

## Problems Experienced by Immigrant Spaza Shop Owners in South Africa

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**ABSTRACT** Immigrant-owned spaza shops impact positively on the economic development of South Africa. The study investigated the problems that are perceived by immigrant spaza shop owners as negatively affecting the performance of their businesses. The study followed the qualitative research approach. The semi-structured interview method was used for data collection. The study used the purposive and snowball sampling methods to identify the participants. Thematic analysis was adopted for data analysis. The results showed that the problems experienced by immigrant spaza shop owners include crime, xenophobia, lack of sufficient finance, high competition, inability to speak the language, high cost of operation and poor location.

### INTRODUCTION

Small, medium and micro enterprises (SMMEs) make an important contribution to the development of South Africa (Chinomona and Poe 2013). SMMEs drive sustained economic growth in both developing and developed countries (Organisation for Economic Co-operation and Development 2014). The unemployment rate of South Africa is currently 26.6 percent (Statistics South Africa 2016). SMMEs can help to reduce the high rate of unemployment in South Africa (FinScope 2010; Abor and Quartey 2010). Immigrant-owned businesses contribute to employment and economic growth of host countries (Organisation for Economic Co-operation and Development 2013). Immigrant entrepreneurship can help to drive the socio-economic development of host countries (Turkina and Thai 2013). Immigrant entrepreneurs are an important part of the value chain and thus help to produce wealth in host countries. Entrepreneurship helps immigrants to get integrated into the economies of host countries (Fatoki 2014; Chinomona and Maziriri 2015).

According to Von Broembsen (2008) and Perks (2010), spaza shops form part of the SMME sector. A spaza shop can be categorised as an informal business that is run from a small house (Liedeman et al. 2013). A spaza shop with less than five employees can be viewed as a micro enterprise. A spaza shop with more than five employees can be considered as a very small business (Perks 2010). Spaza shops in South

Africa are owned by both natives and immigrants. The number of immigrant owned spaza shops has increased significantly in South Africa. Immigrant-owned spaza shops tend to be more successful than native-owned (Liedeman et al. 2013). However, both immigrant and native-owned small businesses suffer from a low survival rate (Van Scheers 2010; Organisation of Economic Co-operation and Development 2013). This study focuses on the problems encountered by immigrant spaza shop owners. This study makes a significant contribution to the literature on immigrant entrepreneurship and small business development. Understanding the challenges faced by immigrant spaza shop owners is the first step in formulating policies that can be of assistance in reducing their high failure rate. The findings of this study can also help potential immigrant spaza shop owners to understand the challenges inherent in this type of business. The results can also help government agencies that support small businesses to understand the challenges faced by immigrant spaza shop owners.

### Objective of the Study

Spaza shops form part of the SMME sector and contribute to job creation and economic growth in South Africa. Many spaza shops in South Africa are owned by immigrants. Spaza shops suffer from a low rate of survival. The objective of the study is to establish the problems that are perceived by immigrant spaza shop owners as negatively affecting the performance of their businesses.

## Literature Review

### *Immigrant Entrepreneurship*

Immigrants can be defined as individuals that come from another country to a particular host country (Dalhammar 2004). An immigrant entrepreneur can be described as an individual that starts a business in the host country (Volery 2007). According to Zhang (2010), the theories that relate to immigrant entrepreneurship can be traced to the works of Light (1979), Wilson and Portes (1980), Aldrich et al. (1989) and Waldinger et al. (1990). The disadvantage theory by Light (1979) contends that the primary reason why immigrants become entrepreneurs is because of the disadvantages that they suffer in the host countries. Immigrants face difficulties in entering the labour markets of their host countries. Self-employment is one of the opportunities available to immigrants. The cultural theory by Masurel et al. (2004) claims that immigrants have some culturally specific features. These features include a strong ethnic community, economical living dedication to hard work.

Wilson and Portes's (1980) ethnic enclave theory argues that through ethnic enclaves, customers, labour and resources are acquired. The Middleman minority by Blalock (1967) and Bonacich (1973) maintains that the customers of immigrant entrepreneurs typically come from ethnic or immigrant groups that are segregated from the majority group. The ecological theory by Aldrich et al. (1989) contends that immigrant entrepreneurship is nurtured by changes in the environment of a residential area. The opportunity structure theory by Evans (1989) remarks that linguistically bounded groups of immigrants can form niches that can be tapped by entrepreneurs. Immigrant entrepreneurs can obtain resources and labour from co-ethnics. The interactive model by Waldinger et al. (1990) explains that immigrant entrepreneurship is based on the interaction between the social structure of the immigrant community and the opportunity structure of the host society. Immigrants with limited capital are able to start small businesses because of low entry barriers. Spaza shops owned by immigrant entrepreneurs contribute to job creation and poverty alleviation in South Africa. The performance of immigrant-owned businesses (mainly small businesses) is negatively im-

pacted by many challenges (Organisation for Economic Co-operation and Development 2013).

### Spaza Shops

A spaza shop can be defined as small grocery shop or a convenience store in a township (Van Scheers 2010; Liedeman et al. 2013). The majority of spaza shops are informal businesses that are not registered. Spaza shops primarily sell groceries and everyday small household items. Spaza shops typically operate from a residential stand or a house and largely financed by private savings or loans from relatives and friends and usually sell groceries (Litghelm 2002). Spaza shops grew out of townships in South Africa. The word "spaza" comes from township slang meaning an imitation of a real shop. Many South Africans became owners of spaza shops due to their inability to find work in the formal economy. In South Africa, small-scale entrepreneurship such as spaza shops is fundamentally synonymous with self-employment (Basardien et al. 2014; Rolfe et al. 2014; Cape Town Project Centre 2015). Both natives and immigrants own spaza shops in South Africa. The number of immigrant-owned spaza shops has seen a significant increase in South Africa since 1994. Spaza shops owned by immigrants tend to outperform those owned by natives. Immigrant-owned spaza shops tend to be better stocked and sell goods at cheaper prices. Immigrant spaza shop owners also make better use of social and ethnic networks to obtain goods, capital and labour. The success of immigrant-owned spaza shops has led to xenophobic violence (Liedeman et al. 2013; Plastow 2015). The failure rate of spaza shops including those owned by immigrants is very high. Spaza shops usually have a short lifespan and rarely grow (Van Scheers 2010; Organisation for Economic Cooperation and Development 2013; Khosa and Kalitanyi 2014).

### Challenges Faced by Small Businesses

Van Scheers (2010) points out that the survival rate of small businesses including spaza shops is very low in South Africa. Many factors negatively affect the performance of small businesses. These can be classified into macro and the market related factors. Ehlers and Lazenby (2007) remark that the macro or external environment represents that the variables are largely

uncontrollable by the management of the business. Factors in the external environment that can negatively impact on the performance of spaza shops include crime, corruption, inflation, interest rates, the state of the economy, rapidly changing technology and compliance with legislation (Van Scheers 2010). Spaza shop owners experience problems with little or no knowledge of competitors as they rarely conduct market research on customer needs and competitor action. Marketing factors such as poor location can negatively impact on the performance of spaza shops. Other factors such as inability to access external finance and inability to attract and retain staff can also affect the success of spaza shops (Perks 2010).

Cant and Wiid (2013) find that micro environmental variables such as insufficient management skills and expertise in functional area of management (finance, human resources and marketing) are some of the problems experienced by small businesses. Marketing factors such as wrong pricing strategies, poor location, inability to meet customer needs, inability to conduct market research, low demand for products are some of the issues facing small businesses. Fatoki and Garwe (2010) ascertain that the obstacles to the performance of small businesses can be categorised into financial, economic, markets, management and infrastructure.

Khalique et al. (2011) remark that about fifty percent of small businesses fail within the first five years of commencement of business irrespective of the country. SMEs face many challenges which contribute to their high failure rate. These include lack of managerial capabilities, lack of financing, recession, technology and regulatory burden. Other problems are lack of customer loyalty and lack of knowledge regarding marketing techniques. Christina et al. (2014) find that the majority of small businesses face challenges in the form of financial and marketing issues.

Pratten (2004), Pearce (2005), Pinhold (2008) and Ahmad and Seet (2009) suggest that small businesses fail because of a combination of internal and external factors. Internal factors include lack of management experience and poor staff training and development. External factors include crime and lack of finance. Phaladi and Thwala (2008) find that the major challenges faced by small businesses can be linked to bad customer service and lack of market research.

## RESEARCH METHODOLOGY

The study used the qualitative research technique. The survey was conducted in Mankweng and Polokwane in the Limpopo Province of South Africa. Because of the difficulty of obtaining the population of immigrant-owned spaza shops in the study area, purposive and snowball sampling methods were used. Semi-structured interview method was used for data collection in a survey. The use of semi-structured interviews allows for flexibility on the part of the participant. This gives the participants the opportunities to discuss in depth their experiences (Neumann et al. 2009). The use of the interview method is consistent with similar empirical studies such as Perks (2010) and Basardien et al. (2014). Interviews were conducted with the owners of the spaza shops and recorded. The interviews were conducted at the convenience of the spaza shop owners. Each interview took about one hour. Participation was voluntary and confidentiality was assured. Thematic analysis was used for data analysis.

## RESULTS AND DISCUSSION

Fifty immigrant spaza shop owners participated in the study. Table 1 presents the biographical details of the respondents.

**Table 1: Biographical details of the respondents**

<i>Biographical details</i>	<i>Frequency</i>
<i>Gender</i>	
Male	47
Female	3
<i>Age of the Owner</i>	
Below 20	0
20-30	7
31-40	26
41-50	14
Above 50	3
<i>Qualification of the Owner</i>	
Below Matric or equivalent	15
Matric or equivalent	30
Above Matric	5
<i>Number of Years of Business Operation</i>	
Below one year	4
1-5 years	28
6-10	16
Above 10	2
<i>Number of Employees</i>	
0	17
1-2	29
3-4	4
5	0
Above 5	0

The majority of the participants are male, in the 31-40 age bracket, with matric qualification. Their businesses have existed for between one and five years and have between one and two employees.

**Problems Experienced by Immigrant Spaza Shop Owners**

Table 2 depicts the responses of the participants in respect of the problems encountered by immigrant spaza shop owners. The problems include crime, xenophobia, lack of finance, high competition, high cost of operation, inability to speak the host language and bad business location. The responses of the participants as depicted in Table 2 are explained below.

**Table 2: Interview data analysis of the problems experienced by immigrant spaza shop owners**

<i>Challenges</i>	<i>Frequency</i>
Crime	38
Xenophobia	32
Lack of sufficient finance	36
High competition	32
High cost of operation	31
Inability to speak language	28
Inability to get a good business location	14

**Crime**

The survey shows that crime is one of the most important challenges faced by immigrant spaza shop owners.

*Participant: “Crime is a serious problem for me. My shop has been targeted by criminals twice in the past eighteen months. I lost my stock and replacing the stock proved to be a major problem. I got assistance from other immigrants from my country to restock my shop. I have not being able to make any real profit because of crime”*

The crime rate in South Africa is very high and business crime continues to be on the increase. Business robberies increased by 13.7 percent to 18,615 incidents in South Africa between 2013 and 2014 (South Africa Police Service 2015). Crime negatively affects the performance of the SMME sector (Isaacs and Freidrick 2007). The effect of crime is further accentuated by the low use of business insurance by SMEs in South Africa (Chodokufa and Chiliya 2014).

**Xenophobia**

Xenophobia is another major problem encountered by immigrant spaza shop owners.

*Participant: “The recent xenophobic attack against foreigners negatively affected my business. My shop was looted and it took me time to reopen my shop. I am always afraid that and at times have to close my shop anytime I hear information about xenophobic attacks”*

Tevera (2013) remarks that xenophobic violence has increased in the urban area of South Africa. Chinomona and Maziriri (2015) point out that foreigners live in fear in South Africa and also fear for their businesses. According to Liedeman et al. (2013), immigrant-owned spaza shops tend to be more successful than native owned. There is a strong competition between immigrant and native spaza shop owners. Within the context of a widespread opposition to immigrants conducting business in the townships, immigrant-owned spaza shops have been the subject of co ordinated acts of violence by South Africans. Charman and Piper (2012) note that in the last couple of years, violent attacks against immigrant shopkeepers in informal settlements and urban townships have increased. Many immigrant shopkeepers have been killed. The authors argue that violence against immigrant entrepreneurs should not just be seen within the context of xenophobia but can also be described in the context of criminal activity and economic competition. This can be described as “violent entrepreneurship” and many native South African shopkeepers have also been subjected to crime.

**Lack of Sufficient Finance and High Cost of Operations**

Insufficient finance and high cost of business operation are some of the challenges facing immigrant spaza shop owners.

*Participant: “I need more money to grow my business. I am able to get some credit from other shop owners but this is not enough. I understand that it is difficult to obtain funds from commercial banks although I have never tried”*

*Participant: “I am located in the Central Business District and the rent is very high. This affects my ability to restock my shop”*

Atieno (2009) argues that many small businesses depend on internal finance which is of-

ten inadequate to sustain and grow the business. External financing is needed to expand operations. Access to external finance from commercial banks and trade creditors is often limited for small businesses. Dalizu et al. (2010) point out that one of the challenges faced by spaza shop owners is access to credit. Many spaza owners find it difficult to obtain business loans. South African banks are very cautious in granting credit to micro enterprises. Inability to obtain external finance deters spaza shop owners from investing and expanding their shops. In addition many micro enterprises are not aware of both financial and non-financial government support facilities (financial and non-financial (Fatoki 2014)). Matlala et al. (2014) ascertain that large businesses are able to enjoy economies of scale because of their size. However, small operators such as spaza shops experience difficulty in controlling overheads. Immigrant-owned spaza shop tend to perform better in overhead control because of collective procurement and large distribution networks (Liedeman et al. 2013; Plastow 2015).

#### ***High Competition and Poor Location***

High competition is another problem encountered by immigrant spaza shop owners.

*Participant: "There are so many shops around me that sell identical goods. To get many customers that will make this business profitable is a challenge"*

Perks (2010) find that many spaza shops have insufficient and limited ranges of products and suffer from severe competition and small customer numbers. In addition, the retail space where immigrant spaza shop owners operate is dominated by large retailers. This can negatively impact on the demand for their products. According to Weeks and Benade (2008) and Phillip (2010) the level of centralisation in the South Africa's economy is very high. Oni and Fatoki (2013) find that customer loyalty to small retail stores is negatively affected by the presence of big retail stores. In addition, spaza shop owners are not engaged in market research or marketing in the form of promotion (Chiliya et al. 2009).

#### ***Inability to Speak the Language***

*Participant: "I am unable to speak the local language and my English is not good. This*

*prevents me from communication with my customers as I do not have a local assistant"*

According to Manyi (2010), effective communication with customers is critical to business success. Language skills are of great importance in the business world. Immigrant entrepreneurs face language barrier and this prevents them from communicating effectively with customers. Forman and Larson (2014) find that immigrant entrepreneurs often depend on co-ethnic network because of their inability to speak English and other local languages. Frank et al. (2013) explains that one of the factors that hinder the economic integration of immigrants include the lack of local language proficiency.

### **CONCLUSION**

The small, medium and micro enterprises (SMMEs) sector makes a significant contribution to the socio-economic development of South Africa. Immigrant entrepreneurship can help to drive the socio-economic development of host countries by creating employment. Spaza shops form part of the SMME sector. Many spaza shops in South Africa are owned by immigrants. The failure rate of small and micro enterprises including spaza shops is very high. This study investigated the problems that are perceived by immigrant spaza shop owners as negatively affecting the performance of their businesses. The results indicated that the problems encountered by immigrant spaza shop owners include crime, xenophobia, lack of sufficient finance, high competition, inability to speak the language, high cost of operation and poor location.

### **RECOMMENDATIONS**

The government should broaden its efforts to ensure that a high level of financial literacy for immigrant spaza shop owners. Government agencies such as the Small Enterprise Development Agency should organise training on access to finance for immigrant spaza shop owners. Training and communication on the requirements of banks can help to make immigrant spaza shop owners to become investment ready. Crime and xenophobia against immigrant entrepreneurs should be reduced in South Africa. This can be effected through better policing and improving the effectiveness of the legal system.

### LIMITATIONS AND AREAS FOR FURTHER STUDY

Only fifty immigrant spaza shop owners participated in the study. This is a very small sample in the light of the significant number of immigrant spaza shop owners in South Africa. Therefore, care should be exercised in generalising the findings of the study. Other studies can compare the problems encountered by both native and immigrant spaza shop owners. In addition, the impact of entrepreneur's characteristics (gender, level of education and age) on the problems encountered by immigrant spaza shop owners can be explored.

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