

# ENTREPRENEURIAL SUCCESS FACTORS OF IMMIGRANT SPAZA-SHOP OWNERS IN THULAMELA LOCAL MUNICIPALITY

By

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## DECLARATION

I, Mampheu Vhuthu, student number, 16018336, hereby declare that this dissertation for Master of Commerce in Business Management at the University of Venda is the result of my own investigation and research, and that it has not been submitted in part or in full for any other degree or qualification to any other University or Academic Institution. All citations, references and borrowed ideas have been dully acknowledged.

Signature \_\_\_\_\_

Date \_\_\_\_\_

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## ABSTRACT

The spaza-shop sector is an integral part of the Small, Medium and Micro Enterprises (SMMEs) in the South African economy. The industry is made up of more than 100 000 enterprises with a collective annual turnover of R7 billion. Spaza shops also contribute about 4% (about 100 000 jobs) of employment in the informal sector. Spaza shops usually have a short lifespan and rarely grow; the failure rate of spaza shops, including those owned by immigrants is very high in South Africa. It is estimated that the failure rate of small businesses (including spaza shops) in South Africa is between 70% and 80%. It is also noted that about 50% of small businesses fail within the first five years of commencement of business, irrespective of the country. Despite severe competitive pressures faced by SMMEs, immigrants (especially Somalis and Ethiopians) have established a strong foothold in the spaza-shop sector. The main objective of the study was to investigate the success factors of immigrant-owned spaza shops in Thulamela Local Municipality. To address the research question, which focuses on the lived experiences and perceptions of participants, the interpretivist paradigm was used. A qualitative approach was adopted with a sample of 25 participants; purposive sampling was used to select participants with the required characteristics. Structured interview questions administered through face-to-face interviews were used to collect data and content analysis was used to analyse data. The data collected revealed that there are a plethora of success factors that are enhancing the continuance and sustenance of immigrant spaza shops in Thulamela Local Municipality. Of these, the most frequently given ones include - human capital, networks, culture, superior customer service, long operating hours and business location. The researcher recommended that immigrant spaza-shop entrepreneurs should establish a mentorship program that will assist in training other local spaza-owners to successfully manage their enterprises, in a bid to create harmony within the sector and to promote job creation.

**Keywords:** *Small, Medium and Micro Enterprises (SMMEs), Spaza shop, Immigrant entrepreneurs, South Africa*

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## LIST OF ACRONYMS AND ABBREVIATIONS

GDP - Gross Domestic Product

GDRC - Global Development Research Centre

NDP - National Development Plan

NPC - National Planning Commission

SLF - Sustainable Livelihoods Foundation

SMME's - Small, Medium and Micro Enterprises

STATSSA - Statistics South Africa

TTO- Triple Trust Organisation

UNISA- University of South Africa

## CHAPTER 1: INTRODUCTION AND BACKGROUND

### 1.1 Introduction and background of study

The establishment of small, medium and micro enterprises (SMMEs) has been a popular intervention to grow economies in developing countries (Philip, 2010), however, many businesses fail to reach their full potential (Mboyane & Ladzani, 2011). Literature shows that without the SMMEs countries' economies are not strengthened (Katlitanyi & Visser, 2010; Kambayabi & Devis, 2012). Given this situation, it is not surprising that for many decades now, developing countries throughout the world have been implementing entrepreneurial activities so as to contribute to economic growth, social well-being and job creation. In other words, without entrepreneurship, economies cannot grow and business will fail to reach their full potential (Timmons & Spinelli, 2007; Co, Groenewald, Mitchell, Nayagr, Van Zyl & Visser, 2006). SMMEs play a pivotal role in reducing poverty (Karpak & Topcu, 2010; Philip, 2010; Chittithaworn, Islam, Keawchana & Yusuf, 2011). This means that entrepreneurial activities that are implemented effectively can have an impact on poverty alleviation.

According to Rwigema & Venter (2004), entrepreneurship is the process of conceptualising, organising, launching and through innovation, nurturing a business opportunity into a potentially high growth venture, in a complex and unstable environment. Entrepreneurship sets up new businesses and grows existing firms and is a major role player in strengthening economies (Kalitanyi & Visser, 2010). Ribeiro-Soriano & Mas-Verdu (2015), agree that entrepreneurship is an invaluable contributor to economic growth and that proof exists to support the point that economic prosperity of nations (both developed and developing alike) largely depends on the emergence of dynamic innovative entrepreneurs and the creation of new businesses.

In the United States of America, entrepreneurship plays a vital role in the growth of the economy as it creates jobs and increases the number of businesses paying tax to the government (United States Department of Labour Report, 2017). In the Philippines, entrepreneurship has been noted as a measure towards alleviating poverty in the country and the 1987 Philippine constitution recognises entrepreneurship as an engine of economic growth (Evangalista, 2013).

In Uganda entrepreneurship played a critical role in reviving the economy which had previously suffered distress from the civil wars that had destroyed state enterprises (Bewayo, 1995). Entrepreneurship is regarded as a stepping-stone to the revival of the industrial sector of Lesotho as it makes a huge contribution to the economy through employment and income generation (Kanono, 2000).

Entrepreneurship has been demonstrated as being very significant in countries, such as China, where new venture creations and the SMMEs sector have fuelled a significant portion of China's growth (Huang, 2008). In countries like Brazil, Russia and India impressive growth has been driven by a veritable entrepreneurial revolution (Orode, 2016).

Entrepreneurship in South Africa is governed by various Acts with the major Act being the new Companies Act of 2012 which allows businesses to operate in a well legislated environment. The main features of the Act include the following: fewer statutory forms are required to incorporate a company; companies are allowed to change certain requirements according to their own circumstances; different types of companies must comply with different rules (smaller companies will be subject to less taxing financial reporting standards, than larger companies) and the regulatory burden on companies has been reduced (Entrepreneur Magazine, 2012).

Despite the highlighted importance of the small business sector, it is estimated that the failure rate of small businesses, in general, in South Africa is between 70% and 80% (Adeniran & Johnston, 2011). Khalique, Isah, Shaari, Abdul & Ageel (2011), posit that about 50% of small businesses fail within the first five years of commencement of business, irrespective of the country. The failure rate of spaza shops, including those owned by immigrants is very high in South Africa; they usually have a short lifespan and rarely grow (Van Scheers, 2010; Organisation for Economic Cooperation and Development, 2013; Khosa & Kalitanyi, 2014). There are many SMMEs entrepreneurs in Africa, but it is only a few among these entrepreneurs that advance from start-up to become recognisable enterprises (Mead, 1998). Rogerson (2000), adds that unsustainability and failure to grow has become the norm with majority of Small, Medium and Micro Enterprises.

The spaza-shop sector is an integral part of the Small, Medium and Micro Enterprises (SMMEs) in the South African economy (Piper & Yu, 2016). Piper & Yu (2016), mention that 80% of spaza-shop activities take place in the informal sector. Spazanews (2015), reveal that the industry is made up of more than 100 000 enterprises with a collective annual turnover of R7 billion and they contribute about 4% (about 100 000 jobs) of employment in the informal sector.

## **1.2 Problem Statement**

It is estimated that the failure rate of small businesses in general in South Africa is between 70% and 80% (Adeniran & Johnston, 2011). Phillip (2010), mentions that small business' (including immigrant-owned businesses) in South Africa face high level of competition. Sustainability of small and micro businesses, in a highly competitive market has become a tough task, but despite these severe competitive pressures faced by SMMEs, immigrants have established a strong foothold in the spaza-shop sector (Fatoki, 2014). Entrepreneurial success factors of Immigrant owned spaza-shops in Thulamela Local Municipality have not been investigated, hence, it is challenging to establish ways of reducing the failure rate of this significant sector of the business world.

### **1.3 Conceptual framework**

To address and resolve the research problem and research question, a conceptual framework encompassing multiple theories was developed for the study. Becker's (1993), human capital theory implies that education, skills, knowledge, and training are human capital investments that might lead to economic rewards. Barney's (1991), resource-based theory focuses on both tangible and intangible resource quality related to value, inimitability, rarity, and substitutability. Small business owners could earn supportable revenues if secure resources are present (Barney, 1991). Cultural theory indicates that some immigrants have cultural traits such as hard work, strong communal ties, frugality, and risk acceptance (Hofstede, 1980).

The business success of spaza shops beyond 5 years was investigated within the framework of these three theories to gain insight into the success factors of immigrant entrepreneurs in Thulamela Local Municipality. Based on the findings a conceptual frame was established as shown in Figure 1 to investigate factors of success.

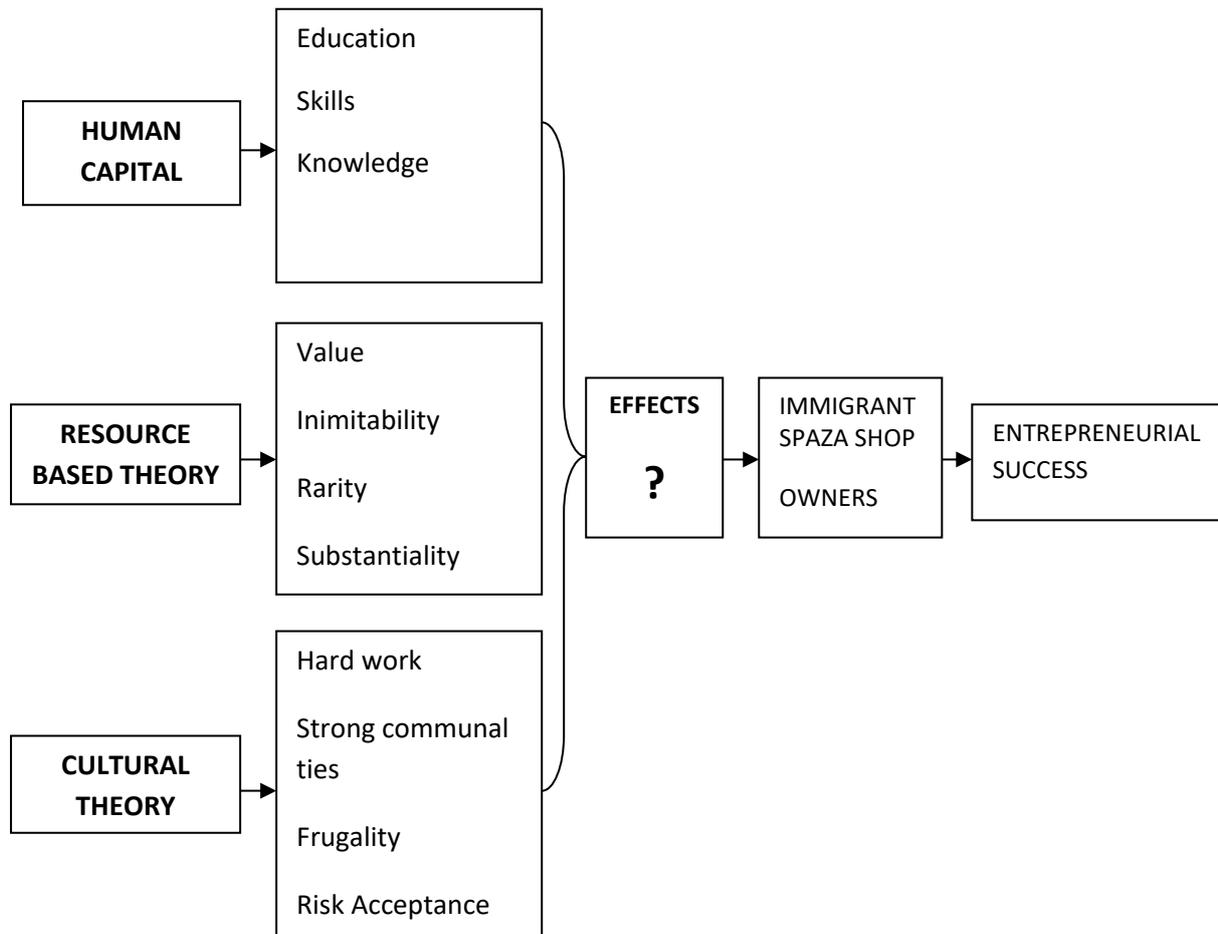


Figure 1: Conceptual framework

Source: Developed for the study

## **1.4 General Objective**

The main objective of the study was to investigate the success factors of immigrant-owned spaza-shops in Thulamela Local Municipality.

## **1.5 Specific objectives:**

- i. To determine the characteristics of immigrant-owned spaza shops in Thulamela Local Municipality.
- ii. To investigate the competitive strategies applied by immigrant spaza shop entrepreneurs.
- iii. To determine factors that contribute to the success of immigrant-owned spaza shops.

## **1.6 Research Questions**

The main question for the study was: What are the success factors of immigrant-owned spaza shops in Thulamela Local Municipality?

### **The sub-questions are:**

- i. What are the characteristics of immigrant-owned spaza shops in Thulamela Local Municipality?
- ii. What are the competitive strategies of immigrant-owned spaza shops?
- iii. What factors contribute to the success of immigrant-owned spaza shops?

## **1.7 Significance of the study**

The findings of this study would provide immigrant and local spaza-shop owners with information which would help them improve their businesses through the generated knowledge relevant to spaza-shop success and sustainability. Information from the study would educate small-business owners about success factors that are not immigrant-specific, thereby improving the general small-business sector of Thulamela Local Municipality. In addition, the findings will make a valuable contribution to the existing body of knowledge on small business and local economic development.

## **1.8 Delimitations of the study**

According to Svensson & Doumas (2013), delimitations are the scope or boundaries that the researcher sets for the research. Participants of this qualitative research study were immigrant spaza-shop owners in Thulamela Local Municipality who could speak and understand Tshivenda.

## 1.9 Definition of key terms

**Immigrant:** An immigrant is a person who comes into a country from another. Fellmann *et al.*, (1999), see an immigrant as not only someone who moves into another place as a result of assessment of improved economic conditions but also as a word which reflects flight from difficult or dangerous environment due to military, economic or political conditions. In this study, immigrant refers to every person originating outside of South Africa.

**Entrepreneurs:** are individuals, who create new combinations of production factors, or a people who are willing to take risks by exploring market opportunities; or people who operate businesses (Kalitanyi & Visser, 2010). Casson (2005), defined ‘entrepreneurs’ as people who discover, exploit, as well as evaluate opportunities and coordination of scarce resources to create future goods and services. In this study, entrepreneur refers to business people operating SMMEs.

**Immigrant entrepreneurs:** are people with business activities in a foreign country (Sahin, Nijkamp & Baycan-Levent, 2007). The term ‘immigrant entrepreneurs’ is generally understood as business activities carried out by immigrants with a specific socio-cultural and ethnic background (Sahin, Nijkamp & Baycan-Levent, 2007). In this study, immigrant entrepreneur refers to business owners originating from outside South Africa.

**Spaza-shop:** is a small convenience store, mostly situated in residential areas (Liedeman *et al.*, 2013). The spaza shop is usually a small family-owned business which sells goods from home in the black suburbs of South Africa (Van Scheers, 2010). For this study, spaza shops refer to small convenience grocery stores selling items that are regularly demanded by the community within which they operate.

## 1.10 Literature review

### 1.10.1 Migration and its effects on entrepreneurship

Migration is one of the defining issues of the 21st century, and is an essential, unavoidable and potentially beneficial component of the economic and social life of countries and regions (McKinley, 2006). It has been widely supported that migration benefits both the country of origin and destination, as well as the migrants themselves. Immigrants’ presence, role and contribution to the establishment and growth of new businesses, especially small business, in a country, usually lead to economic prosperity and job creation (Ribeiro-Soriano & Mas-Verdu, 2015).

Immigrants turn to entrepreneurship for survival because of limited employment opportunities available to them, despite their education and experience (Salaff, 2002). According to Habiyakare, Owusu, Mbare & Landy (2009), entrepreneurship is the best opportunity of earning a living for immigrants when life does not provide many alternatives. Basu & Altinay (2002) and Habiyakare *et al.* (2009), state that lack of access to the labour market and limited opportunities force immigrants to venture into businesses. Other studies on immigrant entrepreneurship such as Maharaj (2002), Fatoki & Patswawairi (2012),

Sidzatane & Maharaj (2013) and Hungwe (2013), affirm that immigrants are driven into entrepreneurship mostly by push (necessity) factors.

Evidence exists that businesses started by immigrant entrepreneurs, in the United States of America perform better than native businesses with respect to employment growth over three- and six-year horizons (Kerr & Kerr, 2016). Immigrants are widely perceived as being highly entrepreneurial, hence, business ownership is higher among the foreign-born than the native-born in many developed countries, such as the United Kingdom, Canada and Australia (Clark & Drinkwater, 2010).

Tengeh, Ballard & Slabbert (2012), find that immigrant entrepreneurship creates opportunities that have important implications for the South African economy. By creating employment, immigrant entrepreneurship can be one of the ways to reduce poverty, inequality and stimulate economic growth in South Africa. In Cape Town, foreign-owned spaza shops have been shown to be more successful than those owned by locals and the attributes of the foreign entrepreneurs being collective procurement and large distribution networks (Liedeman, Charman, Piper & Petersen, 2013).

A study conducted on the impact of immigrants on the development of Mankweng community in the Limpopo Province, showed that most immigrants contribute positively towards the development of the community through establishing businesses and hiring local citizens. Evidence also shows that these immigrant entrepreneurs are successful in their initiatives through hard work, commitment and collective stocking (Gwangwa, 2011). In Thulamela, Asian-owned small businesses are regarded as more successful than those of locals (Nkondo, 2016).

South Africa is regarded as a privileged destination on the continent by many African migrants because a refugee status in South Africa enables mobility and freedom to create business (Sadouni, 2009). Fatoki (2014), argues that immigrant entrepreneurs are a significant driving force in the creation of SMMEs in South Africa making the existence and sustainability of immigrant-owned enterprises very essential for the economy of South Africa (Bogan & Darity, 2008). Gebre, Maharaj & Pillay (2011) Kalitanyi & Visser (2010) and Tengeh *et al.* (2012), support this view by arguing that foreign entrepreneurship creates opportunities that have significant implications for the South African economy. This is also consistent with Schuetze & Antecol (2006), that immigrants are crucial to the development of an entrepreneurial base for many countries.

### **1.10.2 Factors which contribute to the success of SMMEs**

Education, managerial-related experience, motivation, and networking are important characteristics to small business success (Madu, 2016). Innovation, steady flow of resources, and adequate access to capital, contribute to business success. Fatoki (2013), contends that high levels of education, managerial experience, relevant experience, motivation and networking are attributes that are significant to the growth of a business. Calvo & Garcia (2010), add that a variety of psychological traits - self-esteem,

self-confidence, courage, creativity, honesty, independence, leadership skills, internal locus of control, motivation to achieve, propensity to take risks as well as tenacity - influence the success of a business.

A positive relationship exists between owners' education, work experience and related business experience and the performance of immigrant-owned businesses (Fatoki, 2014). Sim (2015), posits that social and human capital accumulated from home country and transferred to the foreign country is beneficial to immigrant entrepreneurs who need help from their connections back at home to open businesses in foreign countries. Chinese immigrants from Hong Kong were able to thrive in Canada due to assets, such as education, capital, business acumen, and experience that they had acquired in China (Chan, 1992). Marger (2001), argues that human capital such as - existing entrepreneurial skills and experience or education relevant to their business pursuits - is important to the success of immigrants who enter a foreign country with the aim to pursue business and entrepreneurship.

Well-educated immigrants often own successful businesses in the United States (Bates, 1994; Min, 1987; Yoon, 1991). Researchers attribute this to the fact that education equips immigrants with skills and knowledge that give them advantages in organising and operating a business; Timberg (2005), pointed out that immigrant entrepreneurs are relatively skilled and well educated. This is consistent with the findings of Kalitanyi & Visser (2010), that most immigrants in businesses have strong educational background. Basu (1996), agree that business success is closely related to the entrepreneur's educational qualifications. Education has a positive impact on the entrepreneur's human capital and an effect on both sustainability and growth of the business, hence, a positive relationship exists between education, the creation and sustaining of an enterprise (Calvo & Garcia, 2010).

Education is crucial for immigrant entrepreneurs to develop entrepreneurial skills, therefore, the lack of education negatively affects their business growth (Altinay & Altinay, 2008). Abdullah, Nel, Mellalieu & Thaker (2015), support the fact that educated entrepreneurs understand the needs of their customers, suppliers and all stakeholders better than uneducated ones; this ultimately strengthens their business. Bates (1994), points out that the success and survival patterns of Asian immigrant firms in the United States of America is the results of huge investments of financial capital and the impressive educational credentials of the business owners.

Networks provide immigrant entrepreneurs with access to labour and capital and enable collective purchasing and market domination (Fatoki, 2014). Sanders & Nee (1996), acknowledge that family networks enable immigrant entrepreneurs to economise on production and transaction costs. This sentiment is echoed by Werbner (1990), that close family ties among immigrant give them access to a trusted pool of labour. Chinese immigrant entrepreneurs used their network, connections, and business knowledge to innovate and expand business activities in both China and Canada (Vissak & Zhang, 2014).

Bates (1994), states that immigrant entrepreneurs are members of supportive and community networks which provide social resources in the form of customers, loyal employees, and financing to start and operate successful firms. The close community ties among Asian immigrants contribute positively to business expansion (Werbner, 1990). Light, Bhachu & Karageorgis (1989), mention that community networks influence entrepreneurial success by providing access to informal sources of finance and information. This is in support of Liedeman *et al.* (2013), who mentioned that foreign shop keepers are successful in South Africa because of the strength of their social networks.

According to Chen & Elston (2013), working hard and honesty contribute to the success of immigrants' small businesses. A commonly held view about Asian businesses, in Britain is that the secret of their success lies in cultural attributes such as the long hours of work expended by the owner-managers (Soar, 1991). The Centre for Development and Enterprise (2008), postulated that African migrants, especially Somalis, are regarded as hard workers, known to take over failing businesses and make a success of them. Rodgers (1997), writes that immigrant shopkeepers work very hard and for long hours.

Resilience contributes to the success of business because it helps an entrepreneur overcome failures and ventures forward, despite any setbacks (Calvo & Garcia, 2010). Kalitanyi & Visser (2010), assert that immigrants possess the entrepreneurial quality of perseverance and that a significant number of migrants have successfully applied this entrepreneurial flair in establishing and sustaining their small enterprises. Rogerson (1999), agrees that most immigrant entrepreneurs are optimistic and always looking to the possibilities of expanding their business enterprises, despite the difficult conditions and challenges under which they operate.

Small businesses need to be constantly aware of competitor's actions for them to succeed in the competitive and ever changing business environment (Prior, 2007). Mollayaaghobi & Badiee (2011); Pellissier & Nenzhelele (2013), confirm that in today's competitive business environment, organizations must adapt to their surroundings in order to survive and prosper. This suggests that competitive intelligence is critical to the survival and growth of immigrant-owned businesses in South Africa, including spaza shops.

### **1.11 Research Methodology**

The study was conducted in Thulamela Local Municipality which is located in Vhembe District; the purpose of this study was to investigate the success factors of immigrant owned spaza-shops, therefore, a qualitative methodology was adopted. The use of an interpretative phenomenological design enables a researcher to be creative and reflexive to understand how a population under study views their experience.

The population of this study was immigrant spaza-shop owners in Thulamela Local Municipality and the sample size was 25 immigrant spaza-shop owners. The study's sample consisted of Somalis and Ethiopians entrepreneurs who have been operating spaza-shops for over 5 years in Thulamela Local Municipality; purposive sampling was used to select the sample for the study. The collection of data was done through structured interview questions and administered through face-to-face interviews. Twelve respondents were interviewed and a content analysis was used to analyse the data collected.

### **1.12 Format and structure of the Project**

**Chapter 1:** This chapter provided a general overview of the study that was conducted under these sub-headings - introduction, definitions of terms and concept, problem statement, research question, aim of the study, research objectives, investigative question, significance of the study, delimitations of the study, literature review, research methodology.

**Chapter 2:** Chapter Two will provide current knowledge and literature including research findings, as well as theoretical and methodological contributions to the topic of this study.

**Chapter 3:** This chapter will provide comprehensive details on the research methodology used in this study, sample frame, data collection, and data analysis. An evaluation of the research design and ethical issues will also be discussed.

**Chapter 4:** This chapter will provide the analysis of the data collected.

**Chapter 5:** Discussion of findings in this chapter will be related to the established literature and the research questions.

**Chapter 6:** This is the final chapter, where the implications and limitations of the study are explored. Conclusive remarks and endorsements for future research are also discussed.

## CHAPTER 2: LITERATURE REVIEW

### 2.0 Introduction

This chapter evaluates the theoretical literature that seeks to establish the immigrant spaza-shop entrepreneurs' success factors, globally, in Africa and in South Africa. The chapter begins by explaining the concept of migration, thereafter establishing its motivation and effect in South Africa. Furthermore, it evaluates the migration effect on entrepreneurship in South Africa so that the background of spaza-shops is also established. This is then followed by an exploration of the success factors on immigrant-owned SMMEs and the strategies applied by immigrant entrepreneurs operating SMMEs. The challenges faced by immigrant entrepreneurs in the spaza-shop sector are also covered and the chapter concludes by exploring the theories grounding this study.

### 2.1 Migration

The United Nations (2005), define migration as the crossing of political or governmental boundaries for a certain minimum period of time. It includes the movement of refugees, displaced persons, evacuated people as well as economic migrants. Migration, thus, is the movement of people from one location to another (Gebre *et al.*, 2011). Transnational migration is generally accepted as ancient human history (Abdullah, Nel, Mellalieu & Thaker, 2015). Universal relocation persistently describes, reshape and affect the culture and daily life of numerous people around the globe.

#### 2.1.1 Immigration motivation and trends in South Africa

The necessity for geographical change of location is triggered by many influences. The motive to relocate may be an ordinary need for advancement in life, whereas for others it may be a quick resolution sparked by the seriousness of conflict and violence within their own country (De Blij, 1993). De Blij (1993), states that international migrants are herding to various destinations in pursuit of better economic prospects, a more peaceful and politically stable environment, and versatile cultural setting.

People are driven into South Africa from their countries of origin by various elements; economic instability, political conflict, violation of human rights, and persecution in home countries are some of the factors influencing people to congregate in South Africa (Valji, 2003). Expanding prospects for economic progression which are better in South Africa compared to other African countries, entice international migrants to flock to the country (Hunter & Skinner, 2003). This is reinforced by McDonald, Zinyama, Gay, de Vletter & Mattes (2000), who maintain that South Africa's progressive economic, social, and political climate appeals to people in the African continent.

Kalitanyi & Visser (2010), argue that immigrants from around the world are enticed to South Africa because of better economic opportunities and the pleasant political environment. The prospects of a

better environment and superior educational opportunities are some of the factors which attract immigrants to South Africa (Marger, 2001).

### **2.1.2 South Africa's legislation on migration and mobility**

Migration to South Africa was originally a white phenomenon and since 1652, English-speaking Europeans and African immigrants were not welcomed by the Afrikaans dominated National Party (Morris & Bouillon, 2001). The end of the apartheid regime and the scrapping of the whites-only immigration laws gave immigrants from other African countries a chance to move to South Africa. The deepening economic, social and political crisis in countries like Zaire, Nigeria, Somalia, Senegal, Congo, Zimbabwe and others forced thousands of Africans to migrate to South Africa in the 1990s (Morris & Bouillon, 2001).

Historically, labour migration dominated the movements of population in Southern Africa (Tati, 2008). Bordering nations to South Africa such as Lesotho, Mozambique, Swaziland, Botswana and Malawi served as labour reserves for the mining industry through the Bantu Laws Amendment Act no 76 of 1961 that facilitated labour migration from some countries while at the same prohibited population movements from others. Under the Act, conditions to enter South Africa were made more stringent and restraining for other forms of migration. These restrictive measures considerably reduced the flow of migrants into South Africa (Tati, 2008).

In 1986, the South African government removed the racially exclusionary clauses from the immigration legislation, and changed the arrangements for people into the country, opening South Africa to new sources of immigrants (Peberdy & Rogerson, 2000). At the same time, the apartheid government established relationships with other African countries (mainly as a means to evade sanctions); these new relationships were, at times, cemented by allowing nationals of these countries to enter although usually only as temporary residents. Since 1990, South Africa has experienced unique political, social, and economic changes, which have opened the country to migrants from Africa (Peberdy & Rogerson, 2000). McDonald *et al.*, (2000), enlightens that the areas of origin of immigrants into South Africa have extended to the whole African continent and beyond.

The first refugee legislation in South Africa was passed in 1998 (Crush, 2001). The South African Refugee Act (Act No 130 of 1998), outline the state's obligation to create a favourable environment for refugees and asylum seekers (Landau & Amit, 2014). It was negatively received by analyst, arguing that its policies to protect the refugees and asylum seekers are impractical. Landau & Amit (2014), further claim that the South African refugee legislation gives refugees freedom of movement, work prospects and the right to mobility within the country, and further allows them to have the right to education, health, social assistance and a chance to source a means of livelihood.

The privilege of freedom of movement is not universal for immigrants (Campbell, Kakusu & Musyemi, 2006). Refugees are only afforded the right to stay in camps far from the cities or economic hubs in some countries. For example, refugees in Kenya are required to stay in designated areas in harsh conditions which are far from areas of economic productivity (Campbell *et al.*, 2006). Hovil (2007), maintain that refugees in Uganda are legally required to register and live only in the camps and settlements that are located in enclosed geographical locations, in rural areas of the country.

## **2.2 Migration and entrepreneurship**

### **2.2.1 Immigrant entrepreneurs in SA**

A number of migrants take up positions in paid employment, but a large proportion of them migrate with the sole aim of engaging in entrepreneurship. Adepoju (2008), maintains that many migrants from Africa often participate in informal sector activities in South Africa, thus migrant businesses have become a typical feature in the South African informal sector and the SMMEs' economy (Peberdy & Rogerson, 2000). Adepoju (2008), adds that a sizeable number of immigrants in South Africa are involved in micro-economic activities such as petty trading, flea markets, and street vending.

### **2.2.2 Motivation for immigrant entrepreneurship**

Refugees and asylum seekers establish businesses as a means of survival and achieving economic and social mobility. Maharaj (2002); Kirkwood (2009); Fatoki & Patswawairi (2012); Sidzatane & Maharaj (2013) and Hungwe (2013), argue that immigrants are driven into entrepreneurship by both push and pull factors. According to Maharaj (2002), push factors are characterised by personal or external factors that include issues such as, unemployment, redundancy, and a lack of job or career prospects. Also the aspiration to be one's own boss in order to escape supervision are some of the push factors that influence immigrants to start small entities (Kirkwood, 2009; Fatoki & Patswawairi, 2012). Tengeh, Ballard & Slabbert (2012), support the point that immigrants into South Africa are driven into entrepreneurship because of limited employment prospects. Immigrants in South Africa start their businesses based on push (necessity) factors (Maharaj, 2002). Sanders & Nee (1996), uphold the point that immigrants perceive self-employment as livelihood alternative when confronted with minimal employment prospects.

Immigrants are obstructed by push factors from formal employment in the job market and are forced into self-employment (Omar, 2011). Habiyakare, Owusu, Mbare & Landy (2009), agree that immigrants do not venture into entrepreneurship as a way of life but rather it is their best opportunity of earning a living when faced with few alternatives. Lack of access to the labour market and limited opportunities for career advancement make self-employment a more viable alternative for immigrants (Basu & Altinay, 2002).

The pull factors which attract immigrants to start businesses include the desire to become one's own boss, increase wealth, change of life style or use of one's experience and knowledge, as well as the influence of religion and access to informal sources of finance and labour through family ties or shared culture and language (Benzing & Chu, 2009; Fatoki & Patswawairi, 2012). Immigrants are motivated to become entrepreneurs usually, because of their family needs to survive, community ties, market dynamics and economic conditions (Liargovas & Skandalis, 2012). Omar (2011), substantiates that self-employment is more attractive than formal employment to immigrants because of perceived, higher earnings prospects, improved professional standing, independence, and flexible time schedules, as suitable for their families.

### **2.2.3 Disadvantage theory**

The disadvantage theory essentially focuses on why some minority and immigrant ethnic groups are pushed towards self-employment (Volery, 2007). Despite their education and work experiences, immigrants turn to businesses as it is very difficult for them find employment (Salaff, 2002). Ngwenya (2017), argues that a lack of network connections and information, language barriers and discrimination in the labour market, motivate immigrants to start their own business models, like spaza shops. Moore & Mueller (2002), support that labour market obstacles, such as employer discrimination and limited ability to speak local languages are often regarded as the factors that push immigrants to enter into self-employment.

Immigrants turn to self-employment as the channel for monetary hopes due to social discrimination, low wages, and rejection that they encounter in the formal labour market (Aldrich & Yang 2012). Chrysostome (2010), confirms that social discrimination and limited knowledge of local culture are some of the factors influencing immigrant entrepreneurship. Immigrants' bad experiences in the workplace and the society at large leave them with no other alternative to make a living, but entrepreneurship (Abdullah *et al.*, 2015).

According to Volery (2007), there are two key explanations which prevent immigrants occupying salary jobs and which keep them in self-employment as their principal choice - firstly, immigrants lack human capital such as language skills, education and experience; secondly, a lack of mobility due to poverty, discrimination experiences and immigrants' limited knowledge of the local culture. These negative situations that immigrants come across and the cultural obstacles that block their development in mainstream economic markets, push them out and channel them into entrepreneurship as the only alternative route to personal success and economic prosperity (Piperopoulos, 2010).

### **2.2.4 Retail as sector of choice for immigrant entrepreneurs**

Generally, immigrants concentrate in informal economies where there are less barriers of entry. Common economic activities of immigrants are in retail: food, grocery stores, vegetable stands and

internet cafes. Kloosterman, Van der Leun & Rath (1999), argue that almost 20 per cent of all self-employed foreigners operate retail stores.

The markets in which immigrant entrepreneurs operate are generally highly competitive because of the low entry barriers (Kloosterman, Van der Leun & Rath, 2002). About 60 percent of all immigrant entrepreneurs can be found in sectors such as wholesale, retail and restaurants where fledgling businesses do not require large amounts of capital and specialised skills. To survive in these markets, they do not always conform to the prevailing laws and regulations, hence some of their activities may take on an informal character (Rath & Kloosterman, 2000).

According to Basu (1996), immigrant entrepreneurs choose retail trading because:

- (a) The start-up capital required is far less, compared with other sectors, and
- (b) The fact that many of their family, friends or community members already operate in that line of business; this gives them access to relevant information through informal networks.

### **2.2.5 The contribution of Immigrant entrepreneurs to the economy**

Immigrant business persons from the rest of Africa represent a new critical element in the informal economy of post-apartheid South Africa (Fatoki & Patswawairi, 2014). Statistics South Africa (2013), reports that immigrants are becoming a significant driving force in the creation of new businesses and the reduction of unemployment. Tengeh *et al.*, (2012), uphold this assertion that immigrant entrepreneurship generates prospects that have significant implications for the South African economy.

Kalitanyi & Visser (2010); Gebre *et al.*, (2011), inform that immigrant entrepreneurs contribute to the growth and development of South Africa through employment. Bogan & Darity (2008), validate the comment that the continual existence and growth of immigrant-owned businesses are critical to employment creation and poverty reduction in South Africa.

Schuetze & Antecol (2007), disclose that immigrant businesspersons represent an essential source of human capital, which is crucial to the development of an entrepreneurial base for the host countries. Kalitanyi & Visser (2010), confirm that entrepreneurial skills are transferred from immigrant entrepreneurs to their South African employees.

### **2.3 The informal sector**

There are a range of definitions of the term ‘informal economy’, hence, definitions are adopted to suit the project of interest as there is no definite one (Ligthelm, 2005). The informal economy is an economic reality that is perceived through different approaches in developmental circles, where it is considered as outlying or marginal (Chen, 2012). Lewis (1995), explains that the informal economy forms part of the economy that does not utilise reproducible capital. The Global Development Research Centre (GDRC) (2015), mentions that the informal sector covers a diverse number of labour activities (GDRC,

2015) thereby supporting Santiago and Thorbecke (1998), who identified the formal sector as employing waged labour in contrast to the informal sector that utilises self-employed and unpaid family labour.

The informal sector comprises of those enterprises that are not registered in any way (Statistics South Africa, 2012). They are generally small in nature, and are mostly run from homes, street pavements or other informal arrangements. Skinner (2006), contend that the informal businesses function outside of government regulations.

Becker (2004), depicts the informal economy as one that is characterised by low entry requirements with regards to professional requirements and capital, influenced by migration from rural to urban areas as witnessed in most developmental states, such as South Africa. Bearing in mind the complexity involved in defining the informal sector due to its heterogeneous nature, Godfrey came up with a solution through chronologically organising the informal sector based on its characteristics (Godfrey, 2011).

### **2.3.1 Political Characteristic of the informal economy**

From a political point of view the informal economy lacks government intervention and regulation, however, for all intents and purposes, it is vital that this economy is not viewed in a negative light, but rather as one lacking in accountability, resulting in a skewed tax system. The informal economy using this criterion, develops as a result of participants genuinely seeking employment in order to survive and move out of the poverty and should not be viewed as participants using the economy to illegally benefit by evading tax or any labour regulations (Godfrey, 2011). During the apartheid era in South Africa, this was a route that many took within the Bantustans so that the informal economy based on the political criterion continues to root itself within developing nations in Africa (HistoryOnline, 2015). The lack of regulation fuels its rapid growth in developing countries whilst it fosters illegal businesses in developed countries.

### **2.3.2 Social Characteristics of the informal economy**

According to Becker (2004), the informal economy based on this criterion is characterised by very marginal entry barriers with regards to educational qualifications and seed finance (Becker, 2004). On the basis that this sector enables participants to function independently, this inherently means participants determine their working hours and the manner in which they manage their establishments (Godfrey, 2011). In developed countries where this informal sector is prevalent, most participants do not require any qualifications and utilise the sector to survive, whilst in developing countries, the sector acts as a survivalist conduit for its participants.

### **2.3.3 Economic Characteristics of the informal economy**

The National Development Plan (NDP), recognises the income generation opportunities of the informal economy which has a ripple effect on the Gross Domestic Product (GDP) of a Nation, hence the informal economy based on this economic criterion is of a crucial nature on the basis that considers the amount of labour it absorbs (Godfrey, 2011). Most of the participants are self-employed, family members, domestic workers that fall out of the Department of Labour's mainstream line, therefore, the sector disregards labour laws. Statistics SA, however, invariably recognises the potential of this informal sector and its multiplier effect towards poverty alleviation (STATSSA, 2015).

### **2.4 The informal economy in South Africa**

There are over 100 000 informal stores in South Africa (Das Nair & Dube, 2015). The sector is comprised of spaza shops, hawkers and street vendors, mostly in townships and villages. The informal sector in South Africa is fiercely competitive and characterised by disorders as various groups try to make ends meet in the sector (Murray, 2003). Liedeman (2013), insists that business failures in the informal economy are attributed to rigorous competition from the large number of participants in the sector.

There are three main situations from which people enter the informal economy (McKeever, 2006). In the first situation, people obtain employment within the informal economy as a fallback when they cannot find work in the formal economy. In the second situation, people use the informal economy as an intermediary step to transition from unemployment into the formal economy, solely through the acquisition of capital, thus by earning money these people are able to advance their economic situation and find work in the formal economy. The third situation occurs when people enter the informal economy in order to make a living, but who have no plans of transitioning into the formal economy.

For a developing country like South Africa, the informal sector provides an access point for individuals who for some reason or the other are not absorbed into the formal economy. These reasons could be lack of skills and education, which then forces them to pursue informal business opportunities in a bid to gain employment and survive (Liedeman, 2013). In the apartheid era, the genesis of the informal economy was fuelled by residential segregation through the establishment of Bantustans as a result of the Bantu Authority Act 68 of 1951 (HistoryOnline, 2015). The Act meant that black people were designated to a given homeland based on their ethnic groups. Homelands acted as a labour reservoir for white-owned industries, thereby limiting black people from being part of the business sector. As a result, the growth of the informal market within the homelands, in the form of spaza shops increased.

In the South African informal market sector, there is great diversity of economic activities as well as forms of employment. The vast numbers of people engage either in trade (initially starting off through the sale of commodities on the street or being employed by others for the same purpose) or providing

services, such as child minding or hair care. Ligthelm (2008), states that 50% of the economic activity of the poor and disadvantaged in South Africa involves informal trade. The immense demand for services and goods within disadvantaged communities where formal business is largely absent mainly within former homelands, acts as a catalyst for the emergence of micro enterprises that are structured on formal business whilst being informal in nature. This is the manner in which spaza-shop owners undertake their business.

#### **2.4.1 Small, Medium and Micro Enterprises (SMMEs) as part of the informal economy**

The World Bank Group describes SMMEs as small, medium and micro companies that are established as a means of overcoming poverty (Gstraunthaler & Cramer, 2012). SMMEs globally act as a channel that accelerates growth within their inherent economies whilst creating employment (Gstraunthaler & Cramer, 2012). In addition, the most commonly used parameters in classifying SMMEs is based on their staff complement and their inherent annual turnover (Jaiyeoba, 2010).

The Department of Trade and Industry (DTI) (1996), defines SMMEs as firms with fewer than 250 employees or an annual turnover of approximately R 300 million. Over 90% of all firms (including listed companies) in South Africa are being classified as SMMEs. Independent retailers in South Africa fall into the DTI's definition of Small, Medium, and Micro Enterprises (SMMEs), as outlined by the National Strategy for Small Business Development (DTI, 1996). Independent retailers are privately owned businesses that do not belong to a large chain; they also include the spaza shops, spazettes and superettes (Wholesale and Retail Sector Education and Training Authority, 2011).

#### **2.4.2 SMMEs' contribution to the Economy**

Booyens (2011), states that globally, small, medium and micro enterprises contribute to employment, wealth creation, innovation and economic growth. SMMEs have a greater impact on performance and growth in highly developed countries and economies that exhibit low inflation rates, high levels of education and high levels of financial intermediary. As much as their economic output performance may be marginally low in developed economies, SMMEs inherently contribute positively in introducing innovation, enhancing competition and bringing about change.

In most of the developing African countries, SMMEs play a significant part in job creation (Jaiyeoba, 2010). With rising unemployment, business contraction, poverty and shrinking government revenues, many African countries have realised the need to capacitate their SMMEs' sectors in order to induce economic growth within their economies (Khoase and Govender 2013).

Karpac & Topcu (2010), emphasise that a strong Small, Medium and Micro Enterprises (SMMEs) sector is enormously significant for any country's economy. Kamyabi & Devi (2012), report that their massive contribution to production and employment is acknowledged worldwide. Abundant evidence of poverty reduction through the SMMEs' sector exists in various parts of the world (Philip, 2010).

### 2.4.3 The South African SMME Sector

Small, Medium, and Micro Enterprises (SMMEs), are the principal source of earnings for hundreds of thousands South Africans (Woodward, Rolfe, Lightelm & Guimaraes, 2011). SMMEs include a very wide spectrum of firms, from traditionalist family business (Medium sized enterprise) narrowing down to survivalist business person, within the poorest layer of the economy (LSM 1-4 (SAARF, 2014). The South African legislature, through the National Small Business Act 102 of 1996 categorises SMMEs as follows:

- i. Survivalist
- ii. Micro
- iii. Very Small
- iv. Small
- v. Medium Sized Enterprises

Informal survivalist enterprises are those that are operated or are run by an individual whose objective is to seek economic subsistence. A small initial investment capitalises the informal business hence the inherent income returns are marginal. Owners of these enterprises usually, do not possess the appropriate training and business skills to manage their enterprise thus limiting its growth (Africagrowth, 2011).

On the one hand, micro enterprises employ about 5 staff members and like the survivalist enterprises are run by owners who do not have the necessary skills, operate informally and are unlicensed thereby violating legislature. As a rule of thumb, micro enterprises are meant to transcend into formal very small enterprises employing up to 10 professional staff and using technology to operate their enterprises. On the other hand, very few enterprises transcend to small enterprises that are much more established registered entities having fixed business premises, however, Medium Enterprises are owner managed and adhere to the law like small enterprises, employing up to 200 employees (Africagrowth, 2011).

The South African government came to realise that the SMME sector could be the best panacea in inducing economic growth and reducing unemployment (Booyens, 2011), thereby closing the inequality gap and alleviating poverty (Peters and Naicker, 2013, Kerr, Wittenberg and Arrow, 2014, National Planning Commission, 2011). The SMME sector contributes about 50% to the GDP in South Africa and employs 60% of its labour force. For some developed countries, the contribution of small and medium-sized enterprises to the national GDP is as high as 90% (Booyens, 2011).

### 2.5 Spaza shop

Spaza shops are small convenience stores, mostly situated in residential areas (Liedeman, Charman, Piper & Petersen, 2013). Ligthelm (2002), defines spaza shop as entities operating from an occupied residential home or in any other structure on a stand in the township which is zoned for residential

purposes and where people permanently live. Spaza shops are small convenience shops, selling essentials and basic products like bread, milk, paraffin and sugar, largely to the immediate neighbourhood (Valodia, Davies, Altman & Thurlow, 2009). TTO (2010), refers to spaza shops as mini outlets with limited resemblance to formal grocery stores and supermarkets. These shops sell items that are regularly demanded by communities within which they operate (Liedeman *et al.*, 2013).

According to Van Scheers (2016), The Bureau of Market Research (UNISA) lists the following attributes of spaza shops:

- They generally operate from a home or residential stand;
- They are mostly financed by private savings, or loans from friends and relatives;
- The average employment per business is 2.9 persons, and
- The most important products sold at these outlets are bread, soft drinks, cigarettes, paraffin/candles, maize meal and sugar.

### **2.5.1 Background of spaza shops**

‘Spaza’ meaning ‘concealed’ in Zulu originates from township language, simply means an imitation of a real shop (Bear, Bradnum, Tladi & Pedro, 2005). Van Scheers (2010), narrates that spaza-shops have supplied township residents with household grocery items for decades and the concept was initiated during the apartheid era when black South Africans were restricted from operating formal grocery stores (Bear, 2005). Due to apartheid legislation and discrimination, spaza shops operated secretly. Van Scheers (2010), cautions that many black South African entrepreneurs were involved in the sector before the dawn of democracy and it was essentially the heartbeat of business in black residential areas. This is corroborated by Ligthelm (2002), when stating that these mini outlets have been a means of subsistence for South African blacks who were excluded from the mainstream South African economy.

### **2.5.2 The current nature of the spaza-shop sector in South Africa**

In the democratic South Africa, spaza shops can operate legally with a licence based on the Business Act 71 of 1991 (IOL, 2015). The democratic era has seen these enterprises being established within the residence of the owner for economic reasons rather than fear of persecution as was the case previously (IOL, 2015).

In 2016, a survey on a population of 325 000 (98 000 households) in eight South African urban sites by Sustainable Livelihoods Foundation shows that there is approximately one spaza shop for every 86 households. Piper & Yu (2016), indicate that about 80% of spaza-shop activities take place in the informal sector. Most spaza shops are not registered; they are informal businesses and do not adhere to municipal rules when it comes to operating businesses in residential areas.

### **2.5.3 Spaza-shops' contribution to the economy**

In South Africa, the informal economy has made a contribution of about 2.5 million jobs on the average in the last decade; this accounts for between 15% and 20% of employment in the country and the sector has been a crucial component of the informal businesses (Piper & Yu, 2016). Spazanews (2015), which is an industry trade source claims the spaza-shop industry is made up of more than 100 000 enterprises with a collective annual turnover of R7 billion. Sustainable Livelihoods Foundation (SLF) confirms that spaza-shops are a significant form of informal micro-enterprise throughout poor, black urban settlements of the country (SLF, 2011). The Foundation adds that spaza-shops are second to drinking establishments in terms of frequency in these areas and contribute about 4% (about 100 000 jobs) of employment in the informal sector. The industry provides business opportunities for immigrants and South Africans aspiring to venture into formal business whilst at the same time, generating income for those already in business.

### **2.5.4 Immigrant entrepreneurs' participation in the spaza-shop sector**

In South Africa, literature confirms that foreign shopkeepers are now controlling the spaza-shop sector and they out-compete local shopkeepers (Piper & Yu, 2016). Charman, Petersen & Piper (2012) studied spaza-shops in Delft South, a township in Cape Town and out of the 179 identifiable spaza-shops, 90 were operated by foreign nationals and that is slightly over 50%. This attests to the argument that spaza-shop ownership is shifting from South Africans to foreign nationals.

Local spaza-shop entrepreneurs are facing strong competition from the relatively recent influx of foreign entrepreneurs who employ a much more entrepreneurial business model (Hartnack & Liedeman, 2017). The recent development of large scale spaza-shops which are run collectively by immigrants employing entrepreneurial business practices, especially price competition poses threats to South African-owned shops typically run on more individual and "survivalist" lines (Charman *et al.*, 2012). Historically, South African township traders do not embrace price competition in the spaza-shop sector (Charman & Petersen, 2007). A report in the Global Post (2013), confirms that many South Africans accuse immigrants of pushing local entrepreneurs out of business by undercutting their prices, similarly, the Somaliland Press (2012), reports that Somalis have been told to leave South Africa, because locals fear that they may take their businesses.

## **2.6 Success factors of immigrant owned SMMEs'**

A study conducted in The United States of America on how networks assist in the creation and successful operation of immigrant firm revealed that success and survival of immigrant small enterprises are the result of their huge capital investments and impressive educational backgrounds (Bates, 1994). Basu (1996), investigated various aspects of Asian entrepreneurship based on a survey of small Indian, Pakistani and Bangladeshi businesses in Britain and acknowledged that the success of

foreign-owned businesses correlates to the amount of personal capital invested at the beginning and educational achievements of the entrepreneur.

According to Basu (1996), prolonged success of immigrant enterprises are determined by:

- The access to sources (personal or family) of capital at the time of business start-up;
- Educational qualifications which serves as an internal resources, and
- The access to family and community networks of people in the same line of business.

Education, managerial-related experience, motivation, and networking, therefore, are important requirements to small businesses' success (Fatoki, 2013; Madu, 2016). Calvo & Garcia (2010), mention that psychological traits, such as - self-esteem, self-confidence, courage, creativity, honesty, independence, leadership skills, internal locus of control, motivation to achieve, propensity to take risks and tenacity – all influences the success of a business. Wayland (2011), adds networking, hard work, motivation, and related business knowledge and skills as being central to the success of foreign owned businesses.

### **2.6.1 Human capital**

Human capital is the manpower of an enterprise and includes knowledge and the processes through which the different aspects of manpower collaborate with each other (Davidsson & Honig, 2003). Ucbasaran, Westhead & Wright (2008), refer to human capital as the hierarchy of skills and knowledge with varying degrees of transferability. Barney (1996), argues that these factors contribute to the development of both the entrepreneurs and enterprise.

Davidsson & Honig (2003), state that human capital increases people's ability to exploit the opportunities that exist, and enhance capabilities to produce more in efficient ways, hence, micro entrepreneurs applying human capital development practices accumulate new approaches for business success (Chen, 2013). Quality human capital together with the entrepreneurs' intellectual characteristics leads to positive exploitation of opportunities (Brixy, Sternberg & Stüber (2012).

Human capital, in the form of education, language skills, training and prior experience, is very important in influencing small business survival (Becker, 1993; Cressy, 1994). (Wang, (2013) and Sim (2015), corroborate that foreign business people prosper because of their education and existing entrepreneurial skills. Nee & Sanders (2001), however, imply that there is a negative correlation between entrepreneurship and human capital as they maintain that well-educated individuals use their knowledge as an advantage to pursue high status professional and public sector careers. Brah (1996), argues that rather entrepreneurship is the survival path for those who cannot find employment in the formal market; Nee & Sanders (2001), also agree that business ownership offers immigrants who lack the necessary human capital to acquire employment, an alternative to earn a living.

### 2.6.1.1 Education

Academic knowledge is invaluable and is a beneficial resource for making some income from small businesses (Rogers, 2012). Rogers (2012), further states that small business owners' educational accomplishment are key defining aspects of financial capital structure for business start-ups. Basu (1995), states that educational training empower entrepreneurs with superior communication skills, analytical capabilities, the ability to introduce efficient organisational systems and responsibility delegation which are essential precondition for expansion and growth.

The level of educational qualifications of the entrepreneur positively influences success of an enterprise (Werbner, 1990). It is re-affirmed by Bashir (2016), that the entrepreneurs' level of education plays a critical role in immigrant businesses success, and the knowledge attained through formal education encourages informed decision-making processes. A tertiary qualification, no matter how unrelated it may be, has a radical impact on the development of businesses (Werbner, 1990).

Educated foreigners often operate prosperous businesses in the United States (Bates, 1994), with their success being attributed to education since it empowers them with skills and knowledge. Becker (1993) agrees that well-schooled immigrant entrepreneurs possess fundamental qualities (human capital) required to succeed in business endeavours.

Timberg (2005), indicate that immigrant entrepreneurs are fairly experienced and well educated. Kalitanyi & Visser (2010), concur that foreigners in businesses have educational background. An enterprise's prosperity is closely associated with the entrepreneur educational achievement (Basu, 1996; Altinay & Altinay, 2008). A positive relationship therefore exists between education, the creation and sustaining of an enterprise (Calvo & Garcia, 2010).

Abdullah *et al.* (2015), maintains that educated entrepreneurs understand and comprehend the needs of their customers, suppliers and all stakeholders better than uneducated ones; this ultimately strengthens their business. Bates (1994), confirm that the success and survival patterns of Asian immigrant firms in the United States of America is the results of huge investments and the impressive educational credentials of the business owners.

Human capital accumulated from home country and transferred to the foreign country is beneficial to immigrant entrepreneurs (Sim, 2015). Chan (2008), indicates that Chinese immigrants from Hong Kong were able to thrive in Canada due to assets such as education, business acumen, and experience that they had acquired in China. Human capital, such as existing entrepreneurial skills and experience or education relevant to their business pursuits, is important to the success of immigrants who enter a foreign country with the aim of pursuing businesses (Marger, 2001).

### **2.6.1.2 Previous business experience**

Skills are universal belief, which includes endowments, capabilities, capacities, expertness (Chell, 2013). Becker (1993), indicates that skills primarily result from previous experience and existing knowledge. Previous knowledge of the business and of entrepreneurship as necessary for success are points outlined by North York Community house (2013).

Basu (1996), articulates that preceding business involvement of immigrants, together with their inherent aptitude for business, acted as an obvious spur for them to succeed in business. Rueda-Armegot & Peris-Ortiz (2010), indicate that not only personal experience is an asset; history of entrepreneurship within the family is also an indicator of success. Immigrants are relatively better equipped than natives in terms of skills, qualifications and capital; they had also, usually, belonged to a successful business community (Basu, 1996).

### **2.6.2 Networks**

Foreign business people are members of supportive community set-ups (Bates, 1994). These linkages afford social resources in the form of customers, loyal employees, and financing to start and operate prosperous businesses. Uzzi (1999), says that networks offer and enable new opportunities, as well as the identification, collection and allocation of limited resources. Linkages assist procurement, assessment and utilisation of resources necessary for exploitation (Davidsson & Honig, 2003).

North York Community house (2013), argues that the most common form of support is from family and friends, whether for their financial help, business knowledge and introduction to networks or other forms of assistance. Close family ties in many ethnic cultures facilitate access to resources such as family capital, family labour as well as free information and advice if some family members are already in business or are professionally trained (Basu (1996). Networks afford immigrant businesses with access to labour and capital as well as enabling collective purchasing and market domination (Fatoki, 2014).

Family relations enable immigrant entrepreneurs to cut back on production and transaction costs (Sanders & Nee, 1996). When hiring family members and others from their own social networks, immigrant entrepreneurs are in many cases able to enhance flexibility and reduce costs (Bashir, 2016). Werbner (1990), substantiates that close family ties among immigrant give them access to a trustworthy pool of employees as in the case of Chinese immigrant entrepreneurs who used their network, connections, and business knowledge to innovate and expand their business activities successfully in both China and Canada (Vissak & Zhang, 2014).

Interfamily loans and availability of family labour significantly reduce operating costs (Sanders & Nee, 1996). Private loans from relatives and friends coupled with unpaid and cheap family and co-ethnic

labour were of central importance for the establishment and successful operation of Koreans and Iranians small business in the United States of America in the early 1980s (Min & Bozorgmehr, 2000).

### 2.6.2.1 Social capital and networks

Social networks with relatives and fellow migrants who have successful businesses are vital for the continual existence of foreign entrepreneurs (Liedeman, 2016). Campbell (2006), specifies that social networks facilitate a means of survival for immigrants faster than the government and institutional networks by providing moral, material and financial support. The benefits of social networks are not only for the provision of critical information and to identify opportunities, it also has a fundamental role in reducing the cost of transactions (Ram & Jones, 2008).

Liedeman *et al.*, (2013), advocate that foreign shop keepers are more successful than their South Africans counterparts because of the strength of their social connections. The close community ties among immigrant Asians contribute positively to business expansion (Werbner. 1990). Light, Bhachu & Karageorgis (1993), confirm that social networks influence entrepreneurial success by providing access to informal sources of finance and information.

Foreigners apply many approaches to expand their entities and create social networks in the process (Grant &Thompson, 2014). According to Liedeman (2013), social systems play a key role in enabling a more competitive business model. The networks provide various services, including:

- Access to discounted labour;
- Implementation of contractual agreements by the network, with clan elders overseeing business deals;
- Planned investment in geographical areas to create monopolies;
- Group purchasing to secure discounts and operational economies of scale, and
- Facilitating micro-finance by organising investments and business partnerships.

Social capital is the ability of the entrepreneurs to exploit and take advantage of their social structures, networks and membership (Davidsson & Honig, 2003). The accessibility of community groups, family, and friends as well as unpaid and reliable labour, pooled financial resources from relatives are part of social capital (Sheng & Mendes-Da-Silva, 2014; Gao, Sung, & Zhang, 2013). Relations grounded in society influence the generation of extensive social capital (Kim, 2013). Thomas & Mueller (2000), note that a community which has strong social capital is likely to be more successful than others.

Light & Dana (2013), enlighten that social capital supported by cultural capital enhance business ownership while Zhang, Ma, & Wang (2012), indicate that human social capital is influential in the progression of business operations. Social capital of immigrants is critical for the development and

successful management of enterprises (Bashir, 2016). The exploitation of social capital including family resources is, hence, part of immigrant businesses strategies (Klinthäll & Urban, 2014).

### 2.6.3 Cultural attributes

Culture is the cooperative collection of shared individualities that influence a human group's response to its environment (McGrath, MacMillan, Yang & Tsai, 1992). It is also explained in terms of how societies organise social behaviour and knowledge (McGrath *et al.*, 1992).

Many immigrants possess cultural attributes, such as hard work, persistence, strong sense of community, frugality, risk acceptance, and tolerance for self-employment (Jang & Kim, 2013; Yoo, 2014). Bashir (2016) contends that factors allied with culture such as trust, social capital, and risk taking and hardworking are essential for an immigrant's establishment of micro enterprises in a foreign country.

North York Community house (2013), identifies passion, drive and resilience; planning, focus and hard work as characteristics which predict the success of an immigrant business person. Volery (2007), maintains that other strong cultural features such as dedication and hard work, membership of a strong ethnic community, risk taking, solidarity and loyalty adequately prepare immigrants for entrepreneurship as well as hard work and honesty which hugely contributes to the successes of foreign-owned micro-enterprises (Chen & Elston, 2013).

Resilience contributes to the accomplishment of a business as it aids entrepreneurs to overcome failures and ventures forward despite any setbacks (Calvo & Garcia, 2010). Rogerson (1999), argues that immigrant business people are optimistic and always looking at the prospects of expanding their business enterprises, despite the difficult conditions and challenges under which they operate. A significant number of migrants have successfully established and operated small enterprises because of their perseverance (Kalitanyi & Visser, 2010).

Aldrich & Yang (2012), details that that individual's culture help to foster business competences. A generally-held opinion about Asian businesses in Britain is that, the secret of their success lies in cultural attributes, such as the long hours of work expended by the owner-managers (Soar, 1991; Rodgerson, 1997). Centre for Development and Enterprise (2008), notes that African migrants, especially Somalis, are regarded as hard workers known to take over failing businesses and make a success of them by their senior people in business organisations. Specific ethnic communities establish and operate successful small businesses because of their particular cultural approach to entrepreneurship. This is evidenced by some communities such as the Chinese, Koreans, Jews, South-Asians and Cubans in the United States (Piperopoulos, 2010). Yiu (2013), cites adaptation as coping mechanisms that second-generation Chinese immigrants in Spain have used to overcome discrimination, and find success as small business

owners (Yiu, 2013). Indian immigrant entrepreneurs have cultural traits such as adaptability, and strong work ethics which help them to succeed in different host countries (de Vries, 2012).

## **2.7 Strategies applied by immigrant entrepreneurs in SMMEs**

### **2.7.1 Identifying new niche markets**

Stadler (2017), reveals that it is very difficult to compete with conventional firms in existing markets, therefore, small entities need to constantly look for new niche markets. Foreign business people regularly succeed because of their prowess in identifying new opportunities (Stadler, 2017).

### **2.7.2 Serving existing customers differently**

Presenting a more tempting proposition to current markets and customers is a recipe for success (Stadler, 2017). Consumer-orientated businesses practices distinguish foreign entrepreneurs from their local counterparts (Tshabalala, 2015). Gastrow (2013), argues that superior customer services give immigrant entrepreneurs a comparative advantage.

### **2.7.3 Location of the business**

Dludla (2014), explain that careful positioning of businesses to operate within particular niche markets sets foreign enterprises for success. Safe places which are free from crime and discrimination are of great importance to foreign enterprises success (Chu, Zhu & Chu, 2010); Gastrow (2013), also maintains that foreigners position their businesses at highly-trafficked pedestrian areas. According to Dludla (2014), immigrants consider two things before positioning their shops: a) the proximity of other shops around and b) the number of households they can possibly serve in that vicinity.

### **2.7.4 Business operations**

Immigrant

shops open early and close late and they also have a wider product range (Gastrow, 2013). Khalil (2014), adds that foreign-owned stores are open for longer hours, making it easier to buy from them. Muushi (2013), insist that long operating hours give immigrant stores a significant competitive advantage, as well as stock diversity and range (Dludla, 2014). Competitive pricing and great customer service are strategies for immigrant small business success, so you would find that foreign shopkeepers in South Africa provide credit to their customers, without charging interest (Khalil, 2014).

### **2.7.5 Competitive intelligence**

Pellissier & Nenzhelele (2013), argue that in today's competitive business environment, organisations must adapt to their surroundings in order to survive and prosper. Competitive intelligence is critical to the survival and growth of immigrant owned businesses (Mollayaaghoobi & Badiee, 2011). Prior (2007), agree that small businesses need to be constantly aware of competitor's actions for them to succeed in

the competitive and ever-changing business environment. Immigrant entrepreneurs keep a close eye on competitors' prices and strive at all times to match or undercut them (Malan, 2017).

## **2.8 Challenges faced by immigrant entrepreneurs within the spaza-shops sector**

Micro enterprises such as foreign-owned spaza shops struggle due to combination of internal and external factors (Ahmad & Seet, 2009). Pinhold (2008), mentions that lack of management experience and poor staff training and development are some of the internal factors hampering micro businesses; exterior issues encompass crime and lack of finance (Pearce, 2005).

Perks (2010), states that the inability to access external finance can also affect the success of spaza-shops. Lack of managerial capabilities, lack of financing, recession, technology and regulatory burden are obstacles faced by immigrant spaza shops (Khaliq, Isah, Shaari, Abdul & Ageel, 2011). Problems such as perceived discrimination, language and cultural predispositions as well as difficulties with market penetration and inexperience also have a drastic impact on immigrant enterprises (Teixeira, Lo, & Truelove, 2007).

According to Pratten (2004), lack of customer loyalty and lack of knowledge regarding marketing techniques hamper immigrant micro enterprises. Marketing factors such as poor location can negatively impact on the performance of spaza shops (Perks, 2010). Christina, Neelufer & Amri (2014), reveal that the majority of micro businesses face challenges in the form of marketing issues.

### **2.8.1 Social exclusion and violence**

Competition between local and foreign spaza-shop owners has intensified over the past few years. Liedeman *et al.*, (2013), state that foreign owned spaza shops in townships have been the focus of organized acts of violence by South Africans who are opposing immigrant businesses. Xenophobic violence has escalated in townships areas of South Africa (Tevera, 2013); Chinomona & Maziriri (2015), indicate that immigrants in South Africa live in fear and also fear for their businesses.

According to Bates & Tuck (2014) and Casey (2012), discriminatory difficulties obstruct African immigrants and minority small business owners by:

- limiting access to start-up and working funds;
- limiting access to education, skill growth, and training;
- limiting and decreasing the size of businesses, and
- Increasing business failure.

Gebre *et al.*, (2011), support this when mentioning that Ethiopian immigrants live in isolation from other groups and only have limited contact with the South African community and this affect their businesses negatively.

### **2.8.2 Language barrier**

Effective communication with customers is critical to business success (Manyi, 2010). According to Hamilton (2014), language skill is critical to immigrants' survivability and directly affects business performance, hence, lack of local language proficiency is another factor that hinders the economic integration of immigrant entrepreneurs (Frank, Phythian, Walters & Anisef, 2013). Immigrant entrepreneurs face language barrier and this may prevent them from communicating effectively with customers.

Conrad & Newberry (2012), reveal that communication is one of these key leading, establishing, and regulating the resources of the business to attain objectives. Bashir (2016), validates the point that immigrant businesses may fail to continue if entrepreneurs are unable to communicate effectively with locals. Immigrant entrepreneurs may become dependent on co-ethnic network if they cannot speak English and other local languages (Forman & Larson, 2014).

### **2.8.3 Lack of funds**

Spaza-shop entrepreneurs depend on their personal savings and financial support from friends and family members because of their inability to access bank loans (Ligthelm, 2002). Mboyane (2006), acknowledge that lack of financial support hampers the progress of micro enterprises. Ligthelm (2002), substantiate that the absence of monetary support is an important issue that negatively impact the potential growth of micro enterprises, including spaza-shops.

### **2.8.4 Crime**

The crime rate in South Africa is very high and business crime continues to be on the increase. Business robberies increased by 13.7 percent to 18,615 incidents in South Africa between 2013 and 2014 (South Africa Police Service, 2015). Bear, Bradnum, Tladi & Pedro (2005), state that spaza shops are targets of robbery because of cash on premises. For example, in the Khayelitsha settlement in Cape Town, a spaza-shop owner and employee were murdered by robbers and an undisclosed amount of cash and airtime vouchers were stolen (Hweshe, 2007).

Isaacs & Freidrick (2007), report that crime negatively affects the performance of the spaza-shop sector. A research in Cape Town highlighted high crime rates in townships as having a negative impact on the sustainability of spaza shops (Bear, Tladi & Pedro, 2004; Hweshe, 2007)

### **2.8.5 Limited trading space**

Limited trading space and storage facilities are some of the prevalent characteristics of spaza shops, that prevent bulk buying of stock (Terblanche, 1991). Gough, Tipple & Napier (2003), report that most

spaza shops have limited trading space, thus, their business activities are cramped in tight spaces and this impedes their growth.

### **2.8.6 Competition**

Snyman (1990), states that spaza-shops not only compete among themselves, but also with formal established retailers. Chiliya, Herbst & Roberts-Lombard (2009), cite intense competition among spaza shops as another factor that thwarts their potential to become sustainable businesses. As the numbers of spaza shops increase, competition also increases, which, together with lack of business technique, may raise doubts about the viability of many of these enterprises (Snyman, 1990).

### **2.8.7 Lack of business skills**

Rolfe, Woodward, Ligthelm & Guimarães (2010), highlight lack of business skills as a barrier that limits the growth of spaza shops. Spaza-shop entrepreneurs must have a range of skills in order to execute the daily tasks of the business (Perks, 2010). Bates & Robb (2015), argue that lack of business skills and knowledge, therefore, lead to undesirable outcome for micro entrepreneurs.

According to Sarasvathy, Menon & Kuechle (2013), people venture into small business initiatives without adequate preparation and the necessary knowledge and skill to succeed. Foreign entrepreneurs who turn to business without enough preparation and the necessary skills result in failures (Bashir, 2016) causing Perks (2010), to insist that no matter how small the business is, it requires adequate skills in order to withstand any competition.

### **2.8.8 Health**

The success of a spaza-shop is extremely reliant on the health of its owner (Rangan, Quelch & Herrero, 2007). Chao, Pauly, Szrek, Pereira, Bundred, Cross & Gow (2007), confirm that if a spaza-shop owner becomes sick, it often means they can no longer run their business, meaning that lack of a support system should the owner fall sick poses problems for spaza-shop operations.

### **2.8.9 Custom regulations**

Fisher (2005), maintains that immigrant entrepreneurs have problems in opening bank accounts, and acquiring visas and permits. They also have to deal with customs, harassment by police and local officials. Moutray (2008), supports that immigrant entrepreneurs have to cope with taxes and other regulatory requirements that differ from country to country. Lack of awareness regarding these regulatory policies and procedures also disadvantage foreign owned businesses (Enow, 2010).

### **2.8.10 Distribution system**

Bear, Bradnum, Tladi & Pedro (2005), identified inconsistent distribution as another major problem impeding the success of spaza shops. The distribution methods used in many spaza shops have several major drawbacks. Due to the limited number of employees, the shop owner is only capable of bringing back as much as he or she can carry (Skinner, 2006). Spaza-shop owner's waste time and money travelling to suppliers when they could contact them by cell phone and have them send invoices by fax (Skinner, 2006).

## **2.9 Theories adopted by the study**

**This study is grounded within the three theories namely: cultural theory, human capital theory and resource-based theory.**

### **2.9.1 The cultural theory**

Previous studies such as Jam & Kim, (2013) and; Chung and Tung, (2013) support the assertion that culture influences business success. Liu, Miller & Wang (2014), commented that immigrants groups take advantage of business ownership and self-employment to establish a platform for improving their social status by exploiting their cultural capital. The theory is relevant to this study because spaza-shop entrepreneurs also distinguish themselves by their cultural traits.

### **2.9.2 Human capital theory**

Literature shows that there is a progressive correlation between human capital and small business success (Becker, 1993; Unger, Rauch, Frese & Rosenbusch, 2011; Davidsson & Gordon, 2012; Martin, McNally & Kay, 2013; Santarelli & Tran, 2013; McHenry, 2015; Nason & Wiklund, 2015). The theory is appropriate for this study on entrepreneurial success factors of immigrants' spaza-shop owners in Thulamela Local Municipality.

### **2.9.3 Resource-based theory**

Barney (1991) & Madu (2016), argue that small business firms could earn adequate revenues if they have resources. The resource-based theory gained popularity at a time when business scholars were exploring sources of continual advantages of businesses (Madu, 2016). Barney (1991), narrates that before the development of resource-based theory, investigators used Strength, Weaknesses, Opportunities, and Threats (SWOT analysis) to analyse the sustainable competitive advantage in a small business. Literature shows that the availability of resources positively influences the success of small businesses.

## 2.10 Summary of major literature findings

The literature review above has revealed the major entrepreneurial characteristics among immigrant SMMEs' owners and these are honesty, trustworthiness, considerate, friendly and passionate (Kulitanyi & Visser, 2010; Aldrich & Yang, 2012; Jang & Kim, 2013; Yoo, 2014). The literature review also established that the competitive strategies being adopted by the immigrant SMMEs owners are identifying new niche markets, serving existing customers differently, location of the business, long business operating hours and competitive intelligence (Chu, Zhu & Chu, 2010; Mollayaaghobi & Badiie, 2011; Gastrow, 2013; Pellisier & Nenzhelele, 2013; Khali, 2014; Dlodla, 2014; Stadler, 2017).

Furthermore, the review of literature has isolated the challenges that immigrant entrepreneurs face when conducting their businesses and these are - social exclusion and violence, language barrier, lack of funds, crime, limited trading space, competition, lack of business skills, custom regulations and distribution system challenges (Bates & Robb, 2015; Bates & Tuck, 2014; Frank *et al.*, 2013; Rolfe *et al.*, 2010, Enow, 2010; Chiliya *et al.*, 2009; Mantray, 2008; Rangan *et al.*, 2007; Mboyane, 2006, Skinner, 2006; Bear *et al.*, 2005, Gough *et al.*, 2003). The major success factors from literature are human capital, social capital and networks and cultural attributes (Fatoki, 2014; Chell, 2013; Rogers, 2012; Westhead & Wright, 2008; Volery, 2007; Campbell, 2006).

## 2.11 Conclusion

It is evident that immigrant entrepreneurs become successful more than the native population all over the world, however, not much research has been undertaken to better understand the causes of these successes. Many scholars and investigators have been focusing on challenges which are the main causes of failure for many immigrants' enterprises. There is a need to understand the competitive advantage of foreign business people and where they derive their competitiveness. It is also important to look into their business practices and ethics which include: a) Their passion to excel in a foreign land; b) Their ability to learn the local language and understand the culture of the communities that support their enterprise and e) Developing trust among community members. In so doing in line with the purpose of this study, competitive SMMEs shall be developed in various sectors thus, their passion to excel in a foreign land; their ability to learn the local language and understand the culture of the communities that support their enterprises, and developing trust amongst community members.

## CHAPTER 3: RESEARCH METHODOLOGY

### 3.1 Introduction

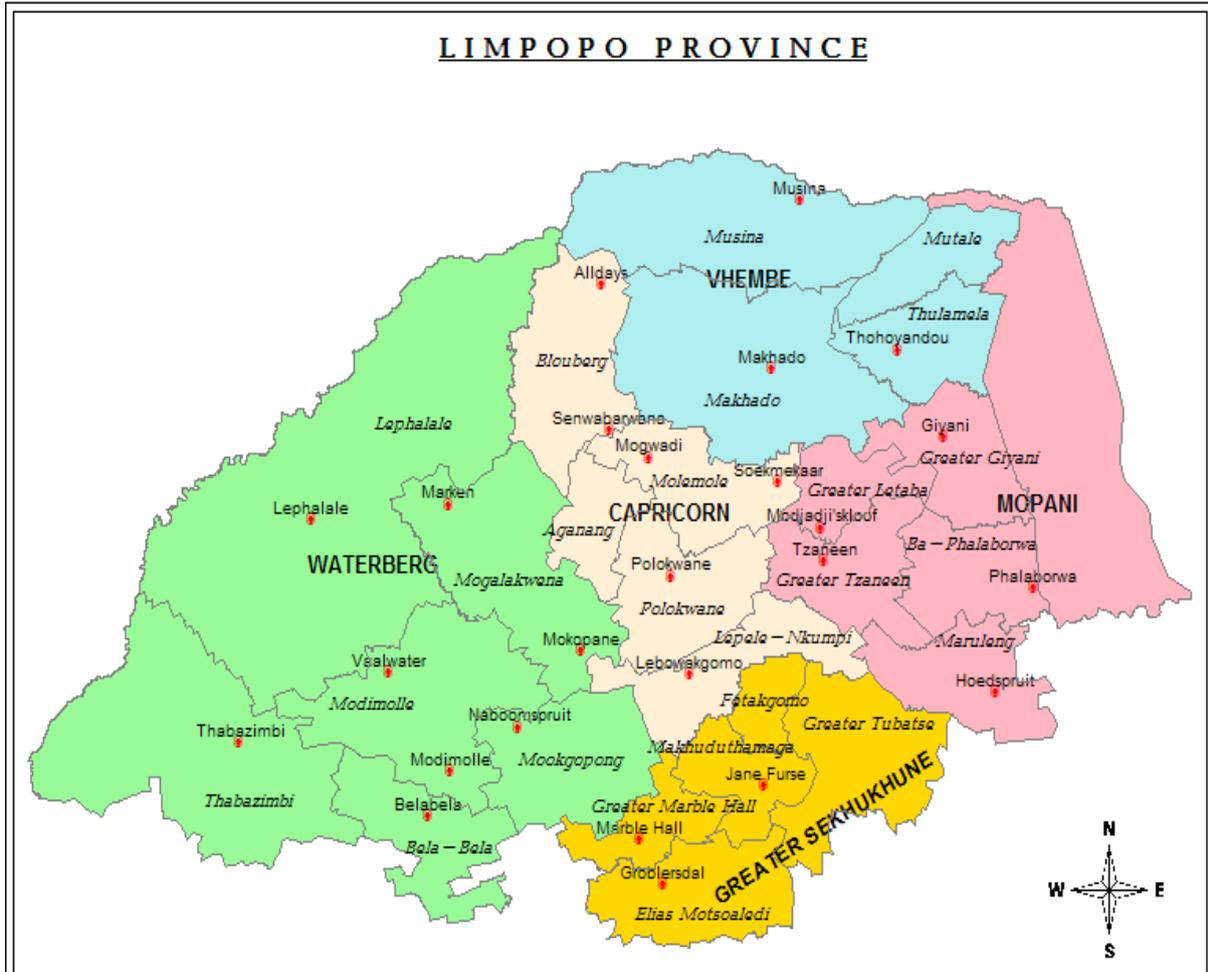
This chapter presents the research methodology used in the study. Included in this chapter is the research design, data collection strategy and data techniques used to conduct the analysis. The study employed a qualitative methodology, where interviews were conducted using structured interview questions. The process of qualitative data analysis began with the preparation of the data; this involved organisation of the data, the interview documents and the field notes. The next step was to identify themes in the data and the last step involved drawing inferences from the identified themes and key findings.

### 3.2 Study area

The study was conducted in Thulamela Local Municipality (Figure 2) which is located in Vhembe District. Thulamela Local Municipality is a Category B municipality, established in terms of Local Government Structures Act number 117 of 1998. Thulamela Municipality is one of the four local municipalities comprising Vhembe District Municipality and is the most eastern local municipality in the District.

Collins Chabane Municipality forms the boundary in the east, while sharing the borders with Musina Municipality in the north east and Makhado Municipality in the south west. Thulamela Municipality is an area covering vast tracks of land, mainly tribal; its total geographical area is approximately 289393 hectares. Thohoyandou is its political, administrative and commercial center. In terms of population it is the second largest of all the municipalities in Limpopo Province and home to 497 237 people.

**Thulamela Local Municipality map**



**Figure 2: Thulamela Local Municipality map (Source: Municipalities.co.za)**

### **3.3 Research design**

A research design provides basic guidance to the researcher on how best to accomplish the research goals. Blumberg, Cooper & Schindler (2011), define research design as the blue-print for fulfilling objectives and answering research questions.

A phenomenological design is a design protocol that allows researchers to explore the participants' lived experiences (Maxwell, 2012). Through phenomenological design, a researcher can identify thematic connections that participants ascribe to their experiences of the phenomenon of study, thereby improving business practices (Leedy & Ormrod, 2013). The focus of this study is the entrepreneurial success factors of immigrants' spaza-shop owners in Thulamela Local Municipality. In addition, the use of interpretative phenomenological design enables a researcher to be creative and reflexive and to understand how a population under study views their experience (Wagstaff & Williams, 2014). How the population makes sense of their experiences is central to this study about entrepreneurial success factors of immigrants' spaza-shop owners in Thulamela Local Municipality.

Since the purpose of this study was to investigate the success factors of immigrant-owned spaza-shops, a qualitative approach was adopted in order to ensure that the study is exploratory in nature; allow the researcher to describe the phenomenon in greater detail and enable the researcher to understand attitudes and behaviours within their natural setting (Babbie & Mouton, 2001).

The researcher used structured interview questions during the study. The questions were structured to answer the three research questions:

1. What are the characteristics of immigrant-owned spaza shops in Thulamela Local Municipality?
2. What are the competitive strategies of immigrant-owned spaza shops?
3. What factors contribute to the sustainability of immigrant-owned spaza shops?

### **3.4 Justification for a qualitative methodology**

A qualitative approach is perfect for the exploration of human experience (Yin, 2009). Denzin (2013), attests to the contributions of qualitative researchers to the body of knowledge in various disciplines. Qualitative methodology is applied in studying complex issues and it enables the researcher to generate strong data on the experiences, perceptions, and beliefs of the participants in order to deepen general understanding. A qualitative research is appropriate for the exploration of the human experience because the researcher can complete an investigation as constructed and understood by those who have firsthand experience with the problem (Marshall & Rossman, 2014).

The aim of the research was to generate new knowledge in a bid to better understand the dynamics of the success of immigrant-owned spaza shops and to achieve this, there was a need to utilise and adopt the methodology best suited so as to capture important insights from the relevant data (KLN, 2014).

A similar research conducted by Nnabue (2016), on success strategies among immigrant small business owners in the South-eastern United States identified the qualitative approach as the best research methodology. Madu (2016), in the study “Success strategies for small business owners in Philadelphia, Pennsylvania” also used a qualitative approach and since this study is based on the same concept, a qualitative approach was utilised. It was also employed in order to understand the feelings and thought processes of the immigrant spaza shop entrepreneurs.

A key advantage of using a qualitative methodology lies in the fact that it builds a holistic description of the researcher’s study area and enables a more holistic understanding of complex issues and processes (McMillan & Schumacher, 1993). Qualitative methods, however, do have their own challenges, as observed during the study. For example, there is a tendency for the respondents to deviate from the objective(s) of the research or give out historical data that was not directly relevant to the objective of the study.

### **3.5 Population and Sample**

A population is any group that is the subject of research interest (Goddard & Melville, 2001).

The population of this study was immigrant spaza-shop owners in Thulamela Local Municipality. There is no data available on the precise number of immigrant-owned spaza shops in Thulamela Local Municipality. According to Maree (2009), sampling refers to the process used to select a portion of the population for study. The study’s sample unit consisted of Somali and Ethiopian entrepreneurs who have been operating spaza shops for over 5 years in Thulamela Local Municipality. The reason for choosing Somalis and Ethiopians spaza-shop entrepreneurs was based on their dominance in the spaza-shop sector in South Africa (Fatoki, 2014). A total of 12 respondents were interviewed.

### **3.6 Sampling technique**

Purposive sampling was used to select the sample for the study. Purposive sampling means that respondents are nominated because of some significant distinctive features that make them the receptacles of the data required for the study (Goddard & Melville, 2001). Purposive sampling is used in special situations where the sampling is done with a specific purpose in mind (Maree, 2009). It is also easy to get subjects with specific characteristics (Goddard & Melville, 2001).

The qualifying criteria for inclusion as study participants were: immigrant of Somali / Ethiopia origin; over 20 years of age; spaza-shop entrepreneur in Thulamela Local Municipality, and has been operating his/her own spaza shop for over 5 years

The researcher used purposive sampling to select participants based on these specific criteria. All the respondents met the selection criteria. The reason for sampling the population in qualitative research is to produce sources of rich and deep information (Robinson, 2014). The sample size was 25 participants per Saunders (2012), guidelines for in-depth interviews. 12 participants were interviewed. Data was collected up to saturation point, therefore, the researcher continuously interviewed participants until no new theme or information was coming up.

### **3.7 Data collection**

Data was collected through in-depth face-to-face interviews of successful immigrant spaza-shop owners in Thulamela Local Municipality. These interviews helped the researcher to gain a deeper understanding of the lived experiences of immigrant spaza-shop owners (Maxwell, 2012).

Interviews provided the researcher with an opportunity to probe and ask follow-up questions that allowed the participants to explain, in detail, their answers to the questions (Doody & Noonan, 2013; Irvine, Drew & Sainsbury, 2013). The questions for the interviews were open-ended to avoid getting 'yes' or 'no' answers and instead get more detailed answers. The interviews lasted between 30 and 45 minutes, and the participants had opportunity to provide additional answers to follow-up questions. Interviews were conducted in Tshivenda then transcribed to a Microsoft word document in English. The participants were able to express themselves more eloquently in Tshivenda.

An audio recorder was used during the interviews because not all relevant information could be written down during an interview. Some respondents were not comfortable with the use of the voice recorder and the researcher had to write down their responses. Notes were taken during the interviews and these provided cues for follow-up questions and were part of the record of the interview sessions. Interviews were conducted at venues identified by the participants.

The first stop in the data collection process was at a Somali-owned spaza shop. It was this entrepreneur who directed us to where other Somalian shops are located. Somalis and Ethiopians are similar in physical appearance, causing many people to mistakenly identify Ethiopians as Somalis. Six Somali and four Ethiopia shopkeepers refused to be interviewed because they were not the shop owners. Data saturation was reached when the researcher was not receiving any new and additional information from respondents.

### **3.8 Data analysis**

Data analysis is the process of systematically searching and arranging the interview transcript, field notes and other material that can be accumulated to increase understanding and to enable the researcher to present what he/she has discovered, to others (Creswell, 1994: 155). Pandey & Pandey (2015), describe data analysis as the studying of the organized material in order to discover inherent facts; it

includes transcribing data from the audio recorder into writing. The data was studied from as many angles as possible to explore any new facts.

Content analysis was used to analyse data in this study; this is a repetitive process which seeks for similarities and differences in text to support or disconfirm a theory. The researcher was guided by Libweb (2017), steps of content analysis. The process of content analysis was lengthy and the researcher went over and over the data to ensure that data was properly and accurately analysed. According to Libweb (2017), the ten step of content analysis are as follows:

- a) Duplicate and study through the record – note relevant information in the margins
- b) Check notes made in the boundaries and list all types of information found
- c) Categorise each point in the list in a way that offers a explanation of what it is about
- d) Find out whether or not the categories can be correlated any way and list them as main categories (or themes) and / or insignificant categories (or themes)
- e) Compare and distinguish the various major and minor categories
- f) If there is more than one transcript, repeat the first five stages again for each transcript
- g) When you have done the above with all of the transcripts, gather all of the categories or themes and scrutinize each in detail and consider if it fits and its relevance
- h) Once all the transcript data is categorised into minor and major categories/themes, re-examine in order to guarantee that the information is categorised as it should be.
- i) Have another look at all of the categories and establish whether some categories can be combined or if some need to be sub-categorised
- j) Go back to the original transcripts and make sure that all the information that needs to be categorised has been so.

The initial step in qualitative data analysis is to review interview transcripts of the audio recordings as well as any supporting notes taken at the interview (Maxwell, 2012). Audio recordings of all interviews resulted in a transcription to a Microsoft Word document 2016 version. Data was arranged to identify common themes, relationships, evidence and meanings, then analysed by grouping recurring themes and patterns as per the participants' responses.

### **3.9 Trustworthiness**

When qualitative researchers speak of a research's "validity and reliability" they are usually referring to research that is credible and trustworthy; it is generally acceptable that engaging multiple methods of data collection, such as observation, interviews and document analysis will lead to trustworthiness (Maree, 2009).

Validity in research is the issue of how valid the research is, in other words, how logical, truthful, robust, sound, reasonable, meaningful and useful the research is (Quinlan, 2011). As set by Quinlan (2011), this research will contribute to knowledge because it involved participants who are directly involved in the day-to-day running and management of spaza shops. To ensure validity the same interview questions were used throughout the research so that they measure what they were supposed to measure. Quinlan (2011), further indicated that the measurement of reliability refers to the degree to which the data collection methods, as they are designed, can accomplish what it is that they are designed to accomplish. The topic under investigation was fully represented in the data gathering and all questions were relevant to the topic under study.

According to Creswell (2012), external validity refers to the validity of the cause-and-effect relationship being generalized to other persons, settings, treatment variables and measures (Creswell, 2012). A similar definition was used by Davis (2000), when he defined 'external validity' as the degree to which the study's results can be generalized across population, settings, and similar conditions. The results of this study apply to spaza-shop entrepreneurs operating within the Thulamela Local Municipality area and may not apply to other spaza shops or SMMEs' in other areas but can serve as a guide to start-up and existing SMMEs elsewhere.

Internal validity refers to the validity of inferences drawn about the cause and effect relationship between the independent and dependent variables (Creswell, 2012). The study involved participants who were actively involved in operating spaza shops and those managing such enterprises. The same interview guide was used throughout the research so that valid data can be collected which will result in reliable results. The researcher visited participants at their spaza shops so that they cannot influence each other during the interviews and also prevented them from giving same response. In the case of participants withdrawing from the study the researcher replaced them with participants who are also involved in the spaza-shop sector. Creswell (2012), regard the above as a threat to internal validity.

Like all research measures, no method is without weakness, however, there are strategies to guard against any possible flaws or biases. One way of ensuring qualitative strength is through triangulation and reflexivity. Data triangulation is used to compare, contrast, and confirm information collected from multiple sources to verify the existence of a phenomenon (Yin, 2009). Triangulation is the use of different research strategies on a single phenomenon to confirm the emerging findings; for example, if a researcher hears about a phenomenon in interviews, observes it taking place and reads about it in relevant documents he/she can be confident that the reality of the situation as perceived by those in it, is being conveyed as truthfully as possible (Merriam 1995). Information from existing literature and the responses of the participants formed the basis of triangulation in the study. Reflexivity refers to assessing one's subjective influence so that they do not have a bearing on the research process (Merriam 1995). For example, the researcher's background, perceptions or common world view may influence

the research process. The researcher was aware of his background and constantly reflected on it to eliminate bias during data gathering.

Even as a resident of Thulamela Local Municipality and a regular spaza-shop customer, it is always difficult to know and form perceptions about these immigrant traders unless one is formally introduced to them. Before the research was conducted, the researcher knew very little about them. Somalians and Ethiopians are generally regarded as highly conservative and sensitive group but this did not have any influence on my interactions with them, hence, my background never influenced my research findings. To ensure trustworthiness the researcher provided detailed descriptions of Thulamela Local Municipality and these immigrant spaza-shop activities so that the reader may be able to judge the applicability of the findings to other settings that they know.

### **3.10 Limitations**

The study was limited to Somali and Ethiopia spaza-shop owners, excluding migrants of other origins who could have provided additional information. Also data collection method was a limitation, as the information gathered from the respondents was based on what the respondents were willing to share. The research was conducted in Thulamela municipality and this is a limitation that narrowed the scope as other municipalities within the Vhembe district may exhibit variable information. There was a general distrust regarding the intentions of the research even when the researcher detailed the purposes of the research. Most respondents were not keen to disclose information about their businesses in particular, the origination of the products sold in their spaza shops, pricing structure and how they gained a competitive advantage. The busy operations of spaza-shop entrepreneurs meant that interviews had to be constantly re-scheduled, moreover, during interviews, there were constant interruptions, for example, participants needed breaks to attend to calls and service their customers. The Xenophobic attacks in South Africa in the recent past had an impact on the study as some potential respondents felt it was not safe to take part in the research. Language barriers also had a negative effect on respondents describing their experiences as some are not fluent in either English or Tshivenda.

### **3.11 Ethical issues**

The University of Venda Research Ethics Committee approved the intention of the research and the study was allowed to go ahead. A research registration certificate from the University of Venda was provided so as to give to the participants should they want proof of what the study is about.

Respondents were asked to sign consent forms as proof that they participated voluntarily. Participants signed and returned the consent forms on the day of the scheduled interview prior to the commencement of the interview session. The researcher also explained the content and purpose of the study and what was required of them. Participants were allowed to withdraw from the study whenever they wanted, but no one opted out nor was forced to participate.

The study was carried out in a way that did not support, marginalize, and disempower any of the participants by ensuring that each participant received respect throughout the research period and beyond. Responses from participants were given codes that made it difficult to link participants to their responses. In other words, to guard the anonymity of informants numbers/codes were used to identify them.

The information they provided will be purely for academic purposes and will not be revealed to anyone except the University of Venda. I have safeguarded the research materials following the completion of the research study as the materials are stored in a locked container at a private place to ensure confidentiality and safety. I will destroy all confidential data by shredding, and electronic data by deleting after the mandatory 5 years after the completion of the study.

### **3.12 Conclusion**

This chapter presented the methodology, the research design, data collection and data analysis techniques used in the study. This study utilised qualitative research techniques due to their flexibility in application. Purposive sampling methods were also utilised to identify respondents and these allowed for accurate identification of the respondents. The depth of knowledge obtained from using qualitative research techniques from the respondents makes these techniques an appropriate source of obtaining data.

## CHAPTER 4: DATA ANALYSIS AND RESULTS

### 4.1 Introduction

The purpose of the study was to explore the entrepreneurial success factors of immigrant spaza-shop owners in Thulamela Local Municipality and to find out business strategies that immigrant spaza-shop entrepreneurs apply to survive in business and be successful. Data was gathered by using 12 face-to-face interviews of immigrant entrepreneurs who are currently operating spaza shops in Thulamela Local Municipality. The objective of the study was to explore characteristics and strategies that immigrant spaza-shop owners deploy to survive in business, beyond 5 years. Respondents in the study represented the spaza-shop sector only. Demographically, the participants were immigrant spaza-shop owners, were comprised of men, had different educational backgrounds, where from various age groups and originally from two countries (Somali and Ethiopia) in Africa.

Data was analysed using content analysis; one of qualitative data analysis approaches (Maree, 2009). The researcher used data triangulation to compare, contrast, and confirm information collected from multiple sources, to verify the existence of a phenomenon.

### 4.2 Presentation of the findings

The study question addressed was: *What are the success factors of immigrant owned spaza shops in Thulamela Local Municipality?* The researcher recognized patterns which are synonymous with immigrant spaza-shop success.

### 4.3 Characteristics of immigrant spaza-shop entrepreneurs

The characteristics of immigrant spaza-shops are presented in table 4.1 below. They include gender, nationality, personal characteristics as well as human capital.

Table 4.1: Characteristics of immigrant spaza-shop entrepreneurs

Major theme	Sub-theme
<b>Gender</b>	Male entrepreneurs
<b>Nationality</b>	Somali Ethiopian
<b>Personal characteristics</b>	Honesty Trustworthy Considerate Friendly Passionate  <i>Education</i> No education Primary education Secondary education
<b>Human capital</b>	<i>Business experience</i> Host country experience Home country experience Different sector experience

### 4.3.1 Gender of the participants

All the participants in the sample of this study were males. This may mean that amongst the sample the spaza-shop sector is dominated by male immigrant entrepreneurs. The immigrant entrepreneurs were either young adults or mature entrepreneurs. This implies that most of the individuals operating businesses are young adults and it also shows the viability of the mentorship programs these immigrants obtain from their senior counterparts.

### 4.3.2 Nationality of the participants

The study was focusing on Somalis and Ethiopians because of their dominance in the spaza-shop sector.

### 4.3.3 Personal characteristics

*Please note that codes, like, R1, R5 and R7, imply respondents 1, 5 and 7 respectively.*

#### 4.3.3.1 Honesty

Foreign entrepreneurs have established themselves as very honest people in communities in which they operate in. This characteristic has endeared them to their customers. Participants emphasised the importance of honesty in business. They indicated that once you prove yourself to be reliable and honest, customers listen to what you say because they believe in you. Respondents 3, 5, 7 and 9 all agree that honesty plays a huge role in customer relations and retention. The views of the respondents are indicated in the following excerpt:

**R9:** *“A good businessman does not tell lies. It is better to tell customers the truth than to make empty promises knowing very well that you won’t be able to meet those promises”*

#### 4.3.3.2 Trustworthy

It is very important that an entrepreneur is seen as somebody trustworthy by the community in which they serve. Somalis and Ethiopians seemed to have earned the respects of communities within which they operate because of their trustfulness. Communities now depend on these entrepreneurs for certain products because they know that they deliver on their promises. People depend on these entrepreneurs to deliver bread, airtime and cold drinks every time when required. Respondents 6, 8, 10 and 11 reiterated that they always have regular products that are their fast lines at all times so that they do not inconvenience their customers. The views of the respondents are indicated in the following excerpt:

**R11:** *“I always have R12 airtime, 1.25l coca cola and eggs at all times in my shop. I sell more of these products than any other items on a daily basis. My regular customers need not to look elsewhere for their common product”*

### **4.3.3.3 Considerate**

Immigrant business people have worked up their way into the hearts of their customers by being very considerate. Respondents 1, 2, 4, 5, 8 and 12 mentioned that they go all out to make sure that the customers are all happy. If customers do not have sufficient money, they are given whatever item they wanted and asked to pay the difference when they have money. This is not even written down; it is all in the name of trust. These entrepreneurs have become the ‘favourites’ of the communities they serve because of their kindness. The views of the respondents are captured in the following excerpt:

**R1:** *“I do not want to see a sad face leaving my shop. I understand the difficulties and challenges that we go through as human beings. There are also times when I have to forget about profit and consider the wellbeing of people. It is not always about me making profit. In life we also have to look after one another regardless of origin, culture and race”*

### **4.3.3.4 Friendly**

Customers are more comfortable when they know that the person they are dealing with is friendly and does not mistreat them. Every participant insisted that being friendly with customers can only positively influence a business. Respondents mentioned that they go all the way out to please customers and even remain friendly towards them. The views of the respondents are indicated in the following excerpt:

**R6:** *“I remain friendly at all times, even when a customer is being rude. I approach all customers with a smile on my face, I ensure that every contact I make with a customer is fruitful and it’s worth remembering to the customer”*

### **4.3.3.5 Passionate**

Participants were found to be very dedicated and passionate about their enterprises. They devoted most of their time in running their business and ensuring that their customers are satisfied at all times. Immigrant entrepreneurs do not even have social life outside businesses because they are forever looking after their business interest. Respondents 5,7,10 and 11 mentioned that they are always thinking about ways to improve their businesses even at times when they are supposed to be resting. The views of the respondents are indicated in the following excerpt:

**R7:** *“Business has become my life. I am always thinking about what I can do or how I can change certain things in my shop. I only know business related stress because it is the only thing always ringing in my mind. I give my self-time to introspect my shop in order to find out if there is anything I need to change or introduce”*

#### **4.3.4 Human capital**

The results of this study showed that human capital is an important success factor that is affecting the affluence of the immigrant spaza-shop businesses. The major themes and sub-themes are indicated in the Table 4.1 and are fully detailed below.

##### **4.3.4.1 Education**

It has become general knowledge that business success and education have a positive correlation. Educational level is seen as a determinant of business prosperity by many around the globe. None of the participants in the study had tertiary education. The highest formal educational level amongst the participants was high school level. Due to the political circumstances in Somalia and Ethiopia, respondent stated that they could not get proper education nor further their studies to the desired levels. This, however, has also not deterred them from achieving business success.

###### **4.3.4.1.1 No education**

Respondents 4, 8 and 10 did not have any form of formal education. They all believe that education enhances business skills but it does not necessarily determine the success of a business. Their circumstances back home restricted them from going to school, therefore, practical experiences in the shops are the only form of training they have. The views of the respondents are indicated in the following excerpts:

**R4:** *“I never went to school. The only education I have is in the form of practical experience which I acquired whilst working here in South Africa”*

**R8:** *“I have no formal education”*

**R10:** *“I am not educated”*

###### **4.3.4.1.2 Primary education**

Respondent 2, 3 and 5 left school at the lower levels. They all indicated that education did not help them in any of their business endeavours. The views of the respondents are indicated in the following excerpts:

**R2:** *“I left school at an early age. Education did not play any part in me to become a businessman or to succeed in businesses”*

**R3:** *“I only did the lower levels at school so education did not play any part in my business”*

**R5:** *“I have no formal educational background in businesses. I left school at an early age so I never got to be taught business at school. All my experience was acquired from my Somali counterparts here”*

*in South Africa. I try to learn as much as I can from my countrymen so that I am able to make informed decisions when I am faced with challenges”*

This is concurred by respondent 12, 6 and 7 who all agree that they left school at primary level and were not taught business at school.

#### **4.3.4.1.3 Secondary education**

Not many respondents had the opportunity to further their studies to high school level. Respondent 9 stated that he finished his high school level and he learnt a bit of business skills at school. Respondent 11 who is originally from Ethiopia studied up to secondary level. He revealed that he did not study businesses at school. This was similar with what respondent 1 from Somalia said. The views of the respondents are indicated in the following excerpts:

**R1:** *”I only completed my high school. I never did business at school. I only started working in business when I come to South Africa. It is in us Somalis to be in business even though we do not have the formal business education”*

**R9:** *” I finished high school. I learnt a bit about businesses”*

**R11:** *” I went to school until secondary level, but never studied business at school”*

#### **4.3.4.2 Business experience**

All participants in the study have had prior business experience in spaza-shops before opening their own shops. It is acknowledged that experience positively contributes to the success and sustainability of immigrant enterprises.

Respondents 7, 8 and 9 stated that the sustainability of their businesses is accredited to their previous involvement in businesses. The views of the respondents are indicated in the following excerpts:

**R7:** *” The decisions I take and implement are mostly based on my past experiences and ideas that I have heard or we share as entrepreneurs. My experience is the driving force behind my business.*

**R8:** *” I look at past events before making any decision. If it is completely a new thing I ask from others who might have encountered it before”*

**R9:** *”I am entrepreneur today because of the experience I have. I have no other reference point except for my practical experience in the shops. I have no theoretical knowledge. I am running this business guided by my experience only. I refer to my past experiences when making decisions. It has played a very important role in getting this business where it is today.”*

#### **4.3.4.2.1 Host country experience**

Many of these entrepreneurs acquired their business experience in South Africa as some did not have any form of business experience when they left their home countries. On arrival they are mostly placed in shops to work as assistants under the supervision of more experienced employees or entrepreneurs. This is done to afford them the opportunity to learn the business tactics. The views of the respondents are indicated in the following excerpts:

**R5:** *“Coming to South Africa I had no business experience as I was not involved in any kind of business back in Somalia. I came to South Africa and worked as a shopkeeper for 5 years before I started my own business. After acquiring enough experience under the supervision of my countryman I opened my own shop. My experience and past involvement in these businesses has helped me to adequately set up my own shop and effectively run it. I apply the trade tricks I learnt from my time as a shopkeeper under my brother and they work for me as they are doing for my brothers as well.”*

This is corroborated by respondent 10.

**R10:** *“I didn’t have any business experience when I came to South Africa. I was brought to South Africa to work in Retail with my brothers. I was placed in a shop to be an assistant for 6 months and after that I became a shopkeeper. I worked at my brother’s shop from 2007 to 2011. It is during this time that I acquired business experience and developed an interest in becoming a spaza-shop owner.”*

#### **4.3.4.2.2 Home country experience**

Business experience is universal, it does not really matter where one gets experience from because it might also be helpful in a different regions or countries. What matters is the understanding of the market where one is operating. A participant who was involved in grocery selling in Somalia indicates that his experiences from home also guide his business here in South Africa. The views of the respondents are indicated in the following excerpts:

**R6:** *“My involvement in business, from the time I was still in Somali has played a huge role in my career as a businessman. I believe that business is like schooling and you learn all the times but you also have to look back at all the times and apply what you have learnt before. Experience teaches you all the tricks you need to know in business. It is very difficult for one to run a shop without the necessary experience. If it wasn’t for my previous involvement in business I don’t think I would have been able to open this shop and run it for over 5 years. I refer to my experience every time I make a decision.”*

Evidence from the participants testifies that they understood how spaza shops operate and were familiar with the market specifications in South Africa by the time they opened their own enterprises. By the time these respondents opened their shop they have experience as shop keepers under the supervision of their fellow countrymen. Respondent 2 had the most experience of 6 years followed by respondents

5, 7 and 11 with 5 years. Participants attributed their success to the business experience which they have gained during their times as shop attendants or while working under their countrymen, here in South Africa.

#### **4.4 Operational strategies employed by foreign spaza-shop owners**

Table 4.2 presents competitive strategies of immigrant spaza-shop entrepreneurs. They include Business location, Stock variety, Competitive prices, Interest free credit, Customers self-service, Long operating hours, Small quantities retailing, Entrepreneur-customer relations, and Good customer service.

Table 4.2 Competitive strategies of immigrant spaza-shop entrepreneurs

Major theme	Sub-theme
<b>Operational strategies</b>	Business location
	Stock variety
	Competitive prices
	Interest free credit
	Customers self service
	Long operating hours
	Small quantities retailing
	Entrepreneur-customer relations
	Good customer service

#### **4.4.1 Business location**

Business location is taken into consideration before a spaza shop is established. Most immigrant spaza shops are positioned in highly-populated areas and at prime spots where they are accessible to potential customers. Respondents 12, 7 and 2 mentioned that the location of their businesses is a contributing factor to the success of their businesses. There are a number of factors that are considered when choosing a business site. The views of the respondents are indicated in the following excerpts:

**R7:** *“I chose this space because of its close proximity to my target market. People can come here at any time without walking long distances”*

Immigrant entrepreneurs consider their target market and also take into account their safety before deciding on business location. Respondent 5 and 6 indicate that they chose these business sites because they were close to police stations. Busy intersections are prime spot for spaza shops as there is potential to attract large number of customers passing by. Respondents 3, 8 and 11 placed their spaza-shops close to their target customers so that every potential customer in the neighbourhood is able to access them.

**R8:** *“I located my spaza-shop close to the school because school kids come with a lot of business. Even though they buy at specific times, they buy significantly and I can say that they are my biggest customers”*

#### **4.4.2 Stock variety**

Immigrant entrepreneurs keep a wide range of stock in their spaza-shops and this attracts potential customers to the store and it also ensures that customers do not go back without spending their money. By having a large range, one can always replace a regular product with a substitute product and it also affords the entrepreneur an opportunity to sell complementary products at the same time. Participants 6, 7, 9 and 12 name wide stock variety as a source of competitive advantage. They maintain that they use products availability as leverage to retain their customers. The views of the respondents are indicated in the following excerpt:

**R9:** *“Stock variety attracts customers as they know that they have a number of options to choose from”*

Respondent 4, 5, 8, 10 and 11 agree that stock variety and availability is essential towards building customer loyalty. The dependability of a store in meeting customers’ needs ensure that they remain loyal to the shop.

**R5:** *“Customers keep on coming to my shop because they know that they will get what they are looking for”*

#### 4.4.3 Competitive prices

Price competition is another operational strategy constantly applied by immigrant entrepreneurs in the spaza-shop sector. Competitive pricing allows these enterprises to compete with other industry players. Customers have become very price-sensitive due to the many options that they have in the grocery sector. Respondents 12, 11,9,5,4 and 1 all mentioned that reasonably pricing their products keeps them in the market and allows them to compete. The views of the respondents are indicated in the following excerpt:

**R4:** *“I set reasonable prices. Profit maximization is good I understand but it is not always the best option especially in a highly competitive market with customers who are price sensitive. I rather make less profit on an item but selling more of the item rather than making more profit with few items sold. I make sure that my prices are in line or in comparison with what others are charging”*

These entrepreneurs are not only competing amongst themselves and with other small enterprises, but there are also large retailers such as Shoprite, Spar, Boxer and large wholesalers who are also ‘creeping’ into the residential areas. Their prices also have to be comparable with such bigger stores in order for them to survive in the market. Respondents 2, 3, 6, 7 and 10 maintain that they remain competitive in the market because of their relevant prices.

**R3:** *“I make price comparison all the times, so that I remain in par with what others are charging”*

#### 4.4.4 Interest free credit

Most immigrant entrepreneurs give credits with no interest to their regular customers. All those granting credit to their customers acknowledge that this has a positive effect on their business as it builds trust and customers loyalty towards their business. Respondent 11, 10,1,2,4 and 7 are of the opinion that selling on credit attracts customers and it is also a measure towards customer retention. The views of the respondents are indicated in the following excerpts:

**R1:** *“I give my regular customers goods on credit. I understand that people sometimes go through difficult times. I have not had problems with my customers. They pay me when they have money. I know my regular customers and I want them to be happy at all times.”*

**R10:** *“The level of understanding that I have with my customers is amazing. I don’t even think about what if they don’t pay when I give them goods on credit. It’s something I have been doing since I opened this shop. All my regular customers know that I always help whenever they are encountering difficulties”*

This is one practice that has attracted customers to the spaza shops as they know that they can rely on owners even when they do not have money.

#### **4.4.5 Customers self service**

Participant of the study consider self-service as an attraction for customers. It was said that there are customers who prefer to make physical comparison of products before they make a decision. People feel that they are in-charge of their own buying when they move around the shop picking whatever they want and making decisions on their own with no interferences. It is important to some customers to touch and feel before they buy the product; this is acknowledged by respondents 3, 5, 6 and 12.

**R3:** *“Customers are much more comfortable with servicing themselves as it affords them the opportunity to compare the products before making a decision”*

#### **4.4.6 Long operating hours**

Every respondent in the study mentioned long operating hours as a contributing strategy towards success. It is common practice for these immigrant spaza-shop owners to open very early in the morning and close late in the evening. They cite that by opening for an extended period of time they are able to serve almost every customer, at any time. This allows them to cater for customers at times when their competitors are closed. This has become a norm associated with immigrant-owned spaza shops and customers know that they will be served at any time that they want something. The views of the respondents are indicated in the following excerpts:

**R10:** *“I open my shop very early in the morning so that my customers can buy whatever they want to before they go to work or school. I also close very late so that I can also cater for those who knock off late from work”*

**R4:** *“I open early and close late so that my customers are served at all times and they do not think of any other shop except mine.”*

**R7:** *“I operate for very long hours. Customers get serviced as soon as they wake up to their time of going to bed as I am open from 6AM until 8PM.”*

**R1:** *“I make sure that I am up before my customers, if my customers are up at 3am I have to make sure that I am up before them so that they may get my services if they want it at that time.”*

#### **4.4.7 Small quantities retailing**

Immigrant spaza-shops also retail in very small quantities/packages. They have small packages of products that people would normally buy in bulk to last them for a month. Respondent 9 says that he always has small quantities (250g sugar or 250g washing powder) of his customers’ regular items in his spaza-shop. These small amounts cater for his customers in times when they cannot afford to buy larger quantities, especially towards month end. Respondents 2, 6 and 11 also agree that small quantity items

such as half loaf bread and half a cabbage attract customers to their shops. The views of the respondents are indicated in the following excerpt:

**R6:** *“I sell small items (Onions and Tomatoes for R5.00) in order to cater for those customers who stay alone or do not have refrigerators in their households. These items are also affordable to students and my regular customers when they do not have enough money to buy in large quantities”*

#### **4.4.8 Entrepreneur-customer relations**

Participants’ pointed out that they strive to establish personal relations with their customers by all means. This helps them to know and understand their customers better. This has become the immigrant entrepreneurs’ plan of improving their interactions with the communities which they serve. Once a customer feel that they can relate with an entrepreneur on a personal level, chances are that they will repeatedly go to the same store because of that relationship. The views of the respondents are indicated in the following excerpt:

**R2:** *“I always strive to maintain good personal relations with my customers. I try to know more about them as it allows me to start various conversations with them. I make sure that I know who their family members are and which products they regularly buy from me”*

Immigrant entrepreneurs are very good at establishing these personal relationships. They are quick in learning languages and are able to relate with every age group.

**R4:** *“I make sure that I know my regular customers by name and product that they normally buy from me”*

#### **4.4.9 Good customer services**

Participants of the study substantiated the belief that superior customer service gives entrepreneurs a competitive advantage. It is common belief amongst immigrant entrepreneurs that excellent customer service is the heartbeat of their business successes. Respondents 1, 4, 5, 11 and 12 mentioned good customer service as one of their most relevant tool in business. The views of the respondents are indicated in the following excerpts:

**R5:** *“I make sure that I keep my customers happy at all times. If I see that a customer is not happy I reach out to them in order to find out the cause of their unhappiness. I make it my point to resolve any issue with my customers as quickly as possible. Good customer care is the most important thing”*

**R11:** *“I give my customers the best service they can imagine of, I always make sure that a customer feels very important when walking into my shop. I attend to customers very quickly without wasting any time so that they are served without wasting their time as some might be in a hurry”*

Good customers' service is also cited as a critical tool towards customer retention which leads to future growth and large customer base. Respondents 8, 2 and 10 corroborate that good customer services positively affect the growth of their spaza shops.

**R8:** *“Good customer relations are a key factor in business success. I make sure that all my customers are happy when leaving my shop. Even if I do not have exactly what they are looking for I make sure that they at least leave with a substitute product in their hands. One has to understand customers' needs and come up with a way to best meet those needs. Good relations help with customer retention”*

#### **4.5 Success factors of immigrant spaza-shop entrepreneurs**

The themes and sub-themes of success factors of immigrant spaza-shop entrepreneurs are presented in table 4.3 below. They include networks and culture.

Table 4.3: Success factors of immigrant-owned spaza shops

Major theme	Sub-theme
<b>Networks</b>	<i>Family Networks</i>
	Family capital
	Cheap family labour
	Trustworthy labour
	<i>Social Networks</i>
	Financial, moral & material support
	Collective buying
	Information sharing
	<i>Ethnic networks</i>
	Sharing ideas and experiences
	Common language
	<i>Entrepreneurial attributes</i>
	Hard work
	Persistence
	Resilience
	Adaptability
	Risk acceptance
<b>Culture</b>	Self-employment tolerance

#### 4.5.1 Networks

Networks play an important role in immigrants businesses; participants of the study mentioned it as one of the pillars of their enterprises. It is at the centre of many businesses as some are established through this interconnectedness and owners always consult their networks for decision-making.

Connections are one of the most essential feature of immigrant businesses. They support one another with almost everything. If a brother is going through a rough patch they come together and try to find a solution or how they can best help him and do so with no reservations unlike other nationality owners. Networks bring them to South Africa and they also help them succeed in their businesses. Experiences and ideas are acquired through these connections. They believe that the ‘sum of it all is better than 1’. The views of the respondents are indicated in the following excerpts:

**R7:**” *Social network is the most important factor in our business. We support one another with almost everything. If a brother is going through a rough patch we discuss how we can best help him and do so with no reservations unlike other people. Network brings us to South Africa and it also helps us succeed in our businesses. Experiences and ideas are acquired through these connections. We believe that the sum of it all is better than 1”*

These sentiments are echoed by respondent 6.

**R6:**”*First of all I was brought to South Africa by my Somali brothers. I had nothing when I arrived here; they did everything for me and even gave me a job. If it wasn’t for my social ties I wouldn’t be here today. I learnt everything I know from my fellow countrymen. We treat one another as brothers and we are very close. When I opened this shop, my brothers helped me in many ways. They helped me to find this place, to set up the store and introduced me to the suppliers and to also use some of their resources. I still rely on my brothers for transport as I do not have my own car. So without this network I do not think this business would be here. We share ideas, experiences and help one another with the running of the store if help is needed. As long as you are Somali we help each other. Culture of sharing and supporting one another has a positive effect in our businesses.”*

##### 4.5.1.1 Family Networks

Family dynamics are important to the immigrant small-business owners because of the opportunity for interconnectedness of family and business, and the use of family members as a resource in running the business. Some of these businesses are operated as family enterprises and are reliant on family connections. They are financed through family contribution and also employ family members. The employment of family members is seen as a way to reduce operational risk and labour cost. The views of the respondents are indicated in the following excerpt:

**R12:** *“My family helped me to establish this business; they contributed money and other resources towards the establishment of the shop. My cousin is the one assisting me with the daily running of the shop. I trust him and I know that he value this shop very much as it is our livelihood and it also support our families. We also have other relatives in Polokwane who come to help whenever we need their help”*

#### **4.5.1.2 Social Networks**

Respondents 8 and 11 who are Ethiopians emphasised that social network is one of the factors contributing to their prosperity. They pointed out that they are products of their social networks and so are many other Ethiopians operating in South Africa. These networks not only help them financially, but also assist in many ways. This serves as a platform for them to share their challenges, experiences as well as success stories. They maintained that they always consult within their social networks whenever there is a need to do so. Their views are echoed by respondent 2 of Ethiopian descent.

**R2:** *“I can always count on the support of my countrymen. I expect them to support me in whatever way they can for me to succeed just as I would do to them. My brothers brought me to South Africa and gave me a job and supported me up to a point where I was able to open my own shop and they still support me even now whenever I need their assistance. We share our business experiences, knowledge and do skills transfer as well. Some of the good ideas I implement are from my fellow countrymen because they suggest whatever they think can help me to run my business better”*

#### **4.5.1.3 Ethnic networks**

According to respondents 1 and 3, Somali entrepreneurs do help one another and their ethnic networks afford them the platform to share experiences and ideas. It is also easy for them to relate with other Somalians because in their country there is only one language unlike in other countries where people segregate themselves, according to their languages and tribes. They further state that it is not possible for one person to know everything so the advice and experiences of fellow countrymen come in very handy for their enterprises. They both confirm that they seek help from other Somalians if they need it in their shops and are also comfortable with leaving their countrymen with their shops because they trust them. The views of the respondents are indicated in the following excerpts:

**R1:** *“ Yes we do help one another. It is easy for me to relate with my countrymen because in Somalia there is only one language unlike in other countries where people segregate themselves according to their tribes. All Somalis speak one language. We help one another unconditionally. These networks allow us to share our experiences and ideas. It is not possible for me to know everything so the advice and experiences of others come very handy to my business. I always seek help from other Somalis to help me in the shop and I even leave the person with my shop because I trust them”*

**R3:** *“Social networks bring us to South Africa. Some of us did not go to school that much and never knew where South Africa is when we were still at home. Other Somalis who have been to South Africa and already running businesses facilitated our coming here. It all starts with social networks for us to get into SA. It is central to most of our operations because we share knowledge, integration and experiences through these social networks. It does not only have to be a family member, when we are here in South Africa we are all family”*

Respondent 4 validated their statements.

**R4:** *“I have connections with my brothers from Somali and we help one another very much. It is not just about business, brotherhood comes first before everything. We are connected just like any other ethnic group would do when they are in a foreign country. In Somali we speak only one language so when we are here in South Africa we are like a family. I get help from my countryman in many forms. Sometimes when I need help in the shop I ask some other brothers to help me out. Our culture influences us to share and help one another so all these contribute to the success of our businesses.”*

Networks are a major contributor to the success of immigrant businesses. Immigrants do not only rely on their immediate family for help, but their ethnic communities offer help if one is in need of assistance. A lot of things are shared through these networks as well as business skills which are also transferred from person to person through these networks. If it was not for these networks a lot of Somali and Ethiopian businesses could have failed. This is according to respondents 12, 9, 10, and 5.

#### **4.5.2 Culture**

One of the emergent themes from participants' response to the interview question about the effect of culture on their spaza-shop success focused on strong work ethics and the influence of family in their businesses. Most participants highlighted that culture plays a huge role in their businesses since most revealed that their life styles are shaped by their culture. Respondents 2, 8 and 11 who are Ethiopians emphasised that their cultural background directs their involvement in business and also guides their business practices. The views of the respondents are indicated in the following excerpts:

**R8:** *“I live according to my culture. Culture directs my every move. Had it not been culture that dictates that I should look after my family maybe I would be home now. I am encouraged to work hard and at times to sacrifice my own goals and desires by culture. I believe that hard work pays, and one is rewarded according to their work. If one is lazy and does not work hard such a person must not expect huge rewards. My culture motivates me to put in extra effort in whatever I do. So my business is where it is today because of my culture”*

**R2:** *“Culture plays a role in whatever we do. My life is entirely shaped by my culture. I am determined to make it as a breadwinner for my family because it is part of my culture. Culture influences us to work*

*twice as hard in order to earn the respect of our people. Without hard work I cannot earn my rightful place within my community. I also believe that entrepreneurship is within me and it is something I was born with”*

**R11:** *“According to my culture the man is the head of the family and has to provide for his family no matter what. I knew that I will have to put in a lot of hard work and long working hours for me to reach my goals. My culture prepared me for the challenges and obstacles which I will have to go through”*

Participants of Somali origin also mentioned culture as a major factor behind their involvement in businesses and successes. The successes of their spaza shops are also attributed to their cultural background. Respondents 4, 10 and 12 revealed that as males they have to look after their families and for them to be able to do that, they have to earn a living, hence, it is their culture for them to provide for their families. They are also of the belief that success comes with hard work and their culture values the hard work that they do.

**R1:** *“Our culture influences us to work very hard. Our cultural orientation instils the belief and psychological strength to make it in business. I believe it is in me to be successful in business. We know we only have one thing that we can do as we are not educated .Somalis do not want to work under someone”*

**R5:** *“Culture plays a vital role in the success of a business. I follow my culture even when I am here in South Africa because it guides me in everything that I do. If it was not for my culture I do not think I would have come down to South Africa. The operation of my business is guided by my cultural ethics”*

**R10:** *“Culture shapes our lives. I am a product of my own culture. Whatever I do in life has to conform to my culture. My culture influences me to work very hard and provide for my family. A man is recognised and respected for his work and provisions in our culture. It is also one of the reasons that I found myself here in South Africa. Culture plays a very important role in my business”*

#### **4.5.2.1 Entrepreneurial attributes**

Respondents mentioned a number of attributes that are essential in running and sustaining a prosperous entity.

##### **4.5.2.1.1 Hard work**

All the respondents were in agreement that hard work is one factor which is central to business success. It is widely accepted that if an entrepreneur does not work hard then his enterprise is doomed for failure; regardless of their origins the participants emphasised that their enterprises are where they are today because of the hard work they (immigrant owners) put in. Respondents 3,5,7,8 and 11 all were unanimous that hard work is the most important characteristic an entrepreneur has to possess in order

to make it in the highly-competitive spaza-shop sector. The views of the respondents are indicated in the following excerpts:

**R8:** *“Success is determined by the amount of hard work that an entrepreneur puts in his business. Without hard work one cannot compete in the crowded grocery industry”*

Respondents 2, 6, 9 and 12 all agree that for an immigrant business to succeed in South Africa, the entrepreneur has to work very hard. They indicate that besides operational matters of their businesses they also have to deal with numerous external factors that may negatively affect their enterprises and all these require them to put in extra effort and hard work.

**R6:** *“I constantly monitor the external environment, so that I stay informed at all times. I have to know what is happening around me, whether its business or social. I do not get time to rest. I am working whole day every time”*

#### **4.5.2.1.2 Persistence**

Due to the many challenges and obstacles that immigrant entrepreneurs encounter in the daily running of their enterprises, it is imperative that they exercise the highest level of patience and persistence in order to make it in businesses. It was agreed that their businesses too fail due to challenges they encounter and it has not been smooth sailing all along. Respondents 5, 6, 7, 8 and 9 revealed that numerous challenges derailed the growth of their business and if it was not for their fighting spirit, they could have closed their businesses. The views of the respondents are indicated in the following excerpts:

**R6:** *“Persistence and a positive attitude help one to face challenges head on. Even when it looks bad one must always believe that it will pass and things will change for better. I failed numerous times in this business but my remedy is to try differently as many times as I can and accept that challenges will always be there and we have to co-exist with them”*

This was further supported by respondents 12, 11, 4 and 3. They mentioned that in the highly-competitive grocery sector, challenges are inevitable and are part of the business. Entrepreneurs need not to be despondent and must always have faith that circumstances will turn in their favour.

**R11:** *“I persisted under xenophobic threats; although it was scary I kept on believing and ended up warming my way into the locals. It took almost 4 months for my shop to start making profit as people were still getting to know me. I never lost hope and took lessons from other Somalis who went through the same experience”*

#### **4.5.2.1.3 Resilience**

Participants were constantly mentioning that it took them time to succeed and that they remained patient and optimistic even in very difficult times. It is inevitable for foreign shops to face operational and

social challenges in South Africa, therefore, it has not been easy for these spaza-shop owners to operate shops in residential areas where the situation is very volatile. They reveal that their strong will and fighting spirit have kept them in business for an extended period. The views of the respondents are indicated in the following excerpts:

**R7:** *“I remained optimistic even under difficult circumstances. I knew this was my only option of earning a livelihood here in South Africa. I t was either making it as an entrepreneur or going back home to Somalia. It takes time for the society to accept and trust you but once they feel that you are one of them things start changing”*

**R9:** *“In order to make it as an entrepreneur one has to be resilient and motivated towards their set goals. A good businessman sees positives in failures and soldiers on despite setbacks. I stayed optimistic even in hopeless circumstances I remained determined to make it. Set-backs are part of our daily lives and good businessmen know and understand that”*

These entrepreneurs have to persist to be welcomed by the locals because in some areas it takes time for them to be welcomed by communities. There is a perception that foreigners are not genuine businessman and are not competing fairly with the locals. Some people are always questioning the quality of their products and accusing them of selling fake and expired stock. They have to go through rigorous scrutiny by the community before they are accepted. This requires them to be very resilient, especially at the period of opening a new business in a new area.

#### **4.5.2.1.4 Adaptability**

Respondents of the study state that it is a very difficult task to operate a business in a foreign country. They mentioned that they first experience culture shock when they arrive in South Africa for the culture in South Africa is completely different from what they are used to in their home countries. Respondents 10, 8 and 4 all state that it was very difficult for them at first as they were not used to the food and water here and they had health challenges in the beginning. The views of the respondents are indicated in the following excerpt:

**R10:** *“I really struggled in my first months here in South Africa. I did not enjoy the food. I had to consult a dermatologist as I was having skin problems. I didn’t enjoy my first year, but because I had told myself that I was coming here to earn a living I had to cope with the challenges until I fully adapt to the environment here”*

Immigrant spaza-shop entrepreneurs give themselves time to learn and understand the culture and life styles of the communities in which they are operating. Respondents 1,2,3,5, 7 and 12 agree that customers are comfortable and trust a person who speaks their language and understand them. An

entrepreneur has to be able to adapt with the environment within which he/she operates in order to best serve and attract customers.

**R7:** *“When I arrived in Venda I couldn’t speak to any other person except my fellow countrymen. It took me almost a month to settle and feel comfortable. When I was assisting in the shop I told myself that I am going to learn the local language so that I can communicate with customers. In one year I learnt to speak good Tshivenda and I could understand my customers too. I became friends with many of my customers because they were comfortable with me and they spoke with me in their own language. Customers started frequenting the shop and other could tell me their problems as well. Customer base started to grow rapidly”*

#### **4.5.2.1.5 Risk acceptance**

Unlike South Africans, immigrants are not afraid to take risks. Immigrant spaza-shop entrepreneurs invest far more than what their South African counterparts do. They invest on average R45 000 into their enterprises whereas South Africans put in R15 000 on average. It is a general belief amongst foreigners that the higher the amount of risk involved, then the higher the amount of reward that can be generated. Most of these entrepreneurs invested all of their savings in their business start-up. These are the views of Respondents 5, 6, 9 and 11. The views of the respondents are captured in the following excerpt:

**R11:** *“I took all my savings and invested in this shop when I started it. I wanted to have everything in the shop so that I do not disappoint my customers when they come here. I did not want to be seen as a small shop compared to the other spaza-shops around here. I was not even afraid to put my money in the shop because I knew that I would return it”*

Immigrant view risk as prevalent with all businesses and are confident that as long as they know what the risk is, they can come up with the means to overcome it. Respondents 4, 10 and 12 believe that they knew what was supposed to be done to succeed as they have the knowledge and skills in business operation.

**R12:** *“I knew the risks involved before I established these business. With the experience I have in business I never thought of failing and did not even doubt myself. I had a solid plan and I stuck with it in the beginning of my business and it worked for me”*

#### **4.5.2.1.6 Self-employment tolerance**

Immigrants from Somalia and Ethiopia come to South Africa with the intention of one day running their own successful enterprises. These people are prepared to save a large portion of their salaries or to work for their countrymen for an extended period of time with the hope that one day they will establish their

own businesses as; they are not in South Africa for salaried jobs. The views of the respondents are indicated in the following excerpt:

**R10:** *“Somalis do not want to work for someone. We are comfortable doing our own things. Why make money for somebody whereas I can also make money on my own. I worked under my countrymen when I got here but now it is time for me to work and make money as well”*

Respondents 2, 8 and 11 who are Ethiopians also indicated that it is within them to earn a living as business people and that is why they came to South Africa. Somalis who are respondents 1, 3, 4, 5, 6, 7, 9, 10 and 12 are also emphatic that they were lured to South Africa by the assurance of one day owning their own businesses.

**R5:** *“I came to South Africa to work and start my own business so that I can be able to provide for my family. I enjoy being self-employed and I don’t think I will ever work under someone. I am in no pressure and I also have the opportunity to look for business opportunities elsewhere”*

#### **4.6 Conclusion**

In this chapter, the findings from the migrant spaza-shop owners’ interviews were discussed and the data gathered, in order to create meaning. The use of a qualitative research approach was beneficial in gathering all relevant data, including the direct views of the respondents. Through the data collected, the findings will assist the researcher, in Chapter 5, to interpret the data and give meaning to the trends within this informal sector with the view of generating recommendations that will benefit key stakeholders within the sector.

## CHAPTER 5: DISCUSSION OF RESULTS

### 5.1 Introduction

The purpose of this study was to explore why immigrant spaza-shop enterprises are sustainable and performing well in Thulamela Local Municipality. The research was conducted through in-depth face-to-face interviews with twelve immigrant spaza-shop entrepreneurs. This chapter is devoted to discussing, analysing and reviewing the findings highlighted in Chapter 4. The different sections of this chapter will either correlate or disagree with academic references stated in Chapter 2, bearing in mind the objectives of the research.

### 5.2 Characteristics of immigrant spaza-shop entrepreneurs

#### 5.2.1 Personal characters

Findings reveal that these immigrant entrepreneurs have common characteristics that are prevalent amongst them. They evince personal qualities of very high standard and these characteristics enable them to interact positively with their potential customers.

#### 5.2.2 Human capital

Sufficient knowledge and skills are basics in business commencement or start-up. About 50% of small and micro entrepreneurs with inadequate human capital are likely to fail within 5 years of start-up (Khalique, Isah, Shaari, Abdul & Ageel, 2011). Human capital investment is of immense importance for SMMEs as was reported by the immigrant businessmen in the findings of the study.

Evidence shows that human skill contributes in the progression of foreign-owned businesses (Zhang, Ma & Wang, 2012). Immigrant spaza-shops are surviving, thus, because of their investment in human resources. Nason & Wiklund (2015), attribute the success and sustainability of SMMEs to their human capital and emphasised that it enables business people to earn a living.

Immigrant spaza-shop entrepreneurs are capacitated through skills transfer from their fellow countrymen who are already operating successful businesses in South Africa. The passing on of skills improves their business knowledge and enables them to make informed decisions (SLF, 2011). Skills also enhance their ability to identify and exploit business opportunities (McHenry, 2015).

Findings point out that mentorship / work experiences which Somalis and Ethiopian undergo before opening their own shops contribute immensely to the continued existence and prosperity of their shops. These experiences involve working under fellow countrymen; working for family and offering services for a period of time in return for owning a shop. This resulted in these entrepreneurs exhibiting higher levels of expertise which enables them to dominate their competitors and ensure sustainability (Nare, 2016).

Somalis and Ethiopian spaza-shop entrepreneurs possess adequate skills, knowledge and experience to operate successful enterprises. Their human resource capacity is sufficient to successfully run retail businesses (Santarelli & Tran, 2013). This also supports the views of McKee-Ryan & Harvey (2011), that human capital determines the competence of an enterprise.

Unlike Pakistani immigrants who Park & Rugunanan (2010), argue that they come into South Africa with a wealth of knowledge and skills that enabled them to dominate and ensure sustainability of their enterprises in the spaza-shop sector, the Somalis and Ethiopian acquire their business experience here in South Africa.

In contrast to the belief that entrepreneurs' educational level positively impacts on the sustainability and success of the enterprise (Chimucheka, 2014), none of the participant had a post-matric qualification and most of them left school at primary level. It is confirmation of Beckers & Blumberg (2012), theory which argues that high educational levels do not necessarily equate to more earnings by immigrant entrepreneurs. Evidence disapproves (Basu, 1996), view point that the long-run success of SMMEs depends on educational qualifications of entrepreneurs. Participants stated that education did not contribute to the success and sustainability of their businesses.

### **5.3 Strategies applied by immigrant entrepreneurs in the spaza-shop sector**

Immigrant spaza-shop owners have adapted to the trends that make up the spaza-shop sector and have gone further into innovating new business practices to gain a competitive edge. They have exploited the 3 Ps (Product, Place and Price) of marketing from Kotler's (2012), 4 Ps of marketing in order to dominate the spaza-shop industry. They have positioned themselves to attract customers into their shops. Somalis and Ethiopian spaza-shop entrepreneurs have made it a point to offer the right product, to the ideal target market, at the right price and making sure they bring it close to their customers.

#### **5.3.1 Group buying**

The co-operative supply system through which immigrant business owners procure their goods from wholesalers and manufacturers provide them with a competitive advantage. This enables them to negotiate bulk discounts. Each business thus benefits from a procurement and distribution chain that supports multiple stores.

#### **5.3.2 Superior customer service**

The findings of the study are in line with the findings of Charman *et al.*, (2012), in Delft, Cape Town, that Somalis in the spaza-shop sector are offering friendlier customer services than their competitors.

### **5.3.3 Operating hours**

Immigrant entrepreneurs work for very long hours. In the case of Somalis and Ethiopian spaza-shop owners in Thulamela, they work for more than 12 hours a day, throughout the week. This agrees with Kalitanyi & Visser (2010), that enterprises operated by young African men trade for extended hours. Findings also concur with Ngwenya (2017), in that, Somali shops are open seven days for business.

### **5.3.4 Competitive prices**

Evidence from the study shows that foreign entrepreneurs have come to own a sizeable chunk of the spaza market in Thulamela. This increase is attributable to larger scale and price competitive behaviour. Findings agree with Kotler (2012), that foreign spaza-shop owners exercise a price-leader technique to muscle out their competitors.

### **5.3.5 Market intelligence**

The study reveals that Somalis and Ethiopian spaza-shop entrepreneurs are constantly monitoring their market environment. They are always informed and at par with the latest markets trends at all times. Immigrant entrepreneurs constantly monitor competitors' strategies and customers' needs. This concurs with Prior (2007), that small businesses have to be constantly aware of competitors' action in order to succeed in the competitive and turbulent business environment.

### **5.3.6 Variety of products**

Evidence shows that product diversity and range has given Somalis and Ethiopian spaza shops a competitive advantage over their local counterparts. It was also pointed out by the entrepreneurs that customers are willing to spend money in spaza-shops but they demand a wider range of products to choose from. This finding agrees with Muushi (2013), that immigrants' shops are stocked with goods that cater for a wider range of customers.

### **5.3.7 Business location**

Immigrants consider the proximity of other shops around and the customers they can possibly serve in that vicinity before deciding on the location of their business. Somalis and Ethiopians have established their businesses in ideal location mostly by renting shops owned by local entrepreneurs. Their strategic location confirms Kotler (2012), views that positioning is critical to the survival of business.

### **5.3.8 Matching customer demand**

Products are customised to the daily needs of their township clientele, from loose cigarettes, to a full head of cabbage, a half sliced and a quarter-sliced cabbage. One can also find a dozen eggs, loose eggs

for R1 or R1.20 depending on which shop one buys from. One can also find a 12.5kg bag of mealie meal to the smallest bag there is.

#### **5.4 Factors contributing to the success of immigrant-owned spaza shops**

The achievement of immigrant spaza-shops is centred on a multidimensional series of business activities as presented by the findings. It has become evident that immigrants have made serious strides and are currently dominating the spaza-shop sector in South Africa. Their successes are based on the following:

##### **5.4.1 Networks**

Immigrant entrepreneurs are members of supportive and community networks. These networks provide social resources in the form of mentoring, advice, trusted employees and financing to start and operate successful firms. It supports Liedeman *et al.*, (2013), that foreign shop keepers are successful in South Africa because of the strength of their social networks.

The findings reveal that participants have social, family and ethnic networks and these interrelations enable them to open and operate spaza shops (Park, 2013). Relations were found to be critical amongst the Somalian and Ethiopian communities as they guarantee survival and sustainability in the spaza-shop sector.

The findings also confirmed that these networks enable foreign spaza-shop owners to capitalise their enterprises; have access to mentoring by their countrymen and to have operational support within their networks; these findings concur with those of Nare, (2013).

Relations play significant role in start-up and growth of an enterprise (Nwanko et al, 2012). A significant number of participants' spaza-shops were started and are still operating with the help of networks. It was revealed that immigrant entrepreneurs always consult within their networks if help is needed and members of the networks are always open to offer advice to fellow countrymen.

Strong family structures and ethnic cultures of Somalis and Ethiopians facilitate access to resources such as family capital, family labour as well as "free" information and advice. The use of family and ethnic resources has become part of immigrant spaza-shop owners' strategy (Klinthäll & Urban, 2014).

Community and regional networks provide immigrant spaza-shops with trusted employees and this contributes positively to the growth of their businesses. These enterprises are mainly dependant on family labour and co-ethnic workers (Baycan-Levent & Nijkamp, 2009), therefore the presence of Somalian' and Ethiopian' communities in Thulamela contribute to the progression of their spaza shops.

#### **5.4.2 Cultural attributes**

Evidence from the study concurs with the views of Nwankwo, Gbadamosi, and Ojo (2012), that foreign-owned small enterprise successes are supported by culture. Cultural attributes such as hard work, persistence, risk acceptance and inherent aptitude for businesses are all contributing factors towards the prosperity of Somali and Ethiopians-owned spaza shops. The findings also confirm Basu (1996), view that immigrant entrepreneurs work for long hours.

#### **5.5 Conclusion**

It is apparent that the success and sustainability of immigrant spaza shops is centred on a number of key factors, however, principal factors - business experience, networks and culture - ensure the existence and sustainability of their businesses. Respondents indicated that their businesses' competitive advantage is that they work hard and their business operates longer than the usual working hours and they establish strong business networks with their co-ethnic owners of enterprises.

## CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

### 6.1 Introduction

Chapter 1 outlined the objective of the research: to investigate the success factors of immigrant-owned spaza shops in Thulamela Local Municipality. An extensive review of the literature (c.f., Maharaj, 2002; Fatoki & Patswawairi, 2012; Sidzatane & Maharaj, 2013; Hungwe, 2013), indicated a gap in the body of knowledge and research on the particular success factors of immigrant spaza shop entrepreneurs, globally and in South Africa, and particularly, in rural eco-municipalities like Thulamela Local Municipality. The specific aim of this study was to investigate the success factors of immigrant-owned spaza shops in Thulamela Local Municipality. The specific objectives of the study were, thus:

1. To determine the characteristics of immigrant-owned spaza shops in Thulamela Local Municipality;
2. To investigate the competitive strategies applied by immigrant spaza-shop entrepreneurs and
3. To determine factors that contribute to the success of immigrant-owned spaza shops.

As outlined in Chapter 1, the specific questions formulated to assist in achieving the above-mentioned research objectives were:

1. What are the characteristics of immigrant-owned spaza shops in Thulamela Local Municipality?
2. What are the competitive strategies of immigrant-owned spaza shops?
3. What factors contribute to the success of immigrant-owned spaza shops?

### 6.2 Summary of Results

This dissertation found that there are a plethora of success factors that are enhancing the continuance and sustenance of immigrant spaza shops in Thulamela Local Municipality. Of these, the more frequent ones include human capital, networks, culture, superior customer service, long operating hours and business location. To a large extent these results corroborate findings from previous studies that have also shown the success factors among immigrant spaza-shop entrepreneurs in both urban and rural environments (c.f. Bates, 1994; Fatoki, 2013; Liedeman *et al.*, 2013; Glen & Elstan, 2013; Fatoki, 2014; Nare, 2016; Nnabue, 2016).

This study adopted a qualitative approach and it provided some new and insightful findings. The results from the responses of the sample suggest immigrant entrepreneurs operate their businesses differently from the local entrepreneurs. For instance, the immigrant entrepreneurs have a wider support from family and their other foreign entrepreneurs. This is because the Ethiopians and Somalis have a strong

culture that results in them staying together, sharing their possessions and funding start-up capital for their fellow colleagues hence establishing a strong premise for an entrepreneurial culture.

The findings also strongly suggested that Ethiopian and Somali entrepreneurs have adequate and necessary skills at the time of establishing their own businesses. A possible explanation to this is that they work hard and are mentored by their more experienced fellow countrymen before owning their own businesses or upon arrival in South Africa. This form of mentorship equips them with the necessary information and knowledge on how to operate a business.

The study also revealed that Ethiopians and Somalis work for extended hours on a daily basis, for more than 12 hours a day. Some even work for seven days even a full month without taking rest because their beliefs are centred on the fact that the amount of work that you put in determines the amount of returns. This shows that these immigrant entrepreneurs are hard workers - another essential characteristic for entrepreneurship.

Furthermore, the findings also revealed that the immigrant entrepreneurs are very optimistic despite the challenges that they may face in their entrepreneurial endeavours. This is more like an intrinsic factor in these entrepreneurs which also leads to successful businesses. For example, during the xenophobic attacks some of their shops were burnt and looted but they went back and established their shops anew. This shows a level of resilience and relentlessness among these entrepreneurs, hence their optimism is another key factor to their success.

Another interesting finding of this study is that immigrant entrepreneurs are able to detect and exploit opportunities in the business environment. They also come up with new ways of serving existing customers. For example, the immigrant entrepreneurs are moving away from serving customers from a counter and have established walk-ins, where a customer can self-service and then pay at the counter and although this is a risky move due to the situations of armed robberies, the immigrant entrepreneurs are yielding great success from such a strategy.

### **6.3 Conclusions from research objectives**

There were three objectives that were formulated to answer the research question. As indicated in section (6.1)

To comprehensively answer the research objectives, a qualitative approach was adopted and thematic content analysis used. The findings showed that stock variety was among the competitive strategies that

the immigrant entrepreneurs are adopting. This is so because the entrepreneurs have a lot of substitute products on their shelves that one can choose from, hence, they cater for all preferences. Also it was found that the entrepreneurs offer competitive prices therefore they charge market-related prices that enable them to compete with bigger retailers, like Shoprite and Boxer.

The study also revealed that the entrepreneurs offer credit with no interest to their regular customers; this ensures customer loyalty and retention. The findings also established that the Somalian and Ethiopian' spaza-shop owners sell products in small quantities, for example 250g of sugar or 1 kg mealie-meal. This implies that the entrepreneurs use the 'breaking bulk strategy' as a competitive strategy. Also, it was found that these immigrant entrepreneurs strategically position their shops at busy intersections or crowded areas; the explanation of this is that in these locations they can easily attract customers.

Furthermore the immigrant entrepreneurs use long operating hours as another competitive strategy. Most bigger retailers like Shoprite and Boxer close early around 7 pm after opening at 8 am, however, the immigrant entrepreneurs open at 6 am and closes around 9 pm. This offers a lot of convenience to customers, enabling the owners to remain competitive in the market. Another competitive strategy is that, these entrepreneurs develop personal relationships with their regular customers to a point of even knowing their family members. This strategy results in customer loyalty which in turn results in long-term customer retention.

The study also revealed that human capital is the major success factor that is resulting in continued affluence of the immigrant spaza-shops. This means that the experience that these entrepreneurs accumulate during their working and mentorship period is a source of the success of these entrepreneurs. This is so because, before, the immigrants start their own businesses they will be acquainted with knowledge about suppliers and business operating skills. The study also found that among the participants of this study, none had a tertiary qualification while the majority had primary level education. There were political unrest in their countries of origin, resulting in most of them dropping out of school at an early age, however despite their level of education, these entrepreneurs' business knowledge and experience set them apart.

In addition, stronger networks among the immigrant entrepreneurs allow them to share knowledge, experience and information; this implies that businesses are run collectively instead of individually. This means that they also help one another towards business rescuing when a spaza shop is not performing well, hence networks are a success factor among immigrant entrepreneurs.

Subsequently the research objectives were answered.

## **6.4 Conclusions on the research problem and contribution to the body of knowledge in the area of research**

The research problem investigated in this study was:

*Small, Medium and Micro Enterprises failure has become prevalent in South Africa. It is estimated that the failure rate of small businesses in general in South Africa is between 70% and 80% (Adeniran & Johnston, 2011). Phillip (2010) pointed out that small business' (including immigrant-owned businesses) in South Africa face high levels of competition. Sustainability of small and micro businesses in a highly competitive market has become a tough task (Fatoki, 2014). Despite severe competitive pressures faced by SMMEs, immigrants have established a strong foothold in the spaza-shop sector (Fatoki, 2014). Entrepreneurial success factors of immigrant owned spaza shops in Thulamela Local Municipality have not been investigated.*

The evidence from this study suggests, that relations play important role in start-ups and growth of an enterprise. The findings showed that spaza-shops were started and are still operated with the help of networks. It was revealed that immigrant entrepreneurs always consult within their networks if help is needed and members of the networks are always open to offer advice to fellow countrymen. Strong family structures and ethnic cultures of Somalians and Ethiopians facilitate access to resources such as family capital, family labour as well as free information and advice. This use of family and ethnic resources has become part of immigrant spaza-shop owners' strategy. The cultural values of these communities emphasise the virtues of self-sufficiency and thrift in the host country and predispose members of the community towards self-employment. A commonly held view about immigrant businesses in South Africa is that the secret of their success lies in cultural attributes, such as long hours of working expended by the owner-managers and their reliance on collective information sharing. These are the mechanisms which are said to give immigrant businesses a competitive edge over other minority businesses, such as those run by locals. The research problem, hence, was answered.

### **6.4.1 Contributions of the study to the body of knowledge in this area of research**

This study is breaking new ground in addressing a gap that existed in the literature about immigrant success factors. Thus this study has the potential to be the one that has identified a range of specific immigrant success factors in one eco-municipality and possibly, in many of the eco-municipalities of Limpopo Province, South Africa. The success factors identified and recorded by the researcher, such as culture, human capital, networks, business location and competitive pricing have the potential to pave way for future inquiry that could enrich and amplify eco-towns entrepreneurship discourse, both in

connection with immigrant entrepreneurs and for government departments and non-governmental organisations.

## **6.5 Implications for Theory**

The findings of this study corroborate with the theories established by previous theorists. For example, Becker's (1993), human capital theory implies that education, skills, knowledge, and training are human capital investments that might lead to economic rewards. These theoretical findings are supported by findings of this study that human capital is one of the major success factors contributing to the affluence of immigrant businesses. The findings of this study also disconfirm the aspect of education as a human capital theory is a necessary success determinant. This results from the fact that most immigrant entrepreneurs had dropped out at primary level, showing that education was not imperative to their success, rather experience and business knowledge. Barney's (1991), resource-based theory focuses on both tangible and intangible resource quality related to value, inimitability, rarity, and substitutability. This theory is supported by the findings of this study as the immigrant entrepreneurs share tangible resources like start-up capital and intangible resources such as knowledge, networks and information. Hofstede's (1980), cultural theory indicates that immigrants have cultural traits, such as hard work, strong communal ties, frugality, and risk acceptance; all of these factors established by the cultural theory concur with the findings of this study.

## **6.6 Implications for Practice and Recommendations for Policymakers**

The following recommendations were made from the conclusions of this study:

1. The immigrant spaza-shop owners should collaborate with their local counterparts who established the sector. They should establish a mentorship program that will assist in training local spaza-shop owners to successfully manage their enterprises in a bid to create harmony within the sector.
2. Develop fora that will be in a position to participate in government programs and talk to government at all levels: local, provincial and national.
3. It would also be useful for a future study to be carried out by government or policy makers regarding the success factors of immigrant entrepreneurs. It is hoped that this study would be of value to policymakers when they are designing and implementing policies to consider the role of immigrant entrepreneurs in the South African economy, thus, a recommendation would be that policy makers should implement necessary policies for immigrant entrepreneurs; this should promote entrepreneurship and create a harmonised platform where immigrant-local business knowledge sharing is possible.

## **6.7 Directions for future research**

The research findings have the potential to be of value to other researchers in understanding specific immigrant success factors. In this regard, the data have provided a window into the success factors that some (not all) immigrant entrepreneurs are implementing. The possibility exists of replicating this study within other eco-municipalities, in other provinces of South Africa. This could help to assess the similarities and differences in immigrant success factors. It is to be hoped that some of the future research could be conducted using quantitative research methods.

## **6.8 Conclusion**

The purpose of this research was to investigate the success factors of immigrant-owned spaza-shops in Thulamela Local Municipality. This chapter presented conclusions and recommendations based on both the literature review and the findings from this study. The research problem and objectives were achieved and the contribution of the study was indicated. The summarised findings as provided from the data collected and analysed, indicate that the immigrant entrepreneurs' success factors includes - human capital, networks, culture and long working hours. The analysis of the data presented a number of interesting findings and further areas of research were identified. This chapter concludes the study.

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**APPENDIX A:**



**INTERVIEW GUIDE**

for the

Research Project entitled:

**ENTREPRENEURIAL SUCCESS FACTORS OF IMMIGRANT SPAZA-SHOP OWNERS IN  
THULAMELA LOCAL MUNICIPALITY**

**BY: Vhuthu Mampheu**

## Consent form

I am a Masters of Commerce student at the University of Venda. I am presently engaged in a research study entitled: **Entrepreneurial success factors of immigrant spaza-shop owners in Thulamela Local Municipality**. I would like to interview you while recording and taking notes.

The following ethical standards will be followed throughout the research process:

- This study is anonymous and voluntary, and all information obtained will be confidential;
- You can withdraw from the study at any time without prejudice;
- All information gathered will be treated as group data and no individual will be reported on;
- This research is in accordance with the rules and regulations of the University of Venda research guidelines, and the researcher will not misuse his position as a researcher for personal power or gain;
- This research is not intended to harm the respondents or their businesses;
- Only respondents who are 18 years and above are allowed to participate in this study, and
- This research does not seek to establish the respondents' legal status in accordance with the Immigration Act 13 of 2002 and as amended in terms of the Immigration Act 19 of 2004.

**Please take note that your name, identity details, name of your business, other business and personal details are not required nor are they requested, and hence anonymity and confidentiality are assured.**

**If you are willing to participate in this interview please sign below:**

Signature.....

Date.....

Thank you for taking the time to participate

Yours sincerely,

Vhuthu Mampheu

Email: [mampheuv@gmail.com](mailto:mampheuv@gmail.com)

Cell phone number: +27 823 983 679

## INTERVIEW QUESTIONS

- a) What are your perceived success factors as a spaza shop owner?
- b) What were your challenges to opening and sustaining your spaza shop?
- c) How did you overcome these challenges and continue with your business?
- d) What small business strategies helped you to succeed?
- e) Explain the business experiences that you had prior to becoming a spaza shop owner in Thulamela.
- f) Did your business experience contribute to the success of your spaza shop?
- g) What influence did your culture and education have making your business successful beyond 2 years?
- h) Does strong social network and culture contribute to the successes of your business?
- i) What help and support did you receive from the Somali Community Board and Somali Association in South Africa?
- j) What knowledge and skills do you think you need to develop?
- k) What internal business resources give you a competitive advantage in Thulamela?
- l) How did your small business plan contribute to your business success?
- m) What additional comments would you like to add about your strategies to starting and sustaining a small business beyond 5 years?

## APPENDIX B:



To: Thulamela Local Municipality.

Sir/Madam

### REQUEST FOR PERMISSION TO CONDUCT RESEARCH

I am a Masters of Commerce student at the University of Venda in the School of Management Sciences, Department of Business Management. I am presently engaged in a research study entitled **“Entrepreneurial success factors of immigrant spaza-shop owners in Thulamela Local Municipality”**. The purpose of the study is to investigate the success factors of immigrant spaza-shop entrepreneurs in Thulamela Local Municipality.

The following ethical standards will be followed throughout the research process:

- This study is anonymous and voluntary, and all information obtained will be confidential;
- Participants can withdraw from the study at any time without prejudice;
- All information gathered will be treated as group data and no individual will be reported on;
- This research is in accordance with the rules and regulations of the University of Venda research guidelines, and the researcher will not misuse his position as a researcher for personal power or gain;
- This research is not intended to harm the respondents or their businesses;
- Only respondents who are 18 years and above will participate in this study, and
- This research does not seek to establish the respondents' legal status in accordance with the Immigration Act 13 of 2002 and as amended in terms of the Immigration Act 19 of 2004.

Thank you in advance

Yours faithfully,

Mampheu Vhuthu (082 3983 679)