

The Determinants of Immigrant Entrepreneurs' Growth Expectations in South Africa

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ABSTRACT The objective of the study was to investigate empirically the determinants of growth expectations of immigrant entrepreneurs in South Africa. It is of significance to understand the characteristics and attributes of growth-oriented immigrant entrepreneurs in order to further understand the features associated with firm growth. Growth-oriented firms are vital to employment creation. Data was collected through the use of self-administered questionnaire in a survey of one hundred and nineteen new immigrant entrepreneurs. Descriptive statistics and logistic regression were used for data analysis. The results indicated that high education, managerial experience, related experience, motivation and networking are entrepreneur's/founder's attributes that are significant predictors of growth expectations. In addition, the results indicated that innovation and adequate access to finance are firm-level attributes that are significant predictors of growth expectations.

INTRODUCTION

According to Abor and Quartey (2010) small and medium enterprises (SMEs) are of great socio-economic significance. In South Africa, SMEs have been identified by the government as a priority in increasing jobs in order to reduce the high unemployment rate which is currently estimated at 24.7% (Statistics South Africa 2013). In addition, SMEs have an important role to play in reducing wealth inequalities and improving the economic growth of South Africa (Pahad 2008). Adeniran and Johnston (2011) note that despite the highlighted importance of the SME sector, it is estimated that the failure rate of SMEs in South Africa is between 70% and 80%. This implies that most SMEs in South Africa do not grow.

Pendleton et al. (2006) point out that South Africa is a rainbow nation composed of various racial groups from all facets of the earth. Rath and Kloosterman (2000) and Bogan and Darity (2008) note that entrepreneurship can provide immigrants with work and income as immigrants find it difficult to enter into the labour markets. Thus, immigrants can become a significant driving force in the creation of new businesses. Studies such as Dana (2007), Gebre et al. (2011) and Tengeh et al. (2012) find that immigrant entrepreneurship creates opportunities that have important implications for their host countries.

Birch (1979) argues that small firms especially the high growth ones are the primary source

of job creation. Wong et al. (2005) and Karadeniz and Ozcam (2010) find that growth oriented firms contribute more to the economic growth than do small and new firms in general. It is through growth that small firms become large organizations (Davidsson et al. 2010). Growth linked to the creation of employment is a success for society (Bosma et al. 2000). The growth of SMEs is of special importance not only for their wealth and job generation possibilities, but also for their ability to foster innovation (Aidis and Mickiewicz 2004; Pasanen 2006).

Wiklund et al. (2003) point out that despite the fact that small firm growth is the most important source of new jobs, there are also clear indications that many small business managers deliberately refrain from pursuing growth. Janczak and Bares (2010) point out that most companies do not grow for three reasons: they fail to achieve growth, they prioritize business stability over growth and their owners only aspire to a modest income. Osteryoung et al. (1997) agree that growth is not the only objective of SME owners. Wiklund et al. (2003) note that it is important to understand the reasons why some small business managers exhibit growth-related attitudes and behaviour. Encouraging greater numbers of individuals to start high growth businesses is high on the agenda of governments as growth-oriented entrepreneurs are catalysts of employment, innovation and skill (Bosma et al. 2000), (Birdtsistle et al. 2010). Thus, understanding the

factors that impact on the growth intentions of immigrant entrepreneurs in South Africa can have implications for job creation, poverty reduction and economic growth. A review of the literature on immigrant entrepreneurship in South Africa (Kalitanyi and Visser 2010; Tengeh et al. 2012; Radipere 2013) and literature on growth and performance of SMEs in South Africa (Gumede 2000; Sha 2006; Chiliya and Roberts-Lombard 2012) revealed that no study has investigated empirically the determinants of immigrant entrepreneurs' growth expectations in South Africa.

Objective of the Study

The objective of the study is to investigate empirically the determinants of growth expectations of immigrant entrepreneurs in South Africa. It is of significance to understand the characteristics and attributes of growth-oriented immigrant entrepreneurs in order to further understand the features associated with firm growth.

Literature Review

Defining Growth Expectation

Audis and Mickiewicz (2004) point out that growth and growth expectations are one of the ways to determine performance. Growth can be either measured by looking backward at accounting and employment data or by looking forward at the expectations of owners. Growth expectations can be measured by expectation of increase in the number of employees and turnover. Delmar et al. (2003), Karadeniz and Oczam (2010) and Mappigau and Maupa (2012) operationalized firm growth expectation as the willingness of the founder to increase the number of employee and sales in the next five years future. Davidsson et al. (2010) however point out that research on firm growth has focused on the amount of growth and neglected other aspects of growth. Literature on small firm growth is based mainly on quantitative research and defines growth to mean an increase in amount. Growth can also take different forms such as entering into a new, non-overlapping product-market. According to Lavadera (2012), the variety of indicators adopted by empirical studies on firm growth include: asset size, quantity of output, market share, profits, number of employees, and sales. This demonstrates the degree of heterogeneity that characterizes the choice of an ideal

growth rate metric. The most common indicators in the literature appear to be the sales and the number of employees

Theoretical Framework of Firm Growth

O'farrel and Hitchens (1988) suggest four main theories of firm growth: the industrial economics perspective, the stochastic model, the stage models and the strategic management perspective. The industrial economics perspective focuses mainly on the attainment of economics of scale and the minimisation of long-run costs and how this can impact on firm growth. Stochastic models assume that there are too many factors affecting growth and that no specific factors have a dominant effect that can be used to explain growth. Gibrat (1931) developed the law of proportionate effect which assumes that are many factors impacting on growth and there is no special factor that have a dominant effect in explain growth. The lifecycle theory views growth through the prism of a series of phases. Studies such as Griener (1972), Adizes (1979), Churchill (1983), Quinn and Cameron (1983) and Scott and Bruce (1987) identified various phases in the firm's life cycle The strategic management perspective focuses on how the policies, strategies and managerial actions of the owner of the firm can lead to sustained business growth. This is a deterministic approach that focuses on the identification of internal and external variables that can affect firm growth and also by exploring certain characteristics, strategies and practices that can impact on firm growth.

Motivations theories can be used to explain the intention to grow by firms. Wiklund et al. (2003) point out that motivation theories are aimed at explaining why individuals choose to act in a certain direction. According to Karadeniz and Oczam (2010), Ajzen's theory of planned behaviour can be used to explain growth expectations of entrepreneurs. Ajzen's theory of planned behaviour points out that there is a relationship between the intention to grow the business and the actual growth of the business. Thus, one's intention greatly explains the behaviour (Ajzen 1991).

The Determinants of Firm Growth Expectations

According to Barringer et al. (2005), the four most important variables with respect to firm growth are founder characteristics (relevant in-

dustry experience, higher education, entrepreneurial experience, social and professional networks), firm attributes (growth oriented vision and mission, commitment to growth), business practices (creating unique value for customers, product superiority, innovation) and human resources management (selective hiring, performance based incentives). The founders of the rapid-growth firms are better educated, have a more compelling motivation to be an entrepreneur and have a higher incidence of prior industry experience than the founders of the slow-growth firms. Rapid-growth firms have a stronger commitment to growth, are more involved in inter-organizational relationships and utilize a growth-oriented mission statement to a greater extent than the slow-growth firms. In addition, rapid-growth firms add more unique value and have a deeper level of customer knowledge than the slow-growth firms and emphasize training and employee development to a greater extent than their slow-growth counterparts.

Vehuel and Van Mill (2008), Terjesen and Szerb (2008) and Karadeniz and Ozcam (2010) point out that the variables that can determine the growth intention of firms are entrepreneur demographics (gender, age, education), entrepreneur: personal context (opportunity recognition, fear of failure, start-up skills, networking, motivation) and firm level attributes (size, innovation). Janczak and Bares (2010) allude to six drivers of sustained growth. These are innovation, strong ties with the territory, dynamic organisational capabilities, customer focus, human resources practices and vision. Karadeniz and Ozcam (2010) investigate the impact of entrepreneurs' demographics (gender, age, education and income), entrepreneurs' personal context (opportunity recognition, fear of failure, start-up skills, networking and motivation) and firm level attributes (size, innovation and internationalisation) on firm growth expectation. For demographic characteristics, gender and education have significant and positive effects on the growth expectations of entrepreneurs. Growth expectations are higher among entrepreneurs who are male and more educated. In addition, high level of household income positively impacts on growth expectations. High household income levels enhance individuals' financial positions and increase their growth expectations. Zhang et al. (2008) find that entrepreneurial attributes, entrepreneurial strategy, firm re-

source and capabilities and environmental dynamism are the key attributes that differentiate a rapid growth firm from a slow growth firm

Empirical studies such as Smallbone and Welter (2001) and Hisrich and Drnovsek (2002) and Bosma et al. (2004) find that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the growth and performance of SMEs. Education seems to provide the knowledge base and analytical and problem-solving skills to more effectively deal with the demands of entrepreneurship. Audresch (2002), Bager and Schott (2004), Cassar (2006) and Karadeniz and Ozcam (2010) find that male-owned businesses are more likely to grow than female-owned businesses because male-owned businesses are bigger. Female entrepreneurs are generally more risk-averse than their male counterparts. This suggests that gender has a positive impact on growth. Aidis and Mickiewicz (2004) and Verheul and van Mil (2008) however find no differences in the growth aspiration of female and male-owned enterprises.

The age of the owner can also impact of firm growth. Older entrepreneurs seem to make less profit, grow less and to create less employment than younger entrepreneurs (Bosma et al. 2000). Bager and Schott (2004) find that young entrepreneurs expect expansion more frequently than older entrepreneurs. Terjesen and Szerb (2008) find that younger age is positively related innovation and growth expectations. Van Auken (2001) find that both financial and time resources are less difficult to acquire by younger entrepreneurs compared to older entrepreneurs. This suggests that younger entrepreneurs have lower growth expectations compared to older entrepreneurs. Studies by Wiklund et al. (2003), and Cassar (2006) did not find evidence of relationship between the age and the growth expectations.

Access to financial resources can positively impact on firm growth. According to Kraaijenbrink et al. (2010) resources can help a firm gain and sustain competitive advantage. Bollingtoft et al. (2003) point out that the ability of a firm to access resources positively impacts on its growth and performance. According to Oken and Osili (2004) networking can positively impact on firm growth. Shane and Cable (2002) agree that networking can be used to reduce information asymmetry in creditor/debtor rela-

tionships. Ngoc et al. (2009) networking can help a firm learn appropriate behaviour and therefore obtain needed support from key stakeholders and the general public with positive impact on growth. According to Mappigau and Maupa (2012), entrepreneurial orientation especially innovation can positively impact on firm growth. Van Geenhuizen et al. (2008) note that innovation has emerged as a possible antidote to the problems facing businesses that wish to achieve a sustained competitive advantage. Studies such as Callaghan and Venter (2011) and Zampetakis et al. (2011) find that firms that are innovative perform better than firms that are not. Karadeniz and Ozcam (2010) find motivation to be a significant factor that positively impact on growth intentions. Vivarelli (2004) and Block and Sandner (2009) find that the performance of firms started up by individuals based on a convinced choice (that is, positive entrepreneurial thinking) is higher than for start-ups driven by a defensive reason (that is, escape from unemployment). The earnings of opportunity entrepreneurs are higher than those of necessity entrepreneurs. Wong et al. (2005) however did not find a significant relationship between opportunity and necessity entrepreneurship and economic performance. This study focuses on entrepreneurs'/founders' attributes (age of the owner, work experience, high education, business skills, motivation, networking, the age of the owner and gender) and firm-level attributes (innovation and adequate access to financial resources) and their impact on growth expectations of immigrant entrepreneurs. The conceptual model for the study is presented in Figure 1.

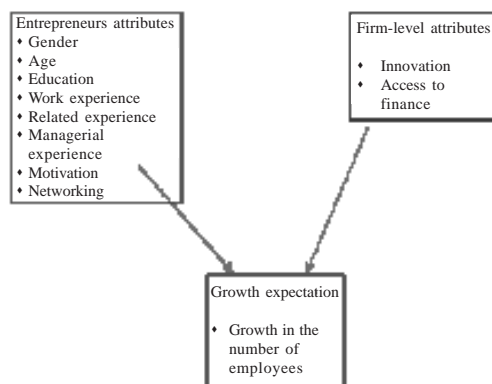


Fig.1. The conceptual model

METHODOLOGY

The survey was conducted in the Johannesburg Central Business District in Gauteng province, South Africa. The empirical approach consists of data collection through the use of self-administered questionnaire in a survey. Because of the difficulty of obtaining the population of immigrant-owned businesses in the study area, convenience sampling and the snowball sampling methods were used. According to Cooper and Schindler (2003), convenience sampling is a non-probability sampling technique where subjects are selected because of their convenient accessibility and proximity to the researcher. Snowball sampling method is a non-probability sampling technique where existing study subjects recruit future subjects from among their acquaintances. The questionnaires were given to the owners of the business to complete. The questionnaire was divided into three parts (1) entrepreneur's attributes information (2) firm-level attributes and (3) growth expectations. A pilot study was conducted on the survey instrument used in this research with twenty immigrant entrepreneurs in order to ensure face and content validity. The pilot study led to some modifications to the questionnaire. Owners were assured of confidentiality with regard to the data collected. Data analysis included descriptive statistics and logistic regression. The study focused on early stage immigrant entrepreneurs (in business for less than 42 months). According to Maas and Herrington (2006), a new business can be described as a business that has been in existence for less than forty two months. Once a firm has successfully existed for more than 42 months, it becomes an established firm.

Measuring growth expectation: Following similar studies by Aidis and Mickiewicz (2004), Karadeniz and Ozcam (2010) and Mappigau and Maupa (2012), growth expectation was measured by willingness to increase the number of employees in the next five years. "do you think that your business will: (1) increase the number of employees (2) reduce the number of employees (3) stay with the present level of employees. (4) Do not know" The study used increase in the level of employees to measure growth expectation because one of the major challenges facing South Africa is how to reduce the high unemployment rate which is currently estimated at 24.7% (Statistics South Africa 2013). Accord-

ing to Bosma et al. (2000), employment generated by entrepreneurs can be regarded as success for society.

Measuring the determinants of growth expectations: Entrepreneurs' attributes: gender (male/female), age of the owner (below 20/ 21-30/ 31-40/ 41-50/ above 50) Education (pre matric, matric, post matric), work experience (worked before starting the business, (yes/no)) related experience (worked in similar sector before starting business, yes/no), managerial experience (managed a business before, yes/no), networking (how often do you have contact with other entrepreneurs, often/sometimes/ never), motivation (opportunity/necessity). Firm-level attributes: innovation (my firm has introduced new lines of products and services (yes/no), access to financial resources (my firm has adequate access to financial resources yes/no), sector (retail/service).

RESULTS AND DISCUSSION

Out of 288 questionnaires distributed, 119 were returned after repeated visits. This gives a response rate of 41%.

Table 1 depicts the entrepreneurial and firm characteristics of the respondents. For the status of the business, most of the respondents are sole proprietorship. Males dominate and most of the respondents have post Matric qualification and are in the retail (trading) sector. Most of the respondents employ on the average between two and three employees. In addition, most of the respondents have work and related experience before starting their business. Most of the respondents do not have adequate access to financial resources, do not innovate and are necessity entrepreneurs.

Table 2 shows that 62% of the respondents are of the opinion that they will be able to increase the number of employees in the next five years. This indicates a positive growth expectation. However 32% indicate that they expect a decrease in employment and the current level of employment to stay. This implies that approximately 1 out of 3 immigrant entrepreneurs do not have growth expectations.

Entrepreneurs' Attributes

The results as depicted by Table 3 indicate that high education, managerial experience, re-

Table 1: Descriptive statistics for entrepreneurs' and firm-level attributes

<i>Variable</i>	<i>Frequency</i>
<i>Entrepreneurs' Attributes</i>	
<i>Gender</i>	
Male	88
Female	31
<i>Education</i>	
Below Matric	1
Matric or equivalent	32
Post Matric	86
<i>Managerial Experience (Managed a Business Before Start-up)</i>	
Yes	21
No	98
<i>Work Experience (Before Start-up)</i>	
Yes	96
No	23
<i>Related Experience (Before Start-up)</i>	
Yes	78
No	41
<i>Age of the Owner</i>	
Below 20	0
21-30	37
31-40	58
41-50	23
Above 50	1
<i>Motivation</i>	
Opportunity	37
Necessity	82
<i>Networking (How Often Do You Have Contact With Other Entrepreneurs)</i>	
Often	81
Sometimes	36
Never	2
<i>Firm-level Attributes</i>	
<i>Sector</i>	
Retail	72
Service	47
<i>Innovation</i>	
Yes	46
No	73
<i>Adequate Access to Financial Resources</i>	
Yes	32
No	87
<i>No. of Employees</i>	
No employee	3
1 employee	18
2 employees	45
3 employees	29
4 employees	23
More than four but less than 10	1

Table 2: growth expectations

<i>Employment</i>	<i>No. of respondents</i>	<i>%</i>
Increase employment	74	62
Decrease employment	19	16
Stay the same	18	16
Do not know	8	6
Total	119	100

Table 3: Logistic regression for the determinants of growth expectations

<i>Variable</i>	<i>Parameter estimate</i>	<i>Standard error</i>	<i>P value</i>
<i>Entrepreneurs' Characteristics</i>			
Gender	-0.326	0.131	
Age	0.416	0.129	
High education	0.538	0.269	*
Managerial experience	0.217	0.132	**
Work experience	-0.601	0.283	
Related experience	-0.765	0.303	**
Motivation	0.418	0.109	***
Networking	0.388	0.207	***
<i>Firm-level Attributes</i>			
Innovation	0.293	0.427	**
Adequate access to finance resources	0.601	0.388	*

* Significant at 1% level, ** Significant at 5% level, *** significant at 10% level

lated experience, motivation and networking are significant predictors of immigrant entrepreneurs' growth expectations. Barringer et al. (2005) and Van der Sluis et al. (2006) point out that education serves as a proxy for entrepreneurial skills and abilities. Lyles et al. (2004) find that relevant industry experience at start-up positively impacts on firm performance as measured by the growth rate of employees. Vivarelli (2004) and Block and Sandner (2009) find that the earnings of opportunity entrepreneurs are higher than those of necessity entrepreneurs.

Firm-level Attributes

The results indicate that innovation and adequate access to financial resources are significant predictors of growth intention. According to Bollingtoft et al. (2003) to establish and sustain a small firm, the entrepreneur needs to have access to financial capital. The results are consistent with the findings of Oke (2007) and Janczak and Bares (2010) that innovation positively impacts on firm growth and performance.

CONCLUSION

The study investigates the determinants of growth expectations of immigrant entrepreneurs in South Africa. Immigrant entrepreneurship creates opportunities that have important implica-

tions for the South African economy. Immigrant entrepreneurs have emerged as key engines of growth in their host countries. Growth-oriented immigrant entrepreneurs create jobs and are one of the ways to reduce the high unemployment in South Africa. The results indicate that high education, managerial experience, related experience, motivation and networking are significant predictors of immigrant entrepreneurs' growth expectations. For firm-level attributes, the results indicate that innovation and access to adequate financial resources are significant predictors of immigrant entrepreneurs' growth expectations.

RECOMMENDATIONS

Immigrant entrepreneurs have to take greater responsibility for their own learning. Therefore, they need to create a positive attitude towards entrepreneurship, education and training. Training and coaching by government organisations such as the Small Enterprise Development Agency (SEDA) should be extended to immigrant entrepreneurs. The promotion of immigrant entrepreneurship should be part of the strategic plan by government to promote entrepreneurship and economic growth in South Africa. Since not all immigrant entrepreneurs have growth expectations, selective support measures by government directed towards growth oriented immigrant entrepreneurs. This includes improving access to finance by growth-oriented immigrant entrepreneurs. Immigrant Entrepreneurs also need to acquire business and financial management skills if they want to grow their businesses. Commercial banks need to recognise growth oriented immigrant entrepreneurs as a distinct market opportunity and seeks to understand their particular needs.

LIMITATIONS AND AREAS FOR FURTHER STUDIES

This study used only the increase in the number of employees to measure growth expectation. Further studies can use increase in turnover or a combination of employment and turnover to measure growth expectation. In addition, further studies can investigate if there are significant differences in the determinants of growth expectations between local-owned and immigrant-owned businesses.

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