

ENTREPRENEURIAL ORIENTATION OF SPAZA SHOP ENTREPRENEURS EVIDENCE FROM A STUDY OF SOUTH AFRICAN AND SOMALI OWNED SPAZA SHOP ENTREPRENEURS IN KHAYELITSHA

Dr. Fawzy Basardien

Senior Researcher, University of Cape Town, Graduate School of Business, Waterfront Campus, Cape Town

Prof Hamieda Parker

Senior Lecturer, University of Cape Town, Graduate School of Business, Waterfront Campus, Cape Town

Prof. Mohamed Saheed Bayat

Director, Management College of Southern Africa, And Adjunct Professor-University of Fort Hare

Prof. Chris Friedrich

Visiting Professor, University of the Western Cape

Sulaiman Appoles

Director, Silver Solutions Research Consulting

ABSTRACT

Almost twenty years after democracy we find growing economic activity in the informal sector. The spaza market in Khayelitsha¹ can be seen as an example of entrepreneurial activity offering an entry point to many that are excluded from mainstream economic activities. This study included 352 participants and is comprised of South African (locals) and Somali (foreigners) owned spaza shop entrepreneurs operating in Khayelitsha. In recent years foreigners have become a dominant force in this market often resulting in the closure of many local businesses. This has often given rise to xenophobic violence resulting in deaths of innocent persons. We focus on the role of culture on business practices and entrepreneurial orientation on business performance. Entrepreneurial orientation is used as a psychological concept to reflect on the level of entrepreneurial potential within the informal sector. Business practices include rudimentary financial management practices that provide a measure of financial stability of the business.

Keywords: Informal sector, Spaza shops, Foreign owned spaza shop entrepreneur, Local owned spaza shop entrepreneur, Entrepreneurial orientation, Business practices, Success.

INTRODUCTION

South Africa like most developing economies has a booming informal sector. Small-scale, home-based grocery stores have provided everyday grocery necessities that customers would otherwise have had to purchase from distant supermarkets. These businesses are known as spaza shops and are ubiquitous throughout the township environment. This sector has been changing over time as new developments and demands affect the South African economy. With the pressures on job creation and the inward migration of people within and from beyond the borders of South Africa,

¹ Before 1994, South Africa suffered a period of oppression through apartheid policies that created a dual economic system that was characterised by severe marginalisation, particularly amongst black people. The areas made available to black people by the apartheid governments resulted in the creation of townships with limited economic opportunities. The emergence of informal business activities such as spaza shops emerged as a result.

the informal sector and in particular, spaza shops have become bigger and far more competitive. Some of the changes seem to indicate that many operators are originating from foreign countries, most notably from Somalia and with superior business strategies have outperformed the locals. Not only has it been pointed out that spaza shops have contributed to a reduction in unemployment and poverty but that Somali-owned (hereafter referred to as foreigners) are a rising dominant force in the spaza market (Charman, Petersen & Piper, 2011). This paper utilised evidence obtained from a study of Somali and South African spaza shop entrepreneurs to draw lessons for sustainable entrepreneurial strategies in this sector.

THE INFORMAL SECTOR IN SOUTH AFRICA

Informal trading is also known as the informal economy or the hidden economy. It relates to unregistered economic activities which contribute to the officially calculated or observed Gross Domestic Product (GDP). This entails all economic activities which normally would be taxable if reported to the tax authorities of a country, (Schneider, 2002). The concept of informal trading also refers to workers and enterprises that are unregistered and unincorporated (Stats SA, 2010).

The informal trading sector in South Africa encompasses a wide range of vending, productive service and trade activities in rural and urban areas, the inner city, peri-urban and suburban communities as well as the informal settlements (Peberdy, 2000). The informal sector, while common and conspicuous, is the least understood sector of the economy in South Africa (Hadebe, 2010). There is very limited information available from empirical research or from statutory bodies on the nature, form and related informal activities. A number of initiatives towards the recognition and advancement of this sector are yet to yield tangible results. Jurgens and Donaldson (2012) scanned literature on townships and found over 400 articles that mostly focused on housing, health and related issues. Very few articles discuss business related issues and in particular, entrepreneurial strategies in the informal sector.

Nearly every corner of the informal settlement area and in townships, a multitude of businesses operate. In one street in the Khayelisha area, which was considered in this study, 42 informal businesses were identified within a distance of 2km. It is within this environment that competition amongst entrepreneurs have become extremely hostile and driven by aggressive pricing strategies (UNDP, 2007).

Schneider (2002) estimated that the South African informal sector in 2000 was valued at R348, 3 billion contributing 28.4% of the GDP of the country. While the number of those who participate in the informal sector is still unknown De Vletter (1996) estimated that 16% of South Africa's economically active population was engaged in the informal sector. It is argued that more than 50% of economic activity of the proletariat in the South African informal economy involves trade (Ligthelm, 2008). There is a considerable demand for goods and services within poor communities, especially in the absence of formal enterprises and shopping malls.

Rolfe, Woodward, Ligthelm and Guimraes (2010) indicate that the growth of the informal sector was 8 times the growth of the formal sector in South Africa. Despite such growth, Muller and Posel (2004) report that, while, there is an extensive body of empirical work examining the state of the South African formal sector, empirical research that comprehensively examines the size and nature of the informal sector in South Africa has been limited, due to the lack of research. This has resulted in a blanket of mystery engulfing the informal sector considering that it is regarded as a multi-billion rand industry. This view is supported by Jurgens and Donaldson (2012) who argue that there is very limited research in the townships and informal settlements to address township-specific issues.

The informal settlements in South Africa grew during the economic booms of the 1970s. In the 1980s, the apartheid government introduced land rights for black people and rescinded the pass law leading to an influx of people mainly from rural to urban centers, (Barry, 1999; Barry and Ruther, 2005; Posel, 2003). Over the past 20 years South Africa has experienced significant changes politically, socially and economically. One causal factor was the lifting of state-based constraints on urban residence, entrepreneurship and immigration (Callaghan & Venter, 2011). Many of such immigrants have turned toward the informal sector for a livelihood and an opportunity for prosperity.

Informal sector activity is pervasive in informal settlements as a result of the high levels of unemployment in South Africa. This is especially prevalent in townships and informal settlements where unemployment in some areas is estimated to be in excess of 50%, (Nel, 2005). The situation has been aggravated by the influx of immigrants from the rural areas through rural-urban migration and of foreigners who come in as political and economic refugees. Despite the challenges associated with poverty and unemployment affecting the townships and the informal settlements, there is a reasonable amount of demand for some basic commodities to sustain the livelihood of people living in these areas.

The situation has been compounded by high net immigration levels by both local and foreign nationals (Mararaj, 2009). Internal migration has been enhanced by a number of factors. Amongst these is the lifting of formal restrictions on African urbanization within South Africa in the late 1980s, (Posel, 2003). As noted by Richards and Mutsonziwa (2007) and Gibb and Nel, (2007) South African cities continue to attract thousands of new residents every year in search of work and better life. Notably, the pattern has shifted from the past where men used to migrate to include families and women migrating to cities, (Davies and Head, 1995; Peberdy, 1997; Posel, 2003).

A number of foreign nationalities such as Pakistanis, Chinese, Zimbabwean and Somalis are now evidently participating in the informal sector of the South African economy. These changes can be attributed to the influx of both legal and illegal immigrants from the region and even beyond into South Africa, (Muharaj, 2009; CRAI, 2009). As foreigners participate in the informal economy, noticeable changes and differences have been observed. This study sought to add to the growing body of knowledge of entrepreneurial dynamics in the informal sector in South Africa by examining the cultural differences between the practices associated with South African and Somali Spaza shop entrepreneurs in the Cape Metropolitan Area (CMA).

The Cape Metropolitan Area (CMA) is an area that is home to more than 3,7 million people comprising of 1,060,964 households (City of Cape Town, 2011). According to the 2008/2009 Water Service Department Plan of the City of Cape Town, approximately 30% of households (almost a million people) live in inadequate housing and depressed physical environment. Anywhere between 270 000 and 400 000 households live in informal settlements. The City estimates that the number of people living in informal settlements grows at an average of 48 000 people/7700 households per year or 130 people day. The Informal Settlement Sanitation Master Plan estimates that there are approximately 230 informal settlements in the CMA. Population density figures in the informal settlement averages 140 dwellings per hectare (Goldberg et al, 2009: 48).

In the CMA, most local immigrants are from the Eastern and Northern Cape provinces, (Gibb and Nel, 2007). With the developments in the transport system and the end of the apartheid era, local immigrants from other provinces of South Africa have moved into the CMA and into townships and informal settlements. Those in the urban areas usually keep strong ties with those in rural areas of South Africa. In many instances, due to the harsh economic environment in rural South Africa, those in rural areas move to the cities and join their family and friends in the townships and in

informal settlements in search for better opportunities. In fact, population figures indicate that the population of those in townships and informal settlements are on an above average increase compared to those in the other areas within the same urban areas, (Gibb and Nel, 2007; Statistics SA, 2010).

The CMA has also attracted immigrants from beyond the borders of South Africa. Mostly they come from neighbouring countries but of late they come from far afield as the East, West and the northern parts of Africa or even beyond the continent, (Maharaj, 2009). There are no definitive estimates of the number of foreigners in the CMA. This is because of the existence of legal and illegal immigrants. Only the legal foreigners, refugees and those with various permits are documented. Foreigners who immigrate to South Africa bring with them skills from their home countries. While a number are able to secure employment, a significant number fail to do so and end up in the informal sector of the economy in South Africa. They use their skills in formal circular employment or as a means of survival through informal trading. To date no study has been able to quantify the number of foreigners in the informal sector of South Africa.

This study focused on one group of immigrants from Somalia. Somalia is an Eastern African country that has faced political instability that perpetuated outward migration of the Somalis people to other countries as political and economic refugees. The Somalis have a rich history of trading practices that date back to ancient times (Abdullah, 2001; Lewis, 2008). In the past, the Somali government pursued a communist philosophy. This philosophy enhanced a culture of working together as communities were expected to share what they produced. This historical legacy has permeated into the modern world as evidenced by the country wide trading activities by individual Somalis.

With the collapse of the Somali government, the economic well-being of the Somali people has been driven by individuals who took initiatives to provide goods and services to other people within their country. As Somali people migrate to other countries they usually maintain their home country religion and culture. This is apparent in their spirit of working together and adopting a culture of collectivism. Generally most of the Somali people fall under the Muslim faith. This study confirms that the philosophy of collectivism exists strongly within Somali cultures in the CMA. They generally help each other to survive the new environment they find themselves in. As observed by Maharaj and Moodley (2000), the brotherhood tendency exhibited by the Somali people in the CMA is typical of the munificence attitude generally extended to one another by foreigners.

THE SPAZA SHOP INDUSTRY IN SOUTH AFRICA

More recently, it has been estimated that spaza shops account for 2.7% of retail trade, equating to R8 billion in value (Spaza News, 2011). Thus the South African government, academics and other stakeholders are all interested in gaining an understanding the nature of this this multi-billion rand sector. Some of these reasons point to the potential of the industry towards job creation and its ability to provide a livelihood for poor people (Morris et al, 1997 and Mulugeta, 2008). However, other studies suggest that entrepreneurial behaviour of spaza shop entrepreneurs is to a large extent, an embedded phenomenon which warrants further research (Callaghan & Venter, 2011).

Of particular interest is the motivation of entrepreneurs operating in this industry. It has been pointed out that the state of motivation of entrepreneurs is important in understanding whether entrepreneurship is determined through necessity or opportunity as this has an impact on sustainable economic growth (Simrie, Herrington, Kew & Turton, 2011). Most entrepreneurs in the informal sector is generally assumed to be guided by personal survival and necessity-based entrepreneurship, as opposed to return on investment, (Callaghan & Venter, 2011). Although some entrepreneurs are motivated through opportunities, most provide a subsistence existence. In

general, returns tend to be low and intermittent, stability and security are minimal, working hours are long and the working conditions are very challenging. Furthermore, informal businesses are generally associated with very low innovative capabilities and competencies in saturated markets often resulting in stagnation and low growth (Basardien, 2009).

With relatively low barriers to entry and the influx of many persons seeking a way to survive, the spaza shop market has become very popular. A spaza shop can be seen in virtually all townships and informal settlements in South Africa, (Hadebe, 2010). The Department of Trade and Industry (2007) reported that about 1.69 million people between the ages of 15 and 65 were involved in informal business trading. Although these statistics do not differentiate between locals and foreigners, it has pointed out that foreign-owned spaza shop owners have been steadily outmanoeuvring survivalist operators who make up the majority of all enterprises (Charman et al, 2011).

Based on observations of more than 352 spaza shops, this study conceptualizes a spaza shop as a business activity that specialises in selling a limited variety of grocery products. Spaza shops are generally not registered and operate in backyards or from the front part of a residential property. Most spaza shops are housed in corrugated iron sheet structures, decommissioned containers or in some brick structure that is annexed to the main residential property. Where decommissioned containers are used, the window opening is usually set on the longer side of the container but in some circumstances it can be seen from the door side of the container with a counter separating the customer and the shop attendant in-between.

Depending on their size, spaza shops are usually managed by 1 to 3 persons. Goods on offer are usually kept inside the spaza shop except for some potentially hazardous products such as paraffin that are kept outside the shop. Customers are generally served through a small window like opening with the shop attendant being stationed inside the spaza shop. Those who buy from spaza shops are able to see products they may wish to purchase through the opening that is used to serve customers. In some instances, spaza shops have a wire gauze screen that allows customers to see products inside the shop. While generally one could say customers do not enter spaza shops, the Somalis have revolutionized this by introducing walking in spaza shops. These can be defined as “modern” spaza shops that have self-service and walk in facilities replicating the models used by supermarket chain stores. They are well secured with a wider range and variety of products. Walk-in-self-service spaza shops are now emerging as common practice within the industry. Products are well arranged and the spaza shop looks like a miniature supermarket.

In the past, governmental policies aimed at creating an enabling framework for more locals to start and own spaza shops. However, in recent years other nationalities such as the Somalis, Pakistani and Chinese now own and operate spaza shops, a phenomenon more commonly attributed to globalisation. With superior business strategies displayed by foreigners, significant market share of locals were lost. This subsequently resulted in a series of violent attacks against foreigners, particularly the Somali owned spaza shops. To date more than 50 Somali nationals have been killed as a result (Charman & Piper, 2011). This study was commissioned by the local municipality in an attempt to investigate xenophobic violence that was taking place at the time. The findings from the study highlight superior business strategies such as bulk discount practices and aggressive pricing as key factors that have resulted in Somali owners to become a rising force in this industry (Basardien, 2009).

In general, in South Africa, spaza shops are unregulated and are not formally recognized as the business institution that can apply for financial assistance. The spaza shop market typically represents a value chain where low income consumers procure basic grocery commodities through spaza shops retailers that are supported by wholesalers, distributors and other suppliers of goods

and services. Within this context the spaza shop market is an integral part of the wholesaler’s target market. In addition, spaza shops play a significant role in the livelihood of many consumers in the townships and informal settlements and for visitors visiting the townships or informal settlements.

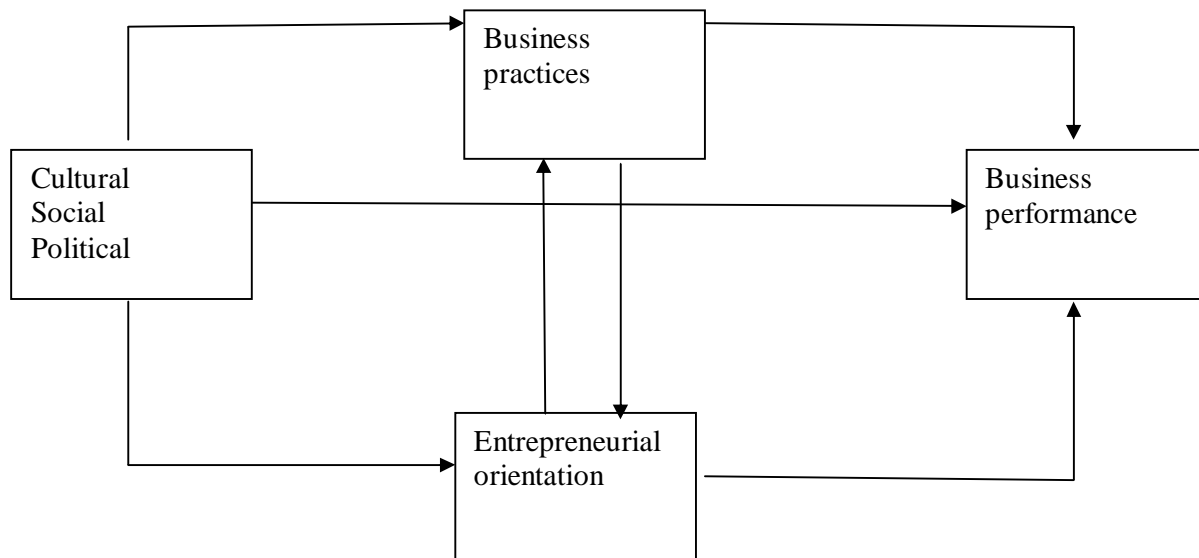
ETHNIC MINORITY ENTREPRENEURSHIP

To what extent does the prevailing body of knowledge from minority entrepreneurship apply to successful creation of new ventures? There is a growing emphasis on the importance of entrepreneurship and processes involved in the exploitation of innovative opportunities (Hindle, 2010; Welter, 2011). Studies have indicated that start-up businesses are highly dependent on the constraints in which entrepreneurs live and work (Schoon & Romanelli, 2001). These developments in entrepreneurship research have opened new research areas to explore socio-spatial dimensions of entrepreneurship (Katz & Steyaert, 2004). This has also emphasised that not all start-ups are created within “westernised” contexts that are often assumed in traditional research. Some studies have attempted to introduce ontological perspectives that are contemporary (Foley, 2008, 2010; Pascal & Stewart, 2008), but the majority have focused on anthropological research. In particular, there are very few studies focusing on the emerging sub field of entrepreneurship. It is argued that there may very well be convergence of indigenous entrepreneurship and minority entrepreneurship which may lead to a better understanding of certain phenomena (Rigby, Mueller & Baker, 2011; Tapsell & Woods, 2010).

We have therefore put forward the Entrepreneurial Performance Model as a general framework of success to offer more plausible explanations of the entrepreneurial process in the spaza shop sector. A burning question in this area we believe to be:”To what extent does the body of knowledge from the study of minority entrepreneurs such as Somali spaza shop entrepreneurs apply to the successful creation of new ventures in an indigenous context?”

METHODOLOGY

Figure 1: Entrepreneurial Performance Model



RESEARCH QUESTIONS

1. What aspects of financial management administration, if any, are deficient in the spaza shop industry?
2. What are the primary differences in business practices between foreign and local entrepreneurs in the spaza market?
3. What impact do these deficiencies have on the business performance?
4. What effect does culture have on entrepreneurial orientation?
5. What contribution does entrepreneurial orientation have on business performance?

RESEARCH APPROACH

In the greater Cape Metropolitan Area (CMA), a significant amount of informal trading occurs in various economic sectors. Evidently, locals and foreigners participate in this sector of the economy. One particular area where the informal trading occurs significantly is in the spaza shop market in Khayelitsha. The highest number of concentration of spaza shops is in the Khayelisha area of the CMA. This area is also surrounded by a number of informal settlements.

This study was exploratory and entailed a qualitative and a quantitative component. The primary data collection method was a survey while secondary data was obtained through focus group sessions and document reviews. This study has a cross-sectional design which we acknowledge as a limitation in terms of determining causality. Cross sectional studies are carried out once and represent a snapshot of one point in time. Longitudinal studies are carried out over an extended period of time and the main advantage of this approach is that it is possible to track changes over time. In this way it is possible to obtain a stronger indication in terms of the relationship between variables that are being measured. The disadvantage of longitudinal research designs is that it impacts on the cost and time allocated to a study. Initially, a targeted sample of 1000 spaza shops was envisaged for the study. Other stakeholders such as City authorities and the police were interviewed using unstructured interviews. The focus of the unstructured interviews was to provide insight into the role of regulatory authorities in this industry.

Using interviews based on a structured questionnaire with both open and closed questions, the study investigated entrepreneurial orientation, business practices and business success amongst respondents from two groups of Spaza shop entrepreneurs.

A total of 352 respondents from both groups participated in the study. Basic descriptive statistical analysis was used to analyse the data from the sample that responded. The study observed more than 400 Spaza shops and was allowed to take 86 photographs by owners around the Khayelisha area. This technique was used to facilitate the conceptualization of what a spaza shop is and how entrepreneurs are adapting to the changing environment. The study also used a focus group session with both locals and foreign spaza shop owners to enrich the findings from the survey and observations. Major themes were identified and linked to the findings of the observations and the survey. The mixed method approach facilitated a deeper understanding of the nature of the spaza shop industry and how it can be sustained in South Africa. The use of the mixed method allowed the research to use crystallisation as a method of validating the data collected.

The research targeted small, convenience stores located in Khayelitsha. All spaza shops selected for this research were those that fell outside the formal registered, taxed, licensed, statistically

documented and appropriately zoned business districts. The local and foreign owned spaza shop owners included in the research excluded shebeens and retail outlets in shopping malls.

INTERVIEW PROCEDURES

Structured interviews were employed, both in the sense of a structured script for the interview and with a structured analysis scheme to code the answers. The study also utilized the services of a Somali and Xhosa speaking students to assist with the interviewing process, particularly putting the respondents at ease and translating some questions in circumstances where language was a barrier. The Somali people speak Somali and Arabic languages and a few of them speak English very well.

The interviews were done in English and in Arabic. The interviewers wrote down the answers as verbatim as possible in detailed notes. Immediately following the interview, the interviewer did an interviewer evaluation questionnaire which assessed the interviewers' impressions. We also examined the timing of the interview procedure as well as practical experience relating to data capturing and data cleaning procedures with SPSS. The instrument was based on studies conducted by Frese (2000), Krause (2003), Solomon (2004) and Basardien (2012). The instrument was initially designed in Germany by Frese et al (2007) but was adapted to the conditions in Southern Africa. The instrument was used in studies that examined the impact of action strategies on success in Southern Africa. The overall reliability coefficient, Cronbach Alpha of the instrument was $\alpha = 0.92$ for Southern African conditions. The instrument (questionnaire) is attached in the annexure.

SAMPLE DESCRIPTIONS

Initially we targeted a sample of 1000 respondents, however, numerous challenges allowed the research team to obtain 352 for the final sample. We believe that this sample is representative of the total population as it has been previously indicated that the number of spaza shop operators in the greater Cape Town area are more than 14500. The sample was chosen from 8 areas within Khayelitsha and is described below. The reason for choosing these areas was based on the advice from the City of Cape Town who suggested that these areas were potential "hotspots" for violence against foreigners. Against this background it was assumed that these areas were also densely populated with spaza shop operators.

Table 1: Sample selection

Location	Estimated population sample	Targeted sample	Actual sample	Local Spaza	Foreign Spaza
Site B	550	50	35	20	15
Site C	550	50	35	22	13
Harare	850	200	50	32	18
Peace Park	800	200	60	35	25
Ntloveni	800	200	60	32	28
Kuyasa	650	100	30	17	13
Nkanini	600	100	30	18	12
Macassar	600	100	52	38	14
	5400	1000	352	214	138

Table 2: Characteristics of respondents

	Local spaza shop entrepreneurs Mean	Foreign spaza shop entrepreneurs Mean
Age of business owner	46	35
Employees	2	3
Start up capital	R 456	R 15434
Age of business	4 years	2.5 years

Table 2 represents a comparison between foreign and local spaza shop entrepreneurs in terms of age of owner, number of employees, start-up capital and age of the business. Evidently foreign spaza shop owners are not only employing much more start-up capital but have greater access to capital compared to their counterparts when starting up a spaza shop. In Charman et al's (2011) study it was found that a new start-up costs around R30000 – R40000 to foreigners compared to the average local who starts a business for under R5000. While in our study it was not possible to obtain accurate financial figures, Charman et al (2011) reported that efficiently operated foreigners were capable of earning between R15000 and R20000 per month in profits. On this basis it stands to reason that foreigners are able to employ more persons and more so over the long term.

Table 3: Gender

	Local spazas		Foreign spazas	
	Number of spazas		Number of spazas	
	214	61%	138	39%
	Gender		Gender	
Male	124	58%	82	59%
Female	90	42%	56	41%

Table 3 denotes the distribution of gender of local owned versus foreign owned spaza shops in the sample. Notably a significant proportion of the operators were women, a point of consideration for future interventions and the acknowledgement of development of women entrepreneurs.

BUSINESS PRACTICES

Table 4: T-test results (Business Practices)

	Levene's test for equality of variances		T	Sig (2-tailed)	Mean difference	Std error difference	95% confidence interval of the difference	
	F	Sig					Lower	Upper
Cashbook	18.70	.000	-11.22	.000	-.53	.05	-.62	-.43
Records	47.90	.000	-15.30	.000	-.65	.04	-.73	-.57
Inventory	19.57	.000	-10.28	.000	-.49	.05	-.59	-.40

Use of financial information	2.49	.000	-8.92	.000	-.44	.05	-.54	-.34
------------------------------	------	------	-------	------	------	-----	------	------

Business practices consisted of four components, namely, record-keeping, maintaining a cash book, inventory management and appropriate use of financial information. We found significant differences in all four areas within business practices.

Record keeping is a vital function of any business. In depth interviews indicated some entrepreneurs kept records, some kept no records and others ranked in between the two extremes. Record keeping is a vital aspect of basic financial management administration. Through this function the entrepreneur is able to track sales and profits. The majority of respondents, particularly amongst the locals did not maintain this practice. Similar findings suggest that the locals in Monwabisi Park (a township close to Khayelitsha) also fail to maintain this practice (Chebelyon-Dalizu, Garbowitz, Hause & Thomas, 2010).

Cashbooks are important for financial planning. It records all financial transactions, inward and outward, via cash, cheque or payments made to the business. Keeping track of financial transactions facilitates a culture of monitoring cash flow efficiently and effectively. A significant percentage of customers are purchasing on credit from spaza shop entrepreneurs emphasising the increased need to keep track of financial transactions. In depth interviews suggest that the majority of locals do not maintain a cash book and struggle to maintain control of cash flow. Further challenges include the lack of knowledge regarding the number of customers owing monies and the period for how long it is outstanding.

Inventory management is another vital component of basic financial management administration. This function allows the entrepreneur to keep track of exactly how much inventory is needed at any given time. This can impact positively on the cash position of the business as it prevents entrepreneurs from having cash tied up in superfluous stock. Records of inventory also allow the entrepreneur to have a tighter control over theft and loss of stock. This is of particular importance to locals since many do not have their own transport and often have to rely on others to operate the shop whilst they are away purchasing stock.

Usage of financial data is a secondary function of financial management practice. Whilst the maintenance of the above-mentioned documentation is not an end in itself, it allows the entrepreneur to collate a range of information in order to make important decisions. For example, the majority of locals fail to maintain any of the afore-mentioned practices and are not able to project forecasts for the next 12 months. In fact they are not in a position to monitor performance effectively and efficiently in order to make timeous decisions.

ENTREPRENEURIAL ORIENTATION

Table 5: T-test results (Entrepreneurial orientation)

	Levene's test for equality of variances						
				Mean	Std error	95% confidence interval of the	

	F	Sig	T	Sig (2-tailed)	difference	difference	difference	
							Lower	Upper
Achievement	1.30	.05	-18.36	.000	-1.92	.10	-2.12	-1.71
Innovation	1.95	.06	-13.42	.000	-1.48	.11	-1.70	-1.26
Personal Initiative	0.28	.05	-6.53	.000	-.87	.13	-1.13	-0.60
Autonomy	17.51	.00	-7.89	.000	-1.01	.13	-1.26	-.76

Lumpkin and Dess (1996) noted that entrepreneurial orientation represents specific key entrepreneurial processes in terms of how new ventures are created. These include four aspects noted by Miller (1983) namely innovativeness, risk taking, proactiveness and competitive aggressiveness. Many researchers have identified and tested only three of the dimensions of entrepreneurial orientation namely innovativeness, risk taking and proactiveness. More recently, studies involving entrepreneurial orientation have been used to examine entrepreneurial decision making at the individual level and its impact on business performance (Callaghan & Venter, 2011; Krauss, 2003, Basardien, 2012). Our approach develops an individual based psychological concept of entrepreneurial orientation to investigate the relationship between business performance and entrepreneurial orientation. In Callaghan's (2011) study entrepreneurial orientation is used to examine business performance of 308 street vendors in Johannesburg. The findings from the study suggest that the context of entrepreneurship has a significant impact on entrepreneurial orientation in the informal street trading context (Callaghan & Venter, 2011). More importantly, the study found that the level of education and the effect of a training program for street traders had a direct impact on innovation and entrepreneurial orientation. By this the study suggests that with a learning environment it is possible for operators to be capacitated to eventually leave the industry for more lucrative opportunities.

This research followed the trend and asked participants on the elements of autonomy, innovation, achievement and personal initiative.

Innovation is central to business performance. In our context innovation orientation implies that one has a positive mind set toward new ideas with regards to products, services and processes. Significant differences were found for innovation where foreigners showed higher innovation than locals ($t=13.42$, $p < 0.01$). Generally, the level of innovativeness that was observed in Spaza shop under study indicated that there was a higher form of innovativeness amongst the foreign owned enterprises as compared to the local owned enterprises. The level of innovativeness could be noted in the use of containers as there were more Somalis with containerized Spaza shop and brick structured Spaza shops as compared to the locals.

Achievement orientation was included because an entrepreneur's primary objective is to achieve new combinations. Individuals with high levels of achievement constantly seek feedback with others, set challenging goals and continuously try to improve their performance. Entrepreneurs with strong achievement orientation are growth oriented and enjoy challenging goals and are more likely to succeed. Significant differences were found for achievement orientation ($t=18.36$, $p < .01$). Foreigners were rated higher than locals on achievement orientation. Sample items included: "I want to grow my business as much as possible."

Entrepreneurs are driven by a vision to establish their own reality. This aspect of entrepreneurial orientation also relates to the ability and will to be self-directed in the pursuit of business opportunities. Autonomy orientation implies that a person values their own decision-making and this helps entrepreneurs to be successful. Significant differences were found for autonomy ($t=7.89$,

$p < .01$). Foreigners were rated higher than locals with regards to autonomy orientation. For autonomy orientation we asked: "Would you accept a job that pays a fixed salary every month? The income would be the same. Would you accept it? Why?"

Personal initiative involves a proactive, self-starting and persistent orientation that attempts to shape the environment. High proactive behaviour implies that the entrepreneur will anticipate future problems and other challenges. Examples of personal initiative include introducing a new layout of the shop, new combinations of products/services etc. significant differences were found for personal initiative ($t=6.53$, $p < .01$). Measurements included the use of overcoming barriers. Interviewers presented a series of critical incidents relevant to a business situation and asked the entrepreneurs to come up with solutions.

Overall, foreigners rated higher than the locals on entrepreneurial orientation.

BUSINESS PERFORMANCE

Table 6: T-test results (Business performance)

	Levene's test for equality of variances		T	Sig (2-tailed)	Mean difference	Std error difference	95% confidence interval of the difference	
	F	Sig					Lower	Upper
	Profits	60.66					.00	8.54
Sales	18.49	.00	13.49	.000	1.05	0.08	.90	1.21
Employment	0.93	.05	5.79	.000	0.51	0.09	0.34	0.69
Clients	5.27	.02	6.53	.000	0.48	0.07	0.34	0.63

Business performance consisted of four measures. The table above indicates significant differences between foreign and local spaza shop entrepreneurs. Interestingly, it has been pointed out earlier that most business start-up activity in townships is motivated by necessity rather than opportunity. We found significant differences between the groups regarding employment growth. On average foreigners are creating more jobs than the locals. On the basis of the interviews foreigners are suggesting that they are motivated to employ shop assistants from their own culture. Similar findings have been found (see Simrie, Herrington, Kew & Turton 2011) where opportunity-based enterprises create an average of 4.4 jobs compared to necessity-based enterprises that create 1.5 jobs per enterprise. It was difficult to obtain financial data and respondents were extremely reluctant to cooperate with the research team. However, the respondents indicated whether their sales, profits, clients and employment creation had increased, decreased or stayed the same over the last year. On this basis we were able to assess the overall business performance. Local spaza shop entrepreneurs have generally performed poorer than foreigners. Based on the interviews respondents have indicated that foreigners have consistently outperformed them in the market. Some of the other factors include their inability to match the lower prices of foreigners. Foreigners use bulk discounts through supply chain management strategies to compete aggressively with locals. The prevailing

strategy of locals is focused on location and relationships with the clients in the immediate environment. The survivalist mentality and one dimensional strategy of the locals contribute to even further poor performance. With the emergence of larger retailers moving into the area customers have increasing options and have become more “shopping savvy” in the process. Foreigners have utilised a strategy that focuses on extending customer service as a key component of their overall business strategy. This has subsequently resulted in further closures of local operators as more clients preferred foreign operators. Locals find it tough to compete in this market.

LESSONS LEARNT AND IMPLICATIONS OF THE STUDY

There are a number of lessons and implications that can be drawn from this study. Firstly, this study highlighted the changing nature of the spaza shop industry in South Africa. This informal industry has created real economic opportunities for many. However, as lucrative as the industry may seem, barriers to entry are low and have allowed many entrepreneurs to enter the industry. The industry has become grossly overtraded and entrepreneurs with low levels entrepreneurial orientation would probably continue to struggle and eventually fail. For policy makers and practitioners there is a real need to enhance entrepreneurial orientation as a specialised entrepreneurial skill in order to get local entrepreneurs to be better equipped. There is need therefore to develop specific interventions that are tailor made for this sector from both policy and operational perspectives. On-going governmental interventions need to be more continuous and be implemented along a long term time frame. Education and training is an immediate need within the sector, however, the curriculum or programs should be customised in line with specific needs. It is a known fact that entrepreneurs have specific needs and many interventions are designed with a “one size fits all” approach. With a meagre portion of the population that is currently contributing toward the tax base in South Africa, there is a real need to stabilise the informal sector and even to get traders to become formalised and expand the tax base. Furthermore, many people that live and work in or near townships should have the opportunity to become independent and strive for economic prosperity, be it in a township environment! The South African government may not be in a position to tackle this sector independently; a multi-pronged strategy would be required which must include private sector and tertiary institutions.

Having inherited townships and informal settlements as part of the legacy of apartheid in South Africa, many will continue to live in such environments. The existence of spaza shops in townships is a reality and represents a vibrant component of local commerce. The mere fact foreigners are a dominant force in the sector should not be perceived as a fait accompli to locals, but as an opportunity to access greater economic opportunities. Secondly the spaza shops bring some employment and provide household income to those who run them. To date no study has been conducted to measure the ripple effects of spaza shops to the families of owners as well as to other community members. Such studies are important as they provide persuasive arguments to policy makers and educators to the role played by Spaza shops and the informal economy at large.

Thirdly if spaza shops are significant in the South African economic platform, there is need for clear policy guidelines to promote it. Both local and national governments should develop specific guidelines that take into considerations the needs, the nature, location and challenges faced by spaza owners. Infrastructural concerns should be addressed so as to facilitate clear developmental agendas in communities that have spaza shops. The existence of a parallel container industry should be encouraged as a mechanism for standardizing and managing security concerns for spaza shops.

Finally the entire education system in South Africa, from primary to tertiary institutions except for a few papers negates the spaza shop phenomenon. Very few research articles on their operations can be seen in journals. The basic education and tertiary institutions do not teach these as forms of businesses yet estimate indicate that there are more than 100000 spaza shops in the entire country.

The mere fact that they generate more than R7 billion in turnover per annum indicates an important institution that requires proper backup from educational systems. Curriculum in schools and in tertiary institutions should include some form of teaching that helps learners understand this phenomenon. Such an approach will help sustain the development. This information helps develop bases for future studies on the development of the informal sector business activities. Insight has also been brought to fore on the importance of culture, experience and religion in business practices.

CONCLUSIONS

This study has demonstrated that the business practices between local and foreign Spaza entrepreneurs are significantly different and are primarily caused by cultural differences and experiences of individuals involved. Foreigners are more collectivist in nature while locals are more individualistic. The distinct differences between the two groups has resulted in differences in buying methods, where foreigners do collective buying and thereby qualify for bulk discounts which impacts directly on their pricing strategies and competitiveness. The layout patterns of products in the spaza shops also significantly differentiate the two groups as customers buying patterns and customer preferences often favour the bigger and well laid shops. The majority of locals do not implement basic financial management practices in their business which means that there are no financial records of daily transactions to capture vital financial information that will allow the owner to see growth pattern in the business. This information is not only important for monitoring the financial health of the business, but also for accessing finance.

Through this study, we have been able to add to the literature on the study of business practices by immigrants into urban areas. Further the study has shown that the South African informal sector is still in its infancy. In order to sustain its potential, there is need to provide training intervention and other forms of support that empowers the participants in this market. Access to finance and support to other non-South African participants needs to be investigated and clear policy frameworks developed. Currently the non-availability of data about foreign participants and their possible impact on the sustainability of this sector remains a challenge and should be investigated in order to inform policy frameworks for South Africa.

REFERENCES

- Abdullah, M. (2001). **Culture and customs of Somalia**. Westport, USA: *Library of Congress Cataloging-in-publication Data*. Greenwood Press.
- Barry, M. (1999). **Evaluating cadastral systems in periods of uncertainty. A case study of Cape Town's Xhosa-speaking communities**. *PhD Thesis*. University of Natal, South Africa.
- Barry, M. and Ruther, H. (2005). **Data collection techniques for informal settlement upgrades in Cape Town, South Africa**. *URISA*, 17(1):43–52.
- Basardien, F. (2009). **A comparative study of business practices of spaza shop owners in Khayelitsha in Cape Town**, Unpublished report.
- Basardien, F. (2012). **The role of action strategies on the implementation of financial management practices of emerging entrepreneurs**, Unpublished PhD thesis.
- Callaghan, C. & Venter, R. (2011). **An investigation of the entrepreneurial orientation, context and entrepreneurial performance of inner-city Johannesburg street traders**. *Southern African Business Review*, 15 (1).

- Charman, A. & Piper, L. (2011). **Conflict and cohesion in the informal economy: a reassessment of the mobilisation of xenophobic violence in the case of spaza shops in Delft South, Cape Town, South Africa**, Unpublished report.
- Charman, A., L. Peterson and L. Piper. (2011). **Spaza shops in Delft South: The Changing Face of Township Entrepreneurship**, Unpublished report.
- Chebelyon-Dalizu, L. Garbowitz, Z., Hause, A. & Thomas, D (2011). **Strengthening spaza shops in Monwabisi Park, Cape Town**, unpublished report. Worcester, MA: Worcester Polytechnic Institute.
- Citizenship Rights in Africa Initiative (2009). **Tolerating intolerance: Xenophobic Violence in South Africa**, A Report by Citizen Rights in Africa Initiative (CRAI) July 2009
- Davies, R. and Head, J. (1995). **The future of mine migrancy in the context of broader trends in migration in southern Africa**, *Journal of Southern African Studies*, 21:439–450.
- De Vletter, F. (1996). **The Informal sector in Maputo and Beira**. Cape Town: *Unpublished paper*.
- Foley, D. (2010). **The function of social (and human) capital as antecedents on Indigenous entrepreneurs networking**. *New Zealand Journal of Employment Relations*, 35(1), 65-87.
- Frese, M. (2000). Psychological approaches to micro-enterprises in Africa. Greenwood.
- Frese, M. (2007) **The psychology actions and entrepreneurial success: An action theory approach**. In Baum, R., Frese, M., Baron, R.A. (eds). *The Psychology of Entrepreneurship*. Lawrence Erlbaum: SIOP Frontier Press.
- Gibb, M. and Nel, E. (2007) **Small town redevelopment: the benefits and costs of local economic development**. *Urban Forum*, 18(2): 69-84
- Golberg, K., Kula, S., Mhlalisi, M., Ngali, N. and Ngesi, Z. (2009) **Cape Town: Informal sanitation. The water dialogues synthesis report 2009- Cape Town Study**. Water Dialogue Organisation.
- Hadebe, T. (2010) **Township home based enterprises: The Case of Pimville**. Masters Degree Research Report, Masters of Science in Development Planning, University of the Witwatersrand, Johannesburg, South Africa.
- Hindle, K. (2010). **How community context affect entrepreneurial process: a diagnostic framework**. *Entrepreneurship & Regional Development*, 7-8, 1-49.
- Jurgens, U. and Donaldson, R. (2012) **A Review of literature on transformation processes in South African townships**. *Urban Forum*, 23(1) available on line: 2012, DoI: 10.1007/s12132-012-9149-x
- Katz, J., & Steyaert, C. (2004). **Reclaiming the space of entrepreneurship in society: geographical discursive and social dimensions**, *Entrepreneurship and Regional Development*, 21(3).
- Krauss, S.I. (2003). **Psychological success factors of small and micro business owners in Southern Africa: A Longitudinal Study**. Unpublished PhD Thesis.
- Lewis, I. (2008). **Understanding Somalia and Somaliland: Culture, History, Society**. Columbia, New York, USA. *Library of Congress Cataloging-in-Publication Data*. Columbia University Press, New York, USA.
- Ligthelm, A.A. (2008). **A targeted approach to informal business development: the entrepreneurial route**, *Development Southern Africa*. 25(4), 367-382.

- Lumpkin, G. and Dess, G. (1996). **Clarifying the entrepreneurial orientation construct and linking it to performance.** *The Academy of Management Review*, 21(1):135–172.
- Maharaj, B. (2009) **Migrants and urban rights: Politics of xenophobia in South African cities.** *L'Espace Politique*, 8(1): 2-15.
- Maharaj, B., and Moodley, V. (2000) **New African immigration to the Durban region.** *Canadian Journal of African Studies*, 34(1): 149-160.
- Marius, H. (1987) **The informal sector in developing countries. Small enterprise development: policies and programs,** ed. Neck, P. and Nelson, R., Geneva, Switzerland
- Miller, D. (1983). **The correlates of entrepreneurship in three types of firms.** *Management Science*, 29(7):770–791.
- Morris, M.H., Jones, P., and Nel, D. (1997). **The Informal Sector, Entrepreneurship and Economic Development,** *Journal of Developmental Entrepreneurship*, 2(2), 83-98.
- Muller, C. and Posel, D. (2004) **Concerns with measuring informal sector employment: An Analysis of national household survey in South Africa, 1993-2001.** *Studies in Economics and Econometrics*, 28 (1): 1-20.
- Mulugeta, E. (2008). **Understanding course of micro and small business failure in Adis Ketama sub city: A case study.** Masters Degree Research Report, Adis Ababa University Press.
- Nel, E. (2005). **Local economic development in South African small towns.** In E. Nel, and C. Rogerson (Eds.). *Local Economic Development in the Developing World* (pp. 253 – 265). New Brunswick: Transaction Publishers.
- Ntema, J., and Marais, L. (2012). **The role of the informal retail business Sector in economic development: The case of Mangaung township, Bloemfontein.** Proceedings from the
- Pascal, V.J., & Stewart, D. (2008). **The effects of location and economic cluster development on Native American entrepreneurship.** *International Journal of Entrepreneurship and Innovation*, 9(2), 121.
- Peberdy, S. (1997). **A history of South Africa's immigration policy. Briefing paper for the South African Green Paper Task Group on International Migration.** City of Cape Town: City of Cape Town.
- Peberdy, S. (2000). **Mobile entrepreneurship: Informal sector cross-border trade and street trade in South Africa.** *Development Southern Africa*, 17(2):201–219.
- Posel, D. (2003). **Have migration patterns in post-apartheid South Africa changed.** *Conference on African Migration in Comparative Perspective.* Johannesburg, South Africa.
- Rauch, J. (1991). **Modeling the informal sector formally.** *Journal of Development Economics*, 35(1):33–47.
- Richards, R., O. B. and Mutsonziwa, K. (2007). **Measuring quality of life in informal settlements in South Africa.** *Social Indicators Research*, 81(2):375– 388.
- Rigby, C., Meuller, J., & Baker, A. (2011). **The integration of Maori indigenous culture into corporate social responsibility strategies at Air New Zealand.** *Journal of Marketing Development and Competitiveness*, 5(6), 116-126.
- Rolfe, R., Woodward, D., Ligthelm, A., & Guimaraes, P. (2010) **The viability of informal micro-enterprise in South Africa.** Proceedings from the “Entrepreneurship in Africa Conference, April 1, 2010,” Syracuse University, Syracuse, New York.

- Schneider, F. (2002). **Size and measurement of the informal economy in 110 countries around the world.** *Workshop of the National Tax Centre, ANU, Canberra, Australia, July 17, 2002.* Canberra.
- Schoonhoven, C., & Romanelli, E. (2001). **The entrepreneurship dynamic: origins of entrepreneurship and the evolution of industries.** Stanford, CA: Stanford University Press.
- Simrie, M., Herrington, D., Kew, J. and Turton, N. (2011). **Global Entrepreneurship Monitor 2011.** South African report. [Online] Available at: <http://www.gemconsortium.org/docs/2313/gem-south-africa-2011-report> [Accessed Saturday September 2012].
- Solomon, G. (2004). Entrepreneurship and the impact of entrepreneurial orientation training on SMME's in the South African context: A longitudinal approach. Unpublished Masters thesis.
- Spaza Media. Spaza News. Website: www.spazanews.co.za. Accessed 20 June 2013.
- Statistics South Africa (2010). Quarterly Labour Force Survey – Quarter 1. Pretoria, South Africa.
- Tambunan, T. (2005). **Promoting small and medium enterprises with a clustering approach: A policy experience from Indonesia.** *Journal of Small Business Management*, 43(1):138–154.
- Tapsell, P., & Woods, C. (2010). **Social entrepreneurship and innovation: Self-organisation in an Indigenous context.** *Entrepreneurship and Regional Development*, 22(6), 535.
- The Department of Provincial and Local Government (2006). **Khayelisha Nodal Economic Development Profile.** The Department of Provincial and Local Government, Republic of South Africa.
- The Department of Trade and Industry (2008). **Annual review of small business in South Africa 2005-2007.** The Department of Trade and Industry, Republic of South Africa.
- Thomson, A. and Gray, C. (1999). **Determinants of management development in small businesses.** *Journal of Small Business and Enterprise Development*, 6(2):113–127.
- United Nations Development Programme (2007) **The Legal Empowerment of the Poor: Informal Business.** A Draft Report Prepared for the Commission for the Legal Empowerment of the Poor by Southern Hemisphere Consultants, October 2007.
- Van Dijk, M. (1992). **How relevant is flexible specialization in Burkina Faso's informal sector and the formal manufacturing sector?** *JIDS Bulletin*, 23(3):39– 45.
- Welter, F. (2011). Contextualising entrepreneurship – conceptual challenges and ways forward. *Entrepreneurship Theory and Practice*, 35(1), 165-184.