

UNIVERSITY OF KWAZULU-NATAL

“A comparative evaluation of the factors that are influencing the sustainability of the SMME’s that are run by the Pakistani nationals versus the Local nationals within the jurisdiction of the Nkomazi and Mbombela districts of the Mpumalanga Province”.

by

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DECLARATION

I, Thembelane Nare do hereby declare that this dissertation 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.

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Thembelane Nkosini Nare

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Abstract

South Africa is currently facing high unemployment levels, which government through its interventionistic ability is aiming to reduce through formalising the informal sector which is seen as the panacea in inducing economic growth and reducing unemployment. Of late the South African survivalist segment of the Small Micro Medium Enterprise sector characterised by Spaza shops is seen to be dominated by foreign migrate micro entrepreneurs particularly of Pakistani origin. This had resulted in black originators of the spaza concept established in the apartheid era being muscled out of sector that is very lucrative.

The purpose of the study was to establish why Pakistani micro entrepreneurs have been able to dominate the SMME Spaza sector in Mpumalanga particularly in the Mbombela and Nkomazi Local Municipalities, whilst the objectives of the research sort to determine reasons behind the sustainability of Pakistani enterprises and their ability to be fondant hence creating a difference within the industry. A qualitative research approach that employed the use of a focus group interview of six Pakistani micro entrepreneurs at a neutral venue was the data gathering technique. To maintain anonymity of the respondents' pseudonyms were utilised and all data transcribed and kept securely to maximise confidentiality. However the inability of black and other foreign micro entrepreneurs taking part in the study from other municipalities within Enhlanzeni District Municipality may have been a limitation in gathering as much data for the study.

The findings of the research established that the sustainability of Pakistani micro enterprises was based on the following facets

- Experience levels of the micro entrepreneurs
- Educational qualifications of the micro entrepreneurs
- Entry barriers within the industry
- Competitive nature of Pakistani enterprises
- The 4 P's of Marketing
- Kinship
- And the informal nature of the sector

Based on the findings of the research, the study recommended the need to further investigate how kinship impacts of the success and sustainability of enterprises

within the spaza sector and how it could benefit black micro entrepreneurs who have been isolated in the sector as government seeks to formalise the sector in order to create employment.

List of Acronyms

SMME – Small Medium and Micro Enterprise Sector

DTI – Department of Trade and Industry

NGP – New Growth Plan

NDP – National Development Plan

NSBS – National Small Business Strategy

NIBUS - National Informal Business Upliftment Strategy

MLM – Mbombela Local Municipality

NLM – Nkomazi Local Municipality

STATSS – Statistics South Africa

EDM – Enhlazeni District Municipality

ANC – African National Congress

LSM – Living Standard Measure

IDC – Industrial Development Agency

NYDA – National Youth Development Agency

UFY – Umsobomvu Youth Fund

NYC – National Youth Commission

DBSA – Development Bank of Southern Africa

IDT – Independent Development Trust

NEF – National Empowerment Fund

NDA – National Development Agency

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Chapter One

1.1 Introduction

The growth and importance of the informal sector in most countries has been phenomenal and an important aspect with regards to their inherent economic growth. According to the World Bank, this sector generates 40% of GDP in developing countries (Chairman, Petersen and Piper, 2012), and has been viewed in some instances as both a possible panacea for high unemployment and an engine for economic growth (Peters and Naiker, 2013). However, there has been some dissenting voices contrary to this view. In their study on the viability of the informal micro-enterprises in South Africa, (Rolfe, Woodward, Ligthelm and Guimaraes, 2011) maintain that this potential (namely to create jobs and promote economic growth) is highly questionable. They maintain that since most of these small businesses are not able to access finances, they have simply become survivalist with no growth potential.

In the South African context, an example of this type of enterprise is the spaza shop concept which means hidden in Zulu. This informal business has over the years gained significance in sustaining people's livelihoods especially in the townships and contributes 2.7% of the country's retail market (Cloete, 2013), a clear indication of the significance contribution that it plays in the economy. Although this enterprise was originally owned by South Africans, it has, over the years, witnessed new entrants who are mainly migrants from different countries. These migrant counterparts namely from Pakistan, Somali, Bangladesh but to mention a few have managed to re-engineer the Spaza shop concept from a survivalist enterprise into a profitable business model at the expense of local spaza owners (Charman, Petersen and Piper, 2012).

Liedeman (2013) quoting (Charman, Petersen and Piper, 2012) maintains that there is anecdotal evidence that "foreign entrepreneurs have managed to wrestle a large chunk of the spaza market away from South Africans, forcing the latter out of business "Their research reported that in the last five years, Somalis in the Delft township of Cape Town have come to own about half of the spaza shops in that area, and have outcompeted many survivalist businesses". According to them, this rising dominance has resulted in conflict and xenophobia.

The study therefore seeks to explore why Pakistani spaza owners located within the Mbombela and Nkomazi Local Municipalities are faring better in this sector than their local counterparts. An identification of the various problems inhibiting the success of local spaza owners will be established whilst co-opting the ingredients useful in establishing a sustainable spaza outlet. Government interventionist policies through the Department of Trade and Industry and the Department of Small Business will be identified as they seek to redress the current imbalance in line with the National Small Business Strategy and National Informal Business Upliftment Strategy (DTI, 2015)

1.2 Background

Mbombela and Nkomazi Local Municipalities form part of the Ehlanzeni District Municipality as shown in Fig 1.0. Both municipalities which were previously part of the Bantustans or Homelands established through the Bantu Self- Government Act, Act 46 of 1959 (The Black Homeland Citizenship Act of 1970).



Fig 1.0 Mbombela and Nkomazi

Adapted from ENHLAZENI. 2014. *About Enhlazeni District Municipality* [Online]. Nelspruit. South Africa: Senteq Communications. Available: <http://ehlanzeni.co.za/aboutus.html> [Accessed 4 March 2015].

These independent black areas were meant to segregate the white population from the black population. Each Bantustan had a Commissioner- General who was tasked to manage and develop the Homeland. As a result, the Bantustans relied heavily on the white economy. This came at a heavy price as their inherent homeland economies and educational capacities were not developed meaning that the homelands served as labour pools for the white South African industry to utilise and release based on supply and demand. The multiplier effect generated by the establishment of homelands meant that both Mbombela and Nkomazi Local Municipalities inherited a black population that lacked a proper educational background and entrepreneurial skills within their semi urban communities.

Mbombela Local Municipality (MLM)

Mbombela Local Municipality (MLM) formally known as Nelspruit City Council is the capital of the Enhlazeni District Municipality (EDM)(Enhlazeni, 2014) . Its population of 588 794 has an unemployment rate of 28.1%, of which 37.6 % is youth unemployment (STATSSA, 2015). Located on the Crocodile River and close to the Mozambican boarder, it also acts as a hub for agriculture goods that are brought into the city daily from nearby farms. Despite its slight growth since 1994, the city still bears the historic effects of apartheid evidenced by its residential segregation (HistoryOnline, 2015). Residential segregation meant that non-white and white residential communities were separated, with white residents living within the city whilst non-white residents were placed within different communities at various distances from the city centre. Most black residents reside in townships that made up the former KaNgwane homeland established for the Swazi people. The most populous township is Kanyamazana followed by Kabokweni and Mastulu (Enhlazeni, 2014). Due to this residential segregation, all townships are on average 30km from Mbombela and it is within these populous townships that there has been a mushrooming of Spaza shops. These provide a life line to these communities through the provision of household goods (HistoryOnline, 2015).

Nkomazi Local Municipality (NLM)

Nkomazi Local Municipality is the second most populous municipality within the EDM. NLM is bounded by Swaziland, Mozambique and the Kruger National Park. NLM boasts of huge sugar plantations, gold and iron mines, and the tourism sector that provides some employment for the locals. NLM with its population of 393 030 has an unemployment rate of 34.2% , 42.3 % of which is youth unemployment (STATSSA, 2015). NLM formed part of the KaNgwane homeland which also bore the brunt of residential segregation. This meant that non-white communities were established at a distance from Malelane and Komatipoort city centres. KaMaqhekeza, KaMhlushwa and Tonga make up the huge black communities within the NLM. The N4 cuts across NLM making up part of the Maputo Corridor and an avenue for visitors to and from Swaziland and Mozambique.

1.2.1 Migration into MLM and NLM

The Migration Policy Institute places South Africa as the 23rd destination in the world an individual can migrate to due to its attractive economy (MPI, 2015). Political instability and increased poverty globally has fuelled migration. Migrants compare economic and income disproportion within their countries and the host nation and that is what determines migration flow. South Africa's efficient grant system has meant that the semi urban population is a financially attractive layer of the population. Coupled with previous inequalities, a large proportion of the lower middle class population still resides in areas created through residential segregation. This has encouraged the establishment of migrant owned Spaza shops within these areas.

The success of Small Medium Enterprises within South Asia (Wijesingh, 2012) has empowered migrate skilled Pakistan Spaza owners that have either opened shops or taken over Spaza shops previously owned by their local counterparts. The entrepreneurial astute business owners have migrated into NLM and MLM gaining dominance within the black townships. The porous border control measures have been a further catalyst of increased undocumented Pakistan migrants seeking economic freedom.

1.2.2 Demographic and Economic Trends in NLM and MLM

The efficient grant system targeting previously disadvantaged individuals in South Africa coupled with the increased number of employed households within the formally residential segregation townships, Nkomazi Local Municipality and Mbombela Local Municipality have built a sustainable financial hub within these communities (Van Der Berg et al., 2009). Whilst other catalysts such as population growth and the proximity of these communities to the major cities has meant that services have to be brought to communities. This has culminated in the establishment of a financially viable survivalist and small business sector characterised by aggressive competition between Pakistani and locally owned Spaza shops. Spaza shops act as conduits in the provision of daily household goods required by the inherent communities within which they are located.

1.3 Problem Statement

The importance of the informal sector in sustaining livelihoods for most South African families is well documented (Hovsha and Meyer, 2015). This sector incorporates activities like “selling or rendering services in public or private places or operating informal and unregistered small businesses from one’s private property like spaza shops. The concept of spaza shops emerged during the apartheid era when there were limited business opportunities for blacks, and thus served as a primary source of income for the owners and their families (Chebelyon-Dalizu 2010). With the current unemployment rate at 25.2 %, this sector provides a much welcome relief for most black families.

However, the large influx of immigrants unable to secure formal employment has most of them turning to informal businesses like running spaza shops in order to sustain their livelihoods (Tengeh and Choto, 2015). Since 2005, the spaza sector has been inundated by the arrivals of different immigrants from countries like Somalia, Rwanda, Pakistan and Bangladesh, creating serious competition for the local black owners. These immigrants have not only managed to run their spaza shops successfully but have also transformed them from merely being survivalist enterprises to successful businesses. As a result, tensions between the immigrants and local owners have heightened and in some cases have led to crime and

xenophobic attacks against these immigrants. This situation has also threatened the livelihoods of locals who depend on them for their livelihoods.

1.4 Aim of the study

The core aim of the study was to understand and co-opt the factors leading to the success of Pakistani owned or managed spaza shops.

1.5 Objectives of the study

The objectives of the study are as follows:

- Determine what challenges Local SMME's are facing
- Establish why Pakistani businesses do well in an environment where Local businesses are failing
- Determine whether education has an influence on the success of SMME's
- Determine if product differentiation and service impacts on the performance of the SMME's business
- Establish if communities and race relations influence business
- Make recommendations as to what critical points can be utilized to create a balance within the industry and assist government to formalize the sector

1.6 Questions to be answered by the study

Having established the objectives of the study, the following questions would be addressed by the study

- What challenges are Local SMMEs facing which leads to their underperformance?
- Why do Pakistani businesses do well in an environment where local businesses are failing?
- Does the lack of skills and education have an influence on the success of SMMEs?
- Does product differentiation impact on the performance of the SMME's business?
- How do communities and race relations influence business?

- What critical points can be utilized to create a balance within the industry and assist government to formalize the sector?

1.7 Motivation for the Study

Although literature abounds with the importance of the informal economy for economic growth, there is a paucity of literature which focuses on the disparities of business practices between locals and immigrants, in SA, reflecting a knowledge gap for the market. According to Chiloane (2014), although immigrants businesses are considered a normal phenomenon in the development of any society, this has not been the case in the South African context, as it has led to a lot of problems like discrimination, and xenophobia between the locals and foreigners. The constant attacks on spaza shop owners whether criminal or xenophobic have been a thorn in the flesh of the South African Government.

The researcher is interested in investigating whether the disparities of business practices between the local communities and immigrants could be a cause for these attacks and tensions between the two. It is hoped that results gotten from this study could help educate the locals in running successful small businesses, thus reducing the tensions between them and the immigrants.

1.8 Significance of the Study

The study seeks to enlighten local plaza owners on the potential benefits of adopting some of the immigrants' business practices to ensure that they remain competitive. The researcher hopes that this study, will offer especially to the locals, certain valuable insights on how to run small businesses successfully. It is also hoped that this information will be useful to Government in making informed decisions on how to resolve tensions within sector.

1.9 Research Methods

A qualitative research approach was utilised for the study in order to understand the feelings and thought processes of the respondents.

1.10 Limitations of the Study

During the course of the study, the following limitations were encountered:

- The study was limited to Pakistani micro entrepreneurs excluding their black counterparts who could have provided additional information.
- The data collection method was a limitation, as the information gathered from the focus group was based on what the respondents were willing to share
- Having concluded that the study focused on Mbombela and Nkomazi municipalities, this narrowed the scope of the research as other municipalities within the Enhlazeni district may exhibit variable information.

1.11 Chapter Outline

The dissertation is structured as follows

Chapter One: Introduction

This chapter includes ten subdivisions namely: the introduction to the study and its background, the problem statement leading to the aim of the study, then the objectives of the study and the questions they seek to answer, the motivation of the study and its significance and lastly the research method used bearing in mind its limitations.

Chapter Two: Literature Review

This chapter evaluates the theoretical literature that seeks to define the current SMME environment globally, in Africa particularly in South Africa whilst determining its key stakeholders and its inherent challenges. The chapter begins by explaining the concept of an SMME, thereafter establishing its growth from the pre-apartheid era into the post-apartheid era. Furthermore, it evaluates the current role played by the individuals within the small scale enterprise sector who initially introduced the Spaza shop concept. The challenges and key players that influence the sector are explored whilst understanding the demographics affecting this sector.

Chapter Three: Research Methodology

This chapter outlines the research methodology utilised by the study. The Chapter details why a qualitative approach was utilised. More importantly focus group interviews and the sampling techniques were used to identify suitable respondents.

Chapter Four: Findings

This chapter discusses the responses obtained from the interviews and findings related to the literature review. Based on data gathered from the focus group, the researcher presents the responses from the data collected.

Chapter Five: Discussion

This chapter is devoted to discussing, analysing and reviewing the findings highlighted in Chapter 4. The different sections of this chapter either correlate or seek to disagree with academic inferences stated in Chapter 2.

Chapter Six: Conclusion

This chapter seeks to establish and identify whether the research objectives of the study have been met. And there after elucidate on the research future impact.

1.12 Conclusion

It is apparent that the Spaza sector is very profitable based on the sustainability of the micro enterprises and the skills and experience exhibited by the micro entrepreneurs. As a result of the minimum industry entry barriers encountered by the entry and integration of the South African economy to that of the global platform this has resulted in the industry being more identifiable thereby attracting a great number of foreign entrepreneurs (Chauke, 2015). There is a need therefore to determine solutions that can harmonise the sector whilst meeting governments envisaged agenda of utilising the formalisation of this sector in order to create employment.

Chapter Two

Literature Review

2.0 Introduction

This chapter evaluates the theoretical literature that seeks to define the current SMME environment globally, in Africa and in South Africa whilst determining its key stakeholders and its inherent challenges. The chapter begins by explaining the concept of an SMME, thereafter establishing its growth from the pre-apartheid era into the post-apartheid era. Furthermore, it evaluates the current role played by the individuals within the small scale enterprise sector who initially introduced the Spaza shop concept. The challenges and key players that influence the sector are explored whilst understanding the demographics affecting this sector.

The principles of successful entrepreneurship in developing a successful business are covered, thereby establishing the levels of entrepreneurial skills within the small scale enterprise sector and the South African economy. A review of governments' growth strategies such as the National Development Plan and other policy framework is taken into account whilst detailing governments' volition in redressing the current imbalances within the SMME sector.

In conclusion, some empirical literature is analysed to determine the relevance of previous research done with regards to the subject, thereby understanding its impact on the researchers present day study.

2.0.1 SMME – Definition

The World Bank Group describes SMMEs as small, medium and micro companies that are established as a means of overcoming poverty (Gstraunthaler and Cramer, 2012). SMME's globally act as a conduit that accelerates growth within their inherent economies whilst creating employment (Gstraunthaler and 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).

2.0.2 Global SMME Sector

Booyens (2011), states that globally small, medium and micro enterprises contribute to the employment, wealth creation, innovation and economic growth. It is however of great importance to note that SMME's 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, SMME's inherently contribute positively in introducing innovation, enhancing competition and bringing about change.

In Latin America for example, approximately 99 percent of the enterprises are small, medium and micro enterprises as compared to 10 percent which are multinational companies. SMMEs in Latin America are a major source of employment making them an important sector within the economies of Latin American states (Peña-Vinces et al., 2014). The trend globally in developed countries such as Canada and Australia is to exempt newly established SMMEs within their start-up phase from paying tax (Khoase and Govender 2013)

2.0.3 African SMME Sector

In most developing African countries such as Botswana, SMMEs play a significant part in job creation. However these SMMEs are faced with a multiplicity of challenges that include lack of entrepreneurial skills, excessive state regulations, limited marketing skills, lack of financial support and most importantly low survival rates. Although African governments work on circumventing these challenges facing SMMEs, their inherent ability to survive and succeed has been noted to arise from the manner in which they implement their marketing concept whilst being in a position to serve and understand their clients better than their competitors (Jaiyeoba, 2010).

With rising unemployment, business contraction, poverty and shrinking government revenues, many African countries have realised the need to capacitate their SMME sectors in order to induce economic growth within their economies (Khoase and Govender 2013).

2.1 The South African SMME Sector

SMMEs include a very wide spectrum of firms, from traditionalist family business employing up to a 200 employees (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 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 small 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).

2.2 Impact of the SMME sector on the South Africa Economy

The important role that SMMEs have played in the economies of major industrial societies cannot be underestimated. In the most difficult times, the sector has

managed to increase both the GDP and employment levels of the affected countries (Mapp and V Moore, 2015). For example in the late 80s, developing countries such as Pakistan (Khawaja, 2006) together with developed countries in the late 70s (Peters and Naiker, 2013) witnessed the re-emergence of the SMME sector. In the US, people turned to SMMEs that survived the slump (Peters and Naiker, 2013).

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 whilst alleviating poverty (Peters and Naicker, 2013, Kerr, Wittenberg and Arrow, 2014, National Planning Commission, 2011.) Furthermore, 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). Africa growth further highlights the importance of the SMME sector particularly the informal sector when analysing the distribution of the main economic sector in its quarterly report (Africagrowth, 2011) shown in Fig 2.0 below

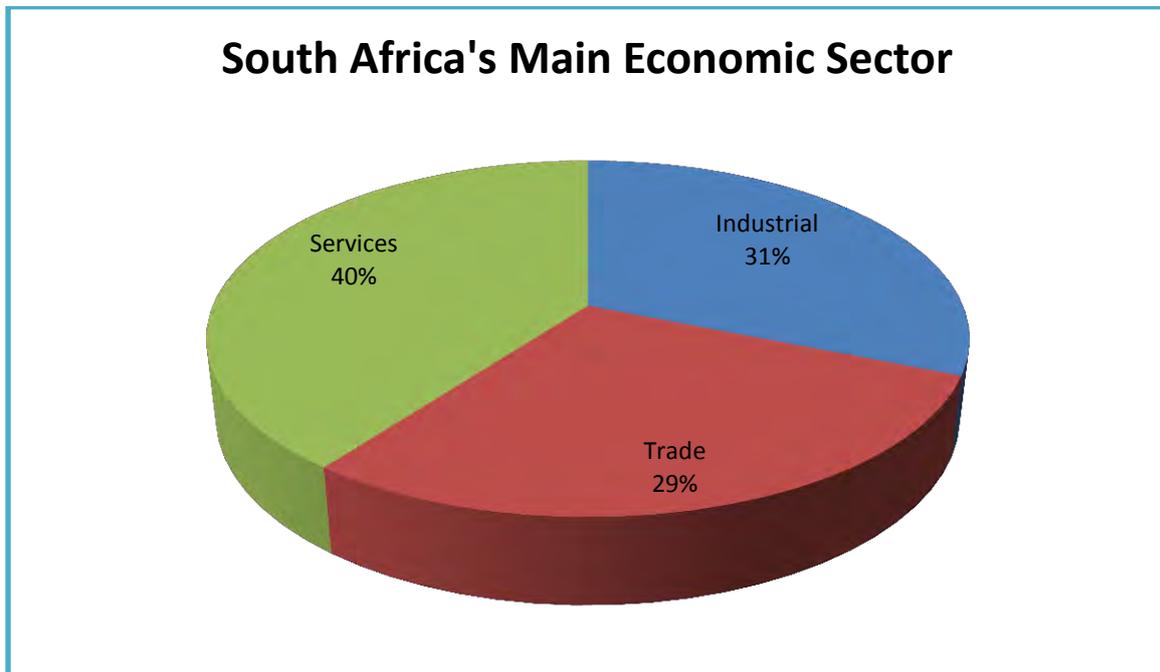


Fig 2.0 South African SMME Business Confidence Index Report: 1st Quarter (2011)

Adapted from AFRICAGROWTH. 2011. *South African SMME Business Confidence Index Report: 1st Quarter*. [Online]. Cape Town: Africagrowth Institute. Available: http://www.africagrowth.com/April_report_11.pdf [Accessed 15 July 2015].

The Government further realised that the SMME sector had been marginally neglected in the past two centuries following the discovery of a wealth of mining deposits, countered by the establishment of a modern capitalist economy predominantly under white control (Rogerson, 2007). This has been further reiterated by the National Development Plan (NDA), which states that for the economy to achieve full employment (that is 11 million jobs in the next 15 years), there is need to formalise and grow the SMME sector most importantly the survivalist and micro sector (Commission, 2011). The NDA has recommended the implementation of the New Growth Plan by government, a programme that is meant to propel the economy towards a higher growth trajectory. Government has from the onset since 1994 through the Department of Trade and Industry (DTI) and most recently through the newly established Department of Small Business Development (DSBD) realised the significance of the SMME sector. The National Small Business Strategy endorsed by the South African parliament in 1995 set course the national strategy on small business development (DTI, 2015).

In its 52nd National Conference, the ruling African National Congress party emphasised the need to support the SMME sector as a means of creating employment and social upliftment (ANC, 2007) , a point which was further affirmed at their 53rd National Conference. As a result, in 2014, the Department of Trade and Industry introduced the National Informal Business Upliftment Strategy (NIBUS) to assist more than two million informal businesses such as Spaza shops and other businesses in townships and rural areas (Dti, 2014).

It is without doubt that the SMME sector is an important catalyst to the growth of the South African economy.

2.3 The Metamorphosis of the South African SMME Policy

With the advent of democracy, it became apparent that there was a need for an established SMME policy, given the constraints that impeded growth within this sector. This saw the introduction of several initiatives to boost this sector. Firstly, was

the birth in 1995 of the National Strategy for the Development and Promotion of Small Business through the Department of Trade and Industry. Together with the Small Business Act (Act 102) of 1996(2), this was envisaged to be the fundamental post-apartheid policy (Mmakola, 2009). The key developmental milestones to be achieved by the policy were identified as:

- employment Creation
- wealth redistribution and
- the improvement of entrepreneurial skills and competitiveness.

Secondly, in 2006, the South African Department of Trade and Industry introduced its integrated Small Enterprise Strategy to promote small enterprise development in the coming years after initial failures to promote this sector had been identified through consultations and research (Rogerson, 2007). The Department further established several institutions in a bid to undertake policy implementation. The Centre for Small Business Promotion was the pinnacle agency tasked with the responsibility of crafting an enabling environment for the development and growth of SMME's whilst co-ordinating the establishment of sustainable institutions tasked to deliver support services to the SMME sector. Initially Ntsika Enterprise Promotion Agency was established to enhance access to non-financial support for SMME's, whilst Khula Finance Enterprise would be the funding agent for the various SMME programmes. Both these organisations were wholesale institutions which rendered their services through intermediaries. In a bid to address SMME issues, provincial help desks in every province were established(Mmakola, 2009). Of late, the Reconstruction and Development Programme was also introduced in 2014 to support SMMEs (Reconstruction and Development Programme Policy Document, 2014).

In addition to the above mentioned institutions, there are additional institutions that play a pivotal role within the SMME sector, although indirectly. These institutions may have preceded the SMME policy or come into being after its inception. The most conspicuous ones at national level are the IDC (Industrial Development Agency) established in 1940, the National Youth Development Agency established in

2008 from the merger between the Umsobomvu Youth Fund (UYF) and the National Youth Commission (NYC), the DBSA (Development Bank of Southern Africa) established in 1997, the IDT (Independent Development Trust) established in 1990 and thereafter reconfigured to schedule 2 programme implementing agent in 1999, the NDA (National Development Agency) established in 1998 and the NEF (National Empowerment Fund) established in 1998.

However, it is important to emphasise that SMME input is not only promulgated by these institutes, but rather by an inter-governmental function that cuts across all spheres of government. Hence, we note an increased focus of local economic development which has been placed firmly on the agenda of local authorities such as Mbombela and Nkomazi dictated by the White Paper on Local Government as well as the National Development Plan (Enhlazeni, 2014) .

As government sought to strengthen the SMME policy after identifying the challenges different agencies were merged in order to widen their scope and leverage their capacity. This resulted in the formation of SEDA (Small Scale Enterprise Development Agency) in 2004 which was a merger between Ntsika, NAMAC (National Manufacturing Advisory Centre) and CPPP (Community Public Private Partnership Programme) whilst SEFA (Small Enterprise Finance Agency) established in 2012 was a merger of Khula Enterprise Finance Ltd ,IDC's small business activities and the South African Micro Apex Fund (SEFA, 2014)

Key to government interventionist policies is regularising the informal economy that is seen to employ a substantial number people both prior to the advent of democracy due to racial segregation (HistoryOnline, 2015) and after 1994 due to the high levels of unemployment (Lima et al., 2014).

2.3.1 Challenges faced by SMMEs

Given the number of initiatives introduced by the SA Government to support this sector, SMMEs in South Africa like in other developing countries face challenges that affect both their growth and survival (Chimucheka, 2014). The author quoting Nieman (2009) identified the following challenges:

Lack of Training and Education - has compromised the managerial expertise of the owners. This view is also supported by (Sherazi, 2013) and (Abor and Quartey,

2012) who carried out studies on challenges facing SMES in Pakistan and Ghana respectively. They concluded that managerial expertise influences the performance of a firm, and a lack of it was identified as one of the contributory factors to the failure of small businesses (Abor & Quartey, 2010; Sherazi, 2013).

Lack of access to finance - extensive research results (Mutezo, 2005), (Chimucheka, 2014), (Abor & Quartey, 2012) show that most black SMME owners perceive access to funds as a major constraint to expanding their businesses. This situation is aggravated by the following factors: lack of collateral on the part of the entrepreneurs, bad credit or no credit history and “an exaggerated risk factor” as perceived by the banks. Chimucheka (2014) reiterates this point by stating that research carried out by Fataki and Garwe (2014) concluded that the lack of financial resources was the second most important contributor after education and training to the failure of SMMEs in South Africa (Chimucheka, 2014).

In another study done by Chimucheka and Mandikapha (2015) on challenges facing SMMEs in Nkonkobe municipality, almost all the respondents agreed that access to finance was their biggest challenge. In addition, respondents admitted that financial institutions were reluctant to offer them credit because firstly, they had no confidence in the entrepreneurs’ abilities to run successful ventures and secondly, the entrepreneurs had no collateral (Mutezo, 2005).

With the dawn of a new era in South Africa, the country witnessed an unprecedented migration of immigrants from all over (Landau, 2007, Park and Rugunanan, 2010). For most of them fleeing wars, political turmoil’s, population pressures (as witnessed in China, Pakistan and Bangladesh) South Africa was perceived as a land of endless economic opportunities and people had to leave their homes to seek a better future there. By 2010, the population of migrants in South Africa was as follows: 350 000 were of Chinese descent, 70 000-100 000 were Pakistanis and 55 000-60 000 were Bangladeshis (Park and Rugunanan, 2010). With limited job prospects, and being denied the right to work, (Landau, 2007, Park and Rugunanan, 2010) these migrants joined the informal sector, as witnessed by a phenomenal growth of their businesses mostly in the townships.

2.3.2 SMME Industry Analysis

SMME industry analysis considers the competitive forces within the industry (Hough et al., p.61), the competitive cycles and industry life cycles. Porter's five forces framework is intended to:

- a. Firstly, understand the drivers of competitive behaviour within the industry
- b. Secondly, the profitability of the industry for both local and foreign nationals

Tabulated below are the five competitive forces within the industry

Factor	Evaluation
Threats of Potential Entrants	<ul style="list-style-type: none"> - Due to the industry being identifiable and the South African economy being globally integrated, it is fairly easy for new players to enter into the market (Kerr et al., 2014). - New foreign market entrants are usually more innovative and have access to funding through their parent countries or the nationals that arrived before them. - No regulation is in place set by an industry body
Substitute Products	<ul style="list-style-type: none"> - The conversion of rural areas to semi urban areas has led to the introduction of malls that house shops such as Boxer and Pick & Pay (Chauke, 2015).
Power of Suppliers	<ul style="list-style-type: none"> - In the industry, the size of purchases determines the

	<p>discount offered. Bigger competitors get better discounts than their smaller rivals. (Seda, 2014)</p> <ul style="list-style-type: none"> - Bearing in mind that they purchase from the same suppliers, this gives rise to points- of – difference. Foreign micro entrepreneurs combine their resources to enhance their purchasing power (Chauke, 2015). - The threat of forward integration by suppliers - New suppliers and SMMEs from China and India offer better prices on identical products (Agwa-Ejon et al., 2015).
Competitive Rivalry	<ul style="list-style-type: none"> - Industry growth rate is attractive hence it elicits fierce rivalry (Dti,2015)
Power of Consumers	<ul style="list-style-type: none"> - Due to continuous innovation customers have a wider market to choose from. - Size of the government grant detects spending patterns - Due to the turbulent economy customers easily switch brands for cheaper ones thereby purchasing from Foreign owned enterprises

	<p>(Choto et al., 2015)</p> <ul style="list-style-type: none"> - Consumers believe in customer service, hence they easily switch brands and buy from foreign nationals that offer better service (Agwa-Ejon et al., 2015).
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Table 2.0 Industry Analysis

Adapted from TERBLANCHE, B., MOENG, P. & MACLEOD, G. 2011. *Starting Your Own Business in South Africa*, Cape Town, Baseline Publishing Services.

From the five forces model, it is evident that successful SMMEs have to utilise purchasing power in order to provide affordable goods to consumers whilst providing quality service and product diversity (Kotler, 2012). This in turn assists those SMMEs attain greater sales and profits.

Within the industry life cycle of SMMEs, is the shakeout phase where there is a need for enhanced managerial and finance practices that are key to the business success.

Combined to the industry analysis is that of the macro or external environment which can be analysed with the use of PESTEL factors documented in the table below

Factor	Influence
Political	<ul style="list-style-type: none"> - The current political situation in South Africa encourages black business growth that enables black SMMEs enhanced opportunities to grow (Dti, 2015, Rogerson, 2005).For example, initiatives like the Khula

	<p>Enterprise Finance,(a brainchild of the DTI), seek to improve access to finance for the SMME sector (Ladzani & Netswera, 2015; Gstraunther & Cramer, 2012)</p> <ul style="list-style-type: none"> - In its 52nd and 53rd Conference ANC emphasised the need to support black SMMEs success (ANC, 2007).
Economic	<ul style="list-style-type: none"> - Slow economic growth within the South African economy has had an impact in the manner in which consumers spend (Ladzani and Netswera, 2015). - Customers easily switch brands (Choto et al., 2015)
Socio-Cultural	<ul style="list-style-type: none"> - With the advent of new players in the market due to the global platform, SMMEs have to conform to the changes (Patnaik and Prasad, 2014). - Notwithstanding the effect of corruption which has soared in recent years, this has allowed foreign goods to easily enter the country and be sold easily (SARS, 2014). A study carried out by Gstraunthaler & Cramer(2012), on Gauteng's SMMEs showed that 58% of them cited inter alia "a

	<p>stagnant economy and increasing import penetration” as some of the problems stagnating their growth (Gstraunthaler and Cramer, 2012).</p>
Technological	<ul style="list-style-type: none"> - Innovation is the order of the day. For SMMEs to remain relevant they have to conform by capturing the latest technology and embracing it within their operations. A study done by Verhoest et al (2007), on ICT use in the tourism industry showed that productivity significantly increased by more than 10% with the introduction of technology (Verhoest et al., 2007).
Environmental	<ul style="list-style-type: none"> - never before has conscious capitalism and CSR played an important role in the industry. To become relevant, an organisation has to adhere to its CSR program whilst involving all its stakeholders on the basis of conscious capitalism
Legal	<ul style="list-style-type: none"> - The changes in the Companies Act have reduced the red tape involved in opening a company in South Africa. This in turn has opened up the playing field to new competitors(Terblanche et al.,

	2011).
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Table 2.1 PESTEL Analysis

Adapted from- *MAPP, T. & V MOORE, W. 2015. The informal economy and economic volatility: macroeconomics and finance in emerging market economies. Vol 8 5.*

2.4 Origins of the Informal Economy in South Africa

2.4.1 The Definition of the Informal economy

The definition of an informal economy is a topic of debate among many scholars as there are many economic theories that define its origins. Chen (2012) stated that the informal economy is an economic reality that is perceived with different approaches in developmental circles, considering it to be peripheral or marginal. Chen (2012) further supports Lewis (1995) who stated that the informal economy is subsistence sector that by being different to the capitalist sector, forms part of the economy that does not utilise reproducible capital. The Global Development Research Centre (GDRC) (2015) states that the informal sector covers a diverse number of labour activities (GDRC, 2015) further 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. Chen (2012) and Meagher (1990) go on further to state that informal activities within the formal economy arise from distortions within the formal economy. Meanwhile, Castells and Portes (1989:12) state that the informal economy is characterised by one central structure which is unregulated within a legal and social environment whilst other similar activities are regulated. Becker (2004:11) depicts the informal economy as one that is influenced by low entry requirements with regards to professional requirements and capital further influenced by migration from rural areas to urban areas as witnessed in most developmental states such as South Africa. According to Mapp (2015), Schneider, Buehn and Montenegro (2010) studied over 160 informal economies in 62 nations, and discovered that as a percentage of GDP, the informal economy was significantly higher in developing countries. Nwabuzor (2005) highlights that during a period of burdensome government rule such as the period of

residential segregation; informality was in response to burdensome controls, and an attempt to bypass them.

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).

2.4.1.1 Political Characteristic of the informal economy

The view of the informal economy based on a political criterion is one that lacks government intervention and regulation. However, for all intents and purposes, it is important 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 in 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, this was a route that many took within the Bantustans whilst 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 development in developing countries whilst it fosters illegal participants in developed countries.

2.4.1.2 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). Hence, in developed countries where this informal sector is prevalent, most participants do not exhibit any qualifications and utilise the sector to survive, whilst in developing countries the sector acts as a survivalist conduit for its participants.

2.4.1.3 Economic Characteristics of the informal economy

The National Development Plan recognises the income generation opportunities of the informal economy which has a ripple effect towards the GDP of a Nation. Hence the informal economy based on the 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 the department of labour's stream line hence the sector disregards labour laws. However Statistics SA invariably recognises the potential of this informal sector and its multiplier effect towards poverty alleviation (STATSSA, 2015).

2.4.2 Theories outlining the Informal economy

In the South African economy, racial segregation, high unemployment levels, informal settlements have catalysed the dominance of the informal economy (Dunn, 2007). It is therefore of great importance to outline the different theories that define the informal economy and its inherent participants. In my discussion, we utilise the frame work suggested by Becker (2004) – considering whether scholars must focus on the dualistic aspect of the informal economy in comparison to the formal economy, or assign the role of states in designing the legal context that define migration and participation within the informal economy.

2.4.2.1 Dual Economy Model

The dual economic model developed by Lewis (1959/1958), known today as either the Lewis Model or the dual economy, explains economic growth primarily within the third world. The model that secured a Nobel Prize in 1979 draws a picture of two defacto economic systems operating within a given nation, being the informal economy and the formal economy. This was further supported by the former President Thabo Bheki, who in 2003 discussed the issue of two parallel economies in South Africa, one being the regulated economy comprising of businesses that adhered to legal regulations and the other being the informal economy that comprised of businesses that functioned outside government regulations (Skinner, 2006).

Lewis goes on further to state that the formal sector comprises of economic activity largely in towns featuring capital intensive firms, wage labour and marginally high returns which inspire investors to invest in machinery and labour. Unlike the formal sector, the informal sector operates primarily in the rural areas characterised by labour intensive enterprises that remunerate very low wages. The continued existence of the informal sector within the dual economy is due to the inefficiency of the formal economy that lacks the ability to displace the traditional, oikos or family

enterprises (Godfrey, 2011). Within the dual economy, the formal sector through the various industries does not have the capability of employing surplus labour as well as new job seekers. Hence, the existence of the informal economy within the dual economic model is temporary and is negated by increases in employment opportunities within the formal sector (Becker, 2004).

2.4.2.2 Structural Economy Model

Prates and Fortuna (1989) describe the structuralist model by articulating the need of planners and academicians from 1970's to move away from the dualist model. They base their argument on the fact that emphasis was not placed on firstly, the structural understanding of poverty and lack of employment, and secondly, a lack of an understanding of the difference between national and international levels and their inherent developmental phases adopted by those countries. Instead, the deficiencies of underdevelopment were characteristic of the existence of a single sector neglecting the whole sector.

Based on the understanding of the structuralist model, Wallersteins (2007) developed the structuralist vision of the informal economy based on his world systems model. His model pictures the duality that exists between the formal core – being the national economy among other nations – of high productivity economic conditions, high wages, in comparison to an informal periphery – once more within or among other nations – of low productivity economic activity, low wages. He further states that some other countries are better off than others economically placing them in a position to trade on terms that allow surplus-value to flow from the weaker nations to the core.

Maloney (1999) states that this scenario is apparent within the European Union, where core countries such as Germany benefit more than peripheral countries such as Greece. He further argues that employees in the core, that is those “ that benefit from high wages, vacation, job security and fringe benefits are a direct contrast to those who are unable to find employment and are forced into the so called informal sector, characterised by labour intensive activities and devoid of any employment benefits or security. Inherently, the rich formal sector draws value from the inadequate informal sector perpetuating an imbalance in the world system. This

exploitative relationship between, metaphorically, capital and labour promotes the persistence of the informal economy.

2.4.2.3 Legalism and Government Regulated Economy Model

According to Becker (2004), the legalist view of the persistence and existence of the informal economy is best described by the argument that the informal work arrangements are a logical response by micro-entrepreneurs to an overly regulated sector by government. Hence, legalism focuses on the policy and institutional motives that individuals choose to compete formally or informally. Legalists differ from the dualist on the basis that dualist view informality as rooted within the economy, whilst legalists posit informality as primarily arising from institutional arrangements or preferences. On the other hand, legalist differ from structuralists, as the latter recognises informality as an imposed condition, while within the former model, participation within the informal economy is a free choice. Thus, within the legalism model, the way out of the informal economy is by building institutions and incentives, removing barriers that discourage or (encourage) formality.

2.5 The South African Informal 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). During 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, Act 68 of 1951 (HistoryOnline, 2015). The Act meant that black people were designated to a given home land 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 home lands 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 entrants 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 shops undertake their business.

2.5.1 The Spaza Shop Concept

Spaza meaning hidden in Zulu arose during the apartheid era when black people within the homelands were restricted from managing or running their own business (Bear, 2005). During the apartheid era, many of these enterprises were established within the homes of the owners in a bid to elude authorities. However post-apartheid era has seen these enterprises being established within the residence of the owner for economic reasons rather than fear of persecution. After the advent of democracy, spaza shops can operate legally with a licence based on the Business Act 71 of 1991 (IOL, 2015).

However, the majority of spaza shops however, operate informally without adequate local municipality documentation necessary for them to trade legally (Chebelyon-Dalizu, Garbowits, Hause, Thomas, 2010). Numerous studies have been undertaken to identify the characteristics of spaza shops (Sheers and Cant, 2007, Ligthelm 2005, Chebelyon-Dalizu et al 2010, Perry 1989). From studies done, the success of spaza shops is based on three factors:

1. the ability of the extended family to provide start up seed capital and the required labour
2. the business location, in most cases operating within one of the rooms within the residential premises that is spatially located close to people's homes and
3. Most importantly, the informal rules that allows each spaza a given share of the market on approximately equal terms

Ligthelm (2005) further emphasises the need for social ties between the spaza owner and his/ or her neighbours including the broader community. This assists in

determining the lines of credit, although this may be a potential cause of the business to fail.

For years, many spaza shops have played a pivotal role as retailers of household grocery items within the high density areas or township communities. It is imperative to note that spaza shops are also important incubators of entrepreneurial skills, an avenue for bringing in additional income and providing business foundations for generations of South African households (Jaiyeoba, 2010).

Spaza shops sell items that are constantly in demand by the local communities. Most of these commodities are purchased from wholesalers or distributors. These items include bread, milk, grain staples, cool drinks, soap, cigarettes and alcohol. Whilst the spaza shop market provides an opportunity for success, many black new entrants have failed whilst foreign migrants from Pakistan and Somali thrive within this sector. Charman (2012) states that 50% of new entrants are unable to sustain their enterprises for more than 5 years. This finding is in direct contrast to a study done by (Ligthelm, 2005), which found that within the urban areas, 40% of spaza's have been in operation for more than 5 years. It is important to note that previously, existing spaza micro-entrepreneurs were permitting new entrants into the market until the arrival of immigrant shop owners. Hence during the apartheid era, spaza shops rose and fell, but after the advent of democracy accounts of foreign competition and intense entrepreneurship from competitors are widespread. Anecdotal evidence illustrates that historically low barriers of entry into the spaza market was as a result of price fixing, a practice that Charman (2012) acknowledges exists among street traders. From this perspective, the author demonstrates that the use of price competition within the spaza sector is considered unethical and unfair. Instead, spaza micro entrepreneurs compete through non-price controls that include:

- product presentation
- spatial location
- customer engagement
- seeking supernatural support and

- bonds of clan and kinship

Competition through pricing is discouraged among these micro entrepreneurs, ensuring that the inherent market entry barriers remain low. This helps create opportunities for new entrants seeking means of survival. Although fixing prices would help sustain business for years to come, this practice inadvertently stifles growth (Charman, 2012).

2.5.2 Stakeholders within the Spaza sector

Spaza shops account for possibly 6.6% of the self-employed within South Africa, of which 9.2% of home based self-employed individuals operate spaza shops (Wills, 2009). Spazanews.co.za estimates that the spaza sector constitutes more than 100 000 enterprises that collectively have an annual turnover of more than R7 billion. Sustainable Livelihoods Foundation established that there is approximately one spaza shop service at for at least 86 households. Within the spaza sector, 50% of operators are foreign entrepreneurs including their employees (Liedeman, 2013). This finding consolidates the various academic studies that document that foreign owned establishments have a strong foot print within the spaza sector.

Since 2005, there has been fierce rivalry between local black spaza operators and their foreign counterparts. It is important to understand the nature and reasons for this competition, whilst detailing the impact of the seeming dominance of foreign owned spaza shops particularly Pakistani spaza shops in Nkomazi and Mbombela (Dunn, 2007). It is important to understand what fuels the participation of foreign micro-entrepreneurs into the sector.

2.5.2.1 Understanding Migration of foreign micro-entrepreneurs

Migration has an overriding economic rationale with pertinent supply and demand drivers fuelling and encouraging a particular migratory trend. Migration is the net result of the complex interplay between a series of decision drivers - it is seldom caused by one single factor (Demacon, 2014). Aspects such as access to work coupled with favourable labour remuneration, access to housing, access to medical services as well as relatively safe work and living environments tend to be powerful stimuli between migratory patterns (Demacon, 2014).

Migration however tends to be associated with a broad spectrum of illicit shadow economic activity in particular where the destination country is characterised by weak legislative enforcement. Typical crimes range from soft issues such as stock theft to blue and white collar crimes and trio (house robberies, business robberies and hijacking) crimes. In short, the benefits of migration (whether licit or illicit) to the migrant are encouraged by a very specific set of incentives. Without a proper understanding of these incentives, singular dimensional interventions aimed at, for instance, border control only, tend to be ineffective (MPI, 2015).

South Africa, with a population of more than 50 million, has had comparatively strong economic and political stability, making it a leading destination for migrants within the Southern Africa region, as well as the African continent as a whole (Demacon, 2014). Economic activity is a central driver of migration, hence the Mpumalanga province particularly Mbombela and Nkomazi provide an ideal environment for foreign owned particularly Pakistani spaza shops as a result that these municipalities consist of largely of former homelands.

2.5.2.1.1 What is an Entrepreneur?

Roy Ash once stated that entrepreneurs tend to eat more than they can chew with the belief that they can rapidly learn how to chew what they have eaten (Rae and Woodier-Harris, 2012). Forbes describes an entrepreneur as an individual who identifies a need, this being any need and thereafter fills it by creating a solution (Forbes, 2012). This assertion therefore leads us to the age old question of whether entrepreneurs are made or are born with the skills. Foreign migrants exhibit a diverse attribute of entrepreneurial skills, which has enable them to quickly develop within the Spaza sector in turn developing the Spaza Shop Brand (Muushi, 2013).

2.5.2.1.2 Is one born an entrepreneur or is skilled to be one?

According to Lima, Lopes, Nassif and Da Silva (Lima et al., 2014), over the past couple of years, there has been a keen interest with regards to entrepreneurship education. It has been noted to enhance innovation within companies, inspire technological enhancements and the establishment of new organisations. For this reason, higher education centres have been obligated to design an environment,

curriculum and activities that support entrepreneurship. It has been noted that higher learning institutes that do not offer entrepreneurship to their learners are less likely to develop graduates that go on to become leading graduates, based on the fact that lack of entrepreneurial education results in reduced levels of student entrepreneurial intention. Adams and Spinelli (2012) support the emergence of entrepreneurial education within MBA curriculum being illustrated by the oversubscription of these electives in institutes of higher learning such as Harvard. The result is that across the curriculum within the business schools and tertiary institutions, is an inclusion of entrepreneurship within most of the courses giving rise to a hybrid of courses that enhance graduate entrepreneurship levels.

Lima, Lopes, Nassif and Da Silva (2014) further on state that entrepreneurship education has a valuable contribution on entrepreneurial self-efficacy thereby graduates are in a better position to perform the tasks and functions of an entrepreneur. Hence even if students do not plan on having their own businesses they gain a competitive advantage within the work place by being at a position where they are more innovative than their peers.

However, on the other hand, Gurung et al. (2012) disregarded the need for entrepreneurial education in order to develop entrepreneurship. They found that the development of an entrepreneurship initiative is not based on specific education such as a degree or MBA. Their argument was one shared by Adams and Spinelli (2012) that entrepreneurs are born and not made. However, Gurung et al. (2014) agreed that there was relevance and need for entrepreneurial education on the basis that on completion, graduates were in a better position to identify new business opportunities and to start up new ventures. Martinez and Riportella what year (Nagendra et al., 2014) were in support of Gurung's et al. view by establishing that an MBA program assisted graduates develop self confidence that assisted them with their entrepreneurial ambitions.

Hence, government through the Council of Higher Education, an independent statutory body that was established to develop and implement a system of quality assurance for higher education, initiated the Quality Enhancement Program (QEP). In 2004, it went further to undertake a widespread re-accreditation of tertiary

institutions and the Masters in Business Administration (MBA) program offered by various institutions. This is playing a key role in achieving governments' entrepreneurial growth initiative through the improvement of through put, graduation rates and quality of graduates (CHE, 2014). One would realise the multiplier effect created by these initiatives on the basis of the increased number of private tertiary institutions and business schools in South Africa that have entered the market due to the positive demand for the MBA program (MBA.co.za, 2015).

2.5.2.1.3 What is a Brand?

A brand can be defined as any term, name, symbol, sign or a combination them intended to identify the services or goods on offer or being sold thereby differentiating that individual seller from his/her competitors (Keller, 2013). The value of the Spaza Brand has increased significantly with the introduction foreign micro entrepreneurs (Liedeman, 2013). According to Crawford and Benedetto the origination of new products is big business in any competitive environment (2011). If managed well new product development translates to the successful development of the newly developed brand or the existing parent brand. This has enabled migrant entrepreneurs to dominate the sector whilst increasing its brand equity.

2.5.2.2 Factors/ Successes /Advantages of Foreign entrepreneurs over the Local Entrepreneurs

In a study carried out by Muushi (2013), the author identifies the following factors as contributing to the success of immigrant entrepreneurs over the locals:

1. Hard work and long hours of labour. According to the author, these owners spent 12 hours a day in their shops, 7 days a week on any given day
2. Their shops were stocked with goods that catered for a wider range of customers and they are situated in close proximity to busy roads and bus stations (Muushi, 2013)

3. Their existing kinship networks which according to Thompson (2015) helps foster and create close knit ethnic networks and maintains cultural identity Thompson & Grant (2015) and Muushi (2013). This view is corroborated by a study done by Park (2013) on Asian migrant communities in South Africa in 2010 which showed that the majority of migrants are related through family or social networks making it easier for them to start-up businesses. Because of these kinship networks, Pakistan shop owners are able to purchase their stock on credit from local South African Indian shop owners (Thompson and Grant, 2015). This ensures that their shops are always well stocked, However, this opportunity is not extended to African shop owners who “are not trusted to pay back the money loaned on credit” (Muushi, 2013).
4. Despite the above advantages, the immigrant entrepreneurs face a lot of challenges. According to Park & Rugunanan (2010), the most serious challenges that the migrants faced were firstly; crime and corruption. The author contends that the migrants feel that on the one hand, they are victims of corrupt officials and on the other hand they are targeted by criminals for both extortion and robbery. The situation is exacerbated by the fact that their businesses are cash based, and they keep substantial amounts of money in their shops since they do not have access to formal banking system (Park and Rugunanan, 2010), In a related study by Muushi (2013), the author found that 50% of those interviewed were more concerned with violent crime attacks than xenophobia, and for this reason most of them slept in rooms adjacent to their shops.
5. Another bone of contention is the fact that most previous black owner and members of the local communities prefer to rent out their shops to the migrants at premium rates rather than to the locals.

2.5.2.3 Constraints within the Spaza Shop Sector

The spaza sector is faced with various challenges that have an impact on its sustainability. We first consider the legacy of apartheid that constituted an important factor in the ability of black owned small enterprises to grow successfully. The Department of Trade and Industry in the table below outlines the challenges that

denied black South Africans access to viable business opportunities being(DTI, 2015):

Item No.	Challenge	Explanation
1.	Bantu Education	<ul style="list-style-type: none"> - This type of education constricted opportunities for acquisition of professional and technical skills by the black population. - Total absence of entrepreneurial education that would encourage young adults to enter the business sector.
2.	Homelands	<ul style="list-style-type: none"> - Apartheid confined the majority of the black South Africans to homeland areas which were the poorest in terms of the Living Standard Measure
3.	Residential Segregation	<ul style="list-style-type: none"> - Enforced by the Group Areas act, this not only uprooted people from their places of residence and business, but also led to large capital losses and virtually destroyed the fabric of black small business.
4.	Lack of Property Ownership rights	<ul style="list-style-type: none"> - The drastic curtailment of property ownership rights of blacks made it impossible for them to acquire assets that could serve as collateral for loan financing. - It also excluded blacks from the long term processes of capital accrual and growth through rising property values

		and share prices
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Table 2.3 Constraints

Adapted from DTI. 2014. *2m Informal Businesses to get help* [Online]. Pretoria: www.SmallBusinessConnect.co.za. Available: http://www.dti.gov.za/sme_development/docs/SBC201402.pdf [Accessed 5 March 2015].

Relating to finance as a constraint affecting black spaza micro-entrepreneurs, South Africa is not different from any other developing country or developed country. The issue of finance is a plausible one that impacts on small business. As much as government provides financial and non-financial assistance to small business, the impact of these institutions and programmes have not been strongly felt by those recipients who need these government interventions most (Terblanche et al., 2011).

2.5.2.4 Competitive Advantage and Analysis with the Spaza Sector

A competitive analysis of the Spaza market in Nkomazi and Mbombela will assist Local Spaza micro- entrepreneurs to determine their current competitive advantage in comparison to their Pakistani spaza competitors within the region, thereby enabling Local spaza owners to develop additional advantages (Hough et al., p.57).

Organisation	Strength	Weakness
Local spaza micro-entrepreneurs	<ul style="list-style-type: none"> - Government backing of black enterprises. For example the Introduction of initiatives such as Nibus (Dti,2014) - Locality (Chun et al.,p.300) - Better understanding of 	<ul style="list-style-type: none"> - Black enterprises lack the ability to adapt to changes in the market (Ftms, 2014) - Previous political disadvantages that reduced level of skills and assets for Black enterprises (Unisa, 2014)

	the communities they are within	<ul style="list-style-type: none"> - Lack of product differentiation within their shops (Kotler, 2012). - Black enterprises are not passionate about their enterprises
Pakistan micro-entrepreneurs	<ul style="list-style-type: none"> - Pakistani micro-entrepreneurs are more educated and understand the industry in comparison to their black counterparts (Ligthelm, 2006). - Combine resources to increase purchasing power - Develop ties with clients by utilising the Marketing Mix to promote their enterprises (Kotler, 2012). 	<ul style="list-style-type: none"> - Are vulnerable to service delivery protest (SAPS,2014) - Pakistan enterprises have no government support. - Do not invest locally or undertake any CSR programs

Table 2.4 Competitive Analysis

Adapted from KOTLER, P. 2012. *Marketing Management*, Britain, Pearson Education.

2.6 Conclusion

It is evident that there are distinct differences between Black micro-entrepreneurs and Pakistani micro-entrepreneurs. However, not much research has been undertaken to better understand the causes of these differences, besides identifying Apartheid as the main cause of Black micro-entrepreneur failure. There is a need to understand Pakistani entrepreneur business ethics which not only centre on their purchasing power, but include:

- i. their passion to excel being driven away from their mother land and finding themselves in a foreign land
- ii. their ability to learn the local language and understand the culture of the communities that support their enterprises
- iii. developing trust amongst community members and
- iv. the density of shops within Nkomazi and Mbombela
- v. Answer the critical research questions

Understanding these dynamics will facilitate the development of Black SMMEs to the level of their rivals.

Chapter 3

Research Methodology

3.1 Introduction

The aim of the research is to generate new knowledge in a bid to better understand the dynamics within the SMME Spaza Shop sector and to achieve this, there is a need to utilise and adopt the methodology best suited to achieve the research objectives whilst capturing important insights from the relevant data (KIn, 2014). A similar research conducted by Wijesinghe (2012) on SMMEs in South Asia identified the qualitative approach as the best research methodology and since this study is also based on the same concept, a qualitative approach was utilised. Secondly, the researcher employed the qualitative approach in a bid

- To understand the feelings and thought processes of the Pakistani micro entrepreneurs.

Of great significance is that over the years, qualitative research methods have gained traction as the favoured research method among international development researchers (Mark, 2010). Whereas over the years quantitative methods dominated the research field, researchers have shifted to more diverse repertoires of methodologies available to them. In understanding local perspectives within a given study population, a qualitative approach provides valuable tools needed for such an applied research (Mark, 2010). Of importance is the great contribution offered by a qualitative research approach which is contextually rich and culturally specific data. The points below outline the differences between a quantitative and qualitative research approach based on the framework, objectives, format and design study.

Qualitative Research

Framework:

- Explores a given phenomenon (Nieuwenhuis, 2011)
- Approach utilises a flexible, interactive method of eliciting data (Sinkovics, 2012)
- Utilises either in depth interviews, focus groups or participant observation.

Analytic Objectives:

- Describing a given variation
- Describing and explaining a given relationship
- Understanding individual experiences
- Understanding group norms (Mark, 2010)

Format – Question:

- Open ended questions (Hofstee, 2006)

Format – Data:

- Textual nature for example audio tapes

The flexibility of the study approach (which is the most important difference):

- Most of the aspects of the study are flexible
- Participant responses influence which questions to be asked next
- The study approach is interactive (Hall, 2008)

Quantitative Research

Framework:

- Determines a hypothesis regarding a given phenomenon (Mark, 2010)
- Approach is more rigid when eliciting data
- Utilises either a survey, questionnaires and structured observation (Mark, 2010)

Analytic Objectives:

- Quantifies variation
- Casual relationships are predicted
- Characteristics of a given population are understood (Mark, 2010)

Format – Question:

- Close ended questions (Hofstee, 2006)

Format – Data:

- Numerical in nature gathered from respondents

The flexibility of the study approach (which is the most important difference):

- The approach is stable from its inception to its completion
- Participant responses do not influence the next question
- Approach is subject to statistical conditions and assumptions (Maree, 2011)

3.2 Qualitative Research Defined

The qualitative research approach was utilized, seeking to outline the nature of truth (ontology) and determining the appropriate avenue of finding or getting to know the truth (epistemological assumptions) (Maree, 2011). There are numerous definitions of a qualitative research based on the approach the researcher seeks to analyse. Wijesinghe (2012) defines qualitative study as one in which in- depth interviews are utilised in order to gather qualitative data(Wijesingh, 2012). On the other hand, Sinkovics (2012) describes qualitative research as interpretive techniques that seek to determine the situated significance behind behaviors and actions, whilst relying heavily on the unique interpretation of the data by the researcher (Sinkovics, 2012). Mark (2010) goes further to define a qualitative research approach as a scientific research that consists of an investigation that

- Gathers evidence
- Seeks to answer questions to a given problem
- Utilises predetermined procedures to answer the question
- Produces findings that could be utilized beyond the immediate environment or boundaries and
- Lastly produces findings that were not envisaged at the start of the investigation

3.2.1 Types of Qualitative Research Methods

Mark (2010) states that the three most established qualitative research approaches utilized nowadays are

- In-depth interviews : which are ideal when collecting data on individuals, gathering their experiences and perspectives pertaining to very sensitive topics

- Participant Observation : which is ideal when gathering data on natural occurring behaviors that can be observed
- Focus group: which is ideal when eliciting data on given norms that concern a given cultural or ethnic group

By utilizing a qualitative approach, the researcher was in a position to capture the Pakistani spaza micro entrepreneurs' behavior, feelings, emotions and personal experiences. Fig 3.0 depicts one of the spaza shops belonging to one of the respondents. However, it was of great importance that the researcher remained objective, maintain a high level of impartiality, but at the same time create a relationship with the respondents.



Fig 3.0 Pakistani Spaza Shop

Photographed with permission by: Thembelane Nkosini Nare

3.2.2 What is a focus group?

A focus group is a qualitative research technique in which the participants and the researcher meet as a group to discuss a given topic (Mark, 2010). The session is usually videotaped and recorded. The interviewer leads the session asking open ended questions that require in depth answers. The most important advantage of a focus group is that it generates an enormous amount of data over a short period of

time. The table below outlines the difference between a focus group and in depth interviews therefore highlighting the reason why the research utilized a focus group approach

Item	It is most appropriate for	Dominance of method
A Focus Group	<ul style="list-style-type: none"> - Ascertains group norms - Generates opinions with regards to group patterns (Hofstee, 2006) - Unearthing variety with a group of people or population 	<ul style="list-style-type: none"> - Generates information on a wide range of issues within a short period of time (Hall, 2008) - Group activities stimulate a broad array of responses (Hall, 2008)
An Interview	<ul style="list-style-type: none"> - Tackling sensitive issues - Generating individual opinions, experiences and feelings (Kln, 2014) 	<ul style="list-style-type: none"> - Generates a subtle difference and contradictions with regards to the in depth responses. - Generates an interpretive perspective (Mark, 2010)

Table 3.0 Difference between a focus group and an in depth interview

Adapted from HOFSTEE 2006. Constructing a Good Dissertation. *In*: HOFSTEE, E. (ed.). Exactica.

3.2.3 Research Sites

In terms of sites, the research was confined to Mbombela and Nkomazi (shown in fig 3.1 below) due to the fact that within these regions, the known penetration of Pakistani spaza micro entrepreneurs is marginally high as illustrated by the current tensions between South Africa residents and immigrants in that area.



Fig 3.1 Nkomazi and Mbombela

Adapted from ENHLAZENI. 2014. *About Ehlanzeni District Municipality* [Online]. Nelspruit. South Africa: Senteq Communications. Available: <http://ehlanzeni.co.za/aboutus.html> [Accessed 4 March 2015].

3.3 The research method used

To understand the nature of the spaza business practices, a focus group interview of 6 respondents, 3 from Mbombela and 3 from Nkomazi was undertaken from a central location repeatedly until the researcher noted uniformity in responses from respondents from previous session interviews. Maree (2011) defines a qualitative interview as a two way conversation in which the researcher asks the respondents questions in order to collect data and gathers the perceptions, views, beliefs, behaviors' and opinions of the respondents.

An open –ended interview approach which assumed the form of a conversation with the intention to harness as much information from the participants was utilized, thereby gaining a greater understanding of the Pakistani spaza micro entrepreneurs' views, beliefs, ideas and attitudes. These interactions with the Pakistani spaza micro entrepreneurs enabled the research to investigate and understand the spaza sector business dynamics, such as costs, supply and demand, business etiquette, relationships with their inherent communities, business hours, product differentiation, educational qualifications, and trends in turnover and fluctuation in the rand value. According to Sandhu (2012), focus group interviews should be conducted in a structured manner with an aim of getting a deeper understanding of the answers from the respondents(Sandhu, 2012). A structured approach enabled the researcher to take notes to which the researcher's interpretation was recorded and confirmed with the interviewee by reading back their responses. The “funnel structure” interview format was utilised enabling the researcher to begin with a broad and less-structured set of questions to ease participants who were not so eager to participate due to the xenophobic attacks, English was also used when conducting the interviews. The duration of the interviews mostly lasted 30 – 45 min with jokes being shared in order to relax the environment.

Observation was also an important data gathering technique for the purposes of the research. Maree (2011) defines observation as a systematic process of noting and recording behavioural patterns of respondents, without necessarily communicating or questioning the participants. This enabled the researcher to gather a deeper insight of the phenomena being investigated. There was a need for the researcher to avoid seeking data aggressively at the start of the process but instead observe events as they occurred within the natural setting. During the interviews, it was also important for the researcher to identify behavioural patterns.

3.3.1 Qualitative Interview Guide

Below is the list of interview questions asked for the purpose of the focus group:

- Why do Pakistani businesses do well?
- In your opinion, what challenges do you think local spaza micro entrepreneurs face?

- Does the lack of skills and education have any effect on the enterprise?
- Does product differentiation or the brand impact on the performance of the spaza business?
- How do communities and race relations influence business?
- What critical points can be highlighted?

3.4 The target population for the study

The population in this study was made up of an estimated sixty Pakistani spaza owners or micro entrepreneurs within the Mbombela and Nkomazi region. A total of 6 respondents were interviewed, 3 from Mbombela and 3 from Nkomazi.

3.5 The sampling strategy

Defining Sampling in a Qualitative Research Approach

According to Wegner (2009), sampling encompasses separating the population into segments or strata and identifying sampling units from each segment, Nieuwenhuis (2011) defines sampling as the process used to determine a portion of a given population for the purposes of the research. In most instances, a qualitative study is based on purposive and non-probability sampling (Maree, 2011), where purposive sampling means that respondents are identified as a result of their defining characteristics, which make them the recipients of the data required for the study. Mark (2010), states that in a qualitative approach, a sample is the subset of the population selected for a determined study. Mark (2010) goes on further to state that the unique attribute about qualitative research is its flexibility that enables continuous data collection until data saturation is achieved.

Sampling Technique

Recruitment of Participants

Within a qualitative research approach, the recruitment strategy is a specific project plan that seeks to identify participants that will take part in the research. The plan should specify the types of respondents or participants required for the research, the approach utilised to attract respondents and their inherent location (KIn, 2014).

How was the Research recruitment strategy developed?

The researcher in consultation with the Pakistani Elders in Nkomazi and Mbombela identified the micro entrepreneurs that would take part in the research. There was flexibility in the choice of the participants thereby enabling theoretical saturation. There were guidelines and introductory comments agreed upon with the elders that the researcher utilised when addressing potential participants. The aim of the researcher was to avoid any statements that would be interpreted as coercive (Mark, 2010).

A stratified purposive sampling approach was used to select the Pakistani micro entrepreneurs. All six participants have been in business for over 3 years and some have married local spouses.

3.6 The Research Process

3.6.1 Verification of validity and reliability

The researcher had to maximize on all three types of validity which are:

- Internal
- External
- Construct

in a bid to guarantee that the study findings accurately addressed the research questions (Hall, 2008). The researcher endeavoured to prioritise validity in this SMME study.

Maree (2011) defines validity as the extent to which the research findings precisely elucidate what is taking place, whilst reliability stands as the instrument that benchmarks the repetition of the research findings. For the purposes of validity and reliability of data the researcher undertook the following

- A natural neutral environment was used. Letters of consent were given to the participants highlighting the purpose of the study as well as the level of privacy and confidentiality envisaged during the focus group interviews. Due to the current xenophobic attacks, it was important to guarantee anonymity.

- The interpretation of the responses by the research was confirmed by reading back to the respondents in order to guarantee that the information was correctly recorded.

3.6.2 Data gathering technique

A focus group interview was the best approach used for the research. It was based on the assumption that the Pakistani spaza micro entrepreneurs' interactions would be

- productive in creating and widening the scale of responses
- release inhibitions that may inherently discourage respondents from disclosing information
- activate forgotten details that the micro entrepreneurs might have experienced

3.6.3 Informed consent

Definition of Informed Consent

Hofstee (2006) defines informed consent as the responsibility of the researcher to ensure that all research subjects or respondents have a clear understanding of the implications of participating in the study (Hofstee, 2006). Maree (2010) states informed consent as the mechanism that ensures that respondents understand what it means to take part or participate in the research study hence they can decide to participate or not participate. The researcher had to make it a point that the all Pakistani micro entrepreneurs read through the consent form before participating in the research.

How did the Researcher achieve Informed Consent?

The researcher achieved informed consent for the research by

- Informing the Pakistani micro entrepreneurs in a manner in which they all understood
- Making sure all Pakistani micro entrepreneurs were competent in making the decision to be part of the research and

- Making sure that all participants were free from undue inducement when participating in the research

Confidentiality with a focus group

It is of importance not to use participant's names during a focus group (Mark, 2010). The researcher used pseudonyms during the focus group as shown in Table 3.2. It was of importance to assure participants that their identities were protected.

3.6.4 Analysis of data gathered

According to Nieuwenhuis (2011), qualitative data analysis is a non-linear (interactive) and on-going process (Nieuwenhuis, 2011), hence data collection, processing, analysis and reporting are intertwined and not entirely a series of successive steps (Maree, 2011) (see fig 3.2).



Fig 3.2 Data Analysis

Adapted from MAREE, K. 2011. First Steps In Research, Pietermaritzburg, Van Shaik Publishers.

3.6.5 Organising Data obtained

In a bid to clear the researchers mind and prevent him being overwhelmed by the enormous amount of data, there was a need to approach the data analysis in a

professional and organised fashion. All documents were labelled and filed according to the dates, whilst respondents were given pseudonyms such as “Lwethu” the name of a spaza shop belonging to one participant as shown below

The respondent’s pseudonyms that were used in naming the Pakistani business owners are as follows

Item No.	Region of Operation	Respondents Pseudonyms
1.	Mbombela	Lwethu Spaza* (LS)
2.	Mbombela	Mara Trading* (MT)
3.	Mbombela	Musa’s Trading* (MsT)
4.	Nkomazi	Royal Spaza* (RS)
5.	Nkomazi	Khan GD* (KG)
6.	Nkomazi	Rajas* (R)

NB* Note all names are not actual names for security reasons

Table 3.1 Respondents Pseudonyms

3.6.6 Transcribing and Coding Data

All the data collected during the focus group by digital or electronic means was transcribed by the researcher barring the non-verbal cues that took place during the interviews. The fact that the interviews were undertaken during a tense period, different gestures added meaning to the spoken responses. Of great importance was re-writing every recording word for word and comparing it with the researcher’s written notes.

According to Maree (2011), coding is the process of reading through the researcher’s transcribed data carefully, line by line, followed by categorising the information into useful analytical units. Once the researcher identified meaningful segments, they were then coded in descriptive words that related to what was taking

place. Open Coding also enabled the researcher to quickly retrieve data associated with a given thematic idea, to which a master list of codes was documented.

3.6.7 Limitations

During the course of the study, the following problems were encountered:

- The study was limited to Pakistani micro entrepreneurs excluding their black counterparts who could have provided additional information.
- The data collection method was a limitation, as the information gathered from the focus group was based on what the respondents were willing to share
- Having concluded that the study focus on Mbombela and Nkomazi municipality was limitation as it narrowed the scope of the research as other municipalities within the Enhlazeni district may exhibit variable information.
- The general distrust regarding the intentions of the research even when the researcher detailed the purposes of the research. Most Pakistani spaza owners 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 competitive advantage.
- The busy operation by the micro entrepreneurs meant that interviews had to be constantly re-scheduled. Moreover, during interviews, there were constant interruptions, for example, they needed breaks to attend to calls and check on their enterprises.
- The Xenophobic attacks had an impact on the study as respondents felt it was not safe to take part in the research

3.6.8 Control of any bias during the study

According to Taylor (2005), a quantitative study demands objectivity. This is mostly attained by not allowing the personal bias of respondents to influence how they respond to, and analyse data or information (Taylor, 2005). It was important for the research to manage the relationship with the participants in order to avoid being tempted to view certain elements based on that developed relationship with participant there by genuinely missing certain important aspects.

3.6.9 Ethical considerations

Over the years developmental research ethics guidance has grown as a result of mistakes and abuses during the course of biomedical research studies (Mark, 2010). Due to the fact that public health and biomedical researchers utilise a qualitative approach, it is on this basis that whenever a research is conducted on people, the well-being of the respondents or participants should be of importance. Thus the research questions are of secondary importance, what is critical are the fundamental research principals (Godfrey, 2011).

Mark (2010) stated that there are 3 core principles that form the universally accepted ethical considerations as articulated by the Belmont Report (1979) being

- Justice: this required the commitment from the researcher that there is distribution of benefits and risks with regard to the research. Thus the Pakistani micro entrepreneurs that took part in the research were meant to benefit from the knowledge gained through the research
- Respect for others during the research: this required the research to commit to ensuring the autonomy of the Pakistani participants, thereby protecting all respondents from any exploitation due to their vulnerability. Of importance was the maintenance of the dignity of all participants, thus the respondents were not used simply as a means of reaching the determined research objectives
- Beneficence: bearing in mind the current Xenophobic attacks, there was a need for the researcher to commit to mitigating any risks of a social and psychological nature (Department of Health, 1979).

Throughout the development of this study, the researcher guaranteed ultimate adherence to ethical research standards by making sure that all respondents had adequate information relating to the study and that the highest levels of anonymity and confidentiality were maintained.

4.0 Conclusion

The paragraphs above summarised the research design and methodology used in this SMME study in Nkomazi and Mbombela. The quantitative approach was used

bearing in mind that the researcher sought to report and capture the views and experiences of the Pakistani spaza micro entrepreneurs. A stratified purposive sampling technique was used to identify the appropriate participants that would take part in a focus group interview. The data analysis criterion for the study was inductive in nature adhering to the best coding techniques. The chapter highlighted the limitations experienced during the study and in conclusion the ethical considerations.

Chapter 4

Research Findings

4.1 Introduction

This chapter discusses the responses obtained from the interviews and findings related to the literature review. Based on data gathered from the focus group, the researcher presents the responses from the data collected. Individuals are not identified for anonymity purposes as discussed in Chapter 3 and responses from the respondents are presented in italics. The first section of the chapter focuses on the responses from the interviews with spaza micro entrepreneurs and thereafter highlights the findings from the literature review which are critical to the study. The last part of the chapter will discuss the pricing structure of goods within the spaza sector as well as business etiquette that distinguishes Pakistani spaza micro enterprises from their inherent competitors.

All six respondents participated in all interviews set in a natural environment to elicit the best responses.

4.2.1 Research Responses

The findings of the research are arranged in relation to the questions outlined within the research methodology as follows:

- Scale of the Mbombela and Nkomazi informal economy
- Spaza enterprise ownership dynamics
- Spaza enterprise operations
- Procurement of goods within the Industry
- Academic and Skills influence within the sector
- Challenges within the industry
- Impact of regulations and formalisation of the informal sector

Each section will address responses to the questions asked during the interview.

4.2.2 Scale of the Mbombela and Nkomazi Informal Economy

4.2.2.1 Ages of the Spaza Micro Entrepreneurs

The ages of the spaza micro entrepreneurs has an implication on their experience which is the key aspect of the research and explains the reason for success within the sector. All respondents were over 30 years and the majority were in their 40's having invested most of their years into their enterprises. The responses of the respondents were as follows

4.2.2.2 Why do Pakistani businesses do well in an environment where Local businesses are failing?

The question sought to understand why Pakistani businesses were performing better in an environment where their black counterparts were failing. The responses were as follows based on the following sub questions:

Is your Spaza Shop a Licenced or Non Licenced/Illegal Enterprise?

There was a need to identify if the spaza enterprises owned by the Pakistani micro entrepreneurs were functioning legally or illegally to determine the impact on their informal or formal nature on a broader scale. From the interviews, we established that the majority of spaza shops were not licenced thus operating illegally. The argument as noted from the responses below was that the practice was so wide spread that it had become the norm. Respondents alluded to the fact that within the spaza sector, they found that most black businesses they inherited were not licenced. Four respondents stated that on the basis of their location within the homelands having a licenced shop was of little importance as hardly any municipality enforcement officers ever came to check their enterprises. However, since the xenophobic attacks, they fear that checks may be imminent. Another factor that encouraged outlets to operate illegally was that a majority new entrants in the market were not properly documented thereby placing them in a position where they could not apply for a trading licence.

Respondent LS stated as follows:

"I got this shop in 2011 from Mr Silinda and it had no licence. He took my money and said I can operate and live in his backrooms with my brother. When I asked about the licence, he laughed and said LS this is a spaza shop you don't need papers, anyway

it is in my premises. I went to visit my cousin in NAS and also the shop he worked for had no licence and he had been there for 2 years since coming from home”.

Respondent KG stated as follows:

“Those that need a licence are those in town. In the homelands in Tonga no one has a problem. The people who work for the municipality who live close to my spaza buy from me and have never have asked for a licence. One customer from the municipality said they don’t have time to check on spaza shops because the municipality has more important issues to concentrate on. I asked cause when I started the business I was in the process of applying for asylum papers from home affairs and couldn’t apply for a trading licence”.

Respondent Ms.T stated as follows:

“This shop was financed by my cousin Patel after having worked for him for him for 7 years. When I took over the shop it had no licence and I was still processing my identification documents with home affairs affect having got married to my wife hence I could not then get a licence like those in Nelspruit and Malelane. But I also realised that in the homelands no one checked and my wife’s cousins with spaza shops did not have licences. I’m afraid now because with this xenophobia things will change, there is now a department for small business ummm.... I don’t know, maybe your research will help us”.

It emerged that the two micro entrepreneurs operating in the urban areas of the Mbombela Local Municipality and Nkomazi Local Municipality had licences because of constant visits from the health and fire department officials. This was a disadvantage in respect to the cost incurred (How), whilst those in homelands were operating illegally. Of late, Pakistani elders who have been in the industry for a while are encouraging their fellow kinsmen to legalise their enterprises due to the xenophobic attacks that have taken place and also the drive by government to formalise the industry.

Respondent RS stated as follows:

“Eish...My brother unlike my other brother’s I have to have a licence cause Im operating in town. Officials from the municipality, fire and health are always coming to check. We even give them cool drink now because we are friends. Instead of going to renew the licence personally, I give them money when they come visit when the licence is due for renewal and they pay on my behalf. This saves me time and a lot of questions and papers they need when renewing the licence. My fellow brothers we now need to have licences it will help us keep our shops”.

Since the majority of spaza enterprises are informal, it means that they do not remit any taxes to the relevant authorities. Although all respondents noted the presence of policies regulating their businesses, they pointed out that local government authority were stricter in enforcing the regulations in city centres than in former home lands.

Who have you employed in your enterprise?

A lacklustre approach in enforcing regulations means that Pakistani micro entrepreneurs can work within this sector without proper identification or permits. This has resulted in a large number of undocumented Pakistani employees. This practice promotes exploitation of cheap labour and at the same time prevents the local citizens to occupy these positions. Respondents alluded to the porous South African borders that enable migrants to come through Swaziland and Mozambique. The fact that most of them are undocumented also means that they are prone to protection fees from various authorities and neglect by their former employers who would threaten to deport them. Each spaza shop employs an average of three individuals, namely, the owner and two employees.

Respondent LS stated as follows:

“I came from Karachi without any documentation except my passport having being invited by my brother who came in 2001. I and six other gentlemen came through Mozambique then travelled through to Swaziland as instructed by our travel assistant. It was in Jeppes Reef in Swaziland that we met the gentleman who would assist us cross into South Africa. By then I had sent through the necessary funds necessary to start up a business and gain me passage into South Africa as advised by my brother. It was on my arrival that he introduced me to Mr Silinda who my*

brother knew and had purchased the spaza shop from. I employ my cousins that followed after me, they recently got their documents at a cost though as it is no longer as easy as was before. Up to now I have been buying clothes and other items they need and some money to get other basics they need. I cannot pay them yet because I spent most of my savings getting them to come to South Africa and getting them proper documentation. I need to save for another two shops, one for me and the other will be theirs which they draw salary”.

Respondent MT stated as followed:

“I employ two of my brothers and one local lady as she can speak Swati fluently because it’s a busy shop also close to the taxi rank. As the business grows, I have promised to pay my brothers a better salary, but for now we are saving towards opening a wholesale.”

Respondent Ms.T stated as follows:

“Before, I had proper documentation whilst working for my cousin Patel, I had no problems as all local politicians up to this present moment respect my cousin Patel and benefit from his assistance. This made it easier for me and my other relatives who worked for Patel to live within the communities. However, I now currently employ my cousin and two of my wife’s relatives in my shop. My Father in Law is a councillor which assisted me greatly during the xenophobic attacks. This is however a challenge, as I have a greater wage bill in comparison to my brothers who employ a majority of family members.”

Respondent KG stated as follows:

“It is always a challenge working for a relative and having no documentation. I left my kids back home, coming to seek a better life for them in South Africa. Working for my relative was a challenge because he always reminded me that he assisted me get to South Africa. I just had to appreciate what I was getting from him whilst waiting to get my shop as promised. This is something we cannot change but can change as owners of shops”.

Almost all Pakistani micro entrepreneurs have low wage bills in comparison to their black counterparts as a result of employing their relatives and having them work at next to nothing. However with the current xenophobic attacks, most spaza owners have been forced to employ a local citizen as protection in the face of these attacks. Hence of late, Pakistani respondents stated that they mostly employed relatives of influential community members in order to get protection.

Are Spaza Shop Locations Important?

Whilst most shops are found in shopping complexes and government pension pay points, the majority of spaza shops are located on busy main roads adjacent to bus terminals from where they conduct their businesses. However, successful spaza enterprises have become social services pay points after they partnered with SASSA. Respondents stated that ownership of spaza enterprises is market driven and best positioned shops are sold at premium prices which most local spaza owners cannot afford. As the micro entrepreneurs grow financially, they sell their shops to other foreign investors in order to purchase bigger shops. This results in rapid turnover within the industry and rivalry with other foreign nationals such as Somali's for prime sites.

Respondent MT stated as follows:

“My shop is close to the bus terminal in Nelspruit and is always busy during the morning, mid-afternoon, knock off times and pay days. However we I now have a challenge from Boxer and Spar who have built huge shops within the vicinity. To counter this move I partnered with SASSA, in order that recipients of social grants can get their money from my shop and buy from the shop. Yaaahhh... there is too much competition now my brother, but I always win on price, cause I check inside their shops and match or beat them. Uhhh.....But I like where I am...”

Respondent LS stated as follows:

“My shop is on a busy main road by the bus stop in Kabokweni. When my customers go to work they buy their fat kok's from me, when they knock off they buy bread and other things they will need to cook in the evening or tomorrow morning. During the day the local community members come and buy from the shop. They like it cause I

open early and until late. I also give the bus driver sweets and cool drinks, hahahahaha so that he stop and be patient while my customers buy if the bus arrive too early .I pay rent of R2500 a month which is normal price”

Respondent R supports LS as he also owns a spaza on a busy main road by a junction. But he adds on the following *“As much as the main roads are busy they are also a problem when it comes to crime, people think we have too much money”*.

Do you offer credit lines?

Most Pakistani enterprises offer credit lines to their inherent clients within the communities. All respondents acknowledged that this is common practice in the sector. This was achieved through the relationships formed between the enterprise owners and the local community members. Respondents stated that although the majority of bread winners in their households were working in industries in the cities and were paid weekly fortnightly or monthly, they did not have funds on a constant basis hence the need for credit lines. Once a client abuses their credit facility as stated by KG who stated *“The young gentlemen are difficult to trust but the married and old customers I trust”*, it is stopped after payment is made. In most cases, it is important for community members to maintain their credit lines as this assists them greatly especially households managed by pensioners who get paid once a month. Credit lines are used as a marketing ploy to attract clients from black owned enterprises who cannot afford to offer credit facilities. All the respondent enterprises offered credit facilities.

4.2.3 What are the enterprise ownership dynamics within the sector?

Importantly, within the spaza sector are the social networks which are clan based. Respondents added that these play an important role in enhancing the competitive nature of the industry. The existence of these networks enabled:

- Strategic control within given geographical areas
- Facilitates group purchasing there enabling greater buying power
- Determination of contractual agreements by the Pakistani network, with elders directing the policies that manage the sector

- Building up a resource pool utilised to expand dominance within the sector
- Access to cheap labour from Pakistani

In Nkomazi, the majority of spaza owners were initially employees who later turned into spaza owners themselves.

KG stated as follows:

“My brother this business is difficult, you have to work hard many years for a relative.... uhmmm before you get a shop. This we call “peshgi” . You save the little you get and send back home and once you have worked to return the money that was used to get you here, then you get a shop. But if you can get money from relative or come with it you are lucky hahaha.... you can buy shop easy. In South Africa government help black business a lot but they do not have vision”.

LS stated as follows:

“My brother I spoke to my cousin before I come to Mpumalanga. He told me of the business and through the concept of “hawala” I sent money to him to get me a shop. My cousin helped me start after buying the business which Elder Patel does for his relatives.”

Furthermore, most of them were related to a former spaza micro entrepreneur who is now a wholesaler. The respondents alluded that South African spaza micro entrepreneurs are said to await government interventions in assisting them develop social clans, which they are usually weak and unsustainable.

4.2.4 Spaza enterprise operations

4.2.4.1 What are the Spaza Shop working Hours?

Within the spaza sector, there is a variation of working hours and the Pakistani micro entrepreneurs have brought significant change to working hours with. Since many employees reside within the shop premises, it means that shops can afford to open until late. On average respondents close their enterprises at 10pm. The difference though in the enterprise closure times is based on the location of the spaza shop. Those close to areas that have security such as shopping complexes, police stations

or busy main road junctions where public transport continuously plies the route 24 hours a day are in a position to close late.

Within the central business district and vicinity of shopping complexes, respondents mentioned that they take advantage of closing times of food outlets such as KFC and Fish & Chips. However, those within residential communities close early due to the crime levels within the home lands as stated by respondent KG. The ability to close late provides convenience for the locals, as they can shop until late generating revenue for the micro entrepreneurs.

Respondent Ms.T stated that

“At night and early morning you are able to make money cause all other shops are closed, this helps me to clear my stock such as bread, milk and airtime. There is a shop close to me owned by a nurse Im am planning to take it over cause they are failing. The only sell chips and very few things plus they close early at 5.”

Respondents also stated that their black local business counterparts close early as most employ relatives who also need to attend to their families in the evenings. This has worked to the advantage of foreign owned enterprises.

4.2.4.2 Does cleanliness and appearance have an effect on the performance of the Shop?

Unlike the spaza shops in the home lands, those in the CBD are forced to maintain high standards of cleanliness due to constant health and safety checks by regulatory authorities.

Respondent MT stated as follows:

“My shop is in town, it must be very clean cause health inspectors come check every month. If they don’t like you and find a problem they close the shop, ummmhhhh..... and opening my brother will be very difficult. My shop has to look good because I compete with big shops and now customers like nice place”.

In the home lands previously tidiness was not really upheld since employees resided within the shops. However, as the level of disposable income within the community’s increases and retail shops such as Massmart through Boxer and

Shoprite Checkers seek to penetrate the lower LSM market due to the efficient grant system; this has led to respondents rethinking about how they present their spaza enterprises. A majority of the respondents stated the need to operate cleaner shops that have better aesthetics; however

Respondent KG stated that

“for shop owners who are in the peripheral areas of the former homelands where big retail giants find it less profitable to maintain high standards as they felt it was an expensive venture”.

On the contrary most locally owned spaza enterprises were very clean as they formed part of the premises of the owner.

4.2.5 How are goods procured within the Industry?

It is common practice within the spaza sector as stated by respondents to combine resources and purchase goods in bulk in order to get discounts from wholesalers. This enables a set of buyers to maintain the same pricing structure within a given community whilst under cutting locally owned enterprises, big retailers and other foreign owned enterprises that don't practice the same concept. However, most respondents mentioned that as much as this reduces the cost of goods purchased, it limits the diversity of products purchased.

Respondent Ms.T stated as follows:

“Combined buying is good on price but I cannot buy other things that my customers want, for example there are a lot of taxi's in my area who want engine oil and coolant but I cannot get that when I order with other brothers who are around here. I now buy somethings like grocery with them and the rest I order myself.”

Most respondents acknowledged that the disposable income of their customers has increased throughout the years and they require a greater diversity of goods and services.

Respondent MT stated as follows:

“I have been in South Africa for many years, the local residents have more money to spend now. You can tell from the cars they drive and the houses they build. In

Kabokweni there are a lot of government employees who work at “endubeni” some are my friends and tell me what they want to see in my shop. This is why I have to get many different things that you also find in the big shops.”

For example, in former home lands, respondents alluded to the fact that many community members have vehicles, so it is necessary for spaza enterprises to sell the basic car spares such as bulbs and fan belts. However, Respondent KG stated that product diversity was more of cost to their business as some of the goods are not “fast sellers”.

Respondent KG stated as follows:

“My brother where my shop is located there are a lot of old people and families where the bread winners come only over weekends from the urban areas. The old people don’t want many things but the basics such as cooking oil, sugar, mealie meal, rice, bread, beans, milk and porridge. And because the bread winners come over the weekends they bring through other commodities from town that I have in the shop but are a bit expensive. In order to have different stock at a good price I get some from back home which is cheaper therefore my customers buy.”

To ease the cost of goods diversity, Pakistani spaza entrepreneurs get some of their products from Pakistani such as white rice, beans, spices and other vehicle spares thereby further benefiting from the pricing structure and diversity.

The ability to house a diversity of products has enabled foreign owned enterprises to attract greater clientele numbers in comparison to their local rivals.

4.2.6 Does Price have significance within the Spaza sector?

For the Pakistani spaza micro entrepreneurs as much as pricing is a competitive tool, it should correlate with the value for money when remitted back home. For every price of a commodity set within the spaza enterprise, the profit made is calculated in comparison to its inherent value back home when converted to the Pakistani Rupee. Currently, the conversion rate as seen on the FNB website (FNB, 2015) on 8 July 2015 is

1 ZAR



8.1785 PKR

Fig 4.0 Exchange Rate

Respondents stated that when pricing their goods, their profit margins are marginally lower than their local counterparts on the basis that back home were they remit their profits; it is a substantial amount that their families receive.

Respondent R stated as follows:

“I have to send money home every month, the profit I make from the shop should be enough to buy new stock, pay salary, for my savings and send money home to my family. When I price my stock I have this in my mind and I know a good price attracts more customers. Other business people want to wake up rich tomorrow, but I know right price calls customers.”

This again works to their advantage when importing their goods into the South African markets as the value of the rand and exchange rate fluctuations as seen in Fig 4.1, impact on the selling price of Pakistani goods.

Exchange Rate History For Converting South African Rand (ZAR) to Pakistani Rupee (PKR)



120-day exchange rate history for ZAR to PKR

Fig 4.1 Exchange Rate History

Respondents stated that pricing of the commodities is also lower as a result of

- Lower operating cost because of the availability of cheap labour

- Combined purchasing thereby increasing their buying power from wholesales significantly
- Sharing of transportation costs by utilising the same transporter.
- In most cases, prices are discounted because they are purchased usually from a former Pakistani spaza owner who has grown into a wholesaler.

4.2.7 Are there opportunities for growth within the Spaza Sector?



Fig 4.2 Patel Wholesalers

The lucrative spaza sector has the potential to grow into semi super markets that have all retail mechanism such as your point of sale systems. All respondents spoke highly of a fellow countryman called Patel who owns Patel wholesalers shown in Fig 4.2 he assisted Respondent Ms.T and a few others to open their enterprises. Patel opened his spaza micro enterprise close to 15 years back and has grown throughout the years to open Patel Hardware, Patel Wholesalers and Patel Supermarkets. Most of his employees are relatives from Pakistan. After having served him well, he recognises their effort by assisting them get a spaza shop, to which their initial stock is purchased from his hardware and wholesale on credit. As their enterprises grow, he gradually reduces their credit facilities.

Other Pakistan micro entrepreneurs who are not in any formal employment have drawn up agreements with Patel to finance their ventures, on the understanding that all goods and services they might need are purchased from Patel holdings over a given number of years. Respondents Ms.T and KG were initially employed by Patel,

whilst Respondent R sought capital from Patel to finance their enterprises and Respondent LS having come with capital into the country after having being informed of the industry pricing structure by relatives already in Nkomazi and Mbombela.

All the Respondents stated their intention to follow in Patel's footsteps work etiquette that ensures that they

- Work hard in making sure their enterprises grow, which involves long working hours
- Save as much capital as possible, which is distributed fairly to that which is remitted back home and that which is used to manage the day to day activities of the enterprise and allow expansion.
- Maintain close social networks with the elders such as Patel
- Develop a better understanding of their customers in order to draw as many clients as possible

Respondent Mst stated as follows:

“Elder Patel is a good man, he has not forgotten us up to now. When we need anything he is a phone call away. He is a hardworking man but who is very strict. We had to be at work on time and treat customers well. He made sure we had an accommodation, food and the little we needed. Although he was hard on me I am a better man. I want to grow my business into a huge wholesale one day. During the xenophobic attacks he was constantly checking on us and informing us that we need not be afraid local mayors had given promises that no community members would attack foreign nationals. Having worked for him for many years I have developed experience in how to manage my business and my customers”.

All respondents shared the same attributes with regards to Patel and alluded to their envisaged ambitions of being greater business persons whilst creating more employment opportunities for their relatives.

The respondents also alluded to the fact that their black counterparts could be far above in terms of dominating the spaza sector if they worked closely with

government to access funds whilst seeking mentorship from successful micro entrepreneurs such as Patel.

4.2.8 Do Academic qualifications and Skills influence performance within the sector?

A majority of shop owners have a wealth of experience having worked for years for other enterprises such as Patel before owning their spaza shops, whilst interestingly enough Respondent RS and LS have attended tertiary institutes such as Punjab and Quaid-i-Azam Universities.

Respondent LS stated as follows:

“I studied for a BS in International Relations at Quaid-i-Azam. It took me four years but I could not get a proper job. After hearing about the opportunities in South Africa from my cousin, I immediately made the decision that I would come to South Africa. I feel I’m not utilising my qualification but I still think I’m better off. The qualification will help me one day if my business does not go well.”

Respondent MT attended informal and formal education at vocational centre and whilst the rest of the respondents attended technical education. The respondents mentioned that their educational qualifications and experience assists them greatly in the day to day management of the business.

Respondent RS stated as follows:

“Hahahah... Uhhmm most people in South Africa in high places claim to have qualifications they do not have. Its good one day my brother you can say you have an MBA hahahaha.... Being at school has helped me manage my business better. I’m in a position, to communicate and understand my customers and business environment very well.”

Having an educational qualification also enabled respondents to identify business opportunities and the qualification became an exit route if business did not do well.

4.2.9 What Challenges are within the Industry?

It was important to understand the challenges affecting the spaza sector. The respondents answered as follows:

Competition

Respondents agreed that the spaza sector had fierce competition from other foreign nationals such as Somalis, Ethiopians, Indians and Bangladeshi micro entrepreneurs and black micro entrepreneurs. What differentiated them mostly was location, product mix, timing of product specials and not pricing although it played a part.

Respondent Ms.T stated as follows:

“There is so much competition now in Mpumalanga than before. We have to fight for the best locations and compete on how we stock our shops because of the arrival of our other foreign brothers. The only way to win in this industry is to be united against your opponents. The Somalis have gained ground because they go and stock directly from the distributors in Johannesburg which is a bit cheaper. They have been proactive in forming forums in the communities where they join up with black businesses. This has worked well for them and we should do something as Pakistanis. But Elder Patel assisted us, he buys volumes from distributors such as PPC cement and sells to us at cost in order that our pricing is competitive, how he makes his money I don't know”

Respondent KG is quick to state as follows:

“Brother elder Patel makes his money on rebates. The more he buys the more he gets at the end of the year. He also buys cash...Yaaaa...”

Respondent L stated as follows:

“Through elder Patel we are competing well in the market. I can get as much stock that I need from my shop and pay weekly and best of all it is delivered to the shop whilst my other brothers have to go to town to order. We should continue to work hard my brothers.”

Crime

Respondents alluded to the fact that they were vulnerable to acts of crime, as they were targeted as an easy source of cash due their nature of business which is – “Cash Based”. They were forced to include a protection fee within their rentals to avoid being targets. Those micro entrepreneurs related to individuals such as Patel

were at an advantage, as they said he is politically connected thereby protecting his own, hence having protective affiliations. All respondents felt they were vulnerable to acts of crime, whilst some respondents felt their affiliations with their communities and community leaders enabled them to stay peaceful as previously some of them had been victims of an act of crime such as hijacking.

Xenophobic Attacks

All respondents felt that the xenophobic attacks were an act of crime against them as there is so much they offered the communities that house their enterprises. Whilst black enterprises were not affected by the attacks, this raised a flag with regards to their future co-existence, since some black owners borrow stock at times from their Pakistani counterparts.

Respondent R stated as follows:

“My brother if you are playing cricket and the other team is always doing well as compared to your team, the best thing to do is ask the good team how they are getting good results. Uhhmmm.... It does not help hitting them because they will still remain a better side.”

Is rental space a problem in the sector?

As the spaza micro industry grows, there is a reduction in the amount of rental space at the most lucrative locations. With the entry of other foreign nationals such as Bangladeshis and Somalis, this has resulted in turf wars over space as mentioned by respondents.

Respondent Mst stated as follows:

“Space is becoming an issue now hence we see ourselves fitting with our Somali, Indian and Bangladeshi brothers for shops. We all see how profitable it is to have a shop but now we fight. The price for buying a shop has gone up so much. It is now difficult to find a good location as everyone is looking for one. This has helped the locals as there are in a position to sell or rent their shops at a good price”.

The Nkomazi and Mbombela Municipalities house huge former home lands that have evolved into huge townships with enormous buying power. Respondents stated that,

as a result of the hive of economic activity, black micro entrepreneurs in ideal locations find it economic to rent out their premises or sell completely rather than compete. This has meant that supply and demand for ideal space locations has sent prices rocketing up.

4.2.10 Should the Spaza sector be formalised or left informal?

A majority of established Pakistani micro entrepreneurs agree that the sector needs to be formalised as a measure of creating an entry barrier to new market entrants. However, Respondent R felt this will disadvantage and stated as follows

“This will be a problem for me as I don’t have the necessary documents to register a formal company yet”.

Respondent RS went on further to say:

“The xenophobic attacks will force government to look more at our shops and whether they operate legally. We will have to register and now is the time as mentioned by the elders. It will also help us when we grow our shops.”

Respondents alluded to the fact that that Nkomazi and Mbombela municipality’s lack of capacity to formalise the market is an advantage as it creates an even level ground for competitive business with regards to their black counterparts who get first preference. However, most respondents understood that change was in the air due to the intensity of the xenophobic attacks and that the high unemployment rates which government is struggling with can be reduced by formalising the informal sector.

4.3 Conclusion

In this chapter findings from the spaza micro entrepreneur interviews were discussed and the data gathered, in order to generate meaning. The use of a qualitative research approach was beneficial in gathering all relevant data, including the emotional 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

5.1 Introduction

The purpose of this study was to explore why Pakistani micro enterprises are sustainable and performing well in Mpumalanga. The research was conducted through focus group interviews with six Pakistani micro 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 seek to disagree with academic inferences stated in Chapter 2 barring in mind the objectives of the research.

5.2 Reasons for Sustainability of Pakistani Micro Enterprises

The success of Pakistani micro enterprises is one based on a multifaceted series of business activities as revealed by the findings that has enabled their inherent rapid and extensive transition in the Spaza sector. Key stakeholders within the sector cannot be mulish about the strides undertaken by Pakistani immigrants in dominating the Spaza sector. Their success is based on the following:

Their competitive nature that cause a rift with their local counterparts

Sherazi (2012) and Charman (2012) depicted the competitive nature of the informal economy that enables a select number of micro entrepreneurs to succeed and others to fall off the bandwagon. Pakistani micro entrepreneurs as revealed by the findings have adapted to the trends that make up the spaza sector and have gone further to introduce new methods of business that gained them a competitive edge. Pakistani entrepreneurs have utilised the 4 P's of marketing (Product, Place, Price and Promotion) as stated by Kotler (2012) in order to maintain their dominance within the Spaza sector. By manipulating the 4 P's, Pakistani micro entrepreneurs are in position to attract more customers into their shops whilst forcing their competitors such as black micro entrepreneurs to concede defeat and close shop, inherently handing their shops to Pakistani micro entrepreneurs or other foreign business owners.

Pakistani spaza owners make it a point to offer the right services or goods to the ideal target market at the right price and making sure they bring it closer to their premises.

For this reason, they have positioned themselves well in comparison to their competitors as illustrated in Fig 5.1 below

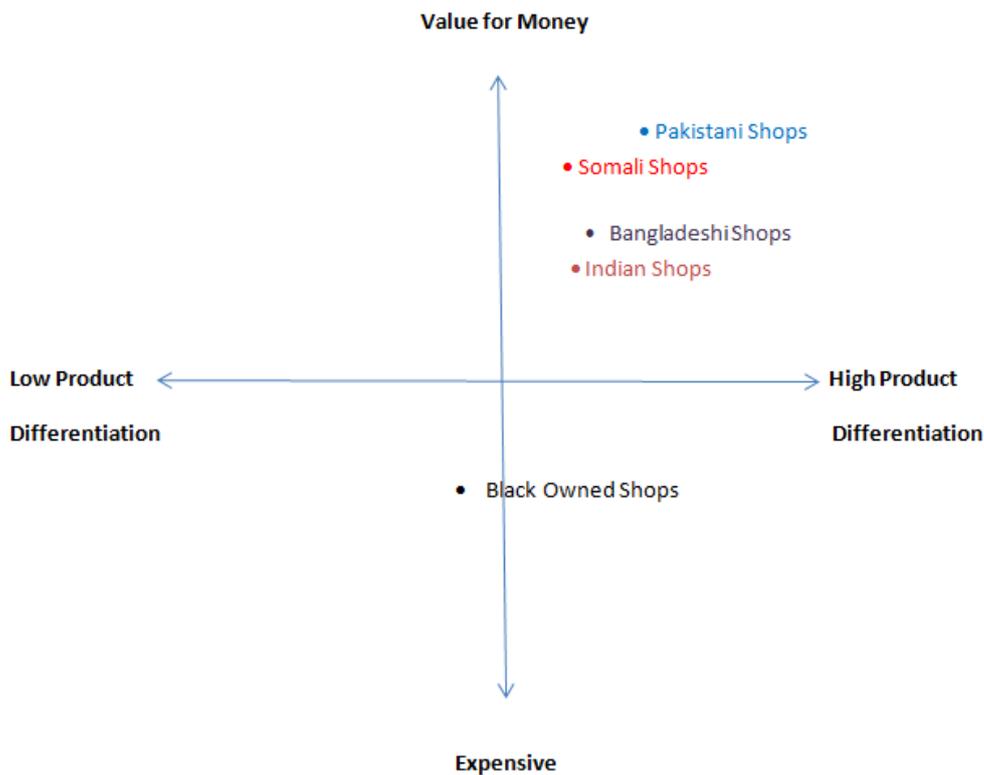


Fig 5.1 Spaza Shop Positioning Diagram

Adapted from KOTLER, P. 2012. *Marketing Management*, Britain, Pearson Education.

Experience a Tail of two sides

Park and Rugunanan (2010) stated that South Africa is perceived as the land with endless economic opportunities. This has resulted in the increase in the number of immigrants seeking a better life. According to research, (quote), Pakistani micro entrepreneurs bring from Asia a wealth of SME skills and experience which are heavily imbedded within their communities. This has not only enabled them to easily

adapt to the Spaza industry and as a result dominate the sector, it has also ensured the sustainability of their enterprises whilst black micro entrepreneurs who established the industry in the Apartheid era have lost out. This point is supported by Sherazi (2013) who states that critical to the success of small enterprises is the use of sound managerial techniques.

One cannot doubt the level of expertise exhibited by Pakistani micro entrepreneurs, which has enabled them to dominate the market and assure their sustainability. This has meant that the black micro entrepreneurs have been muscled out of the spaza shop industry, an industry they introduced and also once dominated. Their success however in the spaza shop industry may also lead to their demise. As stated by Charman (2012), the ability of migrant entrepreneurs to dominant the market has fuelled the current xenophobic attacks. There is a need for Pakistani micro entrepreneurs to develop symbiosis within the Spaza sector with all stakeholders involved in order to maintain their presence within the sector.

Their success can also be attributed to the mentorship program that they undergo before owning their shops through. This involves

- working for relatives
- taking over a relative's shop
- offering their services in return for a shop

This has been a catalyst in managing the enterprise better than their black counterparts. As stated by the NDA (Commission, 2011) there is a need to capacitate small business in order to enhance their performance through skills transfer and educational levels. Bearing in mind the view elicited by the NDA, this further shades light on one of the reasons why Pakistani micro enterprises are sustainable in comparison to their black counterparts.

Educational Levels, Can we blame Apartheid?

The findings of the research identified that most Pakistani micro entrepreneurs have a formal qualification, ranging from diploma level right through to the degree level.

Gurung et al., (2014) agreed that there was relevance and need for entrepreneurial education based on the fact that on completion graduates were in a better position to identify new business opportunities and to start up new ventures. The level of education exhibited by Pakistani micro entrepreneurs has greatly assisted them in managing their micro enterprises and seeing them grow from being small spaza shops to huge wholesales. The levels of education exhibited by Pakistani micro entrepreneurs has further enabled them to develop their own brands within the sector (Keller, 2013) an example being Patel.

Government through its interventionist capacity has taken the Council of Higher Education (2014) to task by requiring the council to develop academic qualifications being taught at various higher learning centres that will develop the entrepreneurial levels of students. This would then enable black micro entrepreneurs to match the levels and capacity exhibited by their Pakistani counterparts. The Dti (2015) further supports government interventionist model by outlining that Bantu education denied black South Africans access to viable business opportunities because it constricted opportunities for the acquisition of professional and technical skills for them. Secondly, its curriculum was devoid of any type of entrepreneurial education which would encourage young adults to enter into the business sector.

Chimucheka (2014) and Abor & Quartey (2012) stated that one of the challenges facing SMMEs in Ghana, South Africa and Africa as a whole is the level of education that micro entrepreneurs exhibit which impacts on the sustainability and success of their enterprises. This explains the reason why Pakistani enterprises are sustainable based on the educational levels exhibited by their owners.

Entry into the Spaza Sector, how easy is it?

Entry into the South African Spaza sector has been and is one of a fairly easy nature as revealed by the findings. Liedeman (2013), stated that entry into the Spaza sector in South Africa has very little entry barriers due to its informal nature and the presence of former home lands that lack adequate retail centres. This had made its expansion within the homelands a very profitable venture. Former President Thabo Mbeki, in 2003 discussed the issue of two parallel economies in South Africa, one being the regulated economy comprising of businesses that adhered to legal

regulations and the other being the informal economy that comprised of businesses that functioned outside government regulations (Skinner, 2006). With no proper regulations for the informal sector in the Mbombela and Nkomazi Local Municipalities, a dual economic model has emerged, that is characterised by the view of the informal economy based on a political criterion which lacks government intervention and regulation.

Kerr et al., (2014) stated that due to the integration of the South African economy into the global economy, the informal sector is now easily identifiable with new market entrants such as the Pakistani micro entrepreneurs who have come into the sector with innovative business ideas thereby dominating the sector. This has been further catalysed by lax border control mechanism, which have facilitated the migration of Pakistani micro entrepreneurs into Mbombela and Nkomazi homelands easily (MPI, 2015). As a result, within the spaza sector in South Africa, 50% of operators are foreign entrepreneurs including their employees. Their sustainability has also been achieved through

- very cheap labour costs
- non formalisation of the sector
- and ability to import products from their countries of origin into South Africa (SARS,2014)

However, of late the sector has witnessed the entry of other foreign nationals such as Indians, Somalis and Bangladeshis who are now fierce rivals for ideal locations to establish their enterprises. Another challenge for these spaza owners has been the growing xenophobic attacks Park & Rugunanan (2010). This is seen as retaliation by black businesses that lost out during the transition of the sector from the Apartheid era to the post-Apartheid era.

In response to this, some established Pakistani micro entrepreneurs are formalising their enterprises to guarantee business sustainability. This creates an entry barrier for new market entrants who in most cases are not properly documented (MPI, 2015).

The use of 4 P's of Marketing, does it work?

Pakistani micro entrepreneurs have utilised the marketing 4P's as revealed by the findings in order to create competitive advantages and business sustainability as stated by Kotler (2012).

The table below illustrates how Pakistani micro entrepreneurs utilise the marketing 4P's

Item No.	Marketing P's	Discussion
1.	Product	<ul style="list-style-type: none"> - Pakistani micro entrepreneurs have understood the dynamics of former homelands and have offered products that respond to those dynamics. - As stated by the DTII (2015), most former home lands due to residential segregation were and are still under developed. This has resulted in established retail shops such as Boxer and Spar only recently establishing shops in those areas. - Pakistani enterprises sell all products that can be found in major retail shops which are either locally made or imported. - Due to their Product Differentiation Pakistani micro enterprises are in a position to offer all services and products required by their target market. - This is in contrast to their black counterparts as stated by Muushi (2013) who are rigid with regards to their product mix. - Pakistani micro entrepreneurs had made it a

		<p>point to address community needs by putting forth a value proposition through their offering and brand (Keller, 2013)</p>
2.	Place	<ul style="list-style-type: none"> - The location of any business is critical to its survival (Kotler, 2012). Geographic location is an advantage in enhancing market advantage - Within the Spaza sector there is fierce rivalry for the best locations. Most Pakistani micro enterprises have established their enterprises in ideal location either by buying out their black counterparts and renting shops formally owned by their black counterparts, who in turn find it better to rent out their shops than to compete with foreign nationals (Liedeman, 2013) - The distribution channels within the spaza sector are very critical(Kotler, 2012). Pakistani micro entrepreneurs get their products directly from wholesalers such as Patel delivered directly to them at competitive prices thereby enhancing their enterprise sustainability.
3.	Price	<ul style="list-style-type: none"> - Pakistani micro enterprises base their pricing on the inherent profit they would make based on the exchange rate between the Rand and the Pakistani Rupee. This is because most of their profits are remitted back home. - A strong rand enables them to lower their prices considerably in comparison to their competitors thereby being competitive. - Pakistani utilise a Price Leader technique (Kotler, 2012) that has muscled their

		<p>competitors.</p> <ul style="list-style-type: none"> - Pakistani entrepreneurs have undertaken backward integration and have been position own and manage the Spaza value chain by owning wholesales and distribution channels thereby inherently being in a position to manipulate prices within the sector. - Gstraunthaler & Cramer(2012) stated that the increase in import penetration have assisted foreign micro enterprises gain a competitive advantage in terms of pricing in comparison to their black counterparts who inherently are forced to by their products from Pakistani wholesalers. - However the industry due to the increase in the number players' price fixing is rife. This has made it difficult for black micro entrepreneurs who in most instance operate in a singular nature to compete with their Pakistani who as a collective.
4.	Promotion	<ul style="list-style-type: none"> - Pakistani micro entrepreneurs have created enterprises that matured into established brands such as Patel wholesalers. - The value of the Spaza Brand has increased significantly with the introduction foreign micro entrepreneurs such as Pakistani micro entrepreneurs. This has evidently cemented the sustainability of their enterprises. (Liedeman, 2013) - New Pakistani entrants in the sector Piggy

		back from enterprises such as Patel there by gaining advertising leverage.
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Table 5.1 The Marketing 4P's

Adapted from KOTLER, P. 2012. *Marketing Management*, Britain, Pearson Education.

Business etiquette and quality service, Is it necessary?

Pakistani micro entrepreneurs having noted the profitability of the spaza sector have gone further to introduce proper business managerial process as revealed in the findings in order to compete with bigger retail shops at a small scale.

This has been achieved through:

1. Ensuring that the customer is king through building relationships that have led to the introduction of credit facilities
2. Ensuring the improvement in the aesthetic look of their enterprises
3. Hard work and long hours of labour. According to the research,(Khoase and Govender 2013) Pakistani owners spend 12 hours a day in their shops, 7 days a week on any given day, a point supported by Muushi (2013) who added that working hours of foreign enterprises is far more flexible in comparison to their black counterparts (Muushi, 2013)
4. Pakistani shops are stocked with goods that catered for a wider range of customers and are situated in close proximity to busy roads and bus stations (Muushi, 2013)

Through the improvement of business process as revealed by the findings in chapter 4, Pakistani micro entrepreneurs run sustainable enterprises in comparison to their black counterparts.

Kinship, is it necessary in the Spaza sector?

As revealed by the study, relationships are very important within the Pakistani business community as this helps guarantee their survival and sustainability within the spaza sector.

These existing kinship networks help foster and create close knit ethnic networks and maintain cultural identity (Thompson & Grant, 2015) and Muushi (2013). This view is corroborated by Park (2013) who carried out a study on Asian migrant communities in South Africa. The results of the study showed that the majority of migrants are related through family or social networks thus making it easier for them to start-up businesses. Because of these kinship networks, Pakistan shop owners are able to purchase their stock on credit from their fellow countrymen such as Patel and from other Indian shop owners (Thompson & Grant 2015), ensuring that their shops are always well stocked, However, this opportunity is not extended to African shop owners who “are not trusted to pay back the money loaned on credit” (Muushi, 2013).

From the findings, relationships enable Pakistani micro entrepreneurs establish:

- Source of revenue to capitalise or buy their enterprises
- Access credit lines for their stock
- Access to a mentoring services from their elder peers and
- Access to moral support from their elder peers

This is in sharp contrast to their black counterparts who according to Mutezo (2005), Chimucheka (2014), Abor & Quartey (2012) perceive access to funds as a major constraint to expanding their businesses. This situation is further aggravated by the following factors: lack of collateral on the part of the entrepreneurs, bad credit or no credit history and “an exaggerated risk factor” as perceived by the banks. Chimucheka (2014) reiterates this point by stating that research carried out by Fataki and Garwe (2014) concluded that the lack of financial resources was the second most important contributor after education and training to the failure of SMMEs in South Africa.

Formalisation of the sector, Is it necessary?

The South African government has come 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 whilst 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). This is further supported by Pakistani micro entrepreneurs who note that their enterprise sustainability is based on the formalisation of the sector which will double up as an entry barrier.

The establishment of the Department of the Small Business within Government signals a new era for all stakeholders within the Spaza sector. For the Pakistani enterprises to remain, they need to embrace the formalisation of the spaza sector and begin working with their black counterparts. The government through its interventionist policies like the National Development Plan, is regularising the informal economy that is seen to employ a substantial number people both prior to the advent of democracy due to racial segregation (HistoryOnline, 2015) and after 1994 due to the high levels of unemployment (Lima et al., 2014).

5.3 Conclusion

It is apparent that the sustainability of Pakistani enterprises is based on number of key variables which result in their success. However, the overriding factor is the kinship which exists within this community which has ensured the existence and sustainability, of their enterprises.

Chapter 6

The Conclusion and Recommendations

Introduction

6.1 Paving the way forward

Having undertaken the study there was a need to identify whether the research objectives had been met. The following conclusions are the resultant of the study undertaken in line with the objectives set

- The study established that there are certainly a number of challenges that are affecting the sustainability of black enterprises that government needs to look into if there are to succeed. The greatest challenges though are firstly the fierce rivalry within the sector as a result of the influx of migrant workers, secondly the level of competitiveness set by Pakistani micro entrepreneurs is a notch too far and will take a while for black micro entrepreneurs to match, and lastly their lack of kinship within themselves.
- The study established that Pakistani enterprises are very sustainable hence as a result remain competitive. They have been able to weave themselves within the sector, through their innovation and as a result have become a dominant feature within the sector.
- The study established that education has an envisaged impact on the level of entrepreneurial skills of the individual. Bantu education has had an impact on the level of skills exhibited by black micro entrepreneurs which has had an impact on their competitive nature. Pakistani micro entrepreneurs are educated and this has seen their ability to develop within the sector.
- The study realised the importance of product differentiation within the retail sector as a means of offering proper service. It revealed the change in demographics and the growth of the economy as a need to implement product differentiation
- The research identified the strained relationships between emigrant micro entrepreneurs most importantly Pakistani micro entrepreneurs and the

inherent black communities illustrated by the current xenophobic attacks as a necessary measure to drive change within the industry.

Conclusion

Based on the research objectives and the findings of the study the following conclusion was determined

- Local SMME's due to their functioning individually face numerous challenges the major one being financial. It is important for local SMME's to practice Kinship as illustrated by their Pakistani counterparts and on the same note be prudent to learn from their Pakistani counterparts
- Pakistani SMME's have mastered the art of Kinship leading to their success in Nkomazi and Mbombela therefore positioning themselves as a better brand in comparison to their local counterparts. Pakistani SMME's have again incorporated marketing concepts being the 4P's to develop and establish themselves as a superior brand.
- The disparity between the levels of education held by Pakistani SMME's and Local SMME's has an impact on their inherent success. This incongruity has assisted Pakistani SMME's gain an edge over their local black counterparts, who as a result of their history are far less educated. As a result, due to their levels of education Pakistani SMME's can easily adapt and develop sales and marketing strategies that enhance their enterprise sustainability.
- As access to communication and purchasing power of Nkomazi and Mbombela citizen ameliorates so does the need to purchase superior goods. Pakistani SMME enterprises sell all products that one would find at big retail outlets such as Boxer, Spar and Pick & Pay at either the same price or even less. As a result they have attracted a solid customer base within the communities they offer their services.
- It is evident the current Xenophobic attacks are as a result of the tense relationships between community members, the local SMME's and their Pakistani counterparts. There is a need to create symbiosis between all stakeholders through formalisation of the sector.

Recommendations

From the discussion in Chapter 5 it is evident that Pakistan micro entrepreneurs have mastered the art and technic of superiority within the Spaza sector being able to introduce an entrepreneurial business model, however for them to remain relevant in a sector dominated by rivalry and increased penetration due to the influx of other foreign nationals there is a need

- To work with their black counterparts who established the sector. Pakistani micro entrepreneurs should establish a mentorship program that will assist in training black spaza owners to successfully manage their enterprises in a bid to create harmony within the sector.
- For Pakistani micro entrepreneurs after the mentorship program there is a need to avail access to funds in terms of stock credit lines to their black competitors
- To anticipate formalisation of the sector which is evidently being implemented as government seeks to create employment through harnessing the potential of the informal sector.
- Develop forums that will be in a position to participate in government programs and talk to government at all levels: Local, Provincial and National.

However of great importance is for the government to understand the concept of Kinship within Pakistani micro entrepreneurs as this has resulted in the development of successful enterprises. Further studies exploring the Impact of Kinship in business should be undertaken as this is a focal point leading to the sustainability and success of Pakistani micro entrepreneurs. A limitation to this study will be accessibility of all stakeholders as there is a level of distrust within the sector.

Government through policy intervention should regulate retail grocery trade within the townships and not create entry barriers. The presence of Pakistani micro entrepreneurs should not be viewed only in a bad light but should also be seen as competitive tool that will enable their black counterparts improve on their service.

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Appendix

1.0 Turnitin Report

The screenshot shows a web browser window displaying a Turnitin submission report. The browser's address bar shows the URL: `learn.ukzn.ac.za/mod/turnitintool/view.php?id=52401&do=submissions`. The page header includes the UKZN|Learn logo, navigation links for 'University of KwaZulu-Natal', 'Moodle community', and 'Getting Started for Teachers', and a user profile for 'Themelane Nare'.

The main content area has two tabs: 'Summary' and 'My Submissions', with 'My Submissions' being the active tab. A 'Refresh Submissions' button is located in the top right of the content area. Below this is a search bar and a 'Show 10 entries' dropdown menu.

A table displays the submission details. The table has columns for 'Submission', 'Submitted', 'Similarity', 'Grade', and 'Comments'. The data row shows a submission titled 'T Nare Dissertation' submitted on '26/11/15, 11:09' with a similarity of '6%' and a grade of '-/100'. The status is 'Submission successfully uploaded to Turnitin.'.

Below the table, there is a 'Submission Title*' text input field and a 'File to Submit' section. The 'File to Submit' section includes a file manager interface with a 'Files' folder and a note: 'Maximum size for new files: 40MB, maximum attachments: 1'.

Submission	Submitted	Similarity	Grade	Comments
T Nare Dissertation Status: Submission successfully uploaded to Turnitin.	26/11/15, 11:09	6%	-/100	(0)

1.1 Interview Questions

1. How long have you been doing business from this outlet and what challenges did you face from its inception?
2. Was there any financial assistance and training you received prior to its inception or during its current operation?
3. As an owner of the business, do your academic qualifications and experience have an impact on the success of your business?
4. Do your working hours and location impact on the success or failure of the business?
5. How do you differentiate your service and product offerings from the rest of your competitors within the industry?
6. Does your understanding of your target market: which are the communities you service have a ripple effect towards the profitability of your business?
7. What challenges are you facing as Spaza owners?

1.2 Ethical Clearance



30 January 2016

Mr Thembelane N Nare 213570824
Graduate School of Business & Leadership
Westville Campus

Dear Mr Nare

Protocol reference number: HSS/1790/D15M

Project title: A comparative evaluation of the factors that are influencing the sustainability of the SMME's that are run by the Pakistani nationals versus the Local nationals within the jurisdiction of the Mzimba and Mhombela districts of the Mpumalanga Province

Full Approval – Expedited Application

In response to your application received 4 December 2015, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please note the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Dr Sheguka Singh (Chair)
Humanities & Social Sciences Research Ethics Committee

/s/

Cc Supervisor: Dr M Hoque
Cc Academic Leader Research: Dr M Hoque
Cc School Administrator: Ms Zornia Bullerzi

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