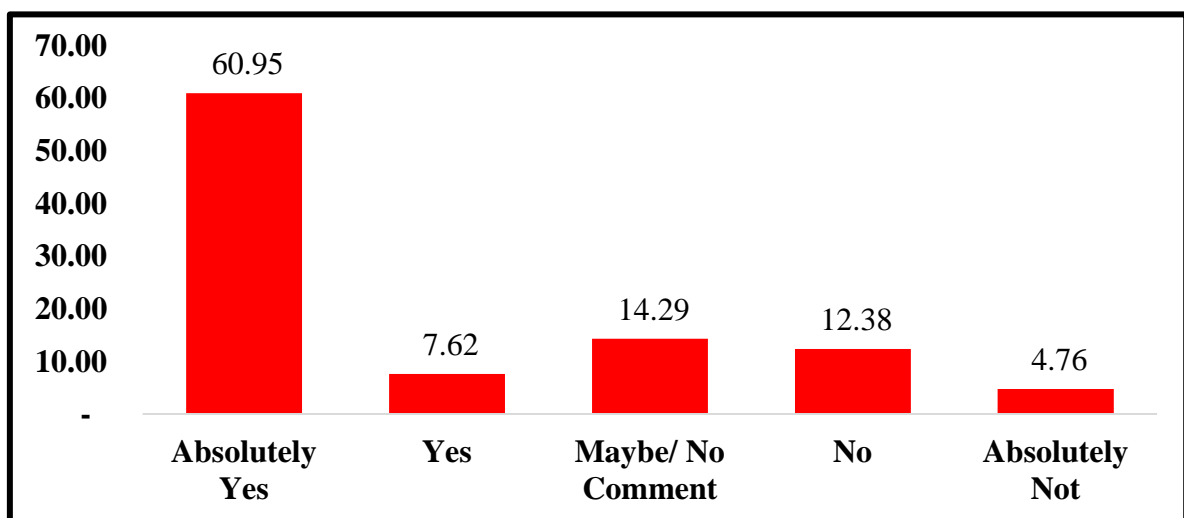
| Description            | Absolutely<br>Yes | Yes          | Maybe / No<br>Comment | No           | Absolutely<br>Not |
|------------------------|-------------------|--------------|-----------------------|--------------|-------------------|
|                        | Percentage %      |              |                       |              |                   |
| Conservative           | 19.05             | 7.62         | 15.24                 | <b>10.48</b> | <b>47.62</b>      |
| Ambitious              | <b>57.14</b>      | <b>15.24</b> | 17.14                 | 4.76         | 5.71              |
| Radical                | 11.43             | 5.71         | 16.19                 | <b>17.14</b> | <b>49.52</b>      |
| Smart                  | <b>60.00</b>      | <b>21.90</b> | 17.14                 | 0.95         | 0                 |
| Creative               | <b>45.71</b>      | <b>13.33</b> | 33.33                 | 6.67         | 0.95              |
| Money/Profit Driven    | <b>80.95</b>      | <b>10.48</b> | 3.81                  | 2.86         | 1.90              |
| Business Growth Driven | <b>69.52</b>      | <b>11.43</b> | 13.33                 | 4.76         | 0.95              |

The majority of respondents (58.1%) stated that they are not conservative, but rather very ambitious (72.38%). However, that ambition lacks the appetite for risk taking, where

(66.66%) of participants stated that they are not radical which is arguably one of the attributes of entrepreneurial activity. 81.90% of participants also responded that they are smart and they are money/profit driven (91.43%), while at the same time they are business growth driven (80.95%). Pendergast (2003) observed that the personality traits associated with an entrepreneur are; inquisitiveness and opportunity recognition, risk propensity, creativity, innovative, individualism, niche craft, networking, persistence, and determination. The regulations in public procurement may not support the need for creativity where 59.04% of participants viewed themselves to be creative; this is because government is descriptive in its specification for the product or service it wants to procure. The decision to grant a particular supplier a tender is also in terms of section 217(2) of the constitution influenced by the price quoted which unintentionally forces suppliers to quote lower in order to be favourable for the tender (Magoro and Brynard, 2010). This may therefore not positively support creativity or smartness that usually characterises personality traits of an entrepreneur. The ambition of participants may be attributable to intense competitiveness when seeking tenders. Even though participants are business growth driven, however, being money driven at the same is not a positive attribute of entrepreneurial activity.

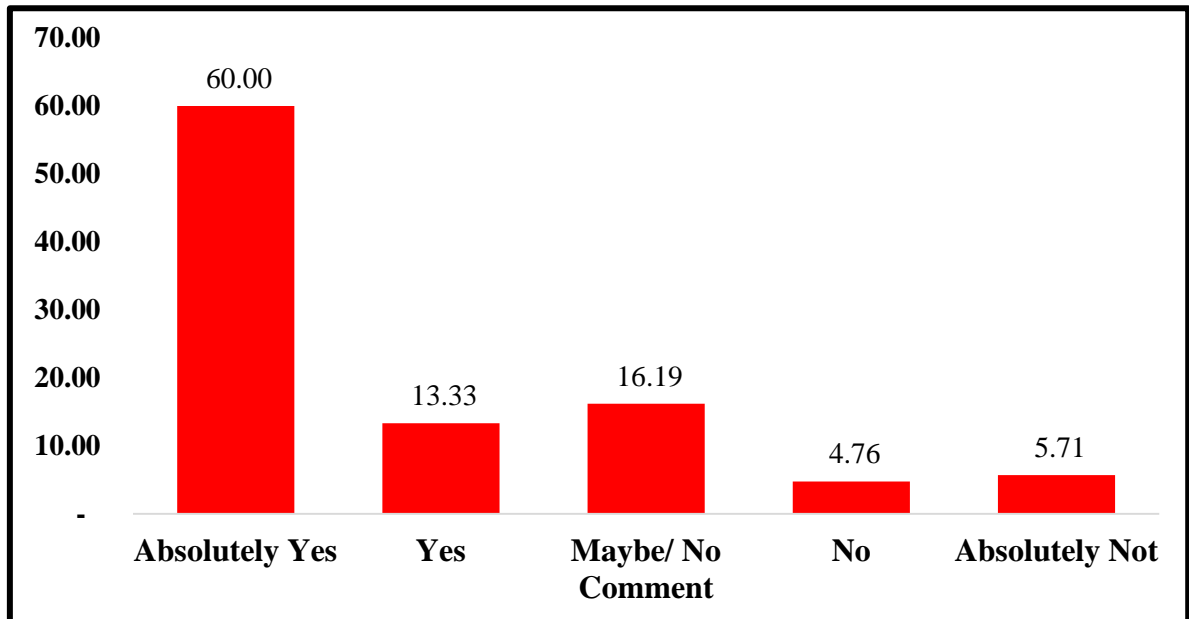
#### 4.3.5 Respondents' View about Being in Business

Respondents were asked to state their views about being in business on two scales shown below in Figure 4.7 and Figure 4.8:



**Figure 4.7: Respondent's View Regarding Making Money/Profit Immediately**

A total of (68.57%) of the respondents were in business to immediately make money/profit, while (17.14%) of them were not driven in the same manner.



**Figure 4.8: Respondent's View Regarding Creating Long-term Sustainability**

The results showed that a total of (73.33%) of participants had the business view of creating long-term sustainability within their businesses. Only (10.47%) of the participants indicated that they were not of the view of creating long-term sustainability. Ahmad and Seymour (2008) observed that an entrepreneur is a person or business owner who seeks to generate value through the creation of economic activity by identifying and exploiting new products, processes or markets. While value creation as identified by Ahmad and Seymour (2008) correlates with long-term sustainability of which 73.33% of respondents identified with this characteristic of entrepreneurship, however, the characteristic of the need to seek to generate value does not correlate with the view shared by 68.57% of respondents who entered business with the view to make profit immediately. Also chasing immediate profits does not correlate with creating long-term sustainability in business. This does not take away the critical aspect of making profit in business, however, when the desire is to create value, the motive does not become profit immediately, however, the value that would have been created and sustained, creates sustainable profits in the longer term.

#### 4.3.6 Decisions Made by Participants when Businesses Make Profit

Respondents were asked to state the decisions they would take when their business does well and makes a profit. Table 4.3 illustrate the results.

**Table 4.3: Decisions Made by Participants when Businesses Make Profit**

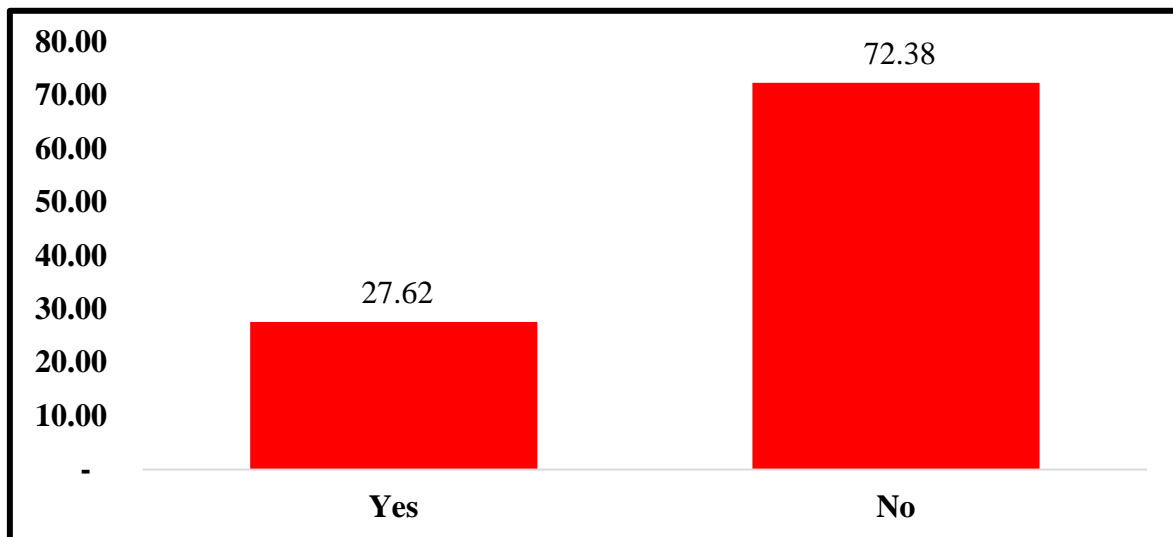
|                                       | Absolutely<br>Yes | Yes         | Maybe/ No<br>Comment | No           | Absolutely<br>Not |
|---------------------------------------|-------------------|-------------|----------------------|--------------|-------------------|
| Indicator                             | Percentage%       |             |                      |              |                   |
| Spend the profit made                 | <b>71.43</b>      | <b>2.86</b> | 8.57                 | 3.81         | 13.33             |
| Reinvest back into the<br>business    | <b>60.95</b>      | 17.14       | 18.10                | 2.86         | 0.95              |
| Invest on research and<br>Development | 24.76             | 10.48       | 22.86                | <b>20.95</b> | <b>20.95</b>      |
| Spend it on employee<br>development   | 15.24             | 16.19       | <b>39.05</b>         | 16.19        | 13.33             |
| Donate to charity                     | 9.52              | 2.86        | 7.62                 | <b>7.62</b>  | <b>72.38</b>      |

Table 4.3 found that (74.29%) of the participants would spend profit made by their businesses. At the same time (78.09%) indicated that they reinvested profits back into their business. On Research and Development (R&D), (41.90%) of participants would not invest on R&D. 39.05% of the participants were unsure whether spending profits made on employee development was good for business whereas only (31.43%) of participants would spend profits on employee development. 80% of the participants did not believe in donating profits made to charity. Ahmad and Seymour (2008) had defined entrepreneurial activity “as the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes, and markets.” This definition suggests that the creation of value is through identification of new products or markets which would then require greater investment on R&D for which (41.90%) of participants did not think this investment was critical for business growth. Even though (78.09%) of participants indicated that they would reinvest profits made back into the business, at the same time, (29.52%) of participants did not support spending profits made on employee development and (39.05%) were unsure. It is observed that an investment on employee development together with investment on R&D

is a positive attribute of entrepreneurial activity. 74.29% of participant also indicated that profits made were generally spent on personal needs. This finding may arguably suggest that profits made on tenders are generally for consumption purposes and not economic development and expansion.

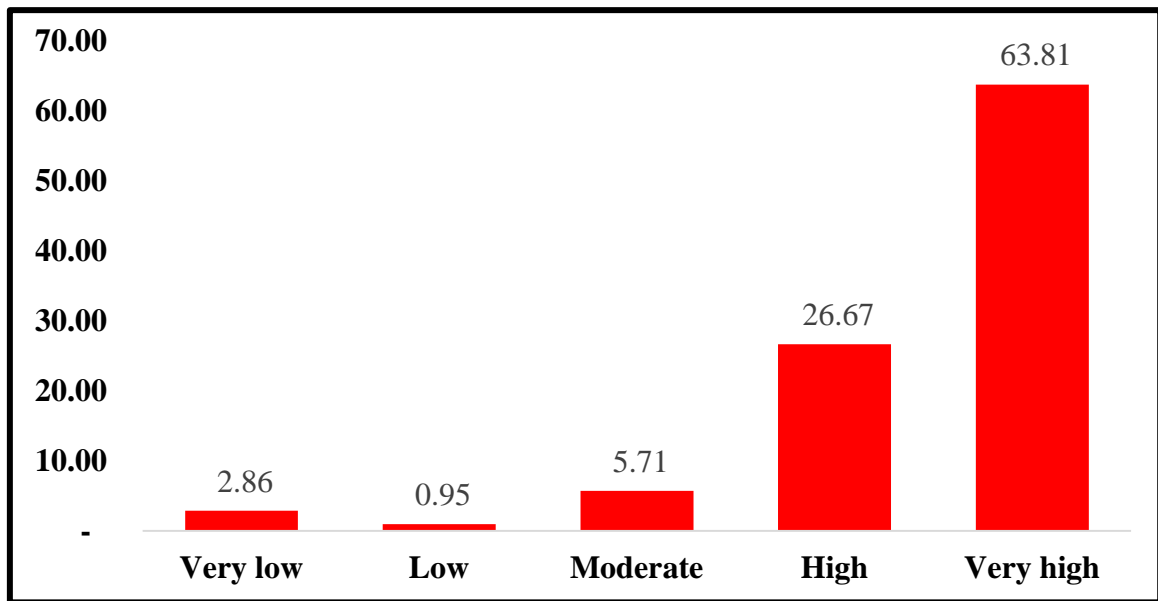
#### 4.3.7 Participants Business Reliance on Government Tenders

Respondents were asked to indicate if their businesses would survive without government tenders, and to what degree are the businesses then reliant on tenders. Figures 4.9 and 4.10 illustrate the results.



**Figure 4.9: Business Survival without Government Tenders**

A total of (72.38%) of participants indicated that their businesses could not survive without government tenders and only (27.62%) of participants indicated the opposite.



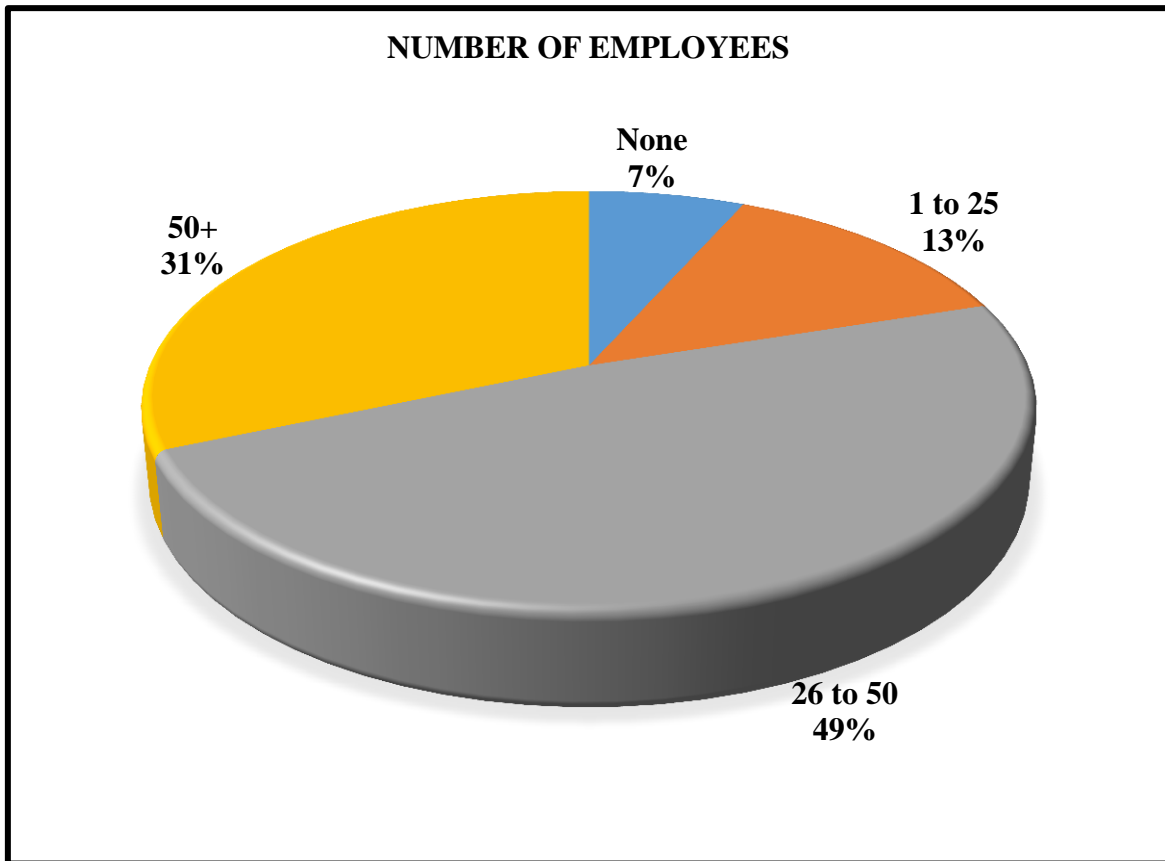
**Figure 4.10: Business Dependence on Government Tenders**

Figure 4.10 indicated that there was a very high dependence on government tenders/ contracts (i.e., 90.48%) for business survival.

The results illustrated in Figure 4.9 and Figure 4.10 showed that most participants were mainly in business to supply goods and service to the state. A total of 72.38% of participants indicated that their business would collapse without government tenders; at the same time participants also stated that their businesses are 90.48% dependent on government tenders for income. Given such high dependence on government tenders, it may be argued that businesses which tender for government contracts were started with this sole purpose in mind. Such high dependence may have traces of tenderpreneurship to which Penfold (2012) observed that tenderpreneurship cannot be associated with supporting entrepreneurship particularly because tenderpreneurship is associated with nepotism and culture of entitlement which are attributes that are opposite to the characteristics of entrepreneurial activity.

#### **4.3.8 Number of Employees in Participants' Businesses**

Participants were asked to state the number of employees they employ between 0, (1 – 25), (26 – 50), and more than 50 categories. Results are illustrated in Figure 4.11.



**Figure 4.11: Number of Employees in Participants' Businesses**

49% of participants' businesses each had number of employees in the '26-50' category, followed by the 'more than 50' category at (31.43%) and the '1-25' category had (13.33%). Less than (7%) of tender recipients did not have any employees. Awogbenle and Lwuamadi (2010) observed that entrepreneurship in Africa can be the driving force to enhance employment. However, the greatest challenge facing tender recipients is in the area of late payment by governments (Arzeni, 1997). As observed in figures 4.9 and 4.10 where most tender recipients derived income mainly from government contracts; the question that should be asked is how does late payment affect payment of salaries? An argument could also be advanced that majority of employees who work for tender recipients are not permanent employees particularly since they are mainly within the construction industry. This may also correlate to a finding observed in (Table 4.3) where participants indicated that they spend profits made on their personal wellbeing as opposed to investing on employee development.

#### **4.3.9 Summary - Part B**

Part B revealed that most respondents namely (21.90%) were in the construction sector, most of their businesses namely (70.48%) were located in suburban areas. Majority of participants (70.48%) started their businesses from scratch, and in terms of pursuit of business (58.1%) of participants believed they were not conservative, (72.38%) of participants believed they were ambitious, however, (66.66%) of the respondents did not have an appetite for risk taking. The majority of participants namely (81.90%) believed they were smart and most of them namely (59.04%) viewed themselves to be creative. The majority of participants namely (91.43%) were money driven, while also (80.95%) of participants were business growth driven. A total of (68.57%) of participants were in business to make money/profit immediately, while at the same time (73.33%) of participants had the view of creating long-term sustainability. Regarding profit spending, (74.29%) of participants spent profit made on personal wellbeing, however, (78.09%) of participants also responded that they would reinvest profit made in the business. 41.90% of participants, however, indicated that they would not invest on R&D. 39.05% of participants were unsure about spending profits on employee development and (29.52%) indicated they would not invest on employee development. 72.38% of participant indicated their business would not survive without government contracts and respondents' businesses were (90.48%) dependent on government tenders for income. The majority of businesses namely (48.57%) employed between 26 – 50 people.

#### **4.4 Opinion on the Relationship between Entrepreneurship and Tenders**

This section recorded the participants' opinions on the relationship between entrepreneurship and government tenders covering eight questions that were asked, requesting participants to state either; Absolutely Yes, Yes, Maybe/No-Comment, No, Absolutely Not. Table 4.4 shows the results on the indicators that were used in the survey to gather the information.



**Table 4.4: Opinion on the Relationship between Entrepreneurship and Tenders**

| Indicator   | Absolutely Yes | Yes   | Maybe/<br>No<br>Comment | No    | Absolutely Not |
|---|----------------|-------|-------------------------|-------|----------------|
|   | Percentage     |       |                         |       |                |
| Are tenders awarded fairly?   | 12.38          |       | 11.43                   | 8.57  | 67.62          |
| Are tender recipients, entrepreneurs who are driven by innovation and growth?         | 2.86           | 1.90  | 7.62                    | 9.52  | 78.10          |
| Is it relatively easy to get a tender without any political connections?              | 16.19          | 8.57  | 32.38                   | 9.52  | 33.33          |
| Are tender recipients' entrepreneurs in their own right?                              | 5.71           | 6.67  | 4.76                    | 8.57  | 74.29          |
| Do you think tender recipients would survive without tenders?                         | 1.90           | 1.90  | 3.81                    | 6.67  | 85.71          |
| Are tenders used as a get rich quick scheme?  | 24.76          | 7.62  | 53.33                   | 3.81  | 10.48          |
| Do tender recipients invoice government higher than they invoice on private business? | 23.81          | 6.67  | 38.10                   | 9.52  | 21.90          |
| Are tender recipients experiencing business growth?                                   | 10.48          | 14.29 | 40.00                   | 11.43 | 23.81          |

*Are tenders awarded fairly?*

A total of (76.19%) of participants believed that tenders are not awarded fairly. This finding is in spite of the strict regulation that characterises the awarding of tenders as

observed in the SCM Policy of the Metro (eThekweni, 2016). This finding also correlate to observations by, Penfold (2012), Mothoagae (2013) and Madi (2016) who had all argued that tenderpreneurship prevents the much-needed rise of entrepreneurial activity because tenderpreneurship is characterised by nepotism, and patronage networks (Penfold, 2012). This may indicate that for a non-connected person, barriers of entry are particularly high especially with larger tenders. A person has to be known in the right political circles in order to be awarded a tender of a significant value (Madi, 2016).

*Are tender recipients, entrepreneurs who are driven by innovation and growth?*

A total of (85.72%) of participants did not believe that tender recipients are entrepreneurs who are driven by innovation and growth. Findings in Table 4.2 indicated that in their individual capacities, participants believed that they are smart (81.90%), creative (59.04%), and business growth driven (80.95%). It would be accepted that each person would want to view himself/herself in the best way possible; however, when they view the same question on the broader culture and practices within tendering, participants in their majority namely (85.72%) did not believe that there is any sense of innovation/creativity and business growth within tendering. This is further supported by (Penfold, 2012) who observed that tenderpreneurship prevents the potential for other entrepreneurs who are not connected from thriving.

*Is it relatively easy to get a tender without any political connections?*

A total of (42.85%) of participants believed it was not easy to be awarded a tender without any political connections, whereas (32.38%) of participants were in between or chose not to comment on this question. In the period after 1994, aspiring black entrepreneurs were affected by the notion of needing to be politically connected in order to get a business off the ground and receive government support (James, 2015). Through an observation of Table 4.4, majority of the respondents were of the notion that tenders are awarded on the basis of political connections. The notion of being connected seems to have created the perception which resonates with people at large.

*Are tender recipients' entrepreneurs in their own right?*

A total of (82.86%) of participants did not believe that tender recipients are entrepreneurs in their own right. This finding is indicative of what Penfold (2012), Mothoage (2013), Madi, (2016) and James (2015) termed tenderpreneurship. The general belief by participants who themselves are tender recipients was that tender recipients are not entrepreneurs, this can only mean that they fit the definition of tenderpreneurship to some degree. James (2015) observed that tenderpreneurship prevents the breakthrough of entrepreneurship and entrepreneurial activity.

*Do you think tender recipients would survive without tenders?*

A total of (92.38%) of participants did not believe that tender recipients would survive without government tenders. This finding is supported by James (2015) who highlighted the main characteristics of tenderpreneurs, that they are politically connected people who established companies with the sole purpose of being involved in submitting bids for government contracts. Once contracts have been received, the wealth received is used on consumption and leading lavish lifestyles (James, 2015).

*Are tenders used as a get rich quick scheme?*

A total of (53.33%) of participants chose not to comment whether tenders are used as a get rich quick scheme or not. However, (32.38%) of respondents believed that tenders are used as a get rich quick scheme. Even though the majority of respondents namely (53.33%) chose not to comment on this question, however (32.38%) who believed that tenders were used as a get rich quick scheme represent a serious indictment that relates with how James (2015) characterised tender recipients and their intentions in doing business with the state. In James (2015) viewpoint, politically connected people form companies to tender for government contracts and the wealth received thereon is consumed through lavish lifestyles.

*Do tender recipients invoice government higher than they invoice on private business?*

38.10% of participants chose not to comment on this question, whereas (31.42%) did not believe that government is invoiced higher than private business would have been invoiced by the tender recipients and (30.42%) believed government is invoiced higher than private business. The results were inconclusive in terms of responses received from participants. This may be because in terms of PFMA a bid is not advertised stating the budget available for the tender and therefore bidders may be tempted to quote lower in a bid for tender in order to be competitive during the selection process and in line with s217(2) of the constitution. The instances in which bidders are likely to be emboldened on the price to be quoted is when a larger tender is driven through a patronage network (James, 2015).

*Are tender recipients experiencing business growth?*

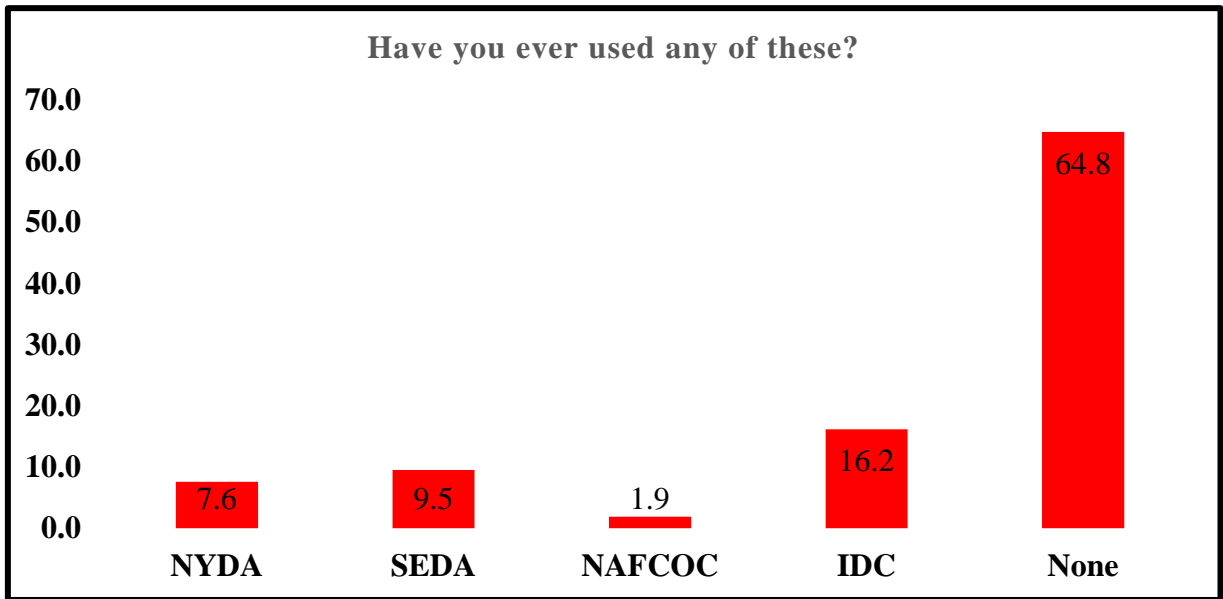
40% of participants chose not to comment whether tender recipients were experiencing business or not, whereas (35.24%) believed tender recipients were not experiencing business growth and (24.77%) believed tender recipients were experiencing business growth. Even though (40%) of participants elected not to comment on this question, however, in regard of (35.24%) of participants who believed that tender recipients were not experiencing business growth becomes a significant value compared to (24.77%) who believed tender recipients were experiencing business growth. One of the reasons this belief could be shared by (35.24%) of participants could be related to the issue of late payment for work done in the tendering space which could in the long run discourage a tender recipient from bidding for more tenders or force them to seek work opportunities somewhere else or simply subcontract on bigger tenders where there is almost certainty that money will be paid on time Arzeni (1997). Another reason could be due to high barriers to entry on higher valued tenders as they are likely to be run through a patronage network compared to tenders of smaller values (James, 2015).

#### **4.4.1 Summary - Part C**

This section revealed that (76.19%) of participants believed tenders are not awarded fairly, whereas (85.72%) of participants did not believe that tender recipients are entrepreneurs who are driven by innovation and growth, and (42.85%) of participants believed it is not easy to be awarded a tender without any political connections. A total of (82.86%) of participants did not believe tender recipients are entrepreneurs in their own right, whereas (92.38%) of participants did not believe that tender recipients would survive without government tenders. A total of (53.33%) of participants chose not to comment whether tenders are used as a get rich quick scheme or not. However, at the same time (32.38%) of respondents believed tenders are used as a get rich quick scheme. 38.10% of participants did not comment whether government is invoiced higher compared to a private business, however, (31.42%) did not believe that government is invoiced higher and (30.42%) believed the government is invoiced higher. 40% of participants chose not to comment whether tender recipients were experiencing business growth and (35.24%) believed tender recipients were not experiencing business growth.

#### **4.5 Awareness of Government Initiatives to Develop Entrepreneurship**

The participants were asked to indicate their awareness of various government initiatives to develop entrepreneurship. In particular they were asked if they had used any of the initiatives available to support their businesses. Results illustrated in Figure 4.12 shows the choices that were made by the respondents.



**Figure 4.12: Awareness of Government Initiatives to Develop Entrepreneurship**

Most of the respondents namely (64.8%) indicated that they had not used any government initiative to support their business development. Amongst the initiatives that were however, used IDC accounted for (16.2%) of participants, followed by SEDA at (9.5%) and NYDA at (7.6%). Yu (1997) observed that a government is capable of intervening in the market directly to such an extent that it exhibit traits of an entrepreneurial state. This may mean that there is no space for suppliers of an entrepreneurial state to focus on business development as their energies are instead directed at doing work for an entrepreneurial government. Arguably there could be traces of that in SA as government directly controls 29% of the economy through public procurement (Turley and Perera, 2014). All a business has to do is to bid for as many government tenders as possible to stay in business.

#### **4.6 General Opinions**

The research further asked participants general opinions regarding tenders. Table 4.5 shows the results on the indicators that were used in the survey to gather the information.

#### 4.6.1 General Opinions Regarding Tenders

**Table 4.5: General Opinions Regarding Tenders**

| Indicator   | Very poor  | Poor  | Average/<br>No<br>Comment | Good  | Very<br>Good |
|---|------------|-------|---------------------------|-------|--------------|
|   | Percentage |       |                           |       |              |
| Rating the level of tax compliance amongst tender recipients              | 75.24      | 1.90  | 17.14                     |       | 5.71         |
| Rating the level of eliminating tender irregularities                     | 56.19      | 8.57  | 26.67                     | 2.86  | 5.71         |
| Rating the level of government getting value for money on tenders awarded | 17.14      | 5.71  | 27.62                     | 29.52 | 20.00        |
| Rating the level of economic spin-offs for tenders awarded                | 9.52       | 10.48 | 33.33                     | 22.86 | 23.81        |

The results indicated that (77.14%) of participants believed that the rate of tax compliance amongst tender recipients is poor. An observation is made that one of the preconditions for a tender applicant to be considered for a tender is to be in the position of a valid tax clearance certificate from SARS (eThekwini, 2016). It would therefore be interesting to observe if all tax clearance certificates used to apply for tenders were indeed valid, or if perhaps the tender applicant only complied with SARS when applying for a tender and renegade on tax once the tender had been granted. A total of (64.76%) of participants held a view that the level of eliminating tender irregularities is poor in spite of various pieces of legislation available to regulate public procurement (ILO, 2013). However, there might be a general lack of political will to eliminate tender irregularities as tenders have been observed to be driven by patronage networks (James, 2015). The majority of participants namely (49.52%) had also rated the level of government getting value for money to be good and (46.67%) of participants held a view that the level of economic spin-offs for tenders awarded is good. This finding is in line with the OECD observation that public procurement can drive growth if it is not organised merely as an administrative function but organised as a strategic function (Ahmad and Seymour, 2008). In SA, public

procurement is strategically driven with the objective of encouraging SMME development, creation of jobs and reduction of unemployment (Ministry of Finance and Public Works, 1997).

#### **4.6.2 Summary - Part E**

This section revealed that (77.14%) of the participants held an opinion that the rate of tax compliance amongst tender recipients is poor and (64.76%) of participants held an opinion that the level of eliminating tender irregularities is poor. However, A total of (49.52%) of participants held an opinion that the level of government getting value for money on tenders awarded is good and (46.67%) of participants held an opinion that the level of economic spin-offs on tenders awarded is good.

#### **4.7 Analyses - Principal Component Analysis**

***Objective 1:** Examine the tender recipients' opinions on the relationship between government tenders and entrepreneurship using principal component analysis*

Principal Component Analysis (PCA) was used to explore the dimensions on the opinions of participants (Table 4.6 and Table 4.6.1). The Kaiser-Meyer-Olkin (KMO) and Bartlett's sphericity tests were performed to determine whether the dataset could be factored. The KMO measure was 0.66 and Bartlett's sphericity test were significant ( $p < 0.001$ ). These results suggest that the variables could be factored since the variables had some form of relationship. In the survey, the participants were asked on several indicators regarding their opinion on the relationship between entrepreneurship and government tenders. Six principal components were extracted and these explained for 90.87% of the variation in the dimensions of opinions of the entrepreneurs. The rotation method used to improve interpretation of the PCs was Varimax with Kaiser Normalization. The factor loading less than the value of 0.3 were suppressed. These principal components were used to profile the participants based on the opinions on the relationship between entrepreneurship and government tenders. According to Pendergast (2003), the entrepreneurial profile may be made up of a mutually supportive cluster of traits.



**Table 4.6: PCA - Relationship between Entrepreneurship & Tenders**

| Component           | TM*   | NTM   | IN    | BGM   | FM    | NPM   |
|---------------------|-------|-------|-------|-------|-------|-------|
| Initial Eigenvalues | 2.83  | 1.36  | 1.01  | 0.86  | 0.69  | 0.53  |
| % of Variance       | 35.33 | 16.95 | 12.59 | 10.73 | 8.63  | 6.64  |
| Cumulative %        | 35.33 | 52.28 | 64.87 | 75.60 | 84.23 | 90.87 |

\*TM = Tender Minded; NTM = Non-Tender Minded; IN = Innovative Minded; BGM = Business Growth Minded; FM = Fair Minded;

NPM = Non-Politically Minded

**Table 4.6.1: Opinion on the Relationship between Entrepreneurship & Tenders**

| Component   | TM*   | NTM   | IN    | BGM    | FM     | NPM   |
|---|-------|-------|-------|--------|--------|-------|
| Are tenders awarded fairly  |       |       |       |        | 0.915  |       |
| Are tender recipients, entrepreneurs who are driven by innovation and growth?         |       |       | 0.830 |        | 0.304  |       |
| Is it relatively easy to get a tender without any political connections?              |       |       |       |        |        | 0.964 |
| Are tender recipients' entrepreneurs in their own right?                              |       | 0.572 | 0.670 |        |        |       |
| Do you think tender recipients would survive without tenders?                         |       | 0.936 |       |        |        |       |
| Are tenders used as a get rich quick scheme   | 0.766 |       |       | -0.336 | -0.341 |       |
| Do tender recipients invoice government higher than they invoice on private business? | 0.879 |       |       |        |        |       |
| Are tender recipients experiencing business growth?                                   |       |       |       | 0.967  |        |       |

\*TM = Tender Minded; NTM = Non-Tender Minded; IN = Innovative Minded; BGM = Business Growth Minded; FM = Fair Minded;

NPM = Non-Politically Minded

Extraction Method: Principal Component Analysis

Rotation method: Varimax with Kaiser Normalization

Kaiser-Meyer-Olkin Measure of sampling adequacy = 0.66

Bartlett's Test of Sphericity: df = 28.00; Approx. Chi-Square = 188.15; Sig. = 0.000

**‘Tender-minded entrepreneur’-** The first principal component (PC) accounted for (35.33%) of the variation in the participants’ opinion on the relationship between entrepreneurship and government tenders. The PC showed participants holding the opinions that tender recipients were using tenders as a get rich quick scheme, and that tender recipients do invoice the government higher than they invoice on private business.

This PC was named ‘tender-minded’ entrepreneur. This dimension is consistent to an observation by James (2015) that politically connected people form companies with the sole purpose of bidding for government contracts. This was further supported by Penfold (2012) who highlighted that politically connected people or tenderpreneurs may prevent non-connected entrepreneurs from making a significant mark within public procurement. Therefore in the current environment in which business people are becoming highly depending on tender opportunities, this component may represent the profile of entrepreneurs who according to Pendergast (2003) are opportunity-orientated.

**‘Non-tender minded entrepreneur’-** The second PC was intuitively named the ‘non-tender minded’ entrepreneur and accounted for 16.95% of the variation in the participants’ opinions on the relationship between entrepreneurship and government tenders. This PC had dominant positive component loadings on the responses to: ‘Are tender recipients’ entrepreneurs in their own right?’ and ‘Do you think tender recipients would survive without tenders?’ Pendergast (2003) observed an entrepreneurial context of Unstructured, Uncertain, entrepreneurial traits of independence, self-starting, internal locus of control and individualism, which are traits consistent with this dimension as this principal component accounts for respondents who are not tender-minded.

**‘Innovative minded’-** The third PC had dominant positive loadings on the indicators: ‘Are tender recipients, entrepreneurs who are driven by innovation and growth?’ and ‘Are tender recipients’ entrepreneurs in their own right?’ This PC, which accounted for (12.59%), was called ‘innovative minded’ entrepreneur. The entrepreneurial traits mentioned by Pendergast (2003) which fall under the Unstructured, Uncertain entrepreneurial context, are consistent with this dimension as this principal component accounts for innovative minded respondents. However, the space for innovation within the tendering system is arguably very limited. This is because government in terms of PFMA determines the specifications of the product or service it wishes to procure before inviting bids from interested suppliers, such specifications cannot also be favouring a particular product or brand (eThekwini, 2016). This also means that government cannot directly approach an entrepreneur who may have introduced a new product or service in the market

and even if the government ends up procuring that particular product, the supply thereof may be through a well-connected middle man.

**‘Business growth-minded’** - The fourth PC which accounted for (10.73%) was called ‘business growth-minded’ entrepreneur. The PC had a positive loading on the indicator that enquired about whether the tender recipients are experiencing business growth. The component had a negative factor loading on the indicator that sought to find out whether the tenders are used as a get rich quick scheme by recipients. Entrepreneurs who supply government are however, affected by late payment for goods or services supplied, and this particularly affects small scale suppliers who may not be connected (Arzeni, 1997). However these groups of suppliers are characterized by being persistent and determined which Pendergast (2003) identified these traits under the Resource Scarcity entrepreneurial context. Late payment coupled with the rush to submit the next bid for another tender in order to remain in business may affect the business growth of tender recipients. Particularly because for a non-connected person, there is a low probability of being awarded a tender of a significant size as those are likely to be awarded through patronage networks (James, 2015).

**‘Fair-minded entrepreneur’** - The fifth PC accounted for (8.63%) and had positive factor loadings on the indicators ‘Are tenders awarded fairly’ and ‘Are tender recipients, entrepreneurs who are driven by innovation and growth?’, and a negative factor loading on the indicator ‘Are tenders used as a get rich quick scheme.’ This was called ‘fair-minded’ entrepreneur. It is thus observed that the level of the regulatory framework that governs awarding of tenders ought to ensure fairness and transparency (Magoro and Brynard, 2010). However, the tendering system is a bidding process and in a bidding process some players who are connected to the right officials may gain an unfair advantage over others and may use this advantage to make money quicker in a short space of time (Madi, 2016).

**‘Non-politically minded entrepreneur’**- The sixth PC accounted for (6.64%) of the variation in the participants’ opinion on the relationship between entrepreneurship and government tenders. There was a positive factor loading on the indicator: ‘Is it relatively

easy to get a tender without any political connections?' This was called 'non-politically minded' entrepreneur. Penfold (2012) observed that connected 'tenderpreneurs' prevent other non-connected entrepreneurs opportunities to make their mark within public procurement and this essentially kills entrepreneurial activity within public procurement. Tender recipients who find themselves out of reach of these political connections may have a different mindset, which this principal component of 'Non-politically minded entrepreneur' may be showing in this study. These may be tender recipients who could start trusting their abilities and resourcefulness in business (Pendergast, 2003).

***Objective 2: Examine the personality traits exhibited by tender recipients in relation to entrepreneurship.***

In (Table 4.7, 4.7.1, 4.7.2 and 4.7.3), (PCA) was used to explore the dimensions on the personality traits exhibited by tender recipients in relation to entrepreneurship. The indicators which the participants responded to were: 'Describe yourself as a business person,' 'describe your view about business,' 'what the participants would do when their businesses make a profit'. The Kaiser-Meyer-Olkin (KMO) and Bartlett's sphericity tests were performed to determine whether the dataset could be factored (KMO measure = 0.66; Bartlett's sphericity tests  $p < 0.001$ ). Therefore, the variables could be factored since the variables had some form of relationship. In the survey, seven PCs were extracted and these explained for (78.89%) of the variation. The Rotation method used to improve the interpretation of the PCs was the Varimax with Kaiser Normalization. The factor loading less than the value of 0.3 were suppressed.

**Table 4.7: Principal Component Analysis of Personality Traits**

| Component            | RNP <sup>*</sup> | BG    | SC    | C     | AP    | PMO   | Cr    |
|----------------------|------------------|-------|-------|-------|-------|-------|-------|
| Initial Eigen values | 3.43             | 2.24  | 1.67  | 1.27  | 0.88  | 0.82  | 0.73  |
| % of Variance        | 24.49            | 15.98 | 11.94 | 9.09  | 6.30  | 5.85  | 5.24  |
| Cumulative %         | 24.49            | 40.47 | 52.41 | 61.51 | 67.81 | 73.66 | 78.90 |

\*RNP = Radical & Non-Profit; BG = Business Growth; SC = Smart and Creative; C = Conservative; AP = Ambitious & Profit; PMO = Profit and Money Orientated; Cr = Creative

**Table 4.7.1: Description as a Business Person**

| Component              | RNP <sup>*</sup> | BG    | SC    | C      | AP    | PMO | Cr    |
|------------------------|------------------|-------|-------|--------|-------|-----|-------|
| Conservative           |                  |       |       | 0.652  |       |     |       |
| Ambitious              | 0.363            |       |       | -0.346 | 0.712 |     |       |
| Radical                | 0.793            |       |       |        |       |     |       |
| Smart                  |                  |       | 0.898 |        |       |     |       |
| Creative               |                  |       | 0.755 |        |       |     | 0.324 |
| Money/Profit Driven    | -0.374           |       |       |        | 0.782 |     |       |
| Business Growth Driven |                  | 0.357 |       | 0.794  |       |     |       |

\*RNP = Radical & Non-Profit; BG = Business Growth; SC = Smart and Creative; C = Conservative; AP = Ambitious & Profit; PMO = Profit and Money Orientated; Cr = Creative

**Table 4.7.2: Description of Business View**

| Component                       | RNP <sup>*</sup> | BG   | SC | C | AP | PMO   | Cr |
|---------------------------------|------------------|------|----|---|----|-------|----|
| Make money/ profit immediately  |                  |      |    |   |    | 0.859 |    |
| Create Sustainability Long term |                  | 0.72 |    |   |    |       |    |

\*RNP = Radical & Non-Profit; BG = Business Growth; SC = Smart and Creative; C = Conservative; AP = Ambitious & Profit; PMO = Profit and Money Orientated; Cr = Creative

**Table 4.7.3: When Business Makes Profit**

| Component                          | RNP*   | BG    | SC | C | AP | PMO | Cr    |
|------------------------------------|--------|-------|----|---|----|-----|-------|
| Spend profit made                  | -0.787 |       |    |   |    |     |       |
| Reinvest back into the business    |        | 0.853 |    |   |    |     |       |
| Invest in Research and Development |        |       |    |   |    |     | 0.855 |
| Spend it on employee development   | 0.554  | 0.499 |    |   |    |     |       |
| Donate to charity                  | 0.838  |       |    |   |    |     |       |

\*RNP = Radical & Non-Profit; BG = Business Growth; SC = Smart and Creative; C = Conservative; AP = Ambitious & Profit; PMO =

Profit and Money Orientated; Cr = Creative

#### Rotated Component Matrix

Extraction Method: Principal Component Analysis.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.667

Bartlett's Test of Sphericity: Approx. Chi-Square = 438.554; df = 91; Sig. = 0.000

**‘Radical and non-profit driven entrepreneur’** - The first principal component (PC) accounted for (24.49%) of the variation. This PC represented participants with positive dominant factor loadings in describing themselves as a business person who is ‘ambitious’ and ‘radical.’ However, negative factor loadings of this indicator were for ‘money/profit driven.’ There were positive factor loadings for the indicator when the business made a profit were observed on ‘spend it on employee development’ and ‘donate to charity,’ while the negative factor loading was on ‘spend profit made.’ This PC was named ‘radical and non-profit driven’ entrepreneur. Commission of the European Communities (2003) observed that “entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management.” The very nature of entrepreneurship involves risk taking and the bigger the risk/radicalism, the bigger the profits. However, within the government tender space, element of risk-taking is limited because tender recipients operate within a highly regulated environment where tender recipients are not seeking to take the risk in order to change the market but

their focus is on competing to win the next tender, and the more tenders that are won, then better profits are realised.

**‘Business growth driven entrepreneur’** - The second PC was intuitively named the ‘business growth driven’ entrepreneur and accounted for (15.98%) of the variation. This PC had dominant positive component loadings on the responses to ‘business growth driven in the way entrepreneurs described themselves as a business person. This PC had positive factor loadings also for the way they described their business view (i.e., creating sustainability in the long term). Additionally, the PC had positive factor loadings on ‘reinvest back into the businesses’ and ‘spend it on employee development’ which were indicators that described what they did when their businesses made a profit. Accordingly Herrington, et al. (2014) observed that entrepreneurial activity has marginally increased over the years due to government support. However, the level of business discontinuation remains higher than the rate of business start-ups and exceeds the rate of existing businesses. As the government is the largest buyer in the economy (Turley and Perera, 2014), many businesses are being started mainly to supply government with goods and services. However, the sustainability of these businesses is primarily dependent on winning the next tender and winning the next tender may not be related to the investment made by these businesses. A tender at times may have developmental conditions attached such as employment of locals for work to be done; this may therefore influence the decision of investing in employees because tenders are likely to be operated largely through casual labour or contract workers.

**‘Smart and creative entrepreneur’** - The third PC had dominant positive loadings on the attributes, i.e., ‘smart’ and ‘creative’ of the indicator ‘describing yourself as a business person.’ This PC, which accounted for (11.94%), was called ‘smart and creative’ entrepreneur. However, the system of tendering is strictly regulated in terms of PFMA to the extent that government describes and specifies what it wants to procure before inviting potential suppliers to bid. This process may stifle creativity for an entrepreneur who may be introducing a new product in the market, particularly because the government cannot advertise a tender with a specific product or brand in mind (eThekwini, 2016).

**‘Conservative entrepreneur’** - The fourth PC which accounted for (9.09%) was called ‘conservative’ entrepreneur. The PC had a positive factor loading on the attribute called ‘conservative’ and a negative factor loading on the attribute ‘ambitious’ which were of the indicator ‘describing yourself as a business person.’ Herrington, et al. (2014) observed that one of the reasons for low entrepreneurial activity in SA is perceptions regarding the lack of opportunities. Even though within tender space, opportunities to obtain business are abundant, however, there may be an element of reservation emanating from fear that only those connected with the right officials are awarded tenders (James, 2015).

**‘Make money/ profit immediately entrepreneur’** - The fifth PC accounted for (6.30%) of the variation. This PC had positive factor loadings on the attributes ‘ambitious’ and ‘money/profit driven’ for the indicator ‘describing yourself as a business person. This was called ‘make money/profit immediately’ entrepreneur. Pendergast (2003) observed that some of the traits of entrepreneurial activity involve self-belief, persistence, and determination which are attributes of an ambitious entrepreneur. However, within the context of bidding for government tenders, profit-making may not be entirely dependent on determination and self-belief, it may be more about longevity in the system and being politically connected.

**‘Profit and money oriented entrepreneur’** - The sixth PC accounted for (5.85%) of the variation. There was a positive factor loading on the attribute ‘make money/profit immediately’ of the indicator ‘describe your view about businesses.’ This was called ‘profit and money oriented’ entrepreneur. Ordinarily the value proposition to be in business is to make a profit; however, profitability in government tenders is affected by issues of late payments (Arzeni, 1997). The tender recipient may also be affected by corruption and patronage networks that have to share profits from the tender awarded if that tender was awarded through connectivity (Jones, 2009).

**‘Creative entrepreneur’** - The trait for creativity was represented by a PC that accounted for (5.24%) of the variation. This PC had a positive factor loading on the attribute for creativity for the indicator ‘describing yourself as a business person. This was called



‘creative’ entrepreneur. There are various factors that stifle creativity for an entrepreneur within the tendering space. An observation is made to (eThekweni, 2016) SCM policy, where in terms of bid specifications, the bid may not be advertised with plans, drawings, designs and the bid may not make reference to any product or brand. This, therefore, means that any person who can supply, the product or service is eligible to be granted the tender. This, therefore, opens up room for middle-men who are connected to officials to supply any product to the state even if they don’t have the creative expertise for the said product.

***Objective 3: An examination of the reliance on tenders based on:***

- (v) *Tender recipients’ opinions on the relationship between government tenders and entrepreneurship, and*
- (vi) *Personality traits exhibited by tender recipients in relation to entrepreneurship.*

The Ordinary least squares (OLS) regression model was used to estimate the parameters for the degree of dependence on government tenders. Table 4.8 presents the parameter estimates of the degree of dependence on government tenders by OLS regression. The independent variables used in the regression were the principal components obtained from the principal component analyses done earlier.

**Table 4.8: OLS Estimates Degree of Dependence on Tenders**

| Degree of dependence on tenders | Coef.           | Std. Err. | T      | P>t   | VIF  | 1/VIF |
|---------------------------------|-----------------|-----------|--------|-------|------|-------|
| Tender minded                   | <b>0.151*</b>   | 0.088     | 1.71   | 0.091 | 1.24 | 0.807 |
| Non-tender minded               | <b>0.286***</b> | 0.098     | 2.91   | 0.004 | 1.53 | 0.652 |
| Innovative minded               | -0.005          | 0.106     | -0.05  | 0.961 | 1.78 | 0.563 |
| Business growth minded          | <b>0.145*</b>   | 0.085     | 1.72   | 0.089 | 1.14 | 0.878 |
| Fair minded                     | 0.044           | 0.081     | 0.55   | 0.583 | 1.04 | 0.964 |
| Non-political minded            | -0.037          | 0.082     | -0.45  | 0.655 | 1.08 | 0.927 |
| Radical and non-profit driven   | -0.045          | 0.113     | -0.4   | 0.691 | 2.02 | 0.494 |
| Business growth driven          | -0.046          | 0.084     | -0.54  | 0.587 | 1.12 | 0.893 |
| Smart and creativity driven     | -0.091          | 0.086     | -1.06  | 0.293 | 1.18 | 0.849 |
| Conservative driven             | <b>0.195**</b>  | 0.081     | 2.41   | 0.018 | 1.04 | 0.959 |
| Ambitious driven                | 0.071           | 0.085     | 0.85   | 0.399 | 1.15 | 0.871 |
| Profit and money driven         | -0.045          | 0.087     | -0.51  | 0.608 | 1.22 | 0.822 |
| Creative driven                 | 0.055           | 0.082     | 0.67   | 0.504 | 1.08 | 0.929 |
| _cons                           | <b>4.476***</b> | 0.079     | 56.78  | 0     |      |       |
| Number of observations          |                 |           | 105    |       |      |       |
| F (13, 91)                      |                 |           | 2.45   |       |      |       |
| Prob > F                        |                 |           | 0.0067 |       |      |       |
| R-squared                       |                 |           | 0.2596 |       |      |       |
| Adj R-squared                   |                 |           | 0.1538 |       |      |       |
| Root MSE                        |                 |           | 0.8078 |       |      |       |

\*p<0.1: \*\*p<0.05; p<0.01

Mean VIF =1.28

The null hypothesis of the F-test is that the R-squared is equal to zero, which would mean that the specified model is not a good fit and the specified variables do not explain any of the variations in the dependent variable. The alternative hypothesis is that the model does not equal to zero and that it does have explanatory power. The p-value of is less than 0.001. This means that the t-statistic is significant at all levels of significance. The null hypothesis is therefore rejected, and it is concluded that the model does have explanatory

power. The R-squared and the adjusted R-squared values indicate that the specified variables explain about 26% and 15% of the variation in the dependent variable respectively.

The diagnostics for multicollinearity for the selected variables in the specified OLS regression model indicated no high degree of multicollinearity based on the size of variance inflation factors (VIF). The VIF were all below 10, suggesting that the absence of multicollinearity in the fitted model. The t-test for the parameter estimate '**Tender-minded**,' '**Non-tender minded**,' '**Business growth-minded**,' and '**Conservative driven**' indicated statistical significance at 10%, 1%, 10% and 5% levels of significance respectively. The null hypothesis is that the parameter estimates of each of the variables equal zero. It follows therefore that the null hypothesis of the variables mentioned above is rejected and it is concluded that these estimated coefficients are not equal to zero. Taking all factors into account, the null hypotheses identified in Chapter 1 are rejected and alternative are found to have explanatory power.

The sign of the '**Tender-minded**' parameter estimate shows a positive relationship with the degree of dependence on government tenders. A unit increase in the '**Tender-minded**' variable causes a 0.15 unit increase in the degree of dependence on tenders. The variable which represented the dimension of entrepreneurs who were non-tender minded ('**Non-tender minded**'), reveals a positive relationship with the degree of dependence on government tenders, and a unit increase in '**Non-tender minded**' leads to an increase in the degree of dependence on government tenders by about 0.29 units, *ceteris paribus*. A unit increase in the '**Business growth-minded**' leads to a positive increase in the reliance on government tenders. The sign of the '**Conservative driven**' parameter estimate shows a positive relationship with the degree of dependence on government tenders. A unit increase of the '**Conservative driven**' variable causes a 0.20 unit increase in the degree of dependence on tenders.

Penfold (2012) observed that business people who tender mainly for government contracts have been recently defined as tenderpreneurs. Mothoagae (2013) also observed that

tenderpreneurship had propagated nepotism and the culture of entitlement amongst those who are politically connected. James (2015) suggested that tenderpreneurship exist only to make quicker and easier profits by a politically connected group of people and this money is then mainly used for opulent lifestyles and consumption. This may offer the explanation as to why the '**Tender-minded**' entrepreneurs have a higher reliance on government contracts which has been identified in the regression analysis. Study results further suggest that public procurement may have been entangled to some degree in the web of tenderpreneurship, particularly because tenderpreneurship have made it easy for people who were merely politically connected to be rich and live opulently (Penfold, 2012). However, this has inevitably created a situation where those connected people who rely on tenders are preventing new people who may not have an entrepreneurship mindset from receiving government tenders (Penfold, 2012). This may then lead to a situation where even non-tender minded people may end up participating in tenders with the same mindset as that of tenderpreneurs (Pendergast, 2003). However, it appears to be counterintuitive that entrepreneurs who are identified as being non-tender minded end up participating in the tendering process, but this may be a clear indication of one of the coping strategies for the entrepreneurs to reposition themselves and their businesses particularly since government controls a significant part of the economy. This then negatively affects the mindset of being business growth driven as the ultimate goal becomes being connected in order to win the next tender of significant value.

#### **4.8 Chapter Summary**

This chapter focused on data analysis and presentation based on findings from 105 questionnaires that were completed by participants. The chapter was subdivided into five parts whereupon at the end of each part, findings were contrasted and summarised. Data analysis was comprised of; descriptive statistics, principal component analysis, and regression analysis. Based on study findings, the null hypotheses identified in Chapter 1 were rejected and a positive relationship between government contracts and entrepreneurship has not been found based on the study results. Discussion in the chapter is made up of observations that are contained in available literature in Chapter Two. The next chapter presents study conclusions, and recommendations.

## **CHAPTER FIVE**

### **Conclusion and Recommendations**

#### **5.1 Introduction**

This chapter presents the study conclusion and recommendations based on data analysed in Chapter Four. This chapter also includes recommendations for future research, implications of the research and some of the research limitations. The relationship between government contracts and entrepreneurship was researched by exploring whether government spending through issuing of tenders encourages entrepreneurial activity and to make recommendations to strengthen or improve the relationship.

#### **5.2 Conclusion**

The focus of the study was to explore whether a relationship exists between government contracts and entrepreneurship in SA. In 1997 SA government introduced public procurement reforms whereupon it aimed to utilise public procurement to develop SMMEs and promote entrepreneurship (Ministry of Finance and Ministry of Public Works, 1997). In 2017 government expenditure was R1.5 trillion which represented 29% of GDP (Treasury, 2017). Despite this enormous amount of public spending towards the promotion of entrepreneurship, the Global Entrepreneurship Monitor (GEM) reported that South Africa's (SA) rate of entrepreneurial activity is very low for a developing nation, it's even lower in comparison to other sub-Saharan African countries and the level of business discontinuation is higher than the rate of business start-ups, only 7% of the adult population is engaged in entrepreneurial activities (Herrington et al., 2014). This therefore brings into question the effectiveness of utilising government spending in promoting entrepreneurship and to support SMME development. Schoeman (2015) questioned the sustainability of SA's public debt in line with current levels of spending which are considered to be on the high side, more so given the fact that government has been running a budget deficit since 2009. This also brings into question whether government tenders are sustainable at the current rate within particularly defined objectives more so given the budget deficit the country is currently operating at. Government spending has been outstripping revenue collection since the financial meltdown in 2008, and from a public

debt level of 26% of GDP in 2009, debt/GDP ratio rapidly increased by almost 70% to 43.9% of GDP in 2014 (Schoeman, 2015).

The objectives of the study were to:

- Examine the tender recipients' opinions on the relationship between government tenders and entrepreneurship.
- Examine personality traits exhibited by tender recipients in relation to entrepreneurship.
- Examine the reliance of tender recipients on government tenders based on:
  - (i) Tender recipients' opinions on the relationship between government tenders and entrepreneurship, and
  - (ii) Personality traits exhibited by tender recipients in relation to entrepreneurship.

The questions to be answered in the study were:

- Does government spending through tenders encourage entrepreneurial activity?
- Do business people who are recipients of government tenders exhibit any entrepreneurial traits?
- Can the recipients of government tenders sustain and grow their businesses outside of government tenders?

The research approach used in this study was quantitative in nature (Cresswell, 2003:18).

The study population consisted of all suppliers who had submitted bids for tenders that were opened and closed from Friday 21 October 2016 to Friday 11 November 2016. A total number of 446 bids for 207 tenders were opened and closed during the period Friday 21 October 2016 to Friday 11 November 2016. A convenient sample of 105 willing participants was selected from the population. Once data had been collected from participants, it was cleaned by ensuring that all participants had met the criteria to participate in the study and then organised and subjected to an analysis using SPSS and STATA 13 computer program. The findings were presented and discussed in Chapter Four by making use of frequency tables, bar graphs and pie graphs. The findings revealed that

most of the respondents were between age group 46 – 55 years old, most of them were male and they possessed 11 – 20 years business experience and hold a Diploma as the highest standard of qualification. Majority of the respondents namely 47.62% are within the construction sector and the businesses are mainly (70%) located in suburban areas.

**Objective 1: Examine the tender recipients' opinions on the relationship between government tenders and entrepreneurship**

The findings below are based on the opinions shared by participants on the basis of their personal experiences in applying for and acquiring tenders. The findings were as follows:

- There is no fairness in the awarding of tenders.
- It is not easy to be awarded a tender without any political connections.
- Tender recipients are not entrepreneurs in their own right.
- Participants did not believe that tender recipients are entrepreneurs driven by innovation and growth.
- Tender recipients would not survive as business people without government tenders.
- There is a general risk for tenders to be used as a get rich quick scheme; however, this risk can be minimised.
- There is also a risk for government to be invoiced higher for work done in comparison to invoicing a private business, however, this risk can also be minimised.
- To experience business growth and boom within tender space is relative.
- Tender recipients have very poor tax compliance behaviour.
- The level of eliminating tender irregularities is very poor.

Participants were contracted to the Metro to supply goods and services and are also active participants in applying for and acquiring tenders in other municipalities and within government at large. Based on the above opinions expressed by participants, it can be concluded that the existence of a positive relationship between entrepreneurship and government tenders has not been identified.

## **Objective 2: Examine personality traits exhibited by tender recipients in relation to entrepreneurship**

The findings on this objective are based on the profile of the participant and his/her business as well as the participants' awareness of government initiatives to develop entrepreneurship. The findings were as follows:

- Majority of participants namely 64.8% were not aware of any government initiatives to develop entrepreneurship and had never interacted with any available government initiatives to develop entrepreneurship.
- Most participants' business were started from scratch by participants themselves which is a positive attribute for entrepreneurship.
- Most participants indicated that they are not conservative and they viewed themselves to be ambitious in pursuit of business.
- However, most participants responded that they are not radical or they don't have an appetite for risk taking which is one of the main attributes of entrepreneurship.
- Most participants viewed themselves to be smart and creative, and they also viewed themselves to be business growth driven. However, majority of participants namely 91.43% also viewed themselves to be money driven.
- Majority of the participants had a view to creating long term business sustainability, however, majority of participants namely 68.57% were also in business of tenders to make money/profit immediately.
- When participants' businesses make profit, majority of participants, namely 74.29% of respondents indicated that they spend the profit made.
- Participants also indicated that they would reinvest money back into the business, however, participants did not believe in investing on research and development and the participants also did not believe in investing on employee development, with, 39.05% being indifferent about investing on employees.
- Lastly majority of participants did not believe in donating to charity

The above findings reveal that there are some aspects of entrepreneurial characteristics that were exhibited by participants, however, in the main based on the responses provided it can be concluded that the personalities that were exhibited by participants do not predominantly exhibit those of an entrepreneur as defined in chapter two. The positive



attributes of entrepreneurship found in responses of participants are: that the majority of businesses were started from scratch by tender recipients, that tender recipients viewed themselves as ambitious, creative, smart and had a long term view about business and that they would reinvest profits made back into the business. However, on the negative end is the fact that tender recipients were not aware of any initiatives by government to develop entrepreneurship, they have no appetite for risk taking which is a fundamental aspect of entrepreneurial activity. Participants also viewed themselves to be money driven, an observation is made that even though revenue and profits are important for business existence and growth, however, creating a sustainable business is more critical in entrepreneurship in order to create sustainable profits. This is also qualified by the fact that even though participants stated they have a long term business view; however, they also stated that they are in business to make immediate profits which is unsustainable and not a positive entrepreneurial attribute. Participants also had a high appetite for spending profits made and not using such profits to venture into other businesses and create new markets. Even though participants stated that they would reinvest profits made back into their businesses, however, such profits are not invested in further business research or product research with a view to gain market share. Participants also did not believe in investing on employee development and through observation, employee development is essential for business development and growth.

**Objective 3:** Examine the reliance of tender recipients' reliance on government tenders based on:

- *Tender recipients' opinions on the relationship between government tenders and entrepreneurship:*

The findings have revealed that participants shared an overwhelming opinion that tender recipients or people who are contracted to supply government with goods and services would not survive in business without government tenders, this view was shared by 92.38% of participants. This means that their business survival is dependent on continuously being awarded government tenders.

- *Personality traits exhibited by tender recipients in relation to entrepreneurship:*

When participants were asked to state whether his/her business would survive without government tenders, 72.38% of participants indicated their businesses would not survive without government tenders. Participants also indicated that in terms of revenue streams, their businesses were generating 90.48% income from government tenders.

Based on the above findings, it can be concluded that majority of tender recipients cannot sustain themselves in business without being awarded tenders.

### **Questions to be answered by the study**

The study findings have addressed the three objectives and have further addressed questions that had to be answered by the study. The study asked the following questions:

- *Does government spending through tenders encourage entrepreneurial activity?*

Based on the findings on the three objectives, there was no evidence which suggested that government spending encourages entrepreneurial activity.

- *Do business people who are recipients of government tenders exhibit any entrepreneurial traits?*

The finding on this question was that even though on the balance of probabilities there were some factors where participants exhibited entrepreneurial characteristics, however, in the main tender recipients did not predominantly exhibit characteristics of an entrepreneur.

- *Can the recipients of government tenders sustain and grow their businesses outside of government tenders?*

The finding on this question is that tender recipients cannot sustain and grow their businesses outside of government tenders. In the available literature found in chapter two, the term ‘tenderpreneurship’ has been developed in SA to define people who are too reliant on government tenders for business and wealth accumulation.

Based on the above study findings, a conclusion can be drawn that there is no positive relationship between government contracts and entrepreneurship in SA.

### **5.3 Implications of the Research**

Public procurement is governed through section 217 of the Constitution which is an Act of parliament, from which PFMA, MFA, BBBEE and Treasury Regulations are derived. Therefore eThekweni Metropolitan Municipality only implements an act that is derived from parliament. However, when an act of parliament is amended based on recommendations received, the implications will not only be for eThekweni Metro, but on all public institutions across SA. Therefore even though the study was conducted within eThekweni Metropolitan Municipality, however, the recommendations of this research can only be implemented through an executive action by Ministries in DTI, Small Business Development, Corporate Governance and Traditional Affairs (COGTA) and National Treasury, whereupon a bill can then be tabled by government in parliament for amendments to PFMA, MFA and Treasury Regulations in order to implement some of the recommendations of this study e.g. tender set aside. However, some of the recommendations of this study which relate to professionalisation of the tender process, improving risk and governance, price benchmarking, training and development, efficiency in payment of suppliers can be directly implemented by eThekweni Metro without any involvement of national government and or parliament.

This study and recommendations contained, also contributes meaningfully to the academic body of knowledge, particularly since there are limited studies available which have been conducted to explore entrepreneurship through public procurement. The study explains new terminology that has emerged as a result of a perception that some people seem to be getting most of their projects from government. This is an emerging field of study among academics and has great research potential.

### **5.4 Limitations of the Research**

- The study was conducted within eThekweni Metropolitan borders; research on this topic in other areas may come up with different findings.

- The study also did not focus on the entrepreneurs who did not rely on the government tenders at all. However, the responses received from participants were almost similar, therefore it is accepted that a study that focused on non-tender entrepreneurs would show results almost similar to this study.
- eThekweni Metropolitan Municipality had 54 506 suppliers in its supplier database, therefore selection of a true representative sample became a challenge. However, to overcome this, the study focused on tenders that were being opened and closed from October 2016 to November 2016 representing a population of 446 suppliers across industries and sectors, from which a convenient sample of 105 suppliers was selected which was then accepted as a true representative sample of the population.
- Government is a huge entity, economic impact of its spending could be investigated further to suggest other recommendations of utilising the spending as a strategic means of growing the economy.

## **5.5 Recommendations to Solve the Research Problem**

- The tendering system should be professionalised and modernised by introducing an electronic tender application process that will improve transparency and accountability throughout the entire tender process value chain, modernisation will also reduce costs of submitting a tender application which should encourage more entrepreneurial participation.
- Governance and risk management should be strengthened at bid specification, evaluation and adjudication stages in order to ensure an improved compliance to regulatory framework and in line with the principles of fairness, equity and transparency as per Section 217(1) of the Constitution.
- Where a tender is too large, e.g. above the value of R100 million, the minimum criteria for that tender should be for a consortium of SMMEs to apply for the tender. This is to encourage participation of more entrepreneurs in bidding for tenders.
- Review Treasury Regulations and Practice Notes in order to introduce tender set aside for entrepreneurs who have engaged successfully in various government initiatives that seek to promote innovation and entrepreneurship, e.g. black

industrialist program by DTI, young entrepreneurships through NYDA initiatives, etc.

- Tender set asides should also be for those entrepreneurs who are able to come up with innovative goods or services that will close service delivery shortages within economies of scale, e.g. water shortages, eradication of mud schools, improved housing delivery, etc. These innovative ideas should not undergo a bid specification process, but only evaluation and adjudication.
- Government should also run regular workshops and training sessions on innovation and entrepreneurship for its suppliers and interested suppliers in collaboration with industry experts and academic institutions.
- Whereupon a particular supplier is the only supplier of a product or service in the market, government should review the extent to which it requires such goods or services and thereafter review the probability of influencing market sharing with new players thereby breaking the monopoly or as a last resort establish a state owned entity (SOE) that will supply government with such goods or services. This is to discourage monopolisation of government resources, particularly when that private business exists only to supply such goods and services to government.
- Government should also not acquire goods and services via a middle-man especially locally produced goods and services. Buying departments at government institutions should be empowered to directly acquire locally produced goods and services, e.g. routine procurements like stationary, computer equipment, etc. Government should instead use its buying power to break monopolisation of certain industries and to encourage more innovation by entrepreneurs and to discourage gatekeeping by those who are connected with the right officials.
- Improve quality management and monitoring in order to ensure efficiency in performance on the contract entered into by government and the supplier, this also includes timely payment for work done by suppliers.
- Benchmarking shall also be undertaken by government for similar work done for private businesses, benchmarking shall be on price government paid and on quality of the goods or services.
- Improve supplier database management by ensuring half yearly reviews of the databases, and as part of the reviews, each supplier should be required to declare if a tender in another government institution has been acquired, this is to particularly

review instances where a particular supplier has tenders in various municipalities and government departments and therefore to encourage tender sharing with other suppliers if total value of tenders acquired is significant, e.g. above R500 million in a given financial year and to discourage the notion of tenderpreneurship.

- Database management should also include yearly submission of audited financial statements as part of the reviews, and monitoring and evaluation of all suppliers.
- Government should also develop a code of ethics for all suppliers in conformity to other regulatory frameworks, such as the Companies' Act and the King Code on Corporate Governance.

## **5.6 Recommendations for Future Studies**

Further research is recommended on the following:

- This particular research topic should be conducted in other Metros and government at large in order to make comparisons with the findings of this study.
- The effect of tenderpreneurship on entrepreneurship and SMME development and overall economic growth.
- The effect of late payments on contract performance by tender recipients and effect on profitability.
- The effect of tender specifications on innovation by entrepreneurs.
- The role of government whether it is to redistribute income or to grow the economy could be investigated further in order to address the challenges facing public procurement and inadequate entrepreneurial activity in South Africa.

## **5.7 Chapter Summary**

In this chapter the study objectives have been addressed based on the analysis conducted in Chapter Four. The first objective was an examination of tender recipients' opinions on the relationship between entrepreneurship and government contracts, the opinions shared by participants indicated that there is no relationship that exists between entrepreneurship and government contracts. The second objective was an examination of personality traits exhibited by tender recipients in relation to entrepreneurship, the study results found that even though there are some characteristics of entrepreneurship that were exhibited by

participants, however, in the main they were not overarching and were dominated by characteristics that are in the negative end of entrepreneurship. The third objective was an examination of the reliance on government tenders by tender recipients, and the study found that tender recipients are too reliant on government contracts whereupon over 90% of their revenue is derived through tenders without any other source of revenue. Accordingly, regarding the research topic which seeks to explore the existence of a relationship between government contracts and entrepreneurship, based on the results, the study therefore concluded that there is no positive relationship that exists between government contracts and entrepreneurship in South Africa. Recommendations which seek to improve this relationship have thus been made. Furthermore the study explains new terminology that has emerged as a result of a perception that some people seem to be getting most of their projects from government. This is an emerging field of study among academics and has great research potential.

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## Appendix 1

### Survey Questionnaire:

**This survey questionnaire will be conducted as follows:**

1. It contains 25 questions, please consider them and answer the questions as truthfully as you can.
2. If you do not feel comfortable answering any questions, please do not feel obliged to do so.
3. If you feel you are not qualified to answer a question, please indicate as such on the questionnaire.

### Permission to use responses for academic research

*Sir/Madam may I confirm that you understand the nature of academic research and that you grant permission that your responses to the questions may be used for research purposes provided that you identity and that of your company or business partners are not revealed in the published records of the research? You are free to withdraw from the survey questionnaire at any time should you so desire.*

Are you the owner of the business.....? Have you ever been awarded a Tender? -----

### Part A: Personal biographical data

#### 1. Please confirm your:

1 Age group (years): (21 - 28).... (29 - 35)..... (36 - 42).... (43 – 55).... over 55

2 Gender (Male/ Female): -----

3 Number of years in business: -----

4 Your highest education qualification:

- Did not finish Matric
- Finished Matric
- Diploma
- University Degree
- Postgraduate Degree

**Part B: Profile of business owner and his/her business**

**2. What is your Industry/ Sector:** -----

The following questions will also be asked and various options provided, please select/tick one appropriate answer?

**3. In which part of eThekweni region is your business located?**

- |               |                |
|---------------|----------------|
| 1 Berea       | 2 Chatsworth   |
| 3 Durban CBD  | 4 Hammarisdale |
| 5 Hillcrest   | 6 Inanda       |
| 7 Isipingo    | 8 KwaMashu     |
| 9 Lamontville | 10 Musgrave    |
| 11 Overport   | 12 Phoenix     |
| 13 Pinetown   | 14 uMhlobo     |
| 15 uMhlobo    | 16 uMhlanga    |
| 17 Verulam    | 18 Westville   |

19 Other..... (Specify)

**4. Would you describe your area of location as a?**

1 Suburb

2 Township

3 Semi township

4 Rural

**5. How did you start your business?**

1 Bought a shelf company/ cc?

2 Inherited a family business?

3 Developed business from scratch?

4 Was offered a business partnership?

5 Tender opportunities?

**6. On a scale of 1 to 5, 1 being absolutely yes, 3 maybe or no comment and 5 being absolutely not, how would you describe yourself as a business person?**

**1 Conservative**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

**2 Ambitious**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

**3 Radical**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

**4 Smart**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

### **5 Creative**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

### **6 Money/ profit driven**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

### **7 Business growth driven**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

**7. On a scale of 1 to 5, 1 being absolutely yes, 3 maybe or no comment and 5 being absolutely not, how would you describe your view about business?**

#### **1 Make money/ profit immediately**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

#### **2 Create sustainability long term**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

**8. On a scale of 1 to 5, 1 being absolutely yes, 3 maybe or no comment and 5 being absolutely not, what would you do when your business makes profit?**

#### **1 Spend profit made?**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

#### **2 Reinvest back into the business?**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

#### **3 Invest on research and development?**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

#### **4 Spend it on employee development?**

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

## 5 Donate to charity?

|                |   |   |   |   |   |                |
|----------------|---|---|---|---|---|----------------|
| Absolutely yes | 1 | 2 | 3 | 4 | 5 | Absolutely not |
|----------------|---|---|---|---|---|----------------|

### 9. Can your business survive without government tenders/ contracts?

1 Yes 2 No

**10. To what degree is your business dependent on government tenders/ contracts?**

|             |             |
|-------------|-------------|
| 1 100%      | 2 80% - 90% |
| 3 70% - 80% | 4 60% - 70% |
| 5 50% - 60% | 6 40% - 50% |
| 7 20% - 40% | 8 under 20% |

**11. How many people does your business employ?**

|            |               |
|------------|---------------|
| 1 None     | 2 Less than 5 |
| 3 5 – 25   | 4 26 – 50     |
| 5 51 – 100 | 6 101 – 200   |
| 7 200+     |               |

**Part C: Information regarding your opinion on the relationship between entrepreneurship and tenders**

On a scale of 1 to 5, 1 being absolutely yes, 3 maybe or no comment and 5 being absolutely not.

Please answer the following:



**12. Do you believe that majority of tenders are awarded fairly and to the best person/ company for the job?**

Absolutely yes                      1              2              3              4              5                      Absolutely not

**13. Do you believe that majority of tender recipients are entrepreneurs driven by innovation and growth?**

Absolutely yes                      1              2              3              4              5                      Absolutely not

**14. Would you say it is relatively easy for an entrepreneur to get a tender without any political connections?**

Absolutely yes                      1              2              3              4              5                      Absolutely not

**15. Would you say majority of tender recipients or tender applicants are entrepreneurs in their own right?**

Absolutely yes                      1              2              3              4              5                      Absolutely not

**16. Do you think majority of tender recipients would survive as business people without receiving government tenders?**

Absolutely yes                      1              2              3              4              5                      Absolutely not

**17. Do you think government tenders for most people are used as a get rich quick scheme?**

Absolutely yes                      1              2              3              4              5                      Absolutely not

**18. Do you think tender recipients generally invoice government higher than they would invoice a private company or private individual?**

Absolutely yes                      1                      2                      3                      4                      5                      Absolutely not

**19. Do you think tender recipients generally are experiencing business growth?**

Absolutely yes                      1                      2                      3                      4                      5                      Absolutely not

### Part D: Awareness of government initiatives in developing entrepreneurship

Please indicate by answering yes or no to the following:

**20. Are you aware of any initiatives by government to develop and promote entrepreneurship?**

1 Yes 2 No

**21. Have you ever used any of the following for your business development?**

1 National Youth Development Agency (NYDA)

## 2 Small Enterprise Development Agency (SEDA)

3 National African Federated Chamber of Commerce and Industry (NAFCOC)

#### 4 Small Enterprise Finance Agency (SEFA)

## 5 Industrial Development Corporation (IDC)

6 Other? Please specify-----

## **Part E: General opinions**

Please rate the following on a scale of 1 to 5, with 1 being Very Poor, 3 being Average or no comment and 5 being Very good

**22. How would you rate the level of Income Tax & Vat compliance within tender recipients?**

Very Poor    1                      2                      3                      4                      5                      Very  
Good

**23. How would you rate the level of eliminating tender irregularities/ cronyism in tenders that are being awarded?**

Very Poor    1                      2                      3                      4                      5                      Very  
Good

**24. How would you rate the level of government getting value for money for tenders that are being awarded?**

Very Poor    1                      2                      3                      4                      5                      Very  
Good

**25. How would you rate the level of overall economic spin offs for all tenders that are being awarded?**

Very Poor    1                      2                      3                      4                      5                      Very  
Good

## **End of the Questionnaire**

Thank you for taking the time to complete the questionnaire